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COUNTRY REPORTS ON ECONOMIC POLICY AND TRADE PRACTICES

REPORT

SUBMITTED TO THE

COMMITTEE ON FOREIGN RELATIONS

AND

COMMITTEE ON FINANCE

OF THE

U.S. SENATE

AND THE

COMMITTEE ON INTERNATIONAL RELATIONS

AND

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

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FEBRUARY 2002

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COUNTRY REPORTS [1]

[1] Reports also cover the following areas: Hong Kong and Taiwan.

FOREWORD

The reviews on individual country economic policy and trade practices included in this report 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 these areas.

JOSEPH R. BIDEN, JR.,
Chairman, Committee on Foreign Relations.

MAX BAUCUS,
Chairman, Committee on Finance.

HENRY J. HYDE,
Chairman, Committee on International Relations.

BILL THOMAS,
Chairman, Committee on Ways and Means.

LETTER OF TRANSMITTAL

U.S. DEPARTMENT OF STATE,
WASHINGTON, DC, *January 11, 2002.*

Hon. JOSEPH R. BIDEN, JR., *Chairman,*
Committee on Foreign Relations.

MAX BAUCUS, *Chairman,*
Committee on Finance.

HENRY J. HYDE, *Chairman,*
Committee on International Relations.

BILL THOMAS, *Chairman,*
Committee on Ways and Means.

DEAR SIRS: Pursuant to Section 2202 of the Omnibus Trade and Competitiveness Act of 1988, we are pleased to transmit the report entitled "Country Reports on Economic Policy and Trade Practices." The report provides a detailed review of major economic policies and trade practices of countries with which the United States has significant economic or trade relationships.

We hope this information is helpful to you. Please let us know if we can provide any further information on this or any other matter.

Sincerely,

PAUL V. KELLY,
Assistant Secretary, Legislative Affairs.

INTRODUCTION

Country Reports on Economic Policy and Trade Practices

The Department of State is submitting to the Congress its Country Reports on Economic Policy and Trade Practices in compliance with Section 2202 of the Omnibus Trade and Competitiveness Act of 1988. As the legislation requires, we have prepared detailed reports on the economic policy and trade practices of countries with which the United States has significant economic or trade relationships. The Department of State's 13th annual report includes reports on 76 countries, customs territories and customs unions.

Each country report contains ten sections.

- *Key Economic Indicators:* Economic indicators in the national income, monetary, and trade accounts.
- *General Policy Framework:* Overview of macroeconomic trends.
- *Exchange Rate Policies:* Their impact on the price competitiveness of U.S. exports.
- *Structural Policies:* Changes that may affect U.S. exports to that country.
- *Debt Management Policies:* Implications for trade with the U.S.
- *Significant Barriers to U.S. Exports and Investment:* Formal and informal barriers to U.S. exports and investment.
- *Export Subsidies Policies:* Measures to support exports, including those by small businesses.
- *Protection of U.S. Intellectual Property:* Laws and practices safeguarding intellectual property rights.
- *Worker Rights:* The final section has two parts:
  —laws and practices with respect to internationally recognized worker rights, and
  —conditions of worker rights in goods-producing sectors where U.S. capital is invested.
- *Extent of U.S. Investment in Selected Industries:* U.S. investment by sector where information is available.

U.S. Embassies supplied the country report data, 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.

E. ANTHONY WAYNE,
Assistant Secretary of State
for Economic and Business Affairs.

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

"The Secretary of State shall, not later than January 31 of each year, prepare and transmit to the Committee on [International Relations][1] and the Committee on Ways and Means of the House of Representatives, to the Committee on Foreign Relations and the Committee on Finance of the Senate, and to other appropriate committees of the Congress, a detailed report regarding the economic policy and trade practices of each country with which the United States has an economic or trade relationship. The Secretary may direct the appropriate officers of the Department of State who are serving overseas, in consultation with appropriate officers or employees of other departments and agencies of the United States, including the Department of Agriculture and the Department of Commerce, to coordinate the preparation of such information in a country as is necessary to prepare the report under this section. The report shall identify and describe, with respect to each country:

1. The macroeconomic policies of the country and their impact on the overall growth in demand for United States exports;
2. The impact of macroeconomic and other policies on the exchange rate of the country and the resulting impact on price competitiveness of United States exports;
3. Any change in structural policies [including tax incentives, regulation governing financial institutions, production standards, and patterns of industrial ownership] that may affect the country's growth rate and its demand for United States exports;
4. The management of the country's external debt and its implications for trade with the United States;
5. Acts, policies, and practices that constitute significant trade barriers to United States exports or foreign direct investment in that country by United States persons, as identified under section 181(a)(1) of the Trade Act of 1974 (19 U.S.C. 2241(a)(1));
6. Acts, policies, and practices that provide direct or indirect government support for exports from that country, including exports by small businesses;
7. The extent to which the country's laws and enforcement of those laws afford adequate protection to United States intellectual property, including patents, trademarks, copyrights, and mask works; and
8. The country's laws, enforcement of those laws, and practices with respect to internationally recognized worker rights (as defined in section 502(a)(4) of the Trade Act of 1974), the conditions of

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

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 2000,* submitted to the Committees on International Relations of the House of Representatives and on Foreign Relations of the U.S. Senate in January 2000. 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.

The final section, Extent of U.S. Investment in Selected Industries, cites the U.S. direct investment position abroad 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 2000 for all countries for which foreign direct investment has been reported to it. Readers should note that “U.S. Direct Investment 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. A “([1])” in a data cell indicates that data has been suppressed to avoid disclosing individual company information.

SOME FREQUENTLY USED ACRONYMS

ADB—Asian Development Bank
AGOA—African Growth and Opportunity Act
APEC—Asia-Pacific Economic Cooperation
BIS—Bank for International Settlements
CACM—Central American Common Market
CARICOM—Caribbean Common Market
CAP—Common Agricultural Policy (of the EU)
CBTPA—Caribbean Basin Trade Partnership Act
CCC—Commodity Credit Corporation (Department of Agriculture)
CIF—cost, insurance and freight
EBRD—European Bank for Reconstruction and Development
EFTA—European Free Trade Association
EMS—European Monetary System (of the EU)
EPZ—export processing zone
ERM—Exchange Rate Mechanism (of the EU)
EU—European Union
EXIMBANK—U.S. ExportImport Bank
FDI—foreign direct investment
FOB—free on board
FOREX—foreign exchange
FTA—free trade agreement
FTAA—Free Trade Area of the Americas
FY—fiscal year
GATS—General Agreement on Trade in Services
GATT—General Agreement on Tariffs and Trade
GDP—gross domestic product
GMO-genetically modified organism
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—InterAmerican Development Bank
IPR—intellectual property rights
IT—information technology
MFN—most favored nation
NAFTA—North American Free Trade Agreement
NGOs—nongovernment 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
SDR—Special Drawing Rights (of the IMF)
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

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

	1999	2000	[1]2001
Income, Production and Employment:			
Nominal GDP[2]	7,774	5,418	5,431
Real GDP Growth (pct)[3]	4.4	3.7	4.0
GDP by Sector (pct):			
Agriculture	36.5	36.0	N/A
Industry	25.2	25.2	N/A
Services	18.5	18.7	N/A
Government	10.7	11.0	N/A
Per Capita GDP	324	294	288
Labor Force (000s)	8,240	8,480	8,734
Unemployment Rate (pct)	20	N/A	N/A
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	16.1	39.8	32.0
Consumer Price Index (end-of-period)	13.8	40.5	25.0
Exchange Rate (Cedis/US$ annual average) Interbank	2,674	5,322	7,000
Balance of Payments and Trade:			
Total Exports FOB[4]	2,012	1,941	1,982
Exports to United States[4]	209	205	215
Total Imports CIF[4]	3,228	2,832	2,781
Imports from United States[4]	233	191	201
Trade Balance[4]	–1,216	–891	–799
Balance with United States[4]	–24	14	14
External Public Debt	5,974	6,038	6,200
Fiscal Deficit/GDP (pct)	6.5	8.5	N/A
Current Account Deficit/GDP (pct)	13.8	11.2	10.8
Debt Service Payments/GDP (pct)	9.0	9.0	9.0
Gold and Foreign Exchange Reserves	420	256	N/A
Aid from United States	58	60	N/A
Aid from All Other Sources	N/A	N/A	N/A

[1] 2001 figures are government 2001 budget projections and post estimates based on most recent data available.
[2] GDP at factor cost.
[3] Percentage changes calculated in local currency.
[4] Merchandise trade.

1. General Policy Framework

Ghana operates in a free market environment under a popularly elected civilian government. In December 2000, opposition leader John Agyekum Kufuor was elected President, marking the first time in Ghanaian history in which one democratically elected President replaced another. His New Patriotic Party won 100 of 200 seats in Parliament. A UK-trained lawyer with longstanding ties to the United States, President Kufuor has called for greater foreign investment and pledged a "zero tolerance" for corruption. Former President Rawlings, who had been at the helm of government since December 31, 1981, observed constitutional term limits, and after winning elections in 1992 and 1996 did not run in the 2000 elections. An independent judiciary acts as the final arbiter of Ghanaian laws.

Since 1983 Ghana has pursued an economic reform agenda aimed generally at reducing government involvement in the economy and encouraging private sector development. This has made the country one of the most open-market economies in the sub-region. The current government's economic program is focusing on the development of Ghana's private sector, which has been historically weak. Roughly two-thirds of some 300 state-owned enterprises have been sold to private owners since a divestiture program began in the early 1990s. The new government has stated its commitment to continuing the privatization program by offloading some of its interest in some state-owned enterprises, possibly including the Tema Oil Refinery, power and water utilities, ports and railways, and the national airline. The government's monopoly on the export of cocoa was removed in 1999, but full liberalization of this market has not yet been implemented.

An economic downturn due primarily to external shocks began in late 1999, worsened in 2000, and has not abated. Despite several years of economic reform the country still remains vulnerable to terms of trade shocks. The three major commodities—gold, cocoa, and timber—contribute over 70 percent of Ghana's foreign exchange earnings. The relatively low price of cocoa coupled with the increase in crude oil price in 2000 caused a large increase in trade loss. These factors led to a severe shortage of foreign exchange, rapid depreciation of the cedi against the dollar by about 60 percent, and an upsurge of inflation from 14 percent at the end of December 1999 to 41 percent at the end of December 2000. Imbalances caused by the terms of trade shocks were further exacerbated by heavy government spending and borrowing in the run-up to the December 2000 elections.

The former government's hesitation to respond appropriately in an election year, especially to the rising cost of the supply of utility services and petroleum products, caused or contributed to an overall budget deficit of about 8.5 percent of GDP in 2000 compared to 6.5 percent of GDP recorded in 1999. The government resorted to heavy domestic borrowing to make up for shortfalls from mainly non-tax revenue. To arrest inflation and the fast depreciating cedi, the Bank of Ghana (BOG), the central bank, pursued a tight monetary policy, increasing the primary reserve ratio from eight to nine percent. Heavy domestic borrowing by the government and the BOG's measures sent domestic lending rates from about 37 percent to about 50 percent. Real economic growth in 2000 was 3.3 percent, which followed the declining trend of 4.4 percent in 1999, and 4.7 percent in 1998.

The new government took immediate steps to restore macroeconomic stability. It introduced measures to monitor and control expenditures, increase revenue mobilization, restructure short-term domestic debt, and seek debt relief under the HIPC initiative. To stem the accumulation of debts by the utilities and the oil refinery, the government took a bold step by significantly increasing fuel, water, and energy tariffs. The government's measures have yielded some positive results, as the cedi has remained stable since the beginning of 2001 and inflation and interest rates, though still high, have declined significantly. The government appears to be committed to sustaining this trend.

2. Exchange Rate Policy

The foreign exchange value of the Ghanaian cedi is established independently through the use of the Interbank Market and Foreign Exchange bureaus, and currency conversion is easily accessible. However, the BOG dominates the Interbank Market by controlling the supply of large amount of surrendered proceeds from gold and cocoa. Ghana fully accedes to Article IV of the IMF convention on free current account convertibility and transfer. In general, the exchange rate regime in Ghana does not have any particular impact on the competitiveness of U.S. exports.

3. Structural Policies

Ghana progressively lowered import quotas and surcharges as part of its structural adjustment program. Tariff structures are being adjusted in harmony with the ECOWAS Trade Liberalization Program. Import licensing was eliminated in 1989, but for some items such as drugs, an import permit is required. Imported goods currently enjoy generally unfettered access to the Ghanaian market.

The government professes strong support for the principle of free trade, and is an active participant in the WTO. 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 frequently 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. Reductions in tariffs have increased competition for local producers and manufacturers while reducing the cost of imported raw materials. The government has announced plans to introduce an anti-dumping bill to Parliament to curb the import of "inferior" goods as a response to several complaints from consumers.

The government in 2001 reduced the 20 percent special tax on some of the 32 selected "non-essential" imported goods to 10 percent and removed the tax completely on the rest. Major U.S. imports still affected by the tax are frozen meat and poultry. This tax no longer applies to used clothing, powdered milk, paper and plastic products. A 0.5 percent ECOWAS levy on all imports from non-ECOWAS countries and 0.5 percent Export Development and Investment Fund (EDIF) levy on all imports were introduced in 2000 and 2001 respectively. The standard import duty rate was lowered from 25 percent to 20 percent in 2000. In July, 2000 the government increased the Value-Added Tax (VAT) from 10 percent 12.5 percent to specifically fund education.

4. Debt Management Policies

In March 2001, Ghana opted for debt relief under the enhanced Heavily Indebted Poor Country (HIPC) Initiative. Ghana is expected to reach HIPC Decision Point by December 2001, and the Government estimates a total of US$ 700 million in debt write off at the end of 2004 when the country reaches its HIPC Completion Point. The government is also seeking debt relief from the Paris Club. There is currently a suspension in the payments of non-multilateral debts.

Ghana's total outstanding external debt was approximately US$ 5.9 billion at the end of the first quarter of 2001. Outstanding long-term debt was about US$ 5.4 billion (about 92 percent of total debt), of which US$ 1.6 billion and US$ 3.8 billion were owed to bilateral and multilateral institutions respectively. Ghana's domestic debt in mid-2001 was estimated to be some US$ 1.8 billion, almost all in short-term instruments. The government was attempting to severely limit additional domestic borrowing, and to restructure the existing debt into longer-term instruments. The government has announced plans to utilize receipts from the divestiture of state-owned enterprises to reduce the country's debt stock.

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 and active participant in the WTO.

Services Barriers: The Ghanaian investment code proscribes foreign participation in the following sectors: small-scale wholesale and retail sales, taxi and car rental services with fleets of fewer than ten vehicles, lotteries, and barber and beauty shops. Current insurance law requires at least 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. Highly-publicized seizures of goods (pharmaceuticals and food items) with expired shelf-life dates have been occasionally carried out. The thrust of this law is to regulate imported food and drugs, but the law also applies to non-consumable imports as well. Locally-manufactured goods are subject to comparable testing, labeling, and certification requirements. Two destination inspection agencies contracted by the government also perform testing and price verification for some selected imports that are above US$ 5,000.

Investment Barriers: Although the investment code incentives are relatively attractive, bureaucratic bottlenecks can delay the launching of new projects. The investment code guarantees free transferability of dividends, loan repayments, licensing fees and repatriation of capital. It also provides guarantees against expropriation or forced sale and delineates dispute arbitration processes. Foreign investors are not subject to differential treatment on taxes, access to foreign exchange and credit, or importation of goods and equipment. Separate legislation covers investments in mining and petroleum and applies equally to foreign and Ghanaian investors. The investment code no longer requires prior project approval from the Ghana Investment Promotion Center (GIPC).

Government Procurement Practices: Currently, there are varying procedures for selling to the government, but a unified code is under preparation. The government is estimated to account for some 50–70 percent of all imports into Ghana. While the Ghana Supply Company (GSC) acts as the principal purchasing agent of the government, its authority has gradually been eroded as heads of departments directly undertake below-threshold purchases of supplies and equipment. Former government import monopolies have been abolished. Parastatal entities continue to import some commodities, but they 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 enacted 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. Ghana is a member of the Universal Copyright Convention, the World Intellectual Property Organization, and the English-Speaking African Regional Intellectual Property Organization. IPR holders have access to local courts for redress of grievances. Few infringement cases have been filed in Ghana in recent years. Ghana has not been identified as a priority country in connection with either the Special 301 Watch List or Priority Watch List.

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

Trademarks: Ghana has not yet become a popular location for imitation designer apparel and watches. In cases in which trademarks have been misappropriated, the price and quality disparity is generally 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 video tapes, DVDs, and computer software are examples of copyright infringement taking place locally. There are no data available to quantify the commercial impact of the sales of these pirated items, but the evidence suggests that sales are not being made 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 yet had a significant impact on U.S. exports to Ghana.

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 the government to refuse to register a trade union, but this right has not been exercised by the current or past governments. No union leaders have been detained in recent years, nor has the right of workers to freely associate otherwise been circumscribed. The government has announced plans to present to Parliament soon a new bill that unifies all the existing labor laws and seeks to remove government and TUC control of labor.

b. *The Right to Organize and Bargain Collectively:* The IRA provides a framework for collective bargaining and protection against antiunion discrimination. Civil servants are prohibited by law from joining or organizing a trade union. In December 1992, however, 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 two years there have been several industrial actions involving salary increase demands, conditions of service, and severance awards. There have been a number of short-lived "wild cat" strikes by doctors, university professors, 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 relatively 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 Manpower Development and Employment are responsible for enforcement of child labor laws.

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 5,500, about 75 cents at the present rate of exchange, a sum that does not permit a single wage earner to support a family. A much-vaunted, government-commissioned study on civil service reform (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, data processing, and telecommunications. Labor conditions in these sectors do not differ significantly from the norm, except that wage scales in the formal 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—2000

[In Millions of U.S. Dollars]

Category		Amount
Petroleum		4
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

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

	1999	2000	[1] 2001
Income, Production, and Employment:			
Nominal GDP [2]	35.7	37.0	39.0
Real GDP Growth (pct)	2.7	3.8	4.0
GDP by Sector (pct):			
Industrial [3]	17.3	17.0	N/A
Agriculture	40.7	41.5	N/A
Services	33.0	34.0	N/A

Key Economic Indicators—Continued

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

	1999	2000	[1] 2001
Government	11.0	25.0	N/A
Per Capita GDP (US$) [4]	260	270	280
Labor Force (Millions)	40.1	38.9	N/A
Unemployment Rate (pct) [5]	3.0	3.1	5.0
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	31.6	48.1	N/A
Consumer Price Inflation	6.6	8.0	18.0
Exchange Rate (Naira/US$—annual average) [6]	98.2	104	112
Free Market Rate	101	110	132
Balance of Payments and Merchandise Trade:			
Total Exports FOB [7]	12.9	19.1	N/A
Exports to United States [8]	4.4	7.9	N/A
Total Non-Oil Exports [8] [9]	0.20	0.24	N/A
Total Imports CIF [7]	(8.6)	(8.7)	N/A
Imports from United States [8]	0.6	0.5	N/A
Trade Balance [7]	4.3	12.4	N/A
Balance with United States [8]	3.8	7.4	N/A
Current Account Deficit/GDP (pct)	1.2	18.1	N/A
External Public Debt	28.1	27.8	N/A
Fiscal Deficit/GDP (pct)	8.4	2.9	N/A
Debt Service Payments/GDP (pct)	1.5	1.7	N/A
Gold and Foreign Exchange Reserves	5.5	9.9	11.9
Aid from United States (US$ millions) [10]	37.5	108	103
Aid from All Other Sources	N/A	N/A	N/A

[1] 2001 figures, except exchange rates, are estimates based on available Central Bank of Nigeria (CBN) monthly data, October 2001 (unless otherwise noted).
[2] GDP at current factor cost. Conversion to U.S. dollars at CBN rate 104 naira per dollar for 2000.
[3] Total GDP for the Industrial sector (includes oil/gas, manufacturing, and mining). Percentage changes calculated in local currency.
[4] Source: IBRD.
[5] Real unemployment is estimated at 50 percent by unofficial sources. According to the CBN, official statistics are based on the number of unemployed registered with the Federal Ministry of Labor. Underemployment is estimated at 20 percent by the CBN.
[6] Annual average Interbank Foreign Exchange Market Rate.
[7] 2000 figures are CBN figures.
[8] 2000 figures are January-December.
[9] Source: Federal Office of Statistics
[10] Aid level in 2001 does not include military assistance provided under Operation Focus Relief.

1. General Policy Framework

With an estimated 125 million people, Nigeria is Africa's most populous nation. It is also the United States' fifth largest oil supplier. Nigeria potentially could offer investors a lowcost labor pool, abundant natural resources, and the largest domestic market in subSaharan Africa. However, its economy remains sluggish, its market potential unrealized. The country suffers from ill-maintained infrastructure, possesses an inconsistent regulatory environment, and enjoys a well-deserved reputation for endemic crime and corruption. Following decades of misrule under military strongmen, Nigeria's transportation, communications, health and power public services were a mess. Once a breadbasket, Nigeria witnessed a severe deterioration of its agricultural sector. Social, religious, and ethnic unrest, and a lack of effective due process, further complicate business ventures in Nigeria. Moreover, the government remains highly over-reliant on oil exports for its revenue and thus subject to the vagaries of the world price for petroleum. Investors must carefully research any business opportunity and avoid those opportunities that appear "too good to be true."

The democratically elected civilian government of President Olusegun Obasanjo, inaugurated in May 1999, embarked on a program to improve the country's economic performance and refurbish its image. Ties have been reestablished with the international financial institutions and donor governments. Special panels have been established to investigate past government contracts and allegations of corruption. President Obasanjo has promised accountability and respect for the rule of law, and after years of harsh military rule, the impact on the public of this promise is dramatic.

To strengthen the economy, the Obasanjo administration has embarked on an extensive reform program. Government controls over foreign investment have been eliminated. Previous government decrees that inhibited competition or conferred monopoly powers on public enterprises in the petroleum, telecommunications, power, and mineral sectors have been repealed or amended. Privatization of government enterprises continues, albeit at a very slow pace. Key privatizations of the national telecommunications monopoly NITEL and the electricity utility NEPA are anticipated. The government continues to seek a more painless, less confrontational mechanism for deregulation of the downstream petroleum sector. On the down side, tariffs on numerous products and even raw material inputs and capital equipment remain excessively high, leading to chronic tariff avoidance by Nigerian importers. The government has sought to enforce its tariff policy through 100 percent inspection of all goods entering the country.

The National Assembly approved the 2001 budget prior to the beginning of the calendar year, a significant accomplishment compared to the 2000 budget process. The government in 2000 also succeeded in lowering its budget deficit to just 2.9 percent of GDP. Unfortunately, the deficit could widen again in 2001 as expenditure patterns for the federal, state and local governments display loose fiscal control, resulting in high liquidity problems throughout the economy. As a result, inflation which had fallen to just 6 percent by the end of 2000 surged to about 18 percent by August 2001. In 2001, the government also continued deficit funding for the budget through the issuance of treasury bills. A new treasury bill, the Central Bank Certificate of Deposit, was introduced early in 2001 to mop up excess liquidity in the banking system. Despite opposition from the IMF, the Nigerian government defends its expansionary budgetary policies by insisting its poverty alleviation programs demand that adequate funds be expended for them to succeed. But even with more prudent, qualitatively improved fiscal behavior from the federal government, the Nigerian pattern of government expenditure continues to shift to the state and local government levels. The federal government exercises relatively little control over the caliber of state government spending. An improved oil revenue stream in 2000 due to high world oil prices fueled the demand for increased state revenue allocations from this "oil windfall."

Throughout most of 2000, Nigeria's lively parallel market placed about a five percent discount on the Nigerian Naira. However, during 2001 this discount expanded to 17–20 percent as the government from April on essentially froze its official exchange rate at about N111:1. Unusually heavy government spending early in the year and the transfer of public sector funds to commercial banks further exacerbated the liquidity overhang. At the same time the government sought to stabilize the Naira which encouraged widespread improper behavior by financial institutions and others who sought to take advantage of attractive currency arbitrage opportunities. The Central Bank of Nigeria (CBN) is implementing enforcement mechanisms to reduce this foreign exchange "round-tripping"syndrome.

2. Exchange Rate Policy

In early 2000, a single interbank foreign exchange market rate (IFEM) was established for all foreign exchange transactions. Under this rate, which has become in effect the official exchange rate, commercial banks, oil companies, and the CBN can transact foreign exchange. However, all requests for foreign exchange transactions must be made through commercial banks who then must comply with required CBN documentation procedures for foreign exchange procurement. Companies and individuals may hold domiciliary accounts in private banks, and account holders have unfettered use of the funds. Foreign investors may bring capital into the country to finance investments, and remit dividends without prior Ministry of Finance approval. Bureau de Change offices are allowed a maximum of $5,000 per transaction.

3. Structural Policies

Although the Nigerian government maintains a system of "incentives" to foster the location of particular industries in economically disadvantaged areas, to promote research and development in Nigeria, and to favor the use of domestic labor and raw materials, in reality these programs have done little to benefit Nigeria's economic development. "Pioneer" industries may enjoy a nonrenewable tax holiday of five years, or seven years if the pioneer industry is located in an economically disadvantaged area. In addition, a number of Export Processing Zones (EPZs) have been established, most notably in southeastern Nigeria in Calabar, Cross River State. Currently, at least 75 percent of production from an EPZ enterprise must be exported, although this percentage requirement may decrease if proposed regulatory changes are implemented. Unfortunately, to date only a minute level of exports, mostly to West African locations, has been registered from Nigeria's EPZs.

In 1995, Nigeria liberalized its foreign investment regime, allowing 100 percent foreign ownership of firms outside the petroleum sector. Investment in the petroleum sector is still limited to existing joint ventures or productionsharing agreements. Foreign investors may buy shares of any Nigerian firm except those on a "negative list" (for example, manufacturers of firearms and ammunition and military and paramilitary apparel). Foreign investors must register with the Nigerian Investment Promotion Commission 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 nationalization or expropriation of a foreign enterprise by the Nigerian government except for such cases determined to be in the national interest.

Criminal fraud conducted against unwary investors and personal security are chronic problems in Nigeria. Called "419 fraud" after the relevant section of the Nigerian criminal code, these "advance-fee" schemes target foreigners and Nigerians alike through the mail, the internet, and fictitious companies. Despite improved law enforcement efforts, the scope of the financial fraud continues to bring international notoriety to Nigeria and constitutes a serious disincentive to commerce and investment. Companies and individuals seeking to conduct business with a Nigerian firm or individual should conduct the appropriate due diligence to ascertain they are not the victims of 419 crime. Meanwhile, crime against individuals, both Nigerian and expatriate, in the form of carjackings, robberies, extortion, etc. is rampant.

4. Debt Management Policies

In August 2000, Nigeria and the IMF agreed to a precautionary one year, $1 billion Stand-by Arrangement. By August 2001, Nigeria had missed some of the key economic reform and budgetary targets agreed upon earlier under the Stand-by. Despite the missed targets, the IMF appears to be committed to working with Nigeria to develop a follow up arrangement.

In December 2000, Nigeria reached agreement with the creditor Paris Club governments to reschedule over $23 billion in debt. Nigeria paid Paris Club creditors $700 million in 2000 and $1 billion in 2001. Under the agreement, roughly $20 billion of Nigeria's debt would be rescheduled over eighteen years with three years grace, while the remainder of Nigeria's debt would be rescheduled over the next five to nine years. Unfortunately, Nigeria has been unable to conclude bilateral agreements with most of its Paris Club creditors, despite extensions to the original April 15, 2001, deadline, and prospects for rescheduling remain tied to the outcome of events with the IMF. Discussions with the IMF and World Bank continue on a medium term economic program, and Nigeria is making some progress at meeting their criteria. According to the CBN's 2000 Annual Report, debt service payments in 2000 amounted to US $1,714.3 million, a marginal decline of $10.6 million from the 1999 level but more than the budgeted $1.5 billion.

5. Significant Barriers to U.S. Exports

Initially implemented to restore Nigeria's agricultural sector and to conserve foreign exchange, import bans on foodstuffs had been severely compromised by widespread smuggling, food shortages, and sharply higher domestic prices for the protected items and domestic substitutes. Import bans on almost all agricultural commodities have been lifted in recent years. However, some of the ban eliminations are not being respected by Nigerian customs. The inconsistent, non-transparent application of rules by Government of Nigeria agencies poses a significant challenge for U.S. exports. Import restrictions still apply to aircraft and oceangoing vessels.

While the Government of Nigeria continues to implement protectionist policies, highlighted by prohibitive import duties of up to 100 percent, tariff changes announced by the Government of Nigeria in December 2000 and amended in January 2001 both reduced and increased tariffs on a broad range of imported items. In particular, tariffs on some agricultural commodities remain extremely high and fully negate benefits to U.S. exporters of the Government of Nigeria's lifting of specific commodity import bans. While most Nigerian importers succeed in evading payment of the full tariffs, U.S. exporters who are careful to play by the rules report they are often disadvantaged and undercut by non-U.S. exporters who collaborate with Nigerian importers to avoid tariff payments, particularly on agricultural products. Immediately after lifting its longtime ban on corn imports, the Government of Nigeria placed a 70 percent duty on this grain. In conjunction with other surcharges and taxes, the effective tariff on corn imports is more than 80 percent. The Government of Nigeria's import duty for wheat imports increased from 7.5 to 15 percent in 2000. The U.S. share of Nigeria's wheat import market is nearly 90 percent. The effective import duty on rice was increased to approximately 85 percent. Duties on branded vegetable oil were increased from 35 percent to 60 percent and on hatchable eggs from 50 percent to 80 percent. Apples, fruit juices, and woven fabrics also face stiffer tariffs following the January 2001 tariff changes. The import of vegetable oil in bulk is banned.

There continues to be pressure from Nigerian manufacturers on the government to lower tariffs on raw material inputs and machinery. Tariffs were reduced significantly to as low as five percent on such items as non-combed cotton, synthetic filament yarn, newsprint, textile and industrial machinery, vehicles, tractors, and chemicals. Cement imports must be imported in bulk only of not less than 10,000 mt or the full capacity of the carrying vessel.

Nigeria is a long-standing member of the World Trade Organization (WTO). Its current tariff structure reflects revisions aimed at narrowing the range of custom duties, increasing rate coverage in line with WTO provisions, and decreasing import prohibitions. Overall, Nigeria continues slowly to reduce its tariffs and duties, although some excise duties eliminated in 1998 have been restored for certain goods such as cigarettes, cigars, tobacco, and spirits. For 1999, a 25 percent import duty rebate that was granted importers in late 1997 was abolished. About 500 tariff lines were modified in 2001, including upward duty revisions averaging 25 percent on 70 tariff lines (on mostly agricultural products) and downward revisions of generally less than 10 percent on about 430 tariff lines. This roller-coaster raising and lowering of tariffs has resulted in a slight decrease in average tariff levels in 2001.

Nigeria's ports continue to be a major hindrance for imports. Importers bemoan excessively long clearance procedures, petty corruption, the extremely high berthing and unloading costs, and arbitrary application of Nigerian regulations. All unaccompanied imports and exports regardless of value require pre-shipment inspection (PSI) and must be accompanied by an import duty report (IDR). The Nigerian Customs Service will confiscate goods arriving without an IDR. In addition, all goods are assessed a onepercent surcharge to cover the cost of inspection. In January 2001, the Government of Nigeria announced that all imported containers and vehicles must enter Nigeria through its ports. This policy was implemented in an attempt to halt the transshipment of vehicles and products from neighboring countries. In June 2001, the Government of Nigeria ordered 100 percent inspection by Nigerian Customs and the Nigerian Ports Authority of all goods entering Nigeria. This move was made in a bid to check the growing incidence of under-valuation of imports and smuggling, specifically according to the government, firearms and ammunition. The result of this enhanced inspection regime has been severe port congestion as ports lack the facilities to cope with the widely expanded operations. The Government of Nigeria has announced that it intends to continue the 100 percent inspection regime indefinitely and would stop the pre-shipment inspection (PSI) system.

The Obasanjo Administration has pledged to practice open and competitive contracting for government procurement, and anti-corruption is an energetic and central plank of the current government's procurement policies. However, U.S. companies continue to experience serious problems with non-transparent contract negotiations and corruption at high levels of the Nigerian government. Foreign companies incorporated in Nigeria are entitled to national treatment, and tenders for government contracts are published in Nigerian and international newspapers. The government has prepared guidelines for the procurement process. (Proper precautions should be exercised by prospective contractors to avoid possible "419" problems.) According to government sources, approximately five percent of all government procurement contracts are awarded to U.S. companies. However, numerous U.S. companies have experienced difficulties in landing government contracts despite their alleged technical and financial advantages.

6. Export Subsidy Policies

On paper, the Nigerian Export Promotion Council (NEPC) administers export incentive programs, including a duty drawback program, an export development fund, tax relief and capital assets depreciation allowances, and a foreign currency retention program. The effectiveness of these programs for more than a limited number of beneficiaries is dubious and their non-potency is reflected in Nigeria's export proceeds. In 2000, Nigeria exports increased by almost 50 percent, almost entirely due to higher prices for hydrocarbons. Although non-oil exports increased by 27 percent, its overall share in total exports in real terms actually decreased from 1.6 percent in 1999 to only 1.3 percent in 2000. The CBN reported in September that there has not been any increase in non-oil export earnings yet in 2001. The duty drawback or manufacturing inbond program was 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 product exportation and repatriation of foreign exchange. Though meant to promote industrial exports, these schemes have been burdened by inept administration, confusion among industrialists, and corruption, causing in some cases losses to those manufacturers and exporters who opted to use them.

7. Protection of U.S. Intellectual Property

Nigeria is a signatory to the Universal Copyright Convention and the Berne Convention. In 1993, Nigeria also became a member of the World Intellectual Property Organization (WIPO), thereby becoming party to most of the major international agreements on intellectual property rights. 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 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. This act was amended in 1999 to include video rental and security devices. According to the Nigerian Trademarks Office, the Nigerian Trademarks Law is almost fully TRIPS (Trade Related Intellectual Property Rights) compliant, but the Government of Nigeria acknowledges there is room for improvement in such areas as Geographical Indications (GIs). The Federal Ministry of Justice is currently working to ensure its updated Trademarks Law is wholly TRIPS compliant.

Although existing patent and piracy laws are considered reasonable, enforcement remains extremely weak and slow. Piracy of copyrighted material is widespread and includes a large portion of the pharmaceutical market and virtually 100 percent of the Nigerian recordings and home video market. Foreign companies rarely have sought trademark or patent protection in Nigeria because it was generally perceived as ineffective. Few cases involving infringement of nonNigerian copyrights have been successfully prosecuted in Nigeria, while the few court decisions that have been rendered have been inconsistent. Most copyright cases have been settled out of court. However, there are signs the pattern of abuse in intellectual property rights protection is being reversed. Nigerian companies, banks, and government agencies are increasingly being forced to procure only licensed software. The National Agency for Food and Drug Administration and Control (NAFDAC) has made highly publicized raids on counterfeit pharmaceutical enterprises. Establishment of specialized courts to handle intellectual property rights issues is being considered. Nigeria's active participation in international conventions has yielded positive results. Law enforcement agents occasionally do carry out raids on suspected sites for production and sale of pirated tapes, videos, computer software and books. Moreover, some Nigerian companies, including filmmakers, have sought to protect their legitimate business interests by banding together in bringing lawsuits against pirate broadcasters.

The recent deregulation of Nigeria's television market has led to the creation of a number of broadcast and cable stations. Many of these stations utilize large satellite dishes and decoders to pull in transmissions for rebroadcast, providing unfair competition for legitimate public and private television stations.

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 startup 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, prohibits 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 homebased 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 has also forced many children into the employment market, which is unable to absorb their labor due to high levels of unemployment. The use of 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 two to four 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 May 2000, the federal government approved a new National Minimum wage for both federal and state employees. Under the approved wage, federal workers are to receive a minimum monthly wage (salary and allowance) of 7,500 naira ($75) while state employees would receive 5,500 naira as a minimum monthly wage. The new wage review has, however, set many state governments and their employees on a collision course. While some states claim that they cannot afford the stipulated 5,500 naira labor unions and state workers insist their wages should be the same as those of federal workers. The last minimum wage review was carried out in 1998 by the Abubakar regime. 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—2000

[In Millions of U.S. Dollars]

Category		Amount
Petroleum		–881
Total Manufacturing		58
Food & Kindred Products	(1)	
Chemicals & Allied Products	22	

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—2000—Continued

[In Millions of U.S. Dollars]

Category		Amount
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		274
Services		0
Other Industries		6
Total All Industries		1,283

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

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

SOUTH AFRICA

Key Economic Indicators

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

	1999	2000	[1] 2001
Income, Production and Employment: [2]			
GDP (at nominal prices)	130.0	126.1	108.1
Real GDP Growth (pct)	1.9	3.1	2.5
GDP by Sector:			
Agriculture	4.5	3.2	3.2
Mining and Quarrying	6.4	6.5	6.9
Manufacturing	19.9	18.8	18.7
Wholesale/Retail Trade	13.5	13.1	14.0
Transport, communications	10.7	10.0	11.0
Electricity, water	3.6	2.9	2.8
Construction	3.0	2.8	2.8
Financial Services	17.9	20.3	20.5
Government (community, social services)	20.4	19.3	18.7
Other producers: social, private services	(8)	3.1	3.1
Per Capita GDP (US$)	3,040	2,885	2,576
Total labor employed (millions)	10.37	N/A	N/A
Total economically active (millions)	13.53	N/A	N/A
Official unemployment Rate (pct)	23.3	25.8	N/A
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	13.6	6.2	12.9
Consumer Price Index	5.2	5.3	5.7
Exchange Rate (Rand/US$—annual average) [1]	6.11	6.93	8.29
Balance of Payments and Trade:			
Total Exports FOB [3]	24.65	27.6	30.1
Exports to United States [4]	3.2	4.2	4.6
Total Imports CIF [3]	24.5	27.3	26.7
Imports from United States [4]	2.4	2.8	2.7
Trade Balance [3]	0.15	0.3	3.4
Balance with United States [4]	0.6	1.4	1.9
External Public Debt/GDP (pct) [5]	2.0	3.0	N/A
Fiscal Deficit/GDP (pct)	–2.3	–2.0	–2.5
Current Account Deficit/GDP (pct)	–0.4	–0.3	0.6
Debt Service Payments/GDP (pct)	5.5	5.2	4.9
Gross Gold and Foreign Exchange Reserves	11.2	11.1	4.2
Aid from United States (US$ millions) [6]	53	47	53

Key Economic Indicators—Continued

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

	1999	2000	[1] 2001
Total Aid (US $ millions) [7]	141	141	100

[1] Indicators for 2001 are projections. In South African Rand the GDP is projected to grow to R 896 billion and GDP per capita for 2001 is projected at R21,354.
[2] The following exchange rates were used in the calculations: $1/R6.11 for 1999, 1$/R6.93 for 2000, 1$/R8.29 for 2001.
[3] Source: South African Reserve Bank Sept. 2001 Quarterly Bulletin. Exports: merchandise only—net gold exports excluded.
[4] Source: USITC. Exports FAS, imports customs basis.
[5] Figures for 1999, 2000 from SA Reserve Bank Quarterly Bulletin September 2001.
[6] The figures represent aid from USAID only.
[7] Source: SA Reserve Bank September 2001 Quarterly Bulletin and 2001 Budget Review of the National Treasury.
[8] Included above.

1. General Policy Framework

South Africa is a middle income developing country with an economy marked by substantial natural resources, a sophisticated industrial base, and modern telecommunications and transport infrastructure. A member of the WTO, its policies largely promote free trade. It has a very developed legal sector, a sophisticated financial sector, and a stock exchange that ranks among the 20 largest in the world. South Africa has inexpensive electrical power and raw materials as well as lower labor costs than western industrialized countries. It has enjoyed positive economic growth since 1993. Following slow growth in real GDP of only 0.7, a turnaround started in 1999 with a 1.9 percent growth rate, followed by real GDP growth of 3.1 percent in 2000.

The short and medium term prospects for South Africa are generally upbeat. Sound management at the macro-economic level continued to characterize the public finances during 2000/01 and the budget deficit as a percentage of the GDP was reduced to less than two percent. In general, the South African economy is adjusting satisfactorily to the challenges posed by the changing global economy. This is reflected in a low foreign debt-to-GDP ratio and declining interest and inflation rates. Even within the global economic slowdown, the South African economy is expected to grow perhaps 2.5 percent in 2001. With its large structural savings/investment gap, however, South Africa depends on foreign savings to support investment and growth. Progress in attracting higher levels of foreign direct investment (FDI) has been disappointing, hindered by the loss of confidence of international investors in emerging markets assets and South Africa's sluggish pace of privatization. Inflows of FDI are still more than fully offset by South African corporations' expansion and investment abroad as exchange controls are relaxed.

The South African Reserve Bank (SARB) influences interest rates and controls liquidity through its rates on funds provided to private sector banks (repo rate), and to a lesser degree through the placement of government paper. In February 2000, an inflation targeting monetary policy framework was introduced. It is a broad based strategy for achieving price stability, centered on an analysis of price developments and not on some reference value for monetary growth. The SARB uses CPIX (Consumer Price Index for metropolitan and urban areas excluding interest costs on mortgage bonds) as the benchmark for inflation targeting. A CPIX band of three to six percent for the year 2002 was set as target. With the adoption of an inflation targeting monetary policy framework, the SARB no longer has any intermediate policy targets or guidelines such as the exchange rate or growth in the monetary aggregates.

The Competition Act of 1998 took effect in September 1999. The Act replaced the previous legislation with new provisions for a much stronger and more independent competition authority. The Commission has a range of functions, including investigating anticompetitive conduct, assessing the impact of mergers and acquisitions on competition and taking appropriate action, monitoring competition levels and market transparency in the economy, identifying impediments to competition, and playing an advocacy role in addressing these impediments. With record growth in merger and acquisition activity and a growing number of enforcement and exemption cases, the new Commission has accumulated a large caseload in a short period that has severely tested its resources. In its first year, it has handled over sixty merger cases and is playing a significant role in opening the economy.

Although the country's economic fundamentals are in place, the Government of South Africa is still faced with serious challenges. To date, it has made little progress in changing the low overall income levels of the majority of people, addressing the highly skewed income distribution between the different race groups and with the creation of jobs. Other serious shortcomings include poor quality schools in the majority of areas of the country, the lack of social services for all and insufficient growth rates to address the huge unemployment problem.

While poverty, inequality, unemployment, lack of skilled labor, corruption, increasing crime, and the acceleration in the incidence of HIV/AIDS remain significant sociopolitical problems, South Africa remains the largest and most developed country in Sub Saharan Africa.

2. Exchange Rate Policy and Foreign Exchange Controls

The market drives South Africa's exchange rate policy with the rate determined by supply and demand in the currency market. While the SARB has the option of intervention, its current policy is that it will not take that action. With the adoption of an inflation targeting monetary policy framework, the SARB no longer has any intermediate policy targets or guidelines such as the exchange rate or growth in the monetary aggregates. The South African authorities are committed to allowing the value of the rand to be determined by the market.

The South African Reserve Bank (SARB) administers foreign exchange controls through its Exchange Control Department. Commercial banks act as authorized dealers of foreign exchange on behalf of the SARB. Unless otherwise authorized by the Exchange Control Department, all transactions between residents and nonresidents of SA must be accounted for through the authorized dealers. In general, there are no controls on the removal of investment income or on capital gains by nonresidents. Dividends from quoted companies may be paid to nonresidents without the approval of the SARB. Non-quoted companies may pay dividends to nonresidents, providing an auditor's report shows that such dividends are the result of earned profits. Foreign firms may invest in share capital without restriction. Royalties, license fees, and certain other remittances to nonresidents require the approval of the SARB.

In March 1997, the Finance Ministry announced phased-in measures to relax foreign exchange controls, including doubling foreign firms' access to local credit and increasing, higher retention of offshore income, and increased ceilings on foreign investment holdings of local financial institutions. In particular, South African resident private individuals over the age of 18 and tax payers in good standing have, for the fist time, been allowed to invest abroad since July 1997. The R500,000 limit was increased to R750,000 per person in 2000. A number of other exchange control relaxations were also introduced in the past two years. In his 2001 Budget speech, the Minister of Finance emphasized that the global expansion of South African firms held significant benefits for the economy including expanded market access, increased exports, and improved competitiveness. In order to support this expansion from a South African base, the limit on the use of South African funds for new approved foreign direct investment was increased from R50 million to R500 million. And further, as part of the government's commitment to African economic recovery, South African firms were granted the permission to use up to R750 million of local cash holdings for new approved foreign direct investment in Africa.

In the absence of a positive inflow of FDI, South Africa has had to rely on more volatile portfolio inflows instead, which are vulnerable to sentiment and speculation. During 2000, the surplus balance on the financial account contracted sharply, falling from R29.5 billion in 1999 to R8.5 billion. These outflows via the financial account contributed to in the continued fall of the value of the South African currency. During 2000, the Rand fell by 12 percent in value against the U.S. dollar and remained volatile during the course of 2001. This depreciation has reduced the price competitiveness of U.S. exports. The impact on the loss of exports of U.S. agricultural products is particularly strong. South Africa has a surplus balance on trade with the United States.

3. Structural Policies

All prices of goods are market determined with the exception of petroleum products. With regard to agricultural products, the sugar industry is the only one in which a degree of price regulation still exists. Purchases by government agencies and major private buyers are by competitive tender for projects or supply contracts. The Preferential Procurement Policy Framework Act, enacted in February 2000, aims to promote public sector procurement reform in all organs of state, to introduce a more uniform public sector procurement system and to provide implementing guidelines for the procurement policy. Under the Act, a government organization with a preferred provider program must use a preference point system. A contract will be awarded to the bidder with the highest number of points, provided the bidder is within a certain range of the lowest acceptable bid price. Regulations in terms of the Act were published during July 2001 to establish a formula for allowing preference points, e.g., for Historically Disadvantaged Individuals (HDIs), when tendering for a Government Procurement contract.

In the 2000 Budget, several proposals were introduced with prospective effect, including residence-based income taxation and the capital gains tax. The South African tax system used to be based on the source principle and tax was levied on income from a source within South Africa irrespective of whether it was earned by a resident or nonresident. From 2001, South Africa has moved to a residence based income tax system. Tax is levied on residents of South Africa irrespective of where in the world the income is earned, although some categories of income and activities undertaken outside the country are exempted from South African tax. This structural change to the income tax was necessary to ensure that the South African tax system kept pace with globalization and the integration of South Africa with the world economy. Capital gains tax became effective from October 1, 2001. Effective rates for individuals will range from zero to 10.5 percent, retirement funds 6.25 percent, unit trusts 7.5 percent, life insurers from 6.25 to 15 percent, and companies 15 percent.

Income tax payers are divided into two categories: individuals, who are taxed at progressive rates, and companies, taxed at 30 percent of taxable income. A secondary tax on companies (STC) (an additional tax on company income) is imposed at a rate of 12.5 percent on the net amount of dividends declared by a company. Withholding taxes are imposed on interest and royalties are remitted to nonresidents. South Africa has a 14 percent Value Added Tax (VAT). Exports are zero rated, and no VAT is payable on imported capital goods. During the recent two to three years, the government has undertaken measures 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 STC was halved to 12.5 percent in March 1996. In the 2000 Budget, extensive relief was also allowed on individual tax rates, with the top marginal tax rate to decrease to 42 from 45 percent and the lowest to 18 from 19 percent. The February 2001 Budget allowed for further personal income tax relief, resulting from the restructuring of income tax brackets. The measure boosted personal disposable income by R8.3 billion. The Minister of Finance also announced that $375 million has been set aside over the next four years for tax incentives targeted at strategic industrial projects that promise significant benefits to the South African economy such as job creation. During the 2000 Budget, a reduced tax rate of 15 percent of the first R100, 000 of taxable income was introduced for certain small businesses. In 2001, the tax privileges were extended to allow for the immediate deduction of investment expenditure in manufacturing assets for the year in which the investment is made.

Labor and labor issues have a strong impact on needed investment. The government's privatization agenda meets with significant resistance from trade unions who are politically strong. Recent planned privatizations of two telecom entities have been delayed to next fiscal year. Further, inflexible labor laws, particularly with regard to collective bargaining, impede competitiveness gains and discourage investors.

4. Debt Management Policies

At the end of 2000, the SARB reported that total foreign (public and private) debt amounted to approximately $36.9 billion, down from $38.9 billion in 1999. 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 decrease from 8.6 percent in 1999 to 6.2 percent in 2000.

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. South Africa's liquid and sophisticated domestic capital market helped the country to cope relatively well with the 1998 global financial market crisis. The country did not require an IMF program and could easily afford not to borrow from international markets. Domestic debt, of which the bulk is medium and longterm, with an average duration of close to five years, accounts for over 90 percent of the national government's total debt portfolio. Foreign debt, almost entirely capital market debt, accounts for only six to seven percent of the portfolio and is mainly denominated in U.S. dollars, euros, and Japanese yen.

In February 2001, the government announced that as part of a more active debt management policy, a program of debt consolidation was underway, a new long-dated inflation linked bond will be issued, and a bondstripping facility introduced. After extraordinary receipts and payments, the Net Borrowing Requirement (NBR) for 2000/01 came to R16.8 billion ($2.4 billion).

The SARB has made strong progress on reducing the liability of its net open forward position (NOFP). At end 2000 the NOFP stood at $9.5 billion. Currently, it is $4.8 billion, which is roughly 64 percent of reserves.

5. Significant Barriers to U.S. Exports

South Africa is a member of the WTO. The government remains committed to the simplification and reduction of tariffs within the WTO framework, and maintains active discussions in trade organizations. Ninety-eight percent of South Africa's tariff lines are now bound. The number of antidumping petitions filed in South Africa, however, remains high. In a December 2000 ruling, the BTT reaffirmed the dumping duties on chicken pieces imported from the United States.

In September 1996, DTI introduced an Industrial Participation (IP) program. Under the program, all government and parastatal purchases or lease contracts (goods, equipment or services) with an imported content equal to or exceeding $10 million (or the Rand equivalent thereof) are subject to an IP obligation. This obligation requires the seller/supplier to engage in commercial or industrial activity equaling or exceeding 30 percent of the imported content of total goods purchased under government tender. The Industrial Participation obligation must be fulfilled within seven years of the effective date of the IP agreement.

Government purchases are by competitive tender for project, supply and other contracts. Foreign firms can bid through a local agent, who will then be so examined. The government, however, utilizes its position of both buyer and seller to promote the economic empowerment of historically disadvantaged groups through the Black Economic Empowerment (BEE) program.

Regulations also set a legal framework and formula for allowing preference points to HDIs when tendering for a Government Procurement contract. Points are awarded based on such criteria as a percentage of HDI ownership and the percentage of HDI managers. Many U.S. companies operating in South Africa already have significant programs that support and empower HDIs and could therefore fare well in this system. However, the concern was never the point system but the possibility that HDI equity ownership is interpreted as a mandatory part of the system. This could have negative implications for multinational corporations (MNCs) because many MNC boards of directors may be unwilling to give away corporate equity solely for the purpose of doing business with the South African Government.

The Telecommunications Act of 1996 (TCA) gave the telecommunications parastatal Telkom a monopoly over the provision of voice communication lines and the direct sale of infrastructure (including "last mile" services) to end users. The TCA also provided the Minister of Communications sole authority to set communications policy and to issue licenses. The industry regulator, the Independent Communications Authority of SA (ICASA) has a mandate to interpret the TCA, to issue regulations, and to recommend licensees. Frequently there is conflict between the Ministry, Telkom, and commercial telecommunications providers. ICASA was unable to resolve the dispute between Value Added Network Services (VANS) providers and Telkom for over three years. One of the VANS providers, AT&T, has complained to the U.S. Trade Representative (USTR) that the government was not living up to its WTO commitments by allowing Telkom to refuse service to VANS providers whom Telkom claimed were reselling capacity. ICASA has solicited input from the business community during the past year to assist in compiling new regulations covering VANS. As of June 2001, the Department of Communications has yet to issue final policy directives clarifying its stance on VANS and other telecommunications issues.

6. Export Subsidies Policies

Almost all export subsidies have been discontinued. The DTI has moved away from these policies to supply-side measures. One of the new programs, the Export Marketing Assistance Scheme (EMA), offers financial assistance for the development of new export markets, through financing trade missions and market research. The total amount allowed to the DTI for exporter assistance for 1999/2000 was less than $15 million compared to exporter assistance of $150 million in 1997/98.

DTI's division know as Trade and Investment South Africa (TISA) has a section dealing with trade facilitation by providing assistance to export development projects. It is also responsible for the provision of interest subsidies on medium and long term. The subsidies are based on the rate differential between South African and international lending rates. The subprogram also provides assistance to the Reinsurance Fund for Export Credit and Foreign Investment. A new government owned Export Credit Agency was established during 2001. Provisions of the Income Tax Act also permit accelerated write-offs of certain buildings and machinery associated with beneficiation processes carried on for export, and deductions for the use of an export agent outside South Africa.

7. Protection of U.S. Intellectual Property

While South African IPR laws and regulations are largely TRIPS-compliant, there is continuing concern about copyright piracy and trademark counterfeiting. The U.S. copyright industry estimates that trade losses due to the piracy of copyrighted works continue to increase. The U.S. and South African governments have held extensive consultations to clarify a section of the South African Medicines Act, which appeared to grant the Minister of Health broad powers in regard to patents on pharmaceuticals. The governments reached an understanding that any action taken by the South African government will be compliant with TRIPS. A similar understanding was then reached between the pharmaceutical companies and the South African Government. Draft regulations to implement the agreement have been published during 2001 and discussions with interested parties are continuing.

Intellectual property rights (IPR) are protected under a variety of laws and regulations. Patents may be registered under the Patents Act of 1978 and are granted for twenty years. Trademarks can be registered under the Trademarks Act of 1993, are granted for ten years, and may be renewed for 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, cinematography 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 amended in 1992 to include computer software. The Department of Trade and Industry (DTI) 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 Intellectual Property. South Africa is also a member of the World Intellectual Property Organization (WIPO). The SAG passed two IPR-related bills in Parliament at the end of 1997, the Counterfeit Goods Act and the Intellectual Property Laws Amendment Bills, thereby enhancing its IPR protection. The Counterfeit Goods Act provides for criminal prosecution of persons trading in counterfeit or pirated goods and establishes a special antipiracy unit. However, enforcement of these laws by the National Inspectorate has only recently begun in earnest. At the beginning of November 2000, 20 inspectors were appointed and trained. A number of warehouse facilities designated as counterfeit goods depots were appointed on a self-funding basis during the latter part of 2000. During 2001, the DTI put out a tender for the disposal of seized counterfeit goods in state warehouses.

8. Worker Rights

a. *The Right of Association:* Freedom of association is guaranteed by the constitution and given statutory effect by the Labor Relations Act (LRA). All workers in the private sector and most in the public are entitled to join a union. Moreover, no employee can be fired or prejudiced because of membership in or advocacy of a trade union. Unions in South Africa have an approximate membership of 3.3 million or 31 percent of those employed in the wage economy. 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. There are reports, however, that women and children have been forced into prostitution.

d. *Minimum Age for Employment of Children:* South African law prohibits employment of minors under age 15. Nor may children between ages 15 and 18 work if such employment “places at risk the child’s wellbeing, education, physical or mental health, or spiritual, moral or social development.” Child labor is nevertheless prevalent in the rural areas of the former ″homelands″ and in the informal sector.

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 and domestic workers. Occupational health and safety issues remain a top priority of trade unions, especially in the mining, construction and heavy manufacturing industries which are still considered hazardous by international standards.

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

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—2000

[In Millions of U.S. Dollars]

Category		Amount
Petroleum		6
Total Manufacturing		947
Food & Kindred Products	142	
Chemicals & Allied Products	205	
Primary & Fabricated Metals	(1)	
Industrial Machinery and Equipment	89	
Electric & Electronic Equipment	71	
Transportation Equipment	141	
Other Manufacturing	(1)	
Wholesale Trade		166
Banking		(1)
Finance/Insurance/Real Estate		(1)
Services		118
Other Industries		(1)
Total All Industries		2,826

[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

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

	1999	2000	[1] 2001
Income, Production and Employment:			
Nominal GDP [3]	392.7	377.8	338.4
Real GDP Growth (pct)	4.2	1.5	2.5
GDP by Sector: [4]			
Agriculture	12.8	10.8	9.6
Manufacturing	47.7	43.2	38.7
Services	280.2	281.8	252.5
Government	14.6	14.1	12.6
Per Capita GDP (US$)	21,800	19,900	16,900
Labor Force (000s)	9,470	9,700	9,800
Unemployment Rate (pct)	7.0	6.3	6.9
Money and Prices (annual percentage growth):			
Money Supply (M3)	10.1	4.5	10.6
Consumer Price Inflation	1.8	5.8	4.0
Exchange Rate (Aust$/US$—annual average) [2]	1.56	1.74	1.99
Balance of Payments and Trade:			
Total Exports FOB	55.7	63.6	62.9
Exports to United States	5.4	6.3	5.8
Total Imports CIF	65.1	67.4	65.4
Imports from United States	13.6	13.3	12.6
Trade Balance	–9.4	–9.3	–3.5
Balance with United States	–8.1	–7.0	–6.8
External Public Debt	24.0	12.2	7.6
Fiscal Surplus/GDP (pct)	0.7	7.0	0.3
Current Account Deficit/GDP (pct)	5.8	4.0	3.5
Debt Service Payments/GDP	1.7	2.0	1.6
Gold and Foreign Exchange Reserves	22.0	18.8	19.0
Aid from United States	0	0	0
Aid from All Other Sources	0	0	0

[1] 2001 figures are estimates based on available monthly data in October.
[2] Exchange rate fluctuations must be considered when analyzing data. Percentage changes calculated in Australian dollars.
[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 (55–60 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; 20 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.

Australia was one of the OECD's fastest-growing economies throughout the 1990s, and, after a short downturn in late-2000, continues to grow faster than the OECD average. The resultant improvement in the labor market has seen unemployment fall below seven percent for the first time in a decade, with little hint of wage inflation. Price inflation, however, remains above average (around five percent p.a.) following the July 2000 introduction of a broad-based 10 percent consumption tax and the continued depreciation of the Australian dollar. Cuts by the Reserve Bank of Australia (RBA) to official interest rates (150 basis points over 2000), while bolstering economic growth, will probably prevent the inflation rate returning to its long-term trend level (around two-three percent p.a.) until well into 2002.

The Liberal/National coalition government continued its program of fiscal consolidation and debt reduction in its budget for the 2001–2002 fiscal year, announcing a planned budget surplus of $0.8 billion.

2. Exchange Rate Policies

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

Australia does not have any major foreign exchange controls beyond requiring RBA approval if more than A$5,000 in cash is to be taken out of Australia at any one time, or A$50,000 in any form in 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 percent. It is now in the process of selling the remaining federally-owned airports around Sydney.

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

July 2000 saw the introduction of the Goods and Services Tax (GST), accompanied by significant cuts to personal income taxes. The GST is a broad-based consumption tax levied at 10 percent (exempting only basic food, education, health, and charities) and replaces the Wholesale Sales Tax and several other minor excises and taxes.

4. Debt Management Policies

Australia's net foreign debt has averaged between 30 and 45 percent of GDP for the past decade, and in mid-2001 totaled $160 billion (48 percent of GDP). Australia's net external public debt is $7 billion, or around two percent of GDP. 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 percent 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 eased in 1992, allowing up to 20 percent of the time used for paid advertisements to be filled with foreign-sourced material.

Local content regulations also require that 55 percent of a commercial television stations' weekly broadcasts between the hours of 6:00 a.m. and midnight must be dedicated to Australian-produced programs. (The United States 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 percent of their annual program budget to new Australian-produced content.

Labeling: Various federal and state labeling requirements are being reconsidered in light of compliance with GATT obligations, utility and effect on trade. A new mandatory standard for foods produced using biotechnology came into effect in May 1999. The standard prohibits the sale of food produced using gene technology, unless the food has been assessed by the Australia New Zealand Food Authority (ANZFA) and listed in the standard. The Australia New Zealand Food Standards Council has directed ANZFA to require labeling for virtually all foods produced using biotechnology, with labeling of affected products to become mandatory on 7 December 2001.

Commodity Boards: The export of almost all wheat, rice, and sugar remains under the exclusive control of commodity boards. The privatization of the Australian Wheat Board (AWB) in July 1999 saw its export controls transferred to the Wheat Export Authority (WEA), with veto rights over bulk export requests retained by the grower-owned former subsidiary of the AWB, AWB (International) Ltd. After review during 2000, the Federal government extended the WEA's export monopoly until 2004. Having terminated export support payment schemes and internal support programs for dairy producers, the Australian government has made a structural adjustment package available to dairy producers since June 2000.

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, in a number of instances without the WTO-required science-based justification. 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 California table grapes, Florida citrus, stone fruit, chicken (fresh, cooked, and frozen), pork, apples, and corn.

Investment: The government requires notification of investment proposals by foreign interests above certain notification thresholds, including: acquisitions of substantial interests, 15 percent by a single foreigner and 40 percent in aggregate, in existing Australian businesses with total assets over A$50 million; plans to establish new businesses involving a total investment of over A$10 million or more and takeovers of offshore companies whose Australian subsidiaries are valued at A$50 million or more, or account for more than 50 percent of the target company's global assets; and, direct investments by foreign governments or their agencies, 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 media sector, urban real estate or land, 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 IT companies with annual sales to the Government of Australia of more than A$40 million have been expected to enter into the Partnerships for Development (PFD) scheme. Under a PFD, the headquarters of the foreign firm agrees: to invest five percent of its annual local turnover on research and development in Australia; to export goods and services worth 50 percent of imports for hardware companies or 20 percent of turnover for software companies; and to 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 souring 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.

On 1 June 2001, the Government of Australia released a discussion paper on the Strategic Industry Development Agreement Program, to replace the PFD scheme at some point in the second half of 2001. The proposed framework requires all companies wishing to supply Information and Communication Technology (ICT) products and services to the Government of Australia (including subcontractors and resellers) to be endorsed under the Endorsed Supplier Arrangement. Companies supplying more than A$10 million in ICT goods and services will be required to commit to industry development activities, such as research and development, export and value-added manufacturing initiatives, and technology transfer.

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.

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. In August 2000, Australia took final action to implement the 1996 WIPO Copyright and World Performances and Phonograms Treaties. The United States is concerned over Australia's removal of restrictions on parallel imports, copyright piracy issues and with Australia's limitations on its protection of test data for certain chemical entities.

Australia has allowed the parallel importation of sound recordings since 1998, and of branded goods (e.g. clothing, footwear, toys, and packaged food) since 2000. During July 2000, the Cabinet approved a proposal to remove the restriction on parallel imports for books and computer software. Although passed by the House in June 2001, the legislation is unlikely to be approved by the Senate in 2001.

During December 2000, the Australian House of Representatives' Standing Committee on Legal and Constitutional Affairs released its report entitled "Cracking down on copycats: enforcement of copyright in Australia." The Committee concluded that even though the level of copyright infringement in Australia is low by international standards, it does impose a significant and costly burden to many Australian industries that rely on creative endeavor. The Committee recommended amendments be made to the Copyright Act to make it easier for copyright holders to defend their rights in civil actions and to increase the criminal penalties for commercial infringement. It is unlikely these recommendations will be enacted in any form during 2001.

In August 1999, the Australian Parliament enacted legislation permitting limited software recompilation. The impact of this legislation remains unclear; the U.S. government continues to monitor the potentially serious impact of software decompilation.

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 products. No protection is provided for data submitted in regard to new uses and formulations.

Trademarks: Australia provides Trade-Related Aspects of Intellectual Property Rights (TRIPs) compatible protection for both registered and unregistered well known trademarks under the Trademark Act of 1995. The term of registration is ten years.

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 26 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 that 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 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—2000

[In Millions of U.S. Dollars]

Category		Amount
Petroleum		6,992
Total Manufacturing		7,964
Food & Kindred Products	1,197	
Chemicals & Allied Products	2,624	
Primary & Fabricated Metals	472	
Industrial Machinery and Equipment	705	
Electric & Electronic Equipment	159	
Transportation Equipment	1,446	
Other Manufacturing	1,360	
Wholesale Trade		2,627
Banking		2,627
Finance/Insurance/Real Estate		8,145
Services		2,242
Other Industries		4,843
Total All Industries		35,324

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

CHINA

Key Economic Indicators

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

	1999	2000	2001
Income, Production and Employment [1]			
Nominal GDP [2]	986.9	1,077.1	1,160.0
Real GDP Growth (pct) [3]	7.1	8.0	7.5
GDP by Sector: [4]			
Agriculture	174.1	171.2	176.0
Manufacturing	486.0	548.0	597.5
Services	325.7	357.9	386.5
Government [5]	123.9	141.0	N/A
Per Capita GDP (US$)	787	829	892
Labor Force (millions) [6]	711.6	717.8	724.0
Unemployment Rate (pct) [7]	3.1	3.1	3.5
Money and Prices (annual growth):			
Money Supply (M2) (pct)	15.3	12.3	13.5

Key Economic Indicators—Continued

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

	1999	2000	2001
Consumer Price Inflation (pct)	–1.4	0.4	1.0
Exchange Rate (RMB/$US avg.)	8.3	8.3	8.3
Balance of Payments and Trade:			
Total Exports (FOB)[8]	194.7	249.1	269.2
Exports to United States (U.S. data)	81.8	100.0	107.2
Exports to United States (Chinese data)	41.9	52.1	55.2
Total Imports CIF	158.7	214.7	241.3
Imports from United States FAS (U.S. data)	13.1	16.2	19.5
Imports from United States (Chinese data)	19.5	22.4	26.2
Current Account Balance	15.7	20.5	12.4
Balance with United States (U.S. data)	68.7	83.8	87.7
Balance with United States (Chinese data)	22.4	29.7	29.0
External Public Debt[9]	151.8	145.7	145.0
Fiscal Deficit/GDP (pct)	2.8	2.8	2.7
Current Account Surplus/GDP (pct)	3.0	2.2	2.0
Debt Service Payments/Export (pct)	11.3	9.2	9.0
Debt Service Payments/GDP (pct)	2.2	4.0	3.0
Gold and Foreign Exchange Reserves	155.3	166.1	200.6
Aid from United States	0	0	0
Aid from Other Sources	0.6	0.6	0.6

[1] All income and production figures are converted into dollars at the exchange rate of RMB 8.3 = $US 1.00. Figures are in $US billions unless otherwise stated.
[2] GDP figures for year 2001 are estimates based on data available in October 2001.
[3] Official growth rate published by State Statistical Bureau based on constant renminbi (RMB) prices using 1978 weights.
[4] 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.
[5] Available Chinese GDP data do not disaggregate services provided by the government from overall services. Estimates for government contribution to GDP provided in the table have been calculated on an expenditure basis. They are not components of the aggregate or sectoral GDP figures, calculated on a production basis, given above. As GDP calculated on an expenditure basis differs only slightly from that using production figures, the figures do give a reasonable approximation to the contribution of government spending to the economy.
[6] "Economically active population" as presented in the China Statistical Yearbook (2001). Both 2000 and 2001 are Embassy estimates.
[7] "Official" urban unemployment rate for China's approximately 200 million urban workers; agricultural laborers are assumed to be totally employed in China's official labor data. Many economists believe the real rate of urban unemployment is much higher.
[8] IMF for PRC global trade data; IMF estimates for full-year 2001 global trade; U.S. Department of Commerce for U.S.-China bilateral trade data; PRC Customs for U.S.-China bilateral trade data; Embassy estimate for full-year 2001 bilateral trade.
[9] Includes loans from foreign government, loans from international financial institutions, international commercial loans, and other unspecified international liabilities.

Sources: China Statistical Yearbook (2000, 2001); China Statistical Abstract (2001), People's Bank of China Quarterly Statistical Bulletin; U.S. Department of Commerce Trade Data; Asian Development Bank; Embassy estimates.

1. General Policy Framework

For two decades, China has pursued policies designed to achieve rapid growth and higher living standards. During this period, China has made a gradual transformation from a centrally planned, socialist economy toward a more marketbased economy. Though stateowned industry remains dominant in key sectors, the government has "privatized" many small and medium stateowned enterprises (SOEs) and has allowed the non-state sector, including private entrepreneurs, increased scope for economic activity. The International Monetary Fund (IMF) estimates that the nonstate sector accounts for three-fourths of industrial output, 50 to 60 percent of Gross Domestic Product (GDP), and about 60 percent of nonagricultural employment.

Most analysts expect China's GDP growth to be between seven and eight percent in 2001, slightly slower than the eight percent rate recorded in 2000. Increased domestic demand, fueled in large part by government-directed fixed-asset investment, played the key role in generating gross domestic product growth. Fixed-asset investment rose over 15 percent year-on-year during the first half of 2001, and the government's target was 10 percent for the full year. Exports, which made a strong contribution to output in 2000, grew only 7.3 percent year-on-year through August 2001, a decline of over 20 percentage points from the growth rate recorded for the full year 2000. In addition, supply of many industrial and consumer products in the domestic market continued to exceed demand. As a result, prices for those commodities continued to fall, although higher prices for services and some food products led to an increase of about one percent in the overall consumer price index.

The Chinese government has used deficitfinanced fiscal stimulus to encourage domestic economic expansion since 1998. This program has contributed an estimated 1.52.0 percentage points to GDP annually. In 2001, the Chinese government planned to issue "special construction bonds" worth the equivalent of about $US 18 billion to provide partial funding for projects designed to promote economic growth. The government issued roughly $US 43 billion in similar bonds from 1998 to 2000. As of the end of 2001, the total value of these projects was approximately $US 290 billion. Because the yield on government bonds exceeded that of Chinese currency bank deposits, authorities have faced no difficulties in financing either the government deficit of about $US 31 billion or its fiscal stimulus program through increased domestic issuance of government debt. At the end of 2000, the balance of China's national debt equaled approximately 15 percent of gross domestic product.

The Chinese government recognizes, however, that major structural reform is needed in three related areas: the inefficient state-owned industrial sector, the financial system, and the social safety net. The earnings of state-owned enterprises (SOEs) rose in 2001, although the bulk of profits were concentrated in a handful of industries such as petroleum (helped by high world oil prices) and electric power (where government price controls ensure strong earnings). The large stock of non-performing loans poses a critical obstacle to financial reform. Short-term bank loans primarily to (often unprofitable) SOEs accounted for about 60 percent of total outstanding lending in 2001, and government controls over interest rates as well as policy directives channeling bank credit to preferred industries and enterprises remained in effect. Outside observers estimate non-performing debt to be 30–50 percent of outstanding loans—even after the transfer in 1999 of the equivalent of nearly $US 170 billion in non-performing loans to four state-owned asset management companies (AMCs). As of the end of June 2001, the AMCs had "disposed of" the equivalent of almost $US 33 billion in non-performing loans with a recovery rate of around 50 percent of asset value. Stock and bond markets remained immature and highly sensitive to government policy changes or insider manipulation. Reform of the financial system will help allocate more efficiently China's huge pool of domestic savings and fund creation of pension, unemployment, and health care systems.

China enjoys large inflows of foreign capital. Lured by a market with over one billion potential consumers, foreign companies have made China one of the world's largest destinations for foreign direct investment (FDI). Realized foreign direct investment reached $US 27 billion by the end of August 2001, a 20 percent increase over the same period of the previous year.

2. Exchange Rate Policies

Foreigninvested enterprises (FIEs) and authorized Chinese firms have generally enjoyed liberal access to foreign exchange for traderelated and approved investment related transactions. FIEs may set up foreign currency deposits for trade and remittances. Since 1997, Chinese firms earning more than $US 10 million a year in foreign currency have been allowed to retain in foreign currency up to 15 percent of their receipts. The Asia-wide economic slowdown and growing evidence of unauthorized capital outflows prompted the government to tighten documentation requirements in mid1998. U.S. firms reported that the extra delays caused by these measures had for the most part ended by mid1999. China introduced currency convertibility for current account, trade and transactions in December 1996 (in accordance with the IMF charter's Article VIII provisions). Capital account liberalization has been postponed indefinitely.

Chinese authorities describe the exchange rate as a "managed float." For the past three years, it has behaved like a rate pegged to the dollar, with a trading range of 0.3 percent; since 1996 the renminbi (RMB) has traded consistently at about RMB 8.3 per dollar. China uses the RMB/dollar exchange rate as the basic rate and sets cross rates against other currencies by referring to international markets. In September 2000, the Chinese authorities lifted interest rate controls on all foreign currency loans and on foreign currency deposits in excess of $US 3 million. A newly established association of Chinese banks, moreover, was granted the authority to set interest rates on foreign currency deposits under the $US 3 million level. Interest rates on foreign currency deposits have declined since the beginning of 2001 to match the low rates on domestic currency savings. Nevertheless, China's closed capital account means that "black market" trading continues to be a regular feature, albeit small, of the Chinese system. Forward rates are available in the small, offshore market.

3. Structural Policies

Price Controls

The Chinese government, as part of its comprehensive reform of the economy, is committed to gradually phasing out remaining price controls. As of mid-2001, only thirteen categories of goods remained subject to price controls, down from 141 in 1992. The government nevertheless continues to apply direct price controls over commodities deemed strategically important such as petroleum and to influence the prices for sensitive goods such as grain. To curb surplus production in 2000, the government allowed grain and cotton prices to fall by more than 20 percent, bringing domestic prices closer to international levels. China also maintains discriminatory pricing practices with respect to some services and inputs offered to foreign investors in China. China agreed to eliminate these practices when it became a member of the World Trade Organization (WTO). 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.

Taxation

China's accession to the WTO will accelerate the phaseout of tax preferences for foreign-invested enterprises. Domestic enterprises have long resented rebates and other tax benefits enjoyed by foreigninvested firms. The move toward national treatment will mean the gradual elimination of special tax breaks enjoyed by many foreign investors. In addition, more sophisticated collection methods should help reduce loopholes for all market participants. The National People's Congress (China's national legislature) passed a series of amendments to the country's tax collection law in April 2001 designed to make the tax code more standardized and transparent. Although State Administration of Taxation officials plan eventually to phase out rebates of Value-Added Tax payments for selected exports as a way to increase tax revenues, the authorities are likely to keep this measure in place at least through 2002 to spur exports.

Regulatory Environment

Many of the most significant barriers to trade and investment in China are not the result of explicit laws or regulations aimed at keeping out foreign products or capital. Rather, they are systemic problems that stem from a bloated, secretive, and interventionist bureaucracy inherited from the past. China has committed to address many of these problems when it joins the WTO (in December 2001) through increased transparency, notice and comment procedures for new laws and regulations, and the availability of judicial review of administrative actions. At present, however, Chinese ministries routinely implement policies based on internal "guidance" or "opinions" that are not available to new market entrants. Authorities usually are unwilling to consult with Chinese and foreign industry representatives before new regulations are implemented. Likewise, the lack of a clear and consistent framework of laws and regulations is an effective barrier to the participation of foreign firms in the domestic market. Even in areas where the law is clear, government bureaucracies often "selectively apply" regulations; China has many rules on the books that are ignored in practice until a person or entity falls out of official favor. Official corruption, particularly at provincial and local levels, is acknowledged to be a serious problem in China, as demonstrated by a series of recent crackdowns.

4. Debt Management Policies

At the end of 2000, China's external debt stood at just under $US 146 billion, according to official Chinese data. Long-term lending made up over 90 percent of the outstanding balance. Given China's relatively strong export performance, investment inflows, and large foreign exchange reserves (over $US 190 billion at the end of August 2001), China can easily service its foreign debt obligations.

5. Significant Barriers to U.S. Exports

China's impending accession to the WTO would oblige it to address comprehensively many trade-distorting practices that limit the access of foreign firms to China's market. In preparation for accession, the Chinese government has undertaken a massive effort to revise its laws and regulations to bring them into compliance with WTO rules. China's 2001–2005 Tenth Five-year Plan calls for an improved legal and regulatory framework and increased transparency. Meanwhile, in an effort to cope with a slowing economy and relatively weak external demand, China continued its reform efforts in 2000 and 2001. Some of the policies adopted have improved market access for U.S. goods and services. For example, a huge expansion in the number of firms with trading rights, reduction in the number of products subject to import quotas, and an improved system of distribution rights will all benefit foreign firms.

Despite this progress, China still has substantial barriers. Furthermore, while China's trade liberalization efforts represent a step forward, China also introduced regulations that erected new or worsened existing trade barriers.

Import licenses: Since the early 1990s, China has eliminated many import license requirements, a process that is continuing as preparations are made for China's WTO accession. Licenses are still required, however, for a number of items important to the United States, including grains, vegetable oil, cotton, iron and steel products, commercial aircraft, passenger vehicles, hauling trucks, and rubber products. China is considering adding more license requirements in an effort to combat smuggling of certain agricultural goods. Although Chinese regulations state that the issuance of most import licenses is "automatic," the license applicant must prove that there is "demand" for the import and that there is sufficient foreign exchange available to pay for the transaction. The issuing entity is left with a large degree of discretion. In effect, this allows a local official to block license approval without offering an explicit reason. However, this system should be changing once China joins the WTO, as it has made commitments not to use its import licensing system as a trade barrier and to observe the principles of non-discrimination and national treatment.

Services barriers: China's services sector has been one of the most heavily regulated and protected parts of the national economy. At present, foreign service providers are largely restricted to operations under the terms of selective "experimental" licenses. Strict operational limits on entry and restrictions on the geographic scope of activities severely constrain the growth and profitability of these operations.

The commitments included in China's WTO accession agreement would provide access of foreign businesses to many services sectors. For example, China has committed to gradually phasing out geographical restrictions on insurance and banking services. Foreign banks can conduct local currency business with Chinese companies two years after China's WTO accession (subject to certain geographical restrictions), and with Chinese individuals five years after accession; all restrictions on foreign banks are to be removed five years after China's entry to the WTO. The Chinese have promised upon accession to allow foreign firms to distribute and service their own products made in China, and provide related services. After a three-year period, foreign enterprises will be able to engage in distribution services for most products (including providing related services).

Standards, testing, labeling, and certification: China's testing and standards regimes are an area of serious concern for foreign producers. It is often difficult to ascertain what inspection requirements apply to a particular import, as China's import standards are not fully developed and often differ substantially from requirements imposed on domestic goods. New requirements are usually not released to traders with sufficient advance notice, making it difficult to sign long-term contracts and plan production. The United States and other countries have complained that safety and inspection procedures applied to imports are often more rigorous and expensive than those applied to domestic products. Furthermore, standards testing and inspection for domestic and imported goods were carried out by separate entities until August 2001 when the domestic testing and quarantine agencies merged. Of most serious concern, China's standards and quarantine requirements may not always be based on internationally accepted norms and sound science, resulting in serious burdens for foreign suppliers. However, many aspects of China's testing and standards regime should be changing when China joins the WTO. China has committed to ensure that its testing and standards bodies operate with transparency, apply the same technical regulations, standards and conformity assessment procedures to both imported and domestic goods, and use the same fees, processing periods, and complaint procedures for both imported and domestic goods. In addition, China has committed to accept the Code of Good Practice within four months after accession, and it will speed up its process of reviewing existing technical regulations, standards, and conformity assessment procedures and harmonizing them with international norms.

Investment barriers: China has historically attempted to guide new foreign investment to "encouraged" industries. Over the past five years, China has implemented new policies introducing new incentives for investments in hightech industries and in China's central and western regions. In 2000, China published revised lists of sectors in which foreign investment would be encouraged, restricted or prohibited; further revisions are expected in 2001. Regulations relating to the encouraged sectors were designed to direct FDI to areas in which China could benefit from foreign assistance or technology, such as in the construction and operation of infrastructure facilities. Policies relating to restricted and prohibited sectors were designed to protect domestic industries for political, economic, or national security reasons. The number of restricted industries (currently including many service industries such as banking, insurance, and distribution) should decrease as China opens its service sector upon accession to the WTO. The production of arms and the mining and processing of certain minerals remain prohibited sectors.

The law governing wholly foreign-owned enterprises (WFOEs) was revised in April 2001 to eliminate requirements regarding export performance; technology transfer and import substitution; foreign exchange balancing; direct domestic sales; and domestic sourcing, whenever possible, of raw materials, fuel, capital equipment, and technology. Under its accession agreement, China has also agreed not to enforce these types of requirements in existing contracts. Also, under the revised WFOE law, China may reject a WFOE application for several reasons, including nonconformity with the development requirements of China's national economy, potentially affording the government leverage in "encouraging" export performance, technology transfer, and import substitution. The law on Sino-foreign joint ventures was revised in March 2001 to eliminate a domestic procurement requirement. Chinese government agencies have, however, traditionally encouraged enterprises under their control to "buy Chinese."

Government procurement practices: Government procurement in China has for many years been an opaque process. Foreign suppliers face overt and covert discrimination. Even when procurement contracts have been open to foreign bidders, such suppliers have often been discouraged from bidding by the high price of participation. The Chinese government has routinely sought to obtain offsets from foreign bidders in the form of local content requirements, technology transfers, investment requirements, countertrade, or other concessions. The problem extends beyond traditional government procurement to encompass China's many "state-controlled" entities. The State Economic and Trade Commission (SETC), in 1999, issued regulations requiring state-owned enterprises (SOEs) to purchase all capital equipment from either domestic manufacturers or foreign-invested enterprises in China except where the equipment is not available domestically. In its accession agreement, however, China has agreed that SOEs must make purchases and sales based solely on commercial considerations, such as price, quality, marketability and availability, and that the government will not directly or indirectly influence the commercial decisions of SOEs.

China has made some efforts to open its government procedures to competitive bidding. On January 9, 2001, the Ministry of Finance (MOF) issued a document stressing that noncompetitive or protectionist ploys are strictly prohibited while selecting a procurement company for a loan project. However, as written the provisional procedures offer insufficient protection to foreign participants in government procurement projects.

Customs procedures: In August 1998, the Customs Administration launched an ambitious program to standardize enforcement of customs regulations throughout China as part of a larger campaign to combat smuggling. The program was introduced to control and ultimately eliminate "flexible" application of customs duty rates at the port of entry. While foreign businesses selling goods into China at times have benefited from lower import duty rates, lack of uniformity made it difficult to anticipate in advance what the applied duty would be. The scale of the smuggling problem itself is illustrated by the continuing prosecution of China's largest ever smuggling case, in which $US 10 billion in automobiles, oil, and other goods was imported illegally. The anti-smuggling campaign has reduced significantly the flexibility of the local customs officials to "negotiate" duties.

6. Export Subsidies

China abolished subsidies conditioned directly on export performance for most goods on January 1, 1991. Nonetheless, exports of agricultural products, particularly corn and cotton, still receive direct export subsidies as of 2001. There continue to be reports that some manufactured exports benefit from indirect subsidies through preferential or below-market rate access to inputs such as energy and raw materials. Many state-run companies also enjoy export subsidies through loans at preferential rates, forgiven or deferred loans, and preferential access to loans from the domestic banking sector. China has agreed to stop all export subsidies on agricultural and industrial goods as soon as it becomes a WTO member.

7. Protection of Intellectual Property

China has made progress in protecting intellectual property rights (IPR) since it signed IPR agreements with the United States in 1992 and 1995. It has committed to bringing its IPR laws and regulations into full compliance with the WTO agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) at the time of its accession to WTO. A new Patent Law came into effect on July 1, 2001, and new Trademark and Copyright Laws were passed October 27, 2001. 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, the Patent Cooperation Treaty, and the Madrid Protocol. The United States took China off Special 301 lists in 1996, but continues to monitor China under Section 306 of the Trade Act, which allows the United States to begin a fast-track examination, if necessary.

Still, inadequate procedures for registering trademarks and copyrights continue to create difficulties for foreign companies doing business in China. The destructive effect of widespread IPR violations has discouraged additional direct foreign investment and threatened the longterm viability of some U.S. business operations in China. Some U.S. companies claim losses from Chinese counterfeiting equal 15 to 20 percent of total sales in China. One U.S. consumer products company estimates that it loses $US 200 million annually due to counterfeiting.

Patents. U.S. pharmaceutical companies continue to experience difficulties obtaining protection for their products. It can take months for a foreign patent application for administrative protection to be approved in China. Domestic imitation or similar pharmaceuticals can legally be approved for marketing while a foreign manufacturer's application for administrative protection is pending.

Trademarks. Counterfeiting trademarks of brand-name products in China remains prevalent. Chinese counterfeiters market unauthorized copies of a wide variety of products, from motorcycles and designer-label clothes, to VCD's and computer hardware under U.S. trademarks. The inferior quality of fake and unauthorized products poses serious health and safety risks to consumers. While regional and interagency cooperation on IPR protection has improved, it is still inadequate. Insufficient administrative sanctions and infrequent use of criminal sanctions remain major enforcement problems.

Copyrights. China is gradually recognizing the economic cost of copyright infringement. The past few months have witnessed a concerted anti-piracy crackdown effort, led by public security authorities and including all relevant ministries. Growing interest in copyright enforcement aside, significant problems still exist. The software industry lacks clear procedures for addressing corporate end-user software piracy; retail software revenue lost to piracy was estimated to total $US 1.1 billion at the end of 2000.

8. Worker Rights

a. *The Right of Association:* China's constitution provides for "freedom of association," but in practice workers are not free to organize or join unions of their own choosing. Independent unions are illegal. Only official trade unions, affiliated with China's Communist Party and Government, are legal. By law, the AllChina Federation of Trade Unions (ACFTU) is the sole national labor organization. The ACFTU has control over all subsidiary union organizations and activities throughout the country. Workers are free to choose whether or not to join one of these official unions.

b. *The Right to Organize and Bargain Collectively:* The law permits collective bargaining for workers in all types of enterprises. In practice, unions in the public sector have not traditionally engaged in collective bargaining, but rather acted as partners of management in determining wages, hours, and other conditions of work. In the private sector, where official unions are few and independent unions unavailable, workers face substantial obstacles to bargaining collectively with management. In 2001, changes to the Trade Union Law were proposed that could strengthen official unions' organizing and collective bargaining powers. On October 27, 2001, China amended its labor law recognizing limited rights for workers to strike.

c. *Prohibition of Forced or Compulsory Labor:* Despite theoretical legal prohibitions against forced labor, China maintains penal facilities that require labor, to which individuals are sentenced through administrative process, without judicial review. In addition, individuals imprisoned through China's official judicial process are regularly forced to work while in prison. Reports suggest that, in some cases, authorities in penal institutions compel inmates to produce commercial goods and that working conditions for prisoners, especially on farms and mines, may be harsh.

d. *Minimum Age of Employment of Children:* China's Labor Law bans children under 16 from most forms of work and bans dangerous work, like mining, for children aged 16 to 18. The law provides punishment for violation of these standards. Instances of child labor exist in China, although the problem is believed not to be widespread. The existence of a large surplus of adult workers, many of whom work long hours for low pay, probably reduces the attractiveness of child labor for employers. In 2001, the Chinese Government undertook an official investigation of the child labor issue.

e. *Acceptable Conditions of Work:* China's Labor Law covers commonly accepted conditions of work. However, some workers, especially in the fast-growing private sector, work under illegal or unacceptable conditions. Workplace health and safety have been a particular problem. The Chinese Government has increased its efforts to enforce workplace health and safety regulations and, in 2001, proposed laws that would, for the first time, set consistent national workplace health and safety standards.

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. U.S. companies in China are, in general, favorably regarded for their employment practices. Some have voluntarily adopted codes of conduct that provide for independent inspection 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—2000

[In Millions of U.S. Dollars]

Category	Amount	
Petroleum		1,846
Total Manufacturing		5,663
Food & Kindred Products	181	
Chemicals & Allied Products	245	
Primary & Fabricated Metals	183	
Industrial Machinery and Equipment	931	
Electric & Electronic Equipment	3,208	
Transportation Equipment	147	
Other Manufacturing	768	
Wholesale Trade		362
Banking		78
Finance/Insurance/Real Estate		740
Services		295
Other Industries		594
Total All Industries		9,577

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

HONG KONG

Key Economic Indicators

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

	1999	2000	[1] 2001
Income, Production and Employment:			
Nominal GDP [2]	157.4	162.5	161.7
Real GDP Growth (pct)	3.0	10.5	–0.3
GDP by Sector:			
Agriculture	0.2	N/A	N/A
Manufacturing	8.4	N/A	N/A
Services	124.6	N/A	N/A
Government	15.6	15.7	16.0
Per Capita GDP (US$)	23,824	24,375	23,571
Labor Force (000s)	3,306	3,343	3,380
Unemployment Rate (pct)	6.2	4.9	5.5
Money and Prices (annual percentage growth):			
Money Supply (M2) [3]	8.1	8.8	–0.4
Consumer Price Inflation (pct)	–4.0	–3.7	–1.5
Exchange Rate (HK$/US$—annual average):.			
Official	7.77	7.79	7.80
Balance of Payments and Trade:			
Total Exports FOB [4]	172.9	201.6	193.5

Key Economic Indicators—Continued

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

	1999	2000	[1] 2001
Exports to United States [5]	10.5	11.5	10.1
Total Imports CIF	178.6	212.6	204.8
Imports from United States [5]	12.6	14.6	13.8
Trade Balance	–5.7	–10.9	–11.3
Balance with United States [5]	–2.1	–3.1	–3.7
External Public Debt	0	0	0
Fiscal Balance/GDP (pct)	0.8	–0.6	–1.8
Current Account Balance/GDP (pct)	7.2	5.4	2.7
Debt Service Payments/GDP (pct)	0	0	0
Gold and Foreign Exchange Reserves (end of period) [6]	96.3	107.6	110.8
Aid from United States	0	0	0
Aid from All Other Sources	0	0	0

[1] Estimates from private sources based on monthly data through August 2000.
[2] Expenditurebased GDP estimates.
[3] Money supply of Hong Kong dollars and foreign currencies.
[4] Of which domestic exports (as opposed to reexports) constituted 12.6 percent (1999), 13.0 percent (2000) and 10.3 percent (2001 estimate based on data through August).
[5] Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 2001 figures are estimates based on data available through July 2001. Hong Kong merchandise trade includes substantial reexports (mainly from China) to the United States, which are not included in these figures.
[6] 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 dutyfree 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 but interest, royalties, dividends, capital gains and sales are not. In the face of a possible structural deficit, the government has faced pressure to identify new sources of revenue. A recent Advisory Committee report suggested 13 options to broaden the tax base including a general consumption tax, capital gains tax and tax on interest. However, Financial Secretary Antony Leung has indicated that none of these reforms will be implemented in the near future.

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.

The Asian financial crisis provoked a sharp economic downturn in 1998 and the first half of 1999, but Hong Kong's economic fundamentals remained strong, with a stable banking system, prudent fiscal policy, and massive dollar reserves. A strong, export-led recovery in 2000 and early 2001 stalled abruptly at mid-year, following a slump in consumer demand in the United States and Europe. The September 11 terrorist attacks in the United States and subsequent further economic downturn in Hong Kong's major markets have worsened the short-term outlook. Unemployment is increasing (to around five percent) and Hong Kong will experience recession in 2001. The local community remains concerned about Hong Kong's long-term competitiveness in the face of challenges from mainland China. In response to these economic difficulties, the government unveiled a series of modest stimulus measures, including infrastructure expenditures, small tax cuts, employment generation, and development funds for small and medium enterprises. However, authorities generally resisted pressure for large-scale government expenditures to kick start the economy.

One exception to this traditional laissez faire approach was the creation of a new Innovation and Technology Commission, which in mid-2000 was given responsibility for spearheading Hong Kong's move to create a "knowledge based" economy. The government's willingness to fund technology investment reflected the widespread belief that Hong Kong cannot compete in the high tech sector without targeted government support.

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 runup to Hong Kong's reversion to Chinese sovereignty in 1997. PRC officials have supported Hong Kong's policy of maintaining the link. In December 2000, the Hong Kong Monetary Authority completed the third and final phase of the implementation of Hong Kong's U.S. dollar payment system, which allows local firms to achieve real-time settlement of U.S. dollar transactions. The establishment of the system is aimed at reinforcing monetary stability.

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 by the value of the U.S. dollar in relation to third country currencies, with Hong Kong exports suffering during periods of strong U.S. dollar exchange rates.

3. Structural Policies

The government does not have pricing policies, except in a few sectors such as energy, which is a regulated duopoly. Even in these controlled 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. The Monetary Authority implemented the final phase of interest rate deregulation covering savings and current accounts in July 2001. Interest rates on all types of deposits are determined by competitive market forces. Consumption taxes on tobacco, alcoholic beverages, and some fuels constrain 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 informal cartels, some of which are governmentregulated, to dominate certain sectors of the economy. These informal 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 91day bills in 1990. Since then, maturities have gradually been extended up to 10 years. 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 government owned 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.

In October 2000, the government launched a partial privatization of the Mass Transit Railway Corporation to the general public in Hong Kong and domestic and international professional and institutional investors. The Initial Share Offer of this first-ever Hong Kong government privatization raised about US$1.3 billion, accounting for 23 percent of government's total shareholding.

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—most of which are related to health standards. These licensing requirements do not have a major impact on U.S. exports.

There are several barriers to entry in the services sector, as follows.

The government decided in May 1999 to maintain a moratorium on additional licenses for the local fixed telecommunications network services (FTNS), now contested by five companies, until January 2003. In January 2000, the Hong Kong government began opening of other telecom sectors, issuing five licenses for FTNS using wireless networks and 12 licenses for external FTNS providers using satellites. In February 2000, the government issued Letters of Intent to 13 applicants for cable-based external facilities, and since then at least two American companies have been licensed to land international data cables in Hong Kong. In September 2001, the government issued four Third Generation (3G) mobile services licenses. Under the terms of the license, 3G operators must offer 30 percent of their network capacity to non-affiliated service providers. The government plans to invite additional FTNS licenses by the end of 2001 and will fully open the sector effective January 1, 2003.

The Hong Kong government limits foreign ownership of free-to-air television stations to 49 percent and imposes strict residency requirements on the directors of broadcasting companies. In June 2000, the Legislative Council (LEGCO) passed a Broadcasting Bill that ended the foreign ownership limit for cable broadcasters and substantially liberalized Hong Kong's television market. By adopting a more open and flexible regulatory framework, the bill aims to expand program choice, encourage investment and technology transfer in the broadcasting industry, promote fair and effective competition and spur the development of Hong Kong as a regional broadcasting and communications hub. The Information, Technology and Broadcasting Bureau moved quickly to exercise the new authorities granted by this bill, announcing five new television licenses in July 2000. These new broadcasters (several of which are foreign owned) will create new outlets for U.S. entertainment companies, which already enjoy a substantial presence in the Hong Kong market.

Our bilateral civil aviation agreement does not permit code sharing and restricts the ability of U.S. cargo and passenger airlines to carry fifth freedom traffic to and from Hong Kong and other points. These restrictions limit the expansion of U.S. carrier services in the Hong Kong market.

In June 2000, the LEGCO passed a Legal Practitioners (Amendment) Bill that removed the privileges conferred on barristers from England, Scotland, Northern Ireland and other Commonwealth countries. A Hong Kong court may admit a foreign lawyer to practice as a barrister if he is considered a fit and proper person and has complied with the general admission requirements, including passing any required examinations. 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 2001. In the meantime, foreign banks can acquire local banks that have unlimited branching rights.

6. Export Subsidies Policies

The Hong Kong Government neither protects nor directly subsidizes manufacturers 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

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, a WTO member, passed a new Copyright Law in June 1997 and a modernized Trademark Law in May 2000. Enforcement of copyright and trademarks has improved measurably in recent years, but eliminating intellectual property piracy will require sustained effort.

Copyrights: Sale of pirated discs at retail shopping arcades is much less widespread than it used to be but remains a problem. The United States has encouraged the government at senior levels to crack down on this retail trade, and on the distributors and manufacturers behind them. Hong Kong has responded by doubling Customs' enforcement manpower, conducting more aggressive raids at the retail level, passing new legislation and engaging in public education efforts to encourage respect for intellectual property rights. Recent raids have closed down some of the most notorious retail arcades and dispersed this illicit trade. In the first eight months of 2001, Customs seized 5.79 million pirated optical discs with a market value of US$14.1 million, and arrested 1,049 people. Hong Kong Customs intelligence operations and raids on underground production facilities have shut down most pirate manufacturing and forced retailers to rely increasingly on smuggled products. The judiciary has also begun to increase sentences and fines for copyright piracy, handing down 524 piracy-related jail sentences in the first half of 2001.

With the government's success against optical disc pirates, increasing attention has turned to the problem of computer end-user piracy. In 1999, Hong Kong courts handed down a first conviction for unauthorized dealer hard-disk loading. The LEGCO also passed in June 2000 an IPR miscellaneous amendments bill which makes it clearly illegal for companies to use unlicensed software in trade or business. Faced with intensive public criticism of the new criminal provisions for photocopying newspapers and magazine articles, the LEGCO passed a bill in June 2001 to suspend criminal provisions for unauthorized copying of materials other than computer programs, movies, television dramas and music. The bill also suspended criminal penalties for the use of parallel-import computer software. The suspension is an interim arrangement expiring on July 31, 2002. The government will consult the community with a view to formulating a long-term solution before then.

Broadcast satellite signal piracy is also a growing concern for U.S. companies, and industry associations have asked the government to take action against pubs and other public venues that use satellite signals without compensation.

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 associations report that Hong Kong-based web sites are being used to sell and transmit pirate software and music. Since April 2000, Hong Kong Customs has raided nine establishments believed to be engaged in Internet piracy. None of these cases has gone to court, but these raids put Hong Kong well ahead of its neighbors in tackling the problem of Internet-based piracy.

Hong Kong's stepped-up IPR enforcement effort has helped to reduce estimated losses to U.S. film and music companies. The Business Software Alliance reported in May 2001 that software piracy in Hong Kong rose from 56 percent in 1999 to 57 percent in 2000. However, estimated total losses for the software industry decreased from US$88.6 million to US$86 million. U.S. film and music distributors also report increasing levels of legitimate sales in Hong Kong.

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. 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 removed the legal stipulation of trade unions' right to engage employers in collective bargaining and banned 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 nonindustrial establishments, subject to conditions aimed at ensuring a minimum of nine years of education and protecting their safety, health, and welfare. In 2000, there were three 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 2000, a total of 58,092 occupational accidents (33,652 of which are classified as industrial accidents) were reported, of which 199 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—2000

[In Millions of U.S. Dollars]

Category		Amount
Petroleum		202
Total Manufacturing		3,283
Food & Kindred Products	–55	
Chemicals & Allied Products	374	
Primary & Fabricated Metals	349	
Industrial Machinery and Equipment	138	
Electric & Electronic Equipment	1,758	
Transportation Equipment	33	
Other Manufacturing	686	
Wholesale Trade		5,617
Banking		2,405
Finance/Insurance/Real Estate		7,828
Services		546
Other Industries		3,427
Total All Industries		23,308

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

INDONESIA

Key Economic Indicators

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

	1999	2000	*2001
Income, Production and Employment:			
Nominal GDP	142	153	158
Real GDP Growth (pct)	0.2	4.8	3.0

Key Economic Indicators—Continued

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

	1999	2000	*2001
GDP by Sector:			
Agriculture	27.8	26.5	27.0
Manufacturing	36.2	39.9	40.2
Services	56.9	60.2	61.1
Government	7.2	7.6	7.7
Per Capita GDP (US$)	688	738	742
Labor Force (millions)	94.8	96.5	98.2
Unemployment Rate (pct) [1]	6.4	6.1	6.4
Money and Prices (annual percentage growth):			
Money Supply (M2) (pct)	11.9	15.6	10
Consumer Price Inflation (pct)	2.0	9.3	12
Exchange Rate (Rupiah/US$ annual average)	7,855	8,421	10,500
Balance of Payments and Trade:			
Total Exports FOB (includes oil and gas)	48.6	62.1	62.5
Exports to United States [2]	9.5	10.3	10.4
Total Imports CIF (includes oil and gas)	24.0	33.5	36.0
Imports from United States [2]	2.0	2.4	2.3
Trade Balance	24.6	28.6	26.5
Balance with United States [2]	7.5	7.9	8.1
External Public Debt	85.5	84.0	83.0
Fiscal Deficit/GDP (pct)	3.9	1.5	3.7
Debt Service Payments/GDP (pct) [3]	12.3	12.1	14.0
Current Account Balance/GDP(pct)	4.1	4.8	2.7
Gold and Foreign Exchange Reserves (end of period)	27.1	23.3	29.5
Aid from United States (millions of US$)	139	205	230
Aid from All Other Sources [4]	7.8	4.2	4.5

*Embassy estimate.
[1] Official Government of Indonesia estimate of open unemployment. Does not measure underemployment.
[2] Department of Commerce statistics, customs value basis. Figures for 2001 are estimates based on January to August data.
[3] IBRD Debtor reporting system. External debt only.
[4] 2001 number 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

More than four years after the Asian financial crisis, Indonesia continues to struggle with the wreckage of its 1998 economic collapse. Its efforts to return to the sustained economic growth it enjoyed before 1997 have been made more difficult by the fact that the country is simultaneously undergoing a painful and, so far, incomplete transition to democracy. Government institutions are weak, political competition is robust and often violent, and powerful forces of the old regime retain sufficient influence to block reforms that threaten their privileges.

In July 2001, the People's Consultative Assembly, the nation's highest legislative body removed President K.H. Abdurrachman Wahid and elected Vice President Megawati Soekarnoputri to the Presidency after almost a year of fierce political infighting. The new government's first task was to reverse a slumping economy and reinvigorate the economic reform process. Even if the new government succeeds in establishing much needed coherence in economic policymaking, daunting challenges remain. The Wahid government left most of the nation's problems unresolved, including: building effective, democratic institutions; establishing the rule of law; restoring private capital inflows; resolving violent regional conflicts; and addressing the chronic economic problems of corruption, a heavy debt burden, and a crippled banking system.

Indonesia is the world's fourth most populous nation and the anchor of Southeast Asia politically and economically. The country has a strategic location, a large labor force earning relatively low wages, and abundant natural resources. The country retains its diversified export base of oil, gas, minerals, and agricultural commodities such as coffee, tea, rubber, timber, palm oil, and shrimp. After a nascent economic recovery in 2000, recent signs point to an economic slowdown coupled with increasing inflationary pressures. Observers expect overall real GDP growth in 2001 to be 3 percent, down from 4.8 percent a year earlier. The slowdown was most prominent in the export sector. Indonesia's exports in the first seven months of 2001 fell 3.4 percent over the same period one year earlier due to slower growth in Indonesia's major export markets. Indonesian exports to the United States will be flat this year at about $10.5 billion while imports from the United States, which fell by more than half between 1997 and 1998, will be about $2.3 billion.

The IMF-supported stabilization and recovery program has provided the framework for Indonesia's economic recovery since November 1997. However, the government has been slow to implement its commitments. The Indonesian Bank Restructuring Agency (IBRA) has recapitalized the banking system, but it has not moved quickly to dispose of assets acquired in the debt-restructuring process or to take on uncooperative debtors. Thus it runs the risk of having to inject more funds into the banking system. 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, and this remains the government's long-term goal. However, the financial crisis put a heavy burden on government finances. To recapitalize the banking system, the government issued more than Rp 426 trillion (USD 41 billion, at current exchange rates). Almost $25 billion of this debt is at variable rates linked to SBI rates. This limits the government's ability to use monetary policy to fight inflation. Interest payments on domestic debt will reach Rp 55 trillion ($6.4 billion) or 19 percent of total spending in FY-2001. The government's chronic inability to expand domestic tax revenues and delays in sales of government assets held by IBRA means the government's fiscal position will remain precarious. The gap in FY-2002 is targeted at approximately 2.5 percent of GDP.

In parallel with its fiscal policy, the Indonesian government had a reputation for prudent monetary policy 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 have fueled inflation. Indonesian monetary authorities tried to dampen pressure on prices and the exchange rate by tightening monetary policy but the money supply has expanded faster than the targets agreed with the IMF (although base money is currently in line with targets). By mid-2001, inflation had reached an annual rate of 13 percent.

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 (LOI) 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 launched its current three-year (EEF) agreement with the IMF in January 2000. A central focus of the IMF program is maintenance of fiscal sustainability and macroeconomic stability. The Government of Indonesia's progress on commitments has been erratic and, as a result, Indonesia has only completed three reviews under the program. (Reviews were originally scheduled on a quarterly basis.) The Government of Indonesia has failed to follow through on a number of crucial commitments that are important for putting public finances on a sustainable footing and maintaining macroeconomic stability. The Government of Indonesia has moved slowly on the sale of assets nationalized during the 1998 crisis, SOE privatization, and restructuring and privatization of the banking system. In addition, during the Wahid administration, the Government of Indonesia pushed for amendments to the central bank that would undermine Bank Indonesia's independence. The new Megawati government resumed discussions with the IMF in August 2001 and concluded a new LOI in September.

4. Debt Management Policies

Indonesia's foreign debt totaled $137.6 billion as of August 2001, with about $74 billion owed by the public sector and $63 billion by the private sector. Indonesia negotiated two successive two-year Paris Club agreements, rescheduling 100 percent of principal, but not interest. Indonesia's current Paris Club agreement expires at the end of March 2002.

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 continues to assert that it will not impose capital controls.

5. Significant Barriers to U.S. Exports

In recent years, Indonesia has liberalized its trade regime and taken a number of important steps to reduce protection. Since 1996, the Indonesian government has issued a series of deregulation packages intended to encourage foreign and domestic private investment. These packages have reduced overall tariff levels, simplified the tariff structure, removed restrictions, and replaced non-tariff barriers with more transparent tariffs.

Despite the severe economic crisis of the past four years, Indonesia has maintained its policy of steady long-term tariff liberalization. Indonesia's applied tariff rates range from 5 to 30 percent, although bound rates are, in many cases, much higher. The major exceptions to this are the 170 percent duty rates applied to all imported distilled spirits and the tariffs on motor vehicles and motor vehicle kits. Consecutive IMF programs in which Indonesia committed to implement a three-tier tariff structure (zero, five, or ten percent) on all imported products, except motor vehicles and alcoholic beverages, have reinforced the long-term liberalization policy. Indonesia also committed to eliminate all non-tariff barriers, except those for health or safety reasons, by the end of 2001. The ongoing domestic political crisis and deteriorating relations with the IMF may delay that timetable somewhat. More effective tariff liberalization has come from the ASEAN Free Trade Agreement under which members committed to a Common Effective Preferential Tariff (CEPT) scheme for most traded goods by 2003. Indonesia implemented its second stage of AFTA tariff reductions on January 1, 2001.

Import tariffs on vehicles were lowered in June 1999 to 25–80 percent (depending on engine size), 0–45 percent for trucks, and 25–60 percent for motorcycles. The government also lowered rates for parts to a maximum 15 percent. Luxury taxes for sedans range from 10–75 percent, for trucks 0 percent, and for motorcycles 0–75 percent.

Services trade barriers to entry continue to exist in many sectors, although the Government of Indonesia has loosened restrictions significantly in the financial sector. Foreign law firms, accounting firms, and consulting engineers must operate through technical assistance or joint venture arrangements with local firms.

Indonesia has liberalized its distribution system, including ending some restrictions on trade in the domestic market. For example, restrictive marketing arrangements for cement, paper, cloves, other spices, and plywood were eliminated in February 1998. Indonesia opened its wholesale and large-scale retail trade to foreign investment, lifting most restrictions in March 1998. Some retail sectors are still reserved for small-scale enterprises under another 1998 decree. Large and medium scale enterprises that wish to invest in these sectors must enter into a partnership agreement with a small-scale enterprise, although this may not require a joint venture or partial share ownership arrangement.

The weakness of the central government in a period of significant political upheaval has encouraged special interests, especially in the agricultural sector, to seek to reinstate some former special trade privileges. So far these efforts have had limited success but the trend is worrisome. Food labeling regulations requiring labels in the Indonesian language and expiration date (rather than the standard "best used by" date) are in place, but are not being enforced. A product registration regulation is also in place that requires detailed product processing information that approaches proprietary information. The registration procedure can also be quite lengthy and expensive. Indonesian importers and U.S. exporters have expressed concern that these regulations could act as non-tariff barriers to imports of packaged food products.

New laws on regional autonomy and fiscal decentralization have granted significant new powers to provincial and sub-provincial governments. Local governments have begun to impose new tax or non-tax barriers on inter-regional trade as they seek new sources of local revenue. Implementing regulations have not been issued to fully clarify the authority and responsibility of the different levels of government.

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. The government most recently revised its so-called "negative investment list" in July 2001. Sectors that remain closed to all foreign investment include taxi and bus transportation, local marine shipping, film production, distribution and exhibition, radio and television broadcasting and newspapers, some trade and retail services, and forestry concessions. The government removed foreign ownership limitations on banks and on firms publicly traded on Indonesian stock markets.

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. With the implementation of political and fiscal decentralization, provincial investment boards now play a much great role in approving foreign investments in their regions.

Government Procurement Practices: Technical guidelines for government procurement of goods and services are governed by Presidential Decree (Keppres) No. 18/2000. The decree establishes set-asides for small- and medium-sized enterprises according to the size of the procurement. Foreign suppliers are restricted to contracts worth over Rp. 10 billion ($1.2 million) for goods/services and over Rp. 2 billion ($230,000) for consulting services. A foreign supplier is required to cooperate with a small- or medium-sized company or cooperative in the implementation of the contract. Bilateral or multilateral donors, who specify procurement procedures, finance most large government contracts. 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 Value-Added Tax (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. Since 1998, the government has gradually increased the share of production that firms located in bonded zones are able to sell domestically, up to 100 percent.

7. Protection of U.S. Intellectual Property

Indonesia is a member of the World Intellectual Property Organization (WIPO) and in 1997 became a 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 2001, the U.S. Trade Representative placed Indonesia on the Special 301 Priority Watch List citing continued lack of effective enforcement of IP rights.

Piracy of software, books, and videos in Indonesia is rampant. U.S. rightholders are concerned about the rapid increase in pirate optical disc (OD) production facilities in Indonesia. The capacity of these facilities far exceeds Indonesia's domestic demand indicating Indonesia is a growing export base for pirated media and software. The U.S. government has urged Indonesia to take quick action to register and control OD production equipment.

As part of its efforts to comply with the WTO TRIPS agreement, in December 2000, Indonesia enacted new laws on protection of trade secrets, industrial design, integrated circuits, and plant varieties. In July 2001, Parliament passed amendments to existing laws on patent and trademarks. The government is also preparing amendments to the existing copyright law. Even with new laws in place, however, inadequate enforcement and a corrupt judicial system pose daunting problems for U.S. companies seeking enforcement of their rights in Indonesia. The Indonesian government has, at times, responded to U.S. companies bringing specific complaints about pirated goods or trademark abuse, but the Indonesian court system can be frustrating and unpredictable, and effective punishment of pirates of intellectual property is rare.

Indonesia's new Patent Law did not improve several areas of concern to U.S. companies, including compulsory licensing provisions, a relatively short term of protection, and a provision allowing importation of 50 pharmaceutical products by non-patent holders.

8. Worker Rights

a. *The Right of Association:* Private sector workers, including those in export processing zones, are by law free to form worker organizations provided there are at least ten workers who wish to do so. All unions must be registered with the government. In August 2000, the government enacted a new law governing trade unions that continued a trend since 1998 toward removing barriers to freedom of association. Some labor organizations criticized the new law for maintaining some existing restrictions on unions. There are currently 59 national unions registered. The courts may dissolve a union under the 2000 law if union members are convicted of crimes against the state and sentenced to at least five years in prison.

Civil servants are no longer required to belong to KORPRI, a nonunion association whose central development council is chaired by the Minister of Home Affairs. State enterprise employees, defined to include those working in enterprises in which the state has a five percent holding or greater, usually were KORPRI members in the past, but a small number of state enterprises have units of the Federation of All-Indonesian Trade Unions (SPSI). New unions are now seeking to organize employees in some state-owned enterprises. Teachers must belong to the teachers' association (PGRI). All organized workers, except those engaged in public service, have the legal right to strike. Private sector strikes are frequent.

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

Although government regulations prohibit employers from discriminating or harassing employees because of union membership, there are credible reports from union officials of employer retribution against union organizers, including firing, which is not effectively prevented or remedied in practice. Administrative tribunals adjudicate charges of antiunion discrimination. However, because many union members believe the tribunals generally side with employers, many workers reject or avoid the procedure and present their grievances directly to the national human rights commission, parliament and other agencies. Security forces continue to involve themselves in labor issues, despite the Minister of Manpower's revocation in 1994 of a 1986 regulation allowing the military to intervene in strikes and other labor actions.

c. *Prohibition of Forced or Compulsory Labor:* The law forbids forced labor, including forced and bonded labor by children. In 1999 the government ratified ILO Conventions 105 (Forced Labor) and began removing children from the fishing platforms.

d. *Minimum Age for Employment of Children:* Child labor exists in both industrial and rural areas, and in both the formal and informal sectors. According to ILO, over 3.4 million children (under 15 years of age) work ten hours or more per week. Some observers believe that number to be understated, because documents verifying age are easily falsified. The ILO ranks Indonesia as the third worst in Asia on child labor conditions. Indonesia was one of the first countries to be selected for participation in the ILO's International Program on the Elimination of Child Labor (IPEC) and the government and the ILO signed a Memorandum of Understanding in March 2001. The government followed this with Presidential decree No. 12 of 2001 creating a National Action Committee to Eliminate the Worst Forms of Child Labor. Although the ILO has sponsored training of labor inspectors on child labor matters under the IPEC program, enforcement remains lax. The government ratified ILO Convention 138, which establishes a minimum working age of 15, in April 1999 ILO Convention 182 on the Elimination of the Worst Forms of Child Labor in March 2000.

e. *Acceptable Conditions of Work:* Indonesia does not have a national minimum wage. Rather, area wage councils working under the supervision of the national wage council establish minimum wages for regions and basic needs figures for each province, a monetary amount considered sufficient to enable a single worker to meet the basic needs of nutrition, clothing, and shelter. In Jakarta, the minimum wage is about $35 (Rp. 344,000) per month at an exchange rate of Rp 10,000 to the dollar). There are no reliable statistics on the number of employers paying at least the minimum wage. Independent observers' estimates range between 30 and 60 percent.

Labor law and ministerial regulations provide workers with a variety of other benefits, such as social security, and workers in more modern facilities often receive health benefits, free meals, and transportation. The law establishes seven-hour workdays and 40-hour workweeks, with one 30-minute rest period for each 4 hours of work. The law also requires one day of rest weekly. The daily overtime rate is 1–1/2 times the normal hourly rate for the first hour, and twice the hourly rate for additional overtime. Observance of laws regulating benefits and labor standards varies from sector to sector and by region. Employer violations of legal requirements are fairly common and often result in strikes and employee protests. In general, government enforcement and supervision of labor standards are weak. Both law and regulations provide for minimum standards of industrial health and safety. In the largely westernoperated oil sector, safety and health programs function reasonably well. However, in the country's 100,000 larger registered companies in the non-oil sector, the quality of occupational health and safety programs varies greatly. The enforcement of health and safety standards is severely hampered by corruption, by the limited number of qualified Department of Manpower inspectors and by the low level of employee appreciation for sound health and safety practices. Workers are obligated to report hazardous working conditions. Employers are forbidden by law from retaliating against those who do, but the law is not effectively enforced.

f. *Rights in Sectors with U.S. Investment:* Working conditions for direct-hire employees in firms with U.S. ownership are widely recognized as better than the norm for Indonesia. Contract labor, although widely used, does not receive the same benefits as direct hire employees. Application of legislation and practice governing worker rights is largely dependent upon whether a particular business or investment is characterized as private or public. U.S. investment in Indonesia is concentrated in the petroleum and related industries, primary and fabricated metals (mining), and pharmaceutical sectors.

Foreign participation in the petroleum sector is largely in the form of production sharing contracts between the foreign companies and the state oil and gas company, Pertamina, which retains control over all activities. All direct employees of foreign companies under this arrangement are considered state employees and thus all legislation and practice regarding state employees generally applies to them. Employees of foreign companies operating in the petroleum sector are organized in KORPRI. Employees of these state enterprises enjoy most of the protection of Indonesia labor laws including the right to strike, join labor organizations, or negotiate collective agreements. Contract workers in the petroleum sector do have the right to organize and have joined independent trade unions. A 1995 Minister of Manpower regulation exempts the petroleum sector from legislation requiring employers to give permanent worker status to workers who have worked for the company under short-term contracts for more than three years. Some companies operating under other contractual arrangements, such as contracts of work and, in the case of the mining sector, coal contracts of work, do have unions and collective bargaining agreements.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—2000

[In Millions of U.S. Dollars]

Category	Amount	
Petroleum		8,440
Total Manufacturing		273
Food & Kindred Products	21	
Chemicals & Allied Products	148	
Primary & Fabricated Metals	1	
Industrial Machinery and Equipment	–28	
Electric & Electronic Equipment	3	
Transportation Equipment	[1]	
Other Manufacturing	[1]	
Wholesale Trade		[1]
Banking		249
Finance/Insurance/Real Estate		385
Services		[1]
Other Industries		2,219

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—2000—Continued

[In Millions of U.S. Dollars]

Category	Amount
Total All Industries	11,605

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

JAPAN

Key Economic Indicators

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

	1999	2000	2001
Income, Production and Employment:			
Nominal GDP	4,505	4,753	[1] 4,129
Real GDP Growth (pct)	0.8	1.5	[1] –0.5
GDP by Sector:			
Agriculture	58	N/A	N/A
Manufacturing	970	N/A	N/A
Services	882	N/A	N/A
Government	403	N/A	N/A
Per Capita Income (US$)	34,283	36,455	N/A
Labor Force (millions)	67.8	67.7	[1] 68.0
Unemployment Rate (pct)	4.7	4.8	[2] 5.0
Money and Prices (annual percentage growth):			
Money Supply (M2+CD)	3.6	2.1	[1] 2.9
Consumer Price Inflation	0.3	–0.6	[1] –0.7
Exchange Rate (Yen/US$—annual average)	13.91	114.9	[3] 121
Balance of Payments and Trade:			
Total Exports FOB	403.9	434.0	[4] 180
Exports to United States FOB	121.8	129.0	[4] 63
Total Imports CIF	280.5	344.2	[4] 184
Imports from United States CIF	57.8	65.3	[4] 34
Trade Balance	123.4	89.8	[4] 30
Trade Balance with United States	64.0	63.7	[4] 29
Current Account Surplus/GDP (pct)	2.4	2.5	[1] 2.2
External Public Debt	N/A	N/A	N/A
Fiscal Deficit/GDP (pct)	7.9	–7.5	[1] –6.2
Debt Service Payments/GDP (pct)	N/A	N/A	N/A
Gold and Foreign Exchange Reserves	288.1	368.3	[2] 360
Aid from United States	0	0	0
Aid from All Other Sources	0	0	0

[1] 2001 figures are IMF projections (World Economic Outlook, September 2001).
[2] As of end-July, 2001.
[3] January-August 2001, average.
[4] January-June 2001, seasonally adjusted, BOP basis.
Sources: IMF, OECD, Ministry of Finance, Bank of Japan, Economic & Social Research Institute (Cabinet Office).

1. General Policy Framework

The Japanese economy is once again entering recession, in response to weakening external demand and reduction of worldwide investment in high technology sectors. Industrial production and manufacturing employment have both fallen sharply through mid-year, and most private forecasts expect a GDP decline of roughly one percent in 2001, with little if any growth in the following year.

Japan's economic performance has been disappointing for most of the past ten years, with uneven but generally low growth, and persistent deflation (general price declines). The sources of Japan's economic difficulties go back to the collapse of the asset-price bubble in 1991, which left the banking and corporate sector with excessive and often unproductive investment and a huge volume of bad debts. Regulatory barriers that have prevented resources from moving to new growth sectors, and a decline in rates of return on investment have also compounded Japan's economic difficulties.

Until this year, the government response to Japan's sluggish economy has been an expansionary fiscal policy, through a series of supplemental budgets, emergency spending packages (largely concentrated on public works), and special loan guarantees to stem the tide of corporate bankruptcies. The current Koizumi government has sought to break from the policy of fiscal support by capping the government budget deficit and promising thoroughgoing structural reform "without sacred cows." The Bank of Japan has also reduced interest rates on short term funds to essentially zero, but its ability to lower real interest rates has been hampered by persistent deflation.

2. Exchange Rate Policy

The Japanese yen floats against other currencies, although the Japanese authorities have, at times, intervened to counter rapid exchange rate movements. The average exchange rate through the first eight months of 2001 was 121 yen per dollar, compared to 107 yen per dollar in 2000. A new Foreign Exchange Law in April 1998 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 high gross retail margins (needed to cover high fixed and personnel costs) and a complex distribution system, Japan's retail prices exhibit greater downward stickiness than in other large market economies. Some sectors, such as construction, are susceptible to cartel-like pricing arrangements, and the government can exert limited authority over pricing in heavily regulated sectors (e.g., transport and warehousing).

Tax Policy: Total tax revenues as a share of the Japanese economy are comparable to the United States. Recent legislation reduced the effective corporate tax rate (combined central and local government) to 40.9 percent, 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 "consumption tax" (actually Value-Added Tax) of five percent.

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, block new entrants (domestic or foreign), and raise costs. These include high telecommunications interconnection rates, prolonged approval processes for medical devices and pharmaceuticals, and restrictions on foreign lawyers. The Japanese government has concluded an antitrust cooperation agreement with the United States. However, enforcement of competition policy needs additional rigor.

In June 2001, President Bush and Prime Minister Koizumi agreed on a Regulatory Reform and Competition Policy Initiative as part of the new U.S.-Japan Economic Partnership for Growth. During its first year, the Initiative will establish four sectoral working groups to promote deregulation in the telecommunications, information technology, energy, and medical devices/pharmaceutical sectors. An additional "cross-sectoral" working group will address topics that have widespread impact on the economy, including competition policy, transparency in government rulemaking, legal reform, commercial code issues, distribution, customs' clearance procedures, business facilitation, and other cross-sectoral issues not directly addressed in the sectoral working groups.

4. Debt Management Policies

Japan is the world's largest net creditor. The Bank of Japan's foreign exchange reserves exceed $270 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 have 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 nontransparent regulations and government procedures, discriminatory standards, and exclusionary business practices. Japan also 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 United States and Japan concluded a new agreement to significantly liberalize the trans-Pacific civil aviation market. This eliminated many 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 had recently entered the U.S.-Japan market, more than doubling their access to Japan. The agreement also allowed code sharing (strategic alliances) between American and Japanese 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, scarcity of slots at Narita airport, along with expensive and inadequate facilities, have limited carriers' ability to use new traffic rights.

U.S.-flag vessels serving Japanese ports have long encountered a restrictive, inefficient and discriminatory system of port transportation services, which prevents foreign shippers from handling their own cargos. After the Federal Maritime Commission (FMC) ruled in 1997 that Japan maintained unfair shipping practices and imposed fines against Japanese ocean freight operators, the Japanese Government pledged to grant foreign carriers port transport licenses and to reform the Japan Harbor Transport Association's prior consultation system, which effectively allocates stevedoring work and restricts new entrants. The revised Port Transportation Business Law, which went into effect in November 2000, mandated that new entrants maintain staffing at 150 percent of current minimums. The FMC continues to monitor the situation.

Energy: The government of Japan has taken a number of steps to begin deregulating its energy sector, including allowing companies with captive power assets to market excess generating capacity to major factories and other major users in March 2000. Within the Regulatory Reform and Competition Policy Initiative under the U.S.-Japan Economic Partnership for Growth framework, the U.S. government is encouraging Japan to speed up the process and create a more transparent and competitive environment for new entrants into the energy market. Open and nondiscriminatory access to electrical transmission and distribution grids, and to LNG terminals and pipelines, are key steps for Japan. Competitive, transparent pricing also remains as an important unresolved issue in the Japanese market.

Agricultural and Wood Products: Japan is the largest export market for U.S. farm and wood products. Sales are limited, however, by a variety of protectionist measures maintained by the government of Japan. Key priorities for trade liberalization include tariff reduction on raw and value-added products, elimination of unnecessary plant quarantine measures, more market oriented domestic farm policies, recognition of certification on organic foods and wood products, a commitment to science-based policies and education programs on foods produced through biotechnology, and continued deregulation of the housing sector affecting access for wood products.

Tariff Reduction: Significant tariff reduction in Japan was achieved through the Uruguay Round Agreement, but agricultural tariffs in Japan remain high, ranging from 10 to 40 percent on a wide variety of items, including beef, oranges, and many processed foods. Tariffs on processed wood products place additional costs on end-users. These tariffs limit sales of U.S. farm products by encouraging substitution and/or reducing consumption altogether.

Plant Protection and Quarantine Measures: Japan's failure to adopt system-wide sound scientific plant protection principles restricts entry of a wide variety of U.S. fresh fruits and vegetables. FAS/Japan estimates that unnecessary plant quarantine restrictions and requirements cost U.S. agriculture more than $500 million in lost sales opportunities every year. Japan unnecessarily restricts imports through outright bans on many products without sufficient scientific evidence that entry of the product presents a legitimate threat to local agriculture. Unnecessary testing and inspection requirements raise costs and reduce competitiveness of U.S. produce in Japan. In addition, failure to accept alternatives to methyl bromide fumigation for control of pests and unnecessary fumigation requirements for common pests that are already found in Japan present additional barriers to U.S. agricultural products.

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.

Biotechnology: Japan has adopted a scientific approach in its approval process for genetically modified (GM) foods. To date, the Ministry of Agriculture and Ministry of Health, Labor and Welfare, which regulate biotechnology products, have approved the importation of more than 30 GM plant varieties, including corn, potatoes, cotton, tomatoes, and soybeans. While U.S. and Japanese regulatory approaches to assessing safety of biotech products have been closely aligned, the United States is very concerned by Japan's decision to implement mandatory labeling of 24 whole and semi-processed foods made from corn and soybeans beginning April 2001.

Accreditation for Wood and Organic Certifiers: In July 1999, the Japanese Agricultural Standard Law was amended to include a procedure to establish the "equivalency" of foreign countries' regulations, a prerequisite for U.S. certification organizations for wood and organic products to apply for accreditation by the Ministry of Agriculture, Forestry and Fisheries (MAFF). This time-consuming, two-step process is required to put them on equal footing with their Japanese counterparts.

Rationalization of Building Standards Laws: The Japanese government has taken steps to make the Building Standard Law (BSL) performance-based, in line with its commitment to implement performance-based codes. Timely approval, acceptance, and ultimately sales of U.S. wood products are still limited by excessive regulation and continued reliance on prescriptive codes/standards. The United States has asked the Japanese government to review certain provisions of the BSL which are overly prescriptive or inconsistent, including fire test requirements and restrictions on the construction of special buildings.

In housing policy, Japan has taken limited steps to make the sector more competitive and to make a greater variety of housing available to consumers at lower cost.

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, the United States has pushed Japan to foster a more pro-competitive regime in the telecommunications sector. As a result of the July 2000 U.S.-Japan agreement to implement significant reductions in interconnection fees for connecting to the dominant carriers' local networks, competition has slowly begun to enter the telephone service market. In June 2001, the Ministry of Public Management, Home Affairs, Post and Telecommunications (MPHPT) revised the Telecom Business Law and introduced dominant carrier regulation. However, progress has been incremental and access to the telecommunications' and broadcasting market in Japan remains constrained by both regulatory and anti-competitive practices. New entrants continue to face higher costs and longer waiting periods for connecting to the dominant carriers' local 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. It is still difficult for competing carriers to resolve problems with dominant carriers under the existing administrative framework.

The United States remains very concerned by the fact that the MPHPT and the Japan Fair Trade Commission are within the same agency and recommends that Japan change the organizational status of the JFTC to an independent agency under the Cabinet Office. Furthermore, the United States continues to urge Japan to establish a strong independent regulator for the telecom business.

Foreign computer and telecommunications equipment suppliers continue to have difficulty selling to the Japanese public sector and have a very small share of the market. Procurement from foreign sources by the Nippon Telegraph and Telephone (NTT) group companies, which collectively are the largest purchaser of telecommunications' equipment in Japan, remain below the level of foreign procurement by Japanese private sector telecommunications' carriers. Foreign investment in NTT and radio/television broadcasting companies is restricted.

The U.S. government believes that mandatory labeling stigmatizes foods derived through biotechnology by suggesting a health risk when there is none. In response to labeling requirements, many Japanese manufacturers of products subject to mandatory labeling have switched to non-genetically engineered ingredients; this shift adds to confusion and misperceptions about the safety of biotech foods. The U.S. government agrees that labeling is necessary when there are health or safety reasons, such as a presence of an allergen, or changes in food characteristics, such as altered nutritional content. In these cases, the specific change, rather than the process by which it is produced, should be the subject of labeling.

The government of Japan has stated that the objective of extending a mandatory labeling requirement to food that has been produced through biotechnology is to provide information to the consumer. The U.S. government agrees that it is important for consumers to have information on foods that have been genetically engineered, and believes there are a number of means other than labeling, such as educational materials and public fora, that can collectively provide more meaningful information to consumers on genetic engineering.

Effective April 1, 2001, all U.S. certified organic foods must be certified by organizations accredited by the Ministry of Agriculture in order to be marketed as "organic." The USDA's ISO Guide 65 accreditation program provides sufficient assurance that certified products meet Japanese standards. Since ISO Guide 65 is the internationally recognized norm for conformity assessments of third-party certifiers, additional accreditation is unnecessary, costly, and threatens continued imports of U.S. organic foods, estimated at up to $100 million per year.

Foreign Direct Investment (FDI): FDI in Japan has remained extremely small in scale relative to the size of the economy. In Japan fiscal year 2000, Japan's annual inward FDI totaled $28 billion (up from $21.5 billion the previous year), but still only 0.6 percent of its GDP. (Comparatively, FDI for the U.S. in 1999 was $276 billion, according to UN Conference on Trade and Development.) Although foreign investment in Japan is on the rise, Japan continues to attract the smallest amount of FDI as a proportion of total output of any major OECD nation (0.9 percent), reflecting the high costs of doing business (for example, registration, licenses, land prices and rents) and a continuing environment of structural impediments to foreign investment. The challenges facing foreign investors include: laws and regulations that hamper establishing new businesses and acquiring existing businesses, close ties between government and industry, informal exclusive buyer-supplier networks and alliances, and extensive cross-shareholding by Japanese firms.

Recently, the Japanese Government has implemented potentially useful measures for increasing FDI, including a comprehensive revision of its Commercial Code. However, further revisions are needed to ensure a corporate regulatory environment, which allows existing Japanese companies to efficiently restructure, promote the development of new companies, and facilitate foreign firms' entry into the Japanese market. In 2002, the Japanese Diet will consider allowing firms to choose American-style board committees with a majority of outside members instead of statutory auditors (kansayaku). This could greatly improve corporate governance, management accountability to shareholders, and the attractiveness of investing in Japan. Japan has made significant improvements in accounting standards by introducing: consolidated accounting, FY 1999; pension accounting, requiring disclosure of assets and liabilities, and mark-to-market accounting for traded securities, FY 2000; and mark-to-market accounting for cross-held shares and other long-term holdings, FY 2001. However, the Ministry of Finance has yet to approve consolidated taxation, which would allow companies to use restructuring losses in one unit to balance profits in another unit.

There are insufficient numbers of qualified lawyers, accountants, and other professional service providers in Japan, a significant barrier to investment and to corporate and debt restructuring. The number of qualified legal professionals in Japan is inadequate to support the many complex transactions necessary for restructuring Japan's economy. Additionally, Japan places severe limitations on the relationships permitted among Japanese lawyers and registered foreign lawyers.

In October 2001, the United States and Japan launched an Investment Initiative to accelerate the pace of U.S. FDI in Japan and thus contribute to economic growth, job creation, and the introduction of new management practices. A new Investment Group will meet several times yearly and sponsor further measures to improve the investment environment in Japan.

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 conforms to the letter of the WTO agreement, there have been reports that established domestic competitors continue to enjoy preferential access to tender information from some procuring entities. In some sectors unfair pricing remains a problem, preventing companies from winning contracts based on open and transparent bidding procedures. Some entities continue to draw up tender specifications to favor 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. The Japanese government should adapt customs clearance procedures to accommodate the rapid growth of express cargo carriers.

6. Export Subsidies Policies

In 2000, Japan remained the world's top aid donor for the tenth consecutive year, disbursing a total of $13.1 billion in official development assistance (ODA), representing about one-quarter of the total ODA of the advanced industrial countries. Although Japan had been moving towards untying its aid, during recent years this trend has reversed. Both Environmental Aid loans and Special Yen loans are tied to the purchase of Japanese products. This limits U.S. firms' ability to participate in these projects and denies recipient countries the opportunity to use aid as efficiently as possible. The U.S. government has opposed the trend towards retying and continues to address U.S. industry concerns that feasibility studies funded by Japanese grant aid, and tied to the use of Japanese firms, result in technical specifications 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 was removed from the Special 301 Watch List on May 1, 2000. However, in the May 2001 Special 301 announcement, the United States expressed concern about some aspects of intellectual property rights protection in Japan and noted that it would continue to carefully monitor these aspects.

While Japan's IPR regime affords national treatment to U.S. entities, the U.S. government has been concerned by the long processing time for patent examination. Recent statistics show that it takes the Japan Patent Office an average of 21 months to respond to an applicant (First Action Period), longer than in other industrialized countries. Since all patent applications are opened to public inspection 18 months after filing, this 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 doctrine of equivalence" may reduce this practice and is a positive step toward broadening Japanese courts' generally narrow interpretation of patent rights. The rights of U.S. subscribers in Japan can be circumscribed by filings of applications for similar inventions or processes.

Japan's protection of trade secrets is inadequate. Because Japan's Constitution prohibits closed trials, the owner of a trade secret seeking redress may find the secret disclosed as part of the judicial process. While a recent amendment to Japan's Civil Procedures Act excludes Japanese court records containing trade secrets from public access, court proceedings remain open to the public and neither the parties nor their attorneys have confidentiality obligations.

Trademarks must be registered in Japan to ensure enforcement, meaning delays make it difficult for foreign parties to enforce their marks. However, Japan is a party to the Madrid Protocol for centralized foreign trademark registration. 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 First Action Period for trademark applications takes about eleven months. The United States will continue monitoring Japan's approval time.

End-user software piracy remains a major concern of United States and some Japanese software developers. Effective January 2001, Japan raised the level of punitive damages for software piracy from 3 million yen to 100 million yen. However, Japan still does not protect temporary copies, a requirement of the Berne Convention and the 1996 WIPO Copyright Treaty.

The absence of a system of statutory damages is also a problem. Under the Japanese system, right holders need to prove actual loss in order to qualify for compensation from violators. Protection would be improved under a system where right holders only need to prove the loss and could be awarded damages within a fixed range for each work violated.

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. 21.5 percent of Japan's labor force is unionized. The Japanese Trade Union Confederation (RENGO), which represents 7.2 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 forced or bonded labor is not perceived as a problem. Japan is, however, a destination country for the trafficking of women for prostitution through debt bondage.

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 range from about $18 per hour in Tokyo to $11 in rural northern Japan. 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—2000

[In Millions of U.S. Dollars]

Category		Amount
Petroleum		(1)
Total Manufacturing		15,173
Food & Kindred Products	1,232	
Chemicals & Allied Products	2,843	
Primary & Fabricated Metals	330	
Industrial Machinery and Equipment	1,581	
Electric & Electronic Equipment	2,033	
Transportation Equipment	2,391	
Other Manufacturing	4,764	
Wholesale Trade		4,689
Banking		733
Finance/Insurance/Real Estate		20,685
Services		8,646
Other Industries		(1)
Total All Industries		55,606

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

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

REPUBLIC OF KOREA

Key Economic Indicators

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

	1999	2000	[1] 2001
Income, Production and Employment:			
GDP (nominal/factor cost)	405.8	457.4	434.5
Real GDP Growth (pct) [2]	10.9	8.8	2.7
GDP by Sector:			
Agriculture/Fisheries	20.7	21.0	21.1

Key Economic Indicators—Continued

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

	1999	2000	[1] 2001
Manufacturing	124.6	144.1	135.1
Electricity/Gas/Water	11.0	12.8	11.9
Construction	35.3	37.5	36.7
Financial Services	74.3	81.4	78.4
Government Services	40.6	45.3	43.2
Other	99.4	115.3	108.0
Government Expenditure (pct/GDP)	10.4	10.2	10.3
Per Capita GNI (US$)	8,551	9,628	9,019
Labor Force (000s)	21,634	21,950	22,270
Unemployment Rate (pct)	6.3	4.1	3.9
Money and Prices (annual percentage rate):			
Money Supply (M2)	27.9	30.2	33.3
Corporate Bonds [3]	9.85	8.12	7.10
Personal Savings Rate	4.2	23.0	22.6
Retail Inflation	0.8	2.3	4.6
Wholesale Inflation	–2.1	2.0	2.6
Consumer Price Index (1995 base)	118.8	121.5	127.1
Average Exchange Rate (Won/US$)	1,189.5	1,130.6	1,285.0
Balance of Payments and Trade:			
Total Exports FOB [4]	145.2	175.8	159.1
Exports to United States [4]	29.5	37.6	31.8
Total Imports CIF [4]	–116.8	–159.2	–143.6
Imports from United States [4]	–24.9	–29.2	–25.8
Trade Balance	28.4	16.6	8.6
Balance with the United States	4.6	8.4	6.0
External Debt [5]	137.1	136.3	117.7
Debt Service Payments [6]	–45.4	–25.0	–35.3
Gold and Foreign Exchange Reserves [7]	74.1	96.2	100.0
Aid from the United States	0	0	0
Aid from All Other Sources	0	0	0

[1] 2001 figures are estimates based on available monthly data and the economic forecasts made by local research institutes as of September 5.
[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. (Estimated figures are for the entire year 2001).
[5] Gross debt; includes non-guaranteed private debt. 2001 figure is an estimate based on available monthly data as of July.
[6] Note that the Government of the Republic of Korea does not release such data, so the 2001 figure is an estimate based on available related data as of September 14.
[7] 2001 figure is as of the end of September 2001.

1. General Policy Framework

In 2001, Korean economic conditions continued to worsen due to the triple distress of weakened global economic conditions (and related falls in Korea's exports), a severe slump in microchip/computer demand and prices, and low levels of Korean corporate fixed investment. The September 11, 2001, terrorist attacks in New York and Washington added stress to an already gloomy economic picture in 2001. Real annual average economic growth rate is not expected to exceed 2 percent, with inflation expected in the 4–5 percent range. Increased uncertainty in the economy could further dampen domestic consumption and investment. In the near term, decreasing exports of IT products and depressed consumer sentiment in industrialized countries will likely hamper the recovery of Korean exports in the near term. Recovery could come by the second quarter of 2002, at the earliest.

The economic downturn contrasts sharply with Korea's 1999 and 2000 rebound, when economic growth rose sharply from the unprecedented 1997–98 economic crisis. Buoyant domestic consumption and investment and a surge in exports to buoyant international markets mainly led the rally. During those years, Korea's gross domestic product (GDP) grew 10.9 percent and 8.8 percent respectively in real terms, propelled by strong recoveries in principal industrial sectors, decisively reversing 1998's 6.7 percent contraction, Korea's worst performance since the Korean War. GDP growth was particularly impressive in Q4 1999, 14.2 percent, and Q1 2000, 12.0 percent.

Korea's economic recovery from the 1997–98 crisis was impressive but still is not firm or assured. Long-term success will depend on continued financial and corporate-sector restructuring to encourage a high pace of productive domestic and foreign direct investment. Otherwise, existing high levels of domestic corporate debt could threaten economic performance with the impact of significant bankruptcies.

Korea's 1997–98 financial crisis coincided with the election and inauguration of President Kim Dae-jung. President Kim gave decisive support to a $58 billion International Monetary Fund (IMF) package, which he saw as Korea's best way out of the crisis. The package included loans from the IMF, World Bank, and the Asia Development Bank. Under the IMF program, the government took steps to open its financial and equity markets to foreign direct and portfolio investment and to reform and restructure its financial and corporate sectors to increase transparency, accountability and efficiency.

The United States is a leading Korean trade partner, taking 22 percent of Korea's exports and providing 20 percent of Korea's imports for the first eight months of 2001. Korea exports advanced electronic components and telecommunications equipment, automobiles, steel, and a wide variety of mid-level, medium-quality consumer electronics and other goods.

In the early 1990s, wages rose faster than productivity and Korea lost its low-wage labor advantage to China and Southeast Asia. At the same time, Korea faced tough competition from Japan and other advanced countries in exporting cutting-edge, high-tech products. Through September 30, the average value of the Korean currency, the won, has been around 1,285 won per dollar. Korea's useable foreign currency reserves grew to over $100 billion by September 2001, which significantly reduced Korea's vulnerability to a repeat of the 1997–98 financial crisis, when Korea nearly exhausted its foreign exchange reserves. Nonetheless, the trade surplus continues to narrow, as exports have decreased faster than imports. The Korean government has revised its trade surplus estimate for 2001 to $12 billion, from its previous estimate of $13 billion.

2. Exchange Rate Policy

Since the IMF program began in December 1997, foreign exchange and capital controls have been greatly relaxed or abolished. In conjunction with IMF program requirements, the exchange rate has been allowed to float (with Bank of Korea intervention nominally limited to smoothing operations only).

3. Structural Policies

In response to the 1997 financial crisis, the government has required greater corporate transparency, fostered the development of small- and medium-sized industries and implemented broad-based reforms of the financial system. The financial reforms include substantial liberalization of capital markets, and abolishing restrictions on foreign ownership of domestic stock shares and bonds and 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.

Certain regulations may disadvantage foreign bank branches. For instance, Korea requires foreign branches to be separately capitalized; also, prudential lending limits are based on local branch capital as opposed to a foreign bank's total worldwide capital, while domestic banks may count their entire capital base as assessed capital. Foreign banks are also disadvantaged in access to local-currency lending. The April 1999 Foreign Exchange Transaction Law, fully implemented at the end of 2000, significantly liberalized formerly heavily regulated capital transactions.

Korea's 1998 Foreign Investment Promotion Act streamlined foreign investment application procedures and eased barriers to foreign direct investment across a range of sectors. Korea now has a much more favorable climate for foreign direct investment (FDI). In the long run, increased openness to FDI should foster broader market access for imported goods. FDI levels for the two years 1998 and 1999 exceeded the total FDI that Korea received during the previous 37 years (1960–1997). In 2000, FDI was at the 1999 level, but has fallen somewhat in 2001. Investment restrictions remain on 21 industrial sectors, of which only seven are entirely closed. Mergers, including hostile acquisitions, are permitted, and most restrictions on foreign ownership of local shares have been lifted. For the first time in modern Korean history, foreigners now may purchase property and real estate. Tax incentives, especially for the high technology sector, have been increased, but restrictions on access to offshore funding (including offshore borrowing, intra-company transfers and intercompany loans) continue to be burdensome. Foreign equity participation limits, licensing requirements and other regulatory restrictions can limit FDI in sectors nominally open to foreigners. Foreign firms also face additional investment restrictions in many professional services sectors. The United States and Korea are negotiating these and other investment issues in the effort to conclude a bilateral investment treaty (BIT).

4. Debt Management Policies

At the end of July 2001, Korea's total foreign debt (largely private sector) totaled $125 billion, down from $136 billion in December 2000. By the end of July 2001, Korea's short-term debt as a percentage of total foreign debt was 31.2 percent, down from 32.4 percent at the end of 2000.

5. Significant Barriers to U.S. Exports

During the 1990s, Korea steadily liberalized its markets for goods and services and substantially improved its investment climate for U.S. firms. Many protective tariffs were lowered or phased out as a result of bilateral negotiations, Uruguay Round commitments and other multilateral efforts. Various nontransparent policies and regulations, which directly or indirectly inhibited market access for imports, were clarified or eliminated. The government rejected explicit policies that encouraged anti-import sentiment among Korean consumers, and its efforts to address residual anti-import biases among Korean consumers, media and bureaucrats have started to have some meaningful impact. Introduced in late 1998, the new foreign investment regime is aimed at attracting rather than tolerating foreign investment; total foreign investment in 2001 is expected to reach $15 billion for the third straight year. The net effect of these changes is that Korea is now an easier place to do business than in the past. Several key sectors, especially agricultural products, pharmaceuticals, and automobiles, however, are still very challenging for foreign firms. Problems also exist in intellectual property rights protection.

Korea's tariffs are generally modest. However, for agricultural products Korea's 50.3 percent average out-of-quota tariff contrasts sharply with the relatively low average tariff for industrial products of 7.5 percent. This disparity gives some indication of the political sensitivity of agricultural and fishery imports, which are further restricted by quotas and tariff rate quotas (TRQ), as well as by the restrictive way that Korea administers the quotas. Several agricultural products of interest to U.S. suppliers, such as rice and oranges, are directly hindered by these policies, although Korea purchased U.S. rice for the first time in 2001 since agreeing to open its rice market during the Uruguay Round. Korea also uses adjustment tariffs to respond to import surges; the majority of the 27 adjustment tariffs apply to agricultural products. The government eliminated its import diversification program, which barred certain imports from Japan, in June 1999 and its eight remaining GATT balance-of-payments restrictions at 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 improve transparency and due process to its regulatory system, in 1996, Korea enacted the Administrative Procedures Act, but public notice of new regulations, as well as comment and transition periods, are still not always adequate. The regulatory system does not consistently offer adequate recourse to those adversely affected by creation of new regulations. In 1998 a comprehensive effort at regulatory reform was initiated at the request of President Kim; thousands of regulations have been reviewed and many eliminated, but the impact on doing business has not been significant.

Products regulated for health and safety reasons (such as pharmaceuticals, processed foods, medical devices, and cosmetics) typically require additional testing or certification from relevant ministries before they can be sold in Korea, resulting in considerable delays and increasing costs. Although new reimbursement pricing and product approval systems were recently put into place, the Korean health authorities have attempted to make changes to the system that will disadvantage foreign producers, generally without consultation or an adequate public comment period. As a result, the foreign pharmaceutical industry continues to face discriminatory barriers in Korea. Registration requirements for such products as chemicals, processed food, medical devices, and cosmetics hamper entry into the market as well. It has committed to bring its Food Code, Food Additive Code and labeling requirements into conformity with international standards, and has taken some steps to do so. 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 has made some efforts to reduce the quasi-legal, trade restrictive powers of a number of associations.

While the Korean government made some effort to improve the market environment for foreign automobiles, including President Kim's March 2001 statement encouraging Koreans to buy foreign cars, Korea's automobile market remains effectively closed to foreign imports with only 4,414 imported cars sold in 2000. Pursuant to the October 1998 U.S.-Korea Memorandum of Understanding (MOU) on motor vehicles, Korea lowered some taxes that had a discriminatory impact on imported cars, bound its auto tariffs at eight percent, improved consumer financing of autos, and streamlined standards and certification. These steps have yet to have a meaningful impact. We have called on Korea to further reduce the tariff and tax burden on motor vehicle owners as called for in the MOU, to effectively counter the years of government-sponsored ant-import campaigns, and to improve consumer perception of foreign motor vehicles. In 2001, Korean imports of U.S. and other foreign cars are expected to barely exceed 8,000 units, far less than one percent of the domestic market.

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. The quota acts as a deterrent to imported films, cinema construction, and the expansion of theatrical distribution. The Korean government, however, considers this a cultural rather than a trade issue.

Korea is a party to the WTO Government Procurement Agreement (GPA).

In January 2001, Korea removed most of the remaining non-tariff barriers on beef imports, with the notable exception of the dual retail distribution system separating domestic and imported beef, state trading and overly strict sanitary requirements. On September 10, 2001, Korea implemented the WTO Dispute Settlement Board (DSB) recommendations to remove the dual retail system, which controlled distribution of beef in the marketplace. In its stead Korea will impose a new record-keeping system applicable to all meat products effective January 1, 2002.

6. Export Subsidies Policies

In the past, Korea has aggressively promoted exports through a variety of policy tools, including export subsidies, directed credit and targeted industrial policies. While Korea has eliminated WTO-prohibited subsidies, concerns remain about subsidization in a variety of important sectors, such as shipbuilding, steel and semiconductors. In particular, apparent government subsidization of Hynix Semiconductor, Inc. (formerly Hyundai Electronics, Inc.) through various state-sponsored credit guarantees, a Korea Development Bank financing program, and influence over the lending decisions of key Hynix creditor banks have recently renewed concerns about inappropriate government intervention in the market place and retrenchment on financial and corporate reforms.

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 and related enforcement measures can be problematic. Korea's Special 301 "Priority Watchlist" status was maintained in April 2001. Areas of continuing IPR concern include: protection of clinical drug test data, pre-existing copyrighted works and pharmaceutical patents, lack of coordination between Korean health and IPR authorities on drug product approvals for marketing; and counterfeit consumer products. The United States also has ongoing concerns about the consistency, transparency, and effectiveness of Korean enforcement efforts, particularly with regards to piracy of U.S. computer software and books.

Korean patent law is quite comprehensive, offering protection to most products and technologies. However, it does not provide for effective pharmaceutical patent protection, and approved patents of foreign patent holders are still seen as vulnerable to infringement. Likewise, U.S. industry believes that Korean courts are deficient in terms of treatment and interpretation of its claims.

Since the early 1990s, the government's protection of trademarks has improved. 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. The Korean Industrial Property Office (KIPO) is able 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.

The Patent Utility, Industrial Design and Trademark laws were revised more recently to make it easier to establish damage amounts and adjust penalty provisions up to KRW 100 million (just under $100,000) fine or seven years' imprisonment. The Unfair Competition and Trade Secret Protection laws were also amended to enhance the protection of well-known trademarks. Korea's Copyright Act protects an author's rights, but local prosecutors take no action against infringement unless the copyright holder files a formal complaint. Recently, Korea amended its Computer Programs Protection Act (again). However, there are continuing concerns regarding the temporary copies issue. The Copyright Act (CA) has also been revised to meet the needs of the new information economy. Still, the CA is not in full compliance with provisions of the TRIPS Agreement that 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. In 1999 the Korean government devoted increased resources and staff to IPR enforcement activities, and President Kim himself directed cabinet agencies to step-up government efforts to protect intellectual property. In 2000, such activities dropped off precipitously, and IPR violations, especially of computer software, remain a problem. However, in 2001, President Kim Dae-jung made clear the government's determination to strengthen IPR enforcement activities. This was followed by vigorous two-month-long special enforcement period raids against more than 2,000 suspected users of illegal computer software.

8. Worker Rights

a. *The Right of Association:* Most Korean workers enjoy the right of free association. White-collar workers in the government sector cannot join unions, but since 1999 have been allowed to form workplace consultative councils. Blue-collar employees in the postal service, railways, and telecommunications sectors, and the national medical center have formed labor organizations. In July 1999, 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.

Labor law changes in 1997 authorized the formation of competing labor organizations in individual work sites beginning in the year 2002, but in 2001 implementation of this was postponed for five years by mutual agreement among members of the Tripartite Commission. 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. However, 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 do 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 made it legal for companies to lay off workers for managerial reasons, including merger or acquisition, or in case of financial difficulties. Labor-management antagonism remains, and some major employers remain strongly anti-union.

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

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. In order to obtain employment, children under 18 must have written approval from their parents or guardians. Employers may only permit minors to work 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 as of August 2001 was 2100 won/hour (about $1.60/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. Recent legislation authorized a five-day, forty-hour workweek, but full agreement on implementation and the phase-in period has not yet been reached. Due to an insufficient number of inspectors, 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 and injuries 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—2000

[In Millions of U.S. Dollars]

Category		Amount
Petroleum		(1)
Total Manufacturing		3,954
Food & Kindred Products	527	
Chemicals & Allied Products	807	
Primary & Fabricated Metals	19	
Industrial Machinery and Equipment	336	
Electric & Electronic Equipment	1,059	
Transportation Equipment	196	
Other Manufacturing	1,009	
Wholesale Trade		858
Banking		2,104
Finance/Insurance/Real Estate		91
Services		510
Other Industries		(1)
Total All Industries		9,432

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

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

MALAYSIA

Key Economic Indicators

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

	1999	2000	[1] 2001
Income, Production and Employment:			
Nominal GDP	79,037	89,659	90,920
Real GDP Growth (pct)[2]	6.1	8.3	2.0
GDP by Sector (1987 prices):			
Agriculture	4,625	4,654	4,712

Key Economic Indicators—Continued

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

	1999	2000	[1]2001
Manufacturing	15,200	18,386	18,423
Mining And Petroleum	3,677	3,794	3,829
Construction	1,822	1,841	1,932
Services	24,331	25,620	26,639
Government Services	3,736	3,788	4,056
Per Capita GDP (US$)	3,480	3,850	3,810
Labor Force (000s)	9,010	9,573	9,801
Unemployment Rate (pct)	3.0	3.1	3.9
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)(pct)[3]	1.4	5.5	3.9
Consumer Inflation (pct)	2.8	1.6	1.3
Exchange Rate (RM/US$—annual average)	3.80	3.80	3.80
Balance of Payments and Trade:			
Total Exports FOB	84,097	98,429	87,754
Exports to United States[4]	21,428	25,568	22,188
Total Imports FOB	61,452	77,574	69,550
Imports from United States[4]	9,079	10,938	9,496
Trade Balance	22,645	20,855	18,204
Balance with United States[4]	12,349	14,630	12,692
External Public Debt	20,265	20,650	23,088
Fiscal Surplus/GDP (pct)	–6.0	–5.8	–6.5
Current Account Surplus/GDP (pct)	15.9	9.4	7.3
Debt Service Payments/GDP (pct)	7.5	6.3	6.5
Gold and Foreign Exchange Reserves[5]	30,900	29,900	29,900
Aid from United States[6]	0.7	0.7	1.048
Aid from All Other Countries	N/A	N/A	N/A

Note: All data converted at annual average exchange rates.

[1] Malaysian Government estimates.
[2] Calculated in Ringgit to avoid exchange rate changes.
[3] As of August for 2001
[4] Annualized estimate on eight-month data from U.S. Department of Commerce for 2001
[5] As of October 15 for 2001.
[6] U.S. government assistance to Malaysia in FY2001 fell into four broad categories: the Trade Development Agency (TDA), approximately $250,000; the International Military Education Training (IMET) program, $700,000; the Enhanced International Peacekeeping Corporation Program (EIPC) $348,000; and the U.S.-Asia Environment Program (U.S.-AEP), $252,000.

1. General Policy Framework

Malaysia's economy slowed dramatically in 2001 in line with the economic slowdown in the United States, Malaysia's chief trading partner. The slowdown contrasts with Malaysia's strong recovery from the 1997–1999 regional economic and financial crisis. In 1998 the economy contracted 7.4 percent but rebounded with 6.1 percent growth in 1999 and 8.3 percent growth in 2000, based largely on strong exports of electronics to the United States. Although consumer and investor confidence improved with the recovery, aggregate domestic consumption and investment remained subdued. In response to the global economic slowdown in 2001, the government introduced two stimulus packages, injecting $1.9 billion in new spending to boost the economy. The government projects a budget deficit equal to 6.5 percent of GDP during 2001, followed by a deficit equal to 5.0 percent of GDP in 2002.

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 to deal with a growing number of non-performing loans (NPLs) during the financial crisis. 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. As of June 2001, Danaharta has removed approximately 40 percent of the NPLs from the banking system. As of August 2001, CDRC has received requests for loan restructuring involving 62 cases with debts of $14.8 billion. CDRC leadership has pledged to resolve outstanding cases by August 2002.

The government plays a strong, active role in the economy as investor, economic planner, approver of investment projects and public and private procurement decisions, as well as the author and implementer of domestic policies and programs. The government actively seeks to bolster the economic status of the Malay and indigenous communities (commonly referred to as bumiputera), in part through the awarding of 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, steel, and public transportation. 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 bumiputera 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, agricultural, mineral, and motor vehicle sectors) are also subject to non-automatic import licensing designed to protect import-sensitive or strategic industries. According to the Ministry of International Trade and Industry, the average applied MFN tariff rate of Malaysia is approximately 9.18 percent. However, duties for tariff lines where there is significant local production are often higher. For example, 6.8 percent have tariff rates between 16 and 20 percent, 16.9 percent have tariff rates that exceed 20 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. In 2001, the government introduced two supplementary budget packages, totaling $1.9 billion in new spending. The 2002 budget, released October 19, provides for a deficit equal to five percent of GDP and features some personal income tax cuts along with provisions to stimulate domestic consumption and investment. The Malaysian government will finance the projected $4.9 billion deficit primarily from domestic sources, although the government also plans an additional $950 million (net) in new foreign borrowings.

Monetary Policy: The Central Bank continues its accommodative monetary policy, featuring low interest rates to stimulate economic recovery. The government loosened monetary policy in 1998, reducing reserve requirements from 13.5 percent as of year-end 1997 to 4 percent in September 1998. The average base lending rate dropped from 8.0 percent in December 1998 to 6.8 percent in August 1999. In September 2001 the Central Bank cut the 3-month intervention rate by 50 basis points to 5 percent, leading to a further drop in the base lending rate to 6.4 percent.

2. Exchange Rate Policy

As part of a broad effort to stabilize the currency while stimulating the economy, on September 1, 1998, the government fixed the exchange rate of the Ringgit to the dollar at RM 3.8/$1 and instituted selective capital controls, including a controversial tax on repatriated principal and profits. The government subsequently abolished most capital controls, but has maintained the fixed exchange rate, in spite of concerns that falling foreign exchange reserves, between May 2000 and June 2001, could lead to a reconsideration of the policy.

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. 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 44 percent of government revenue with indirect taxes, export and import duties, excise taxes, sales taxes, service taxes, and other taxes accounting for another 29 percent. The remainder comes largely from dividends generated by state-owned enterprises and petroleum taxes.

The year 2002 budget focuses on stimulating domestic consumption and investment. The new budget marks the fifth consecutive federal government deficit. The budget features pump-priming measures, including a slight reduction in personal income taxes, lower import duties on over 200 products, as well as tax rebates and incentives to promote exports and e-businesses.

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 has $42.7 billion in foreign debt, of which almost 90 percent ($37.9 billion) is medium- and long-term debt (both public and private sector), almost all of which was granted on concessional terms. Short-term external debt remains low at an estimated $4.8 billion in 2001, up slightly from the $4.6 billion registered in 2000. Malaysia's debt service ratio declined from a peak of 18.9 percent of gross export earnings in 1986 to 5.1 percent in 2000. The government estimates that the debt service ratio will increase to 5.8 percent in 2001.

5. Significant Barriers to U.S. Exports

Import Restrictions on Motor Vehicles: Malaysia maintains several measures to protect the local automobile industry, including high tariffs and an import quota and licensing system on imported motor vehicles and motor vehicle parts. Malaysia also maintains local content requirements of 45 to 60 percent for passenger and commercial vehicles, and 60 percent for motorcycles. Arguing that the national car industry requires additional time to become competitive internationally as a result of the regional financial crisis, Malaysia has requested additional time before reducing or abolishing these measures. Malaysia has requested an additional two-year extension of the phaseout period, until the end of 2003, for local content requirements in selected auto industry sectors that are inconsistent with its obligations under the WTO Agreement on Trade-Related Investment Measures (TRIMS) (see investment barriers). Further, ASEAN has accepted Malaysia's request for an extension of its commitments under the ASEAN Free Trade Area (AFTA) to reduce tariffs in the auto sector beginning in 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 that 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)	60
Motorcycle (CKD)	30

Restrictions on Construction Equipment: In October 1997 Malaysia imposed a restrictive licensing regime on imports of heavy construction equipment and raised import duties for the second year in a row, as detailed below. In October 1996 it raised duties on construction equipment from 5 to 20 percent. In addition, the initial capital allowance for imported heavy equipment will be reduced from 20 to 10 percent in the first year, and the annual allowance will be reduced from between 12 percent and 20 percent to 10 percent. 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 Selected Goods: Effective October 19, 2001, the 2002 budget reduced high import duties on selected goods that were imposed to protect local producers from competition from imports. The budget also harmonized the import duties on selected intermediate and finished goods in order to avoid anomalies and to reduce the cost of doing business. Import duties on 55 "long-protected" items, (including suitcases, textiles, and cigarette lighters) have been reduced from between 20 and 105 percent to between 10 percent and 50 percent. Import duties on 25 intermediate goods, with duties higher than finished goods (including cocoa paste, plugs and sockets, and ball point pen parts) have been reduced from between 10 and 30 percent to between 5 and 25 percent. Import duties on 109 goods, where the rates are not consistent with rates on goods from the same category (including adhesives, lingerie, and linens) have been reduced from between 25 and 30 percent to between 0 and 25 percent. Import duties on 27 items, which are competitive or not produced locally (including hydraulic fluids, color television receivers, and binoculars) have been abolished.

Duties on High Value Food Products: In the 2002 budget, the government reduced tariffs on 64 selected food items to increase consumption and to harmonize import duties rates with Common Effective Preferential Tariff (CEPT) rates. Import duties for items such as anchovies, sweet corn, peaches, and mixtures of dried nuts and fruits were reduced from between 5 and 30 percent to between 2 and 15 percent. 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: In 2001, the government increased the sales taxes for tobacco from 15 to 25 percent and for alcohol from 15 to 20 percent. In the 2002 budget, the government increased the import duty on cigarettes and tobacco products from $47/kg to $57/kg and increased the excise duty on cigarettes and tobacco products from $10.50/kg to $13/kg.

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.

Plastic Resins: U.S. exports of some plastic resins are hampered by 20 percent tariffs. Additional measures may be forthcoming. In October 2000, the Plastic Resins Producers Group of the Malaysian Petrochemicals Association requested government help in overcoming the combined effect of high feedstock resins and cheaper imported resins.

Float Glass Tariff Differentials: Malaysia levies high duties (30 to 60 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 Tariffs: Malaysia no longer has import duties on instant print film. The 2002 budget eliminates import duties on other film for color photography of paper, paperboard, and textiles. 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. Effective in February 2000, Malaysia increased the tariff on newsprint (rolls and sheets) to 10 percent.

Direct Selling Companies: In May 1999 the Malaysian government announced new requirements for the licensing and operation of direct selling companies. These requirements include the provisions that: 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 operating licenses. The Ministry indicated that the local content targets are not mandatory, except for adherence to Malaysia's national equity policy. In October 2001, the Minister of Domestic Trade and Consumer Affairs announced that the government had lifted its freeze on multi-level direct selling licenses. Licenses will be issues to companies with paid-up capital of RM 2.5 million ($657,000). Companies with foreign shareholders must have paid-up capital of RM 5 million ($1.3 million). The paid-up capital requirement for single-level and mail order companies is RM 500,000 ($131,578). Existing licensed companies will be given one year to comply with this ruling. Single-level companies will be permitted to apply for multi-level licenses in November 2001, provided they have been operating for three years and have annual sales of more than RM 1 million ($263,157).

Franchising Practices: The Malaysian government designated 2001 as "Franchising Year 2001," and it boasts the country as the top choice among franchisors and investors in the region, soon to rival Japan. While the Malaysian government's lofty predictions may be unrealistic, there is nevertheless much room for growth. However, the recently enacted Malaysian franchise law contains some provisions that are troubling to international franchisors including disclosure requirements, regulation of the relationship between the franchisor and the franchise, the role of the Malaysian government in franchising, and some differences in the treatment of domestic and foreign franchisors.

Government Procurement: Malaysian Government policy calls for procurement to be used to support national objectives such as encouraging greater participation of ethnic Malays (bumiputera) 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 (extended to December 31, 2003) 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 content 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-country WTO members to maintain such measures for a five-year transitional period after entry into force of the WTO. Malaysia was scheduled to eliminate these measures before January 1, 2000. In December 1999, Malaysia requested a two-year extension of the phase-out period. Subsequently, Malaysia requested an additional two-year extension. The United States is working in the WTO committee on TRIMs to ensure that WTO members meet its 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. Unlike engineers, Malaysian architectural firms may not have foreign architectural firms as registered partners. Foreign architecture firms may only operate as affiliates of Malaysian companies. Foreign engineering companies must establish joint ventures with Malaysian firms and receive "temporary licensing," which is granted only on a project-by-project basis and is subject to an economic needs test and other criteria imposed by the licensing board. Foreign accounting firms can provide accounting or taxation services in Malaysia only through a locally registered partnership with Malaysian accountants or firms, and aggregate foreign interests are not to exceed 30 percent. Auditing and taxation services must be authenticated by a licensed auditor in Malaysia. Residency is required for registration.

Banking: In March 2001, the Central Bank unveiled its 10-year Financial Sector Master Plan for developing a more competitive and resilient financial system. The Plan is focused on building competitive domestic banks and defers the introduction of new foreign competition until after 2007. No new licenses are being granted to either local or foreign banks; foreign banks must operate as locally controlled subsidiaries. (In December 2000, the government reissued a banking license to the Bank of China. That license had been surrendered in 1959.) Foreign-controlled companies are required to obtain 50 percent of their local credit from Malaysian banks.

Insurance: The Financial Sector Master Plan also recommends phased liberalization of the insurance industry, including lifting restrictions on employment by expatriate specialists, increasing caps on foreign equity, and opening the reinsurance industry to competition. 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 nine 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. In February 2001, the Securities Commission released its Capital Markets Master Plan, which features liberalized foreign participation limits by 2003, at which time foreigners would be permitted to purchase a limited number of existing stockbroking licenses and take a majority stake in unit trust management.

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. Eighty percent of television programming is required to originate from local production companies owned by ethnic Malays. However, in practice, local stations have considerable latitude in programming because of a lack of suitable local programming. Sixty percent of radio programming must be of local origin. The Communications and Multimedia Act transferred responsibility for regulating broadcasting from the Ministry of Information to the Ministry of Energy, Telecommunications, and Multimedia.

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

6. Export Subsidies Policies

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

7. Protection of U.S. Intellectual Property

Malaysia is a member of the World Intellectual Property Organization (WIPO), the Berne Convention, and the Paris Convention. Malaysia provides copyright protection to all works published in Berne Convention member countries regardless of when the works were first published in Malaysia. Malaysia is also a member of the WTO and was scheduled to meet its obligations under Trade Related Intellectual Property Agreement (TRIPS) on January 1, 2000. In 2000, the Malaysian government passed a number of new laws and amendments to existing legislation in order to bring Malaysia into compliance with its TRIPS obligations. New legislation on plant varieties is still being drafted.

As the number of manufacturing licenses for CDs increased, so did piracy rates for music and video discs. Malaysia's production capacity for CDs far exceeds local demand plus legitimate exports, and pirated products believed to have originated in Malaysia have been identified throughout the Asia-Pacific region, North America, South America, and Europe. The International Intellectual Property Association (IIPA) estimates 2000 industry losses in Malaysia due to piracy at $161 million. IIPA estimates 2000 piracy rates at 66 percent for business software, 98 percent for entertainment, and 80 percent for movies. In April 2000 the United States Trade Representative (USTR) placed Malaysia on the Special 301 Priority Watch List for its failure to substantially reduce pirated optical disc production and export. After an out-of-cycle review, in October 2001, USTR upgraded Malaysia to the Special 301 Watch List, in recognition of the steps Malaysia has taken to implement new legislation and enforce protection of intellectual property rights.

The Malaysian government is aware of the problem and has expressed its determination to move against illegal operations. The Prime Minister and his cabinet have publicly spoken out about the need to improve IPR protection. A special task force, chaired by the Minister of Domestic Trade and Consumer Affairs, includes representatives from all ministries and agencies with responsibility for IPR. Government and industry cooperation has expanded. For example, in July 2000, the Ministry and the Business Software Alliance (BSA) launched "Crackdown 2000" targeting corporate use of unlicensed software.

In April 2000, the Malaysian Parliament passed amendments to the Copyright Act, the Patents Act, and the Trademarks Act, as well as legislation on layout designs of integrated circuits and geographical indications. In September 2000, the Ministry of Domestic Trade and Industry gazetted the Optical Disc Act 2000 establishing a licensing and regulatory framework for manufacturing copyrighted work and to control piracy. Manufacturers are required to obtain licenses from both the Ministry of International Trade and Industry and the Ministry of Domestic Trade and Consumer Affairs. Manufacturers were given six months, until September 15, to comply with the new act.

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 thousands of 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.

8. Worker Rights

a. *The Right of Association:* By law most workers have the right to engage in trade union activity, but less than 10 percent of the work force is represented by one of Malaysia's 544 trade unions. Exceptions include certain categories of workers labeled "confidential" and "managerial and executives," as well as police and defense officials. No legal barrier prevents foreign workers from joining a trade union, but the Immigration Department places conditions on foreign workers' permits that effectively bar the workers from joining a trade union. 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 16. 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 does the law permit children to work more than six hours per day, or 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 plantation sector, assisting parents with the physical labor, but not receiving a wage. Child labor can also be found in urban areas in family-run food businesses, night markets and small-scale manufacturing.

e. *Acceptable Conditions of Work:* There is no minimum wage, but prevailing wages generally provide an acceptable standard of living. Malaysian law stipulates working hours, mandatory rest periods, overtime rates, holidays, and other labor standards. The government enforces these standards. Working conditions and occupational safety concerns are considerably worse in the plantation sector. An occupational safety law provides some protections, but there are no specific statutory or regulatory provisions that provide a right for workers to remove themselves from a dangerous workplace without arbitrary dismissal.

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—2000

[In Millions of U.S. Dollars]

Category		Amount
Petroleum		1,252
Total Manufacturing		3,411
Food & Kindred Products	–8	
Chemicals & Allied Products	312	
Primary & Fabricated Metals	–4	
Industrial Machinery and Equipment	202	
Electric & Electronic Equipment	2,718	
Transportation Equipment	0	
Other Manufacturing	192	
Wholesale Trade		271
Banking		(1)
Finance/Insurance/Real Estate		470
Services		150
Other Industries		(1)
Total All Industries		5,995

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

PHILIPPINES

Key Economic Indicators

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

	1999	2000	[1]2001
Income, Production and Employment:			
Nominal GDP	76.2	74.7	70.7
Real GDP Growth (pct)[2]	3.4	4.0	2.8
Nominal GDP by Sector:			
Agriculture	13.1	11.9	10.3
Manufacturing	16.5	16.9	15.9

Key Economic Indicators—Continued

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

	1999	2000	[1]2001
Services	39.8	39.6	38.1
Government [3]	9.5	9.1	8.3
Per Capita GDP (actual level, US$)	1,019	977	903
Labor Force (quarterly ave., 000s)	30,759	30,911	32,500
Unemployment Rate (quarterly ave., pct)	9.8	11.2	11.1
Money and Prices (annual percentage growth):			
Money Supply Growth (M2) [4]	19.3	4.8	10.5
Consumer Price Inflation (pct)	6.7	4.4	6.3
Exchange Rate (Peso/US$ annual average):.			
Interbank Rate	39.09	44.00	51.00
Balance of Payments and Trade:			
Total Exports FOB [5]	34.2	37.3	31.7
Exports to United States [6]	12.4	13.9	12.0
Total Imports FOB [5]	29.2	30.4	29.9
Imports from United States [6]	7.2	8.8	8.6
Trade Balance [5]	5.0	6.9	1.8
Balance with United States [6]	5.2	5.1	3.4
External Public Sector Debt	34.8	34.4	[8]32.6
Fiscal Deficit/GDP (pct)	–3.7	–4.1	–4.0
Foreign Debt Service Payments/GDP (pct)	8.3	8.3	[8]9.3
Current Account Balance/GDP (pct)	10.0	12.5	5.5
Gold and Foreign Exchange Reserves	15.1	15.0	14.0
Aid from United States (US$ millions) [7]	70.0	59.0	[8]24.0
Aid from Other Bilateral Sources (US$ millions) [7]	173.0	55.0	[8]16.0

[1] Figures for 2001 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 rates of year-end M2 levels.
[5] Merchandise trade (Philippine government data).
[6] Source: U.S. Department of Commerce; U.S. exports FAS, U.S. imports customs basis.
[7] Grants under bilateral agreements; amounts are inflows per balance of payments.
[8] Actual January-June 2001 data; actual public sector external debt as of June 2001.

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

1. General Policy Framework

President Macapagal-Arroyo has made poverty elimination the primary goal of her administration. Achieving that goal will not be easy. Since 1997, the Asian financial crisis, extreme weather disturbances, political uncertainties, poor public sector governance, and a high population growth rate have resulted in a rise in poverty and increasingly inequitable income distribution in the Philippines. The incidence of poverty increased from 36.8 percent in 1997 to 40 percent in 2000, representing a setback from the steady declines recorded since 1988. In 2000, the richest 30 percent of households received more than two-thirds of national income and the poorest 30 percent of households barely eight percent. Population growth has been a significant factor in rising poverty. After years of steady decline, from 3.08 percent per year in the 1960s to 2.32 percent per year for the 1990–1995 period, final 2000 census results estimated the Philippines' annual population expansion at a faster 2.36 percent clip.

Agriculture contributes only 20 percent of GDP but generates 40 percent of Philippine employment. Poverty incidence is much higher in rural areas (54 percent) than in urban areas (25 percent). Electronics, garments, and auto parts are the leading merchandise exports, but rely heavily on imported inputs. Dampened by the global economic crunch, January-August 2001 export receipts have declined by 13 percent year-on-year, led by a 21 percent slump in revenues from electronics shipments. Overseas workers remittances, estimated at $5–6 billion yearly, are a major source of foreign exchange. The balance of payments historically has registered current account surpluses (including those since the Asian crisis) during periods of economic weakness and lethargic import demand, but typically reverts to deficits as economic expansion accelerates. The domestic savings rate is relatively low compared to the rest of Asia, estimated at barely 17 percent of GDP in 2000.

Weak public sector finance has been a long-standing problem merely magnified by the Asian financial crisis. After four consecutive surpluses from 1994–1997, the national government has reverted to deficit spending since 1998, initially as an economic pump-priming measure. The medium-term fiscal program calls for gradually declining deficits starting in 2002, toward a balanced national government budget by 2006. The government perennially has problems containing its fiscal gap because revenues suffer from weak tax administration, while efforts to contain expenditures are hampered by the large share, over 70 percent, of nondiscretionary expenditures such as payroll costs, interest payments and mandated transfers to local government units. The Philippines' tax-to-GDP ratio, among the poorest in the region, peaked at no more than 17.1 percent in 1998 before deteriorating in subsequent years to 13.7 percent in 2000. These fiscal difficulties have made it extremely difficult for the government to address the country's urgent infrastructure, health, and education needs and have complicated government efforts to manage domestic interest rates. While the Macapagal-Arroyo administration's fiscal team deserves praise for its determined efforts thus far to live within tight financial resources, revenue mobilization remains crucial to sustaining a deficit-reduction plan that supports a higher economic growth path and the socioeconomic needs of a growing population.

Open market operations serve as the main policy tool to control money supply. The Bangko Sentral is working to shift from a base money to inflation-targeting framework before the end of 2001 to better fulfill its price stabilization mandate.

Although subject to opposition from ultra-nationalist groups and vested interests, and their effectiveness tempered by political uncertainty and separatist violence, reforms to make the Philippines a more attractive destination for foreign investment continue to move forward. One important example is the Electric Power Industry Reform Act, which President Macapagal-Arroyo signed into law in June 2001 despite strong opposition from ultra-nationalists, environmental groups, and entrenched economic interests. Culminating a month-long effort of intense lobbying to get legislators and the private sector onboard, President Macapagal-Arroyo signed an anti-money laundering law on the eve of the September 30 Financial Action Task Force deadline for passage of legislation, holding off likely FATF countermeasures. These successes built on legislation passed in 2000 under the Estrada administration, including the General Banking Law, Securities Regulation Code, and the Electronic Commerce Act.

2. Exchange Rate Policy

There are generally no restrictions to the full and immediate transfer of funds associated with import payments, foreign investments (i.e., capital repatriation and profit remittances), foreign debt servicing, and the payment of royalties, lease payments, and similar fees. To obtain foreign exchange from the banking system for such purposes, the Bangko Sentral ng Pilipinas (BSP, the central bank) only specifies certain registration and/or documentation requirements.

The exchange rate is not fixed and varies daily in response to market forces, although the BSP imposes limits on banks' foreign exchange positions. Recent measures in response to speculative currency pressures and excessive foreign exchange volatility included monetary tightening (i.e., adjustments in reserve requirements and a generally cautious domestic interest-rate stance despite successive U.S. rate cuts); a lower over-the-counter ceiling for foreign exchange sales without documentation; expanded coverage of the BSP's Currency Risk Protection Facility (a nondeliverable forward hedging facility first introduced in December 1997 to reduce pressures in the spot market); and occasional liquidity infusions in the interbank foreign exchange market. The depreciation of the peso since the Asian financial crisis, from peso 26/dollar in June 1997 to nearly 51/dollar at present, has hurt the competitiveness of some U.S. exports.

3. Structural Policies

There are few activities closed to private enterprise, generally for reasons of security, health, and public morals. Prices are generally determined by market forces, although basic public services such as transport, water, and electricity are subject to government control or oversight. Government regulation of prices of petroleum products (for example, liquefied petroleum gas, regular gasoline, and kerosene) legally ended in July 1998 with the full deregulation of the oil industry, but the issue remains politically and socially sensitive. In response to public resistance to oil price increases, the government has sometimes stepped in to apply moral suasion on oil companies to limit, delay, or stagger fuel price adjustments, resulting in alleged cost under-recoveries. 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 in the last decade, important barriers to foreign entry remain. There are two "negative lists" of sectors 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. Imported manufactured items that are not locally produced generally face low tariffs, while imports that compete with local products face tariffs of up to 30 percent. The Philippines' Tariff Reform Program is gradually lowering applied duty rates on nearly all items toward a goal of zero to five percent tariff rates by 2004, except for sensitive agricultural products.

4. Debt Management Policies

While regulations have substantially eased, the Bangko Sentral ng Pilipinas continues to monitor and/or regulate foreign borrowings to ensure that they can be serviced with due regard for the economy's overall debt servicing capacity. Certain loans of the private sector must be approved by the Bangko Sentral regardless of maturity, the source of foreign exchange for debt service, and/or any other consideration. These are private sector debts guaranteed by the public sector, or covered by forex guarantees issued by local banks; loans granted by foreign currency deposit units funded from or collateralized by offshore loans or deposits; and loans with maturities of more than one year obtained by private banks and financial institutions for relending.

According to the most recent quarterly estimates, the Philippines' recorded external debt, based on foreign credits approved or registered with the Bangko Sentral ng Pilipinas, stood at $50.9 billion as of end-June 2001, lower by 2.2 percent ($1.2 billion) from end-2000 and lower by 2.4 percent ($1.3 billion) year-on-year. The decline in the foreign debt stock reflected larger net repayments of foreign obligations, lower commercial bank liabilities, and currency revaluation adjustments. Concessional credits from multilateral and official bilateral lenders accounted for 48 percent of the country's external obligations. As of August 2001, the Bangko Sentral estimated that its gross international reserves equaled 133 percent of outstanding short-term external liabilities (residual maturity basis). Although the foreign debt stock declined, the BSP expects the ratio of debt service payments to merchandise and service exports to spike from 12.4 percent in 2000 to between 16 to 17 percent in 2001 (the highest since 1995) reflecting a combination of higher debt service outlays and slumping export receipts. These developments suggest vulnerabilities to unexpected reversals in export markets, highlighting the importance of addressing the weak state of government finances and attracting more sustainable, nondebt sources of foreign exchange.

The Philippines had hoped to end over three decades of International Monetary Fund (IMF) supervision in March 1998, but opted for a two-year precautionary arrangement due to the regional currency crisis. The Estrada administration converted this program to a regular $1.4 billion standby arrangement in August 1998. The standby program should have concluded in March 2000 but was extended to December 2000 to give the government more time to improve its fiscal performance and complete promised reforms, including legislation to restructure the energy sector. The Philippines nevertheless failed to make a graceful exit from the arrangement and to draw the last $300 million tranche from that facility, mainly because of worsening fiscal slippages. The government and the IMF have since agreed on a post-program monitoring framework, which involves a periodic review of economic and policy developments but no financial support from the Fund.

5. Significant Barriers to U.S. Exports

Tariffs: Imported items that are not locally produced generally face low tariffs (zero to five percent), while intermediate products and raw materials that are produced locally are generally assessed duties of three to ten percent. Finished products that compete with locally produced goods face higher tariffs of 15 to 30 percent. Under the current tariff schedule, issued on January 3, 2001, Executive Order 334, tariffs will be gradually reduced in 2002 and 2003 to meet a uniform five percent tariff rate for all products by January 2004. Exceptions to this plan include some raw materials that would face a three percent rate for 2004, as well as finished automobiles and some agricultural goods. Imports of finished automotive vehicles, completely builtup units, will remain subject to a 30 percent tariff until 2004, when the tariff will fall to five percent. Agricultural goods such as sugar and rice now face in-quota tariff rates of between 20 and 45 percent and out-of-quota rates of up to 65 percent. In 2004, the highest rate on agricultural goods will be reduced to 30 percent, both in and out of quota. The unweighted average nominal tariff rate was 7.72 percent in 2001, down from 9.98 percent in 1999.

Import Licenses: The National Food Authority (NFA), a government entity, is the sole authorized 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. Executive Order (E.O.) 209 of February 2000 requires an eligible commercial fishing vessel operator to obtain an Authority to Import from the Maritime Industry Authority prior to tax and duty-free importation of fishing vessels or boats. Subject to other import regulations are certain other items, 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, certain agricultural commodities are subject to minimum access volume tariffrate 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.

Banking: In the field of banking, May 1994 amendments to the 1948 General Banking Act (GBA) allowed a maximum of 10 foreign banks to establish branches in the country. Those foreign banks are limited to opening six branches each. The General Banking Law of 2000 (signed in May 2000 to succeed the GBA) opened a seven-year window during which foreign banks may own up to 100 percent of one locally incorporated commercial bank or thrift institution (up from the previous 60 percent foreign equity ceiling, with no obligation to divest). However, for the first three years, such foreign investment may be made only in existing banks, reflecting the Bangko Sentral's current emphasis on banking sector consolidation. Regulations require that majority Filipino-owned domestic banks control, at all times, at least 70 percent of total banking system assets. Rural banking remains completely closed to foreigners.

Securities: Stock and securities brokerage firms may be up to 100 percent foreign owned but should incorporate under Philippine laws. Foreign ownership in securities underwriting companies is limited to 60 percent. Securities underwriting 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: Minimum capitalization requirements increase with the degree of foreign equity. Current regulations specify that only the Philippines' Government Service Insurance System can provide coverage for governmentfunded and Build-Operate-Transfer (BOT) projects. Insurance and professional reinsurance companies operating in the country are required by law to cede to the industry-owned National Reinsurance Corporation of the Philippines at least 10 percent of outward reinsurance placements.

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. For example, the practice of licensed professions such as engineering, medicine, accountancy, environmental planning, and law is fully reserved for Filipino citizens. Also reserved for Filipino citizens are enterprises engaged in retail trade (with paid-up capital of less than $2.5 million, or less than $250,000 for retailers of luxury goods), mass media, small-scale mining, private security, cock fighting, utilization of marine resources, and manufacture of firecrackers and pyrotechnic devices. Up to 25 percent foreign ownership is allowed for enterprises engaged in employee recruitment and for public works construction and repair (with the exception of build-operate-transfer and foreign-funded or assisted projects, that is, foreign aid, where there is no upper limit). Foreign ownership of 30 percent is allowed for advertising agencies, while 40 percent foreign participation is allowed in natural resource extraction (the president may authorize 100 percent foreign ownership), educational institutions, express delivery, public utilities (including telecommunications, shipping, and shipyard operation, for example), commercial deep sea fishing, government procurement contracts, rice and corn processing (after 30 years of operation, before which time 100 percent foreign participation is allowed), and ownership of private lands. Retail trade enterprises with paid-up capital of more than $2.5 million but less than $7.5 million are limited to 60 percent foreign ownership until March 2002, after which 100 percent foreign ownership will be allowed. Enterprises engaged in financing and investment activities, including securities underwriting, are also limited to 60 percent foreign ownership.

List B restricts foreign ownership (generally to 40 percent) for reasons of national security, defense, public health, safety, and morals. Sectors covered include explosives, firearms, military hardware, massage clinics, and gambling. This list also seeks to protect local small and medium firms by restricting foreign ownership to no more than 40 percent in nonexport firms capitalized at less than US$200,000.

Incentives and Export Performance Requirements: In general, foreign-owned firms producing for the domestic market must engage in a pioneer activity to qualify for incentives administered by the government's Board of Investment (BOI). For exporters, the BOI imposes 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 production, foreign firms that seek incentives from the Board of Investments must commit to divest to 40 percent ownership within 30 years or such longer period as the BOI may allow. The United States and the Philippines are near agreement on a plan that would phase out WTO-inconsistent local content and foreign exchange requirements under the Philippine motor vehicle development program by June 30, 2003.

Local Sourcing Requirements: Outside of the investment incentives regime, investors in certain industries are subject to specific laws which require local sourcing. 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, thereby requiring local sourcing by soap and detergent manufacturers. The Philippine Department of Justice, in Opinion No. 88 (1999), stated that E.O. 259 conflicts with the country's obligations under the WTO Agreement on Trade-Related Investment Measures. Since then, the E.O. has not been enforced. Letter of Instruction (LOI) 1387, issued in 1984, requires mining firms to prioritize the sale of their copper concentrates to Philippine Associated Smelting and Refining Corp. (PASAR), a government-controlled firm until its privatization in 1998. The Retail Trade Act of 2000 requires local sourcing for the first ten years after the law's effective date. During that period, at least 30 percent of the cost of inventory of foreign retail firms not dealing exclusively in luxury goods, and 10 percent of the inventory of firms selling luxury products, should consist of products assembled in the Philippines.

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. As a general rule, Philippine-controlled firms should service locally-funded government consulting requirements. The Philippines is not a signatory of the WTO Government Procurement Agreement.

Customs Procedures: All importers or their agents must file import entries with the Bureau of Customs (BOC), which then processes these entries through its Automated Customs Operating System (ACOS). ACOS uses a computer system to classify shipments as low-risk (green lane), moderate risk (yellow lane) or high risk (red lane). BOC officials say that shipments channeled through the yellow lane will require a documentary review, while red lane shipments will require physical inspection at the port. According to BOC, green lane shipments are not subject to any documentary or inspection requirements. BOC has also added a "Super Green Lane" for the largest importers (see below). BOC issued a series of regulations in December 1999 governing the implementation on January 1, 2000, of transaction value and outlining procedural steps importers will need to follow. Several of these regulations were revised on April 3, 2000. In April 2000, a new customs valuation law (R.A. 9135) went into effect. The new law clarifies the hierarchy of valuation methods to be used by BOC by removing reference to a price reference database and also authorizes the BOC to conduct post-entry audits. However, the BOC has not yet issued implementing rules and regulations for R.A. 9135.

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. BOIregistered 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 governmentdesignated export zones and industrial estates registered with the Philippine Economic Zone Authority enjoy basically the same incentives as BOIregistered firms, and a longer income tax holiday (ITH) of four years, extendable to a maximum of eight years. After the ITH period, a special five percent tax on gross income in lieu of all national and local taxes will apply. 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 based on incremental export revenues.

7. Protection of U.S. Intellectual Property

In addition to its commitments under the WTO TRIPs Agreement, the Philippines is a party to the Paris Convention for the Protection of Industrial Property, Berne Convention for the Protection of Literary and Artistic Works, Budapest Treaty on the International Recognition of the Deposit of Microorganisms, Patent Cooperation Treaty, and Rome Convention. Although the Philippines is a member of the World Intellectual Property Organization, it has not yet ratified the WIPO Performances and Phonograms Treaty or the Copyright Treaty.

The Intellectual Property Code (R.A. 8293, 1997) provides the legal framework for IPR protection in the Philippines. The Electronic Commerce Act (R.A. 8792, 2000) extends this framework to the internet. Key provisions of the Intellectual Property Code are summarized here:

Patents: The Philippines uses a first-to-file system, with a patent term of 20 years from date of filing, and provides for the patentability of micro-organisms and nonbiological and microbiological processes. The holder of a patent is guaranteed an additional right of exclusive importation of his invention. A compulsory license may be granted in some circumstances, including if the patented invention is not being worked in the Philippines without satisfactory reason, although importation of the patented article constitutes working or using the patent.

Industrial Designs: The registration of a qualifying industrial design, including layout-designs of integrated circuits, shall be for a period of five years from the filing date of the application. The registration of an industrial design may be renewed for not more than two consecutive periods of five years each.

Trademarks, Service Marks, and Trade Names: Prior use of a trademark in the Philippines is not a requirement for filing a trademark application. Well-known marks need not be in actual use in Philippine commerce or registered with the Bureau of Patents, Trademarks, and Technology Transfer. A Certificate of Registration (COR) shall remain in force for ten years. A COR may be renewed for periods of ten years at its expiration upon request and payment of a prescribed fee.

Copyright: Computer software is protected as a literary work; exclusive rental rights may be offered in several categories of works and sound recordings; and terms of protection for sound recordings, audiovisual works, and newspapers and periodicals are compatible with the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement).

Performers Rights: "The qualifying rights of a performer . . . shall be maintained and exercised fifty years after his death." However, ambiguities exist concerning exclusive rights for copyright owners over broadcast and retransmission.

Trade Secrets: While there are no codified rules on the protection of trade secrets, Philippine officials assert that existing civil and criminal statutes protect trade secrets and confidential information.

Policy Framework: Deficiencies in the Intellectual Property Code remain a source of concern. Weaknesses include the lack of authority for courts hearing civil cases to order the seizure of pirated material as a provisional measure without notice to the suspected infringer, that is, ex-parte search rights (as required by Article 50 of the WTO TRIPS Agreement); ambiguous provisions on the rights of copyright owners over broadcast, rebroadcast, cable retransmission, or satellite retransmission of their works; and burdensome restrictions affecting contracts to license software and other technology.

Under the Intellectual Property Code of the Philippines, the Intellectual Property Office (IPO) has jurisdiction to resolve certain disputes concerning alleged infringement and licensing. IPO's administrative complaint mechanisms, established in

April 2001, has yet to be tested. In addition to the IPO, agencies with IPR enforcement responsibilities include the Department of Justice; National Bureau of Investigation; Videogram Regulatory Board (for piracy involving cinematographic works), the Bureau of Customs, and the National Telecommunications Commission (for piracy involving satellite signals and cable programming). The Presidential Inter-agency Committee on Intellectual Property Rights (PIAC-IPR) is composed of representatives from these and other agencies and is tasked with coordinating enforcement efforts. The private sector can file requests for IPR enforcement actions with the PIAC-IPR.

Enforcement: Significant problems remain in ensuring the consistent and effective protection of intellectual property rights. According to aggregated industry statistics, the total annual loss resulting from copyright piracy in the Philippines in 2000 was estimated at about US$140 million. U.S. distributors report high levels of pirated optical discs of cinematographic, musical works, and computer games, and widespread unauthorized transmissions of motion pictures and other programming on cable television systems.

Serious problems continue to hamper the effective operation of agencies tasked with IPR enforcement. Resource constraints, already a problem, have been exacerbated by general government budgetary shortfalls. In general, government enforcement agencies are most responsive to those copyright owners who actively work with them to target infringement. 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 Investigations and Videogram Regulatory Board have resulted in some successful enforcement actions. The designation of 48 courts to handle IPR violations has done little to streamline judicial proceedings, as these courts have not received additional resources and continue to handle a heavy non-IPR workload. Delays in the issuance of warrants are a problem and arrests are infrequent. 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.

8. Worker Rights

a. *The Right of Association:* All workers (including public employees) have the right to form and join labor unions. Although this right is exercised in practice, aspects of the public sector organization law restrict and discourage organizing. 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 groups. 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 is uniform throughout the country, including industrial zones. However, local political leaders and officials governing some special economic zones have tried to frustrate union organizing efforts by maintaining "union free/strike free" policies. In the large informal sector, as well as in retail, information technology and garments, 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 generally 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 or dangerous work. Government and international organizations estimates indicate that there are some 3.7 million working children, including 2 million in hazardous conditions. A significant number are employed in the informal sector of the urban economy 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 under-reported.

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—2000

[In Millions of U.S. Dollars]

Category		Amount
Petroleum		1
Total Manufacturing		1,207
Food & Kindred Products	349	
Chemicals & Allied Products	371	
Primary & Fabricated Metals	55	
Industrial Machinery and Equipment	11	
Electric & Electronic Equipment	283	
Transportation Equipment	0	
Other Manufacturing	140	
Wholesale Trade		232
Banking		201
Finance/Insurance/Real Estate		975
Services		–15
Other Industries		308
Total All Industries		2,910

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

SINGAPORE

Key Economic Indicators

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

	1999	2000	[1] 2001
Income, Production and Employment:			
Nominal GDP [2]	84,089	92,466	86,962
Real GDP Growth (pct) [2]	5.9	9.9	–2.0
GDP by Sector: [2]			
Agriculture [3]	0	0	0
Manufacturing	21,079	24,890	23,583
Services	57,205	62,731	45,654
Government expenditure	8,799	10,762	15,892
Per Capita GDP (US$)	21,284	23,000	21,645
Labor Force (000s)	1,976	2,192	2,000
Unemployment Rate (pct)	3.5	3.1	4.0
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	8.5	–2.9	–13.0
Consumer Price Inflation (pct)	0.0	1.8	1.4
Exchange Rate (SGD/US$ annual average)	1.69	1.72	1.76
Balance of Payments and Trade:			
Total Exports FOB	114,965	138,271	115,292
Exports to United States CIF [4]	22,021	23,947	19,178
Total Imports CIF	111,326	134,986	112,127
Imports from United States FAS [4]	18,961	20,185	17,548
Trade Balance	3,638	3,285	3,165
Balance with United States [4]	3,060	3,762	1,630
External Public Debt	0	0	0
Fiscal Surplus/GDP (pct)	1.9	1.5	2.8
Current Account Surplus/GDP (pct)	25.0	25.0	24.0
Debt Service Payments/GDP (pct)	0	0	0
Gold and Foreign Exchange Reserves	77,176	80,427	74,353

Key Economic Indicators—Continued

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

	1999	2000	[1] 2001
Aid from United States	0	0	0
Aid from All Other Sources	0	0	0

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

[1] 2001 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.

[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

Singapore's open-trade economic policies have enabled it to overcome land, labor and resource constraints to become the world's second most competitive economy (according to the World Economic Forum's 2001 ranking). It has also helped Singapore achieve the world's fifth highest per capita income, based on the World Bank's 1999/2000 ranking of per capita GNP in purchasing power parity terms. Manufacturing, dominated by electronics, chemicals (including oil refining) and information technology-related products, accounted for 26 percent of total GDP in 2000. Multinational companies accounted for 79 percent of new manufacturing investment, which totaled US$5.4 billion in 2000. Wholesale and retail trade represented 17 percent of GDP in 2000, reflecting Singapore's key role as a regional gateway. Financial services, which accounted for 11 percent of GDP in 2000, is the third largest economic sector.

Trade was three times GDP in 2000; re-exports (transsshipments) accounted for 43 percent of total merchandise exports. The United States is Singapore's second largest trading partner, after Malaysia, accounting for 16 percent of Singapore's total trade in 2000. U.S. exports to Singapore amounted to US$17.8 billion in 2000, while Singapore's exports to the United States totaled US$23.9 billion. Singapore was the tenth largest export market for the United States in 2000. Over 1,515 U.S. companies have facilities in Singapore, with total investments of US$23.2 billion in 2000.

While Singapore has a largely free-market business environment, government-linked companies (GLCs) and the public sector account play an important role in the economy, accounting for at least a quarter of GDP and over one third of the Singapore Exchange's capitalization. However, GLCs generally operate as commercial entities and frequently include private local and foreign equity. Many are publicly listed.

The government pursues conservative fiscal policies designed to encourage high levels of savings and investment, but invests heavily in the country's social and physical infrastructure, including education and transportation. It also provides subsidies for public housing. Over a third of the budget is spent on defense. The government generally runs a budget surplus, US$3.1 billion in Singapore Fiscal Year (SFY) 2000. Foreign reserves total over US$80 billion, with a substantial share invested overseas. The Central Provident Fund (CPF), a compulsory savings program that requires 36 percent of an individual's salary to be placed in a tax-exempt account, is the principal reason for the high gross national savings rate of about 50 percent of GDP.

There are virtually no controls on capital movements. The key objective of the Monetary Authority of Singapore (MAS), the country's central bank, is to maintain price stability. It does so largely through exchange rate policy. MAS also engages in limited money-market operations to influence interest rates and ensure adequate liquidity in the banking system. Inflation has averaged 2.0 percent annually over the last 10 years, except for 1998 when there was deflation of 0.3 percent due to the economic recession. Since the economic recovery, price levels have been rising with the CPI expected to increase by 3.5 percent in 2001. The average prime lending rate among the leading banks is currently at 5.8 percent.

2. Exchange Rate Policy

Singapore has no exchange rate controls and exchange rates are determined freely by market forces. The Monetary Authority of Singapore (MAS) manages the Singapore dollar against a basket of currencies of Singapore's main trading partners and competitors, and the trade-weighted exchange rate is allowed to fluctuate within an undisclosed policy band. The Singapore dollar weakened during 2001. The government imposes certain restrictions to limit the internationalization of the Singapore dollar, although these have been loosened significantly, most recently in December 2000 and March 2001.

3. Structural Policies

Market forces generally determine product prices. The government conducts its bids by open tender and encourages price competition throughout the economy.

Singapore's personal income tax rates range from two percent for the lowest income bracket to 28 percent for those earning annual incomes exceeding S$ 400,000 (about US$ 240,000), although most low-to-middle income Singaporeans benefit from tax exemptions and pay no tax. In April 2001, the government lowered corporate income tax rate from 25.5 percent to 24.5 percent, both effective in 2002. Foreign firms are taxed at the same rate as local firms. Apart from residential properties sold within three years, there is no tax on capital gains. All products, including imported goods, are subject to a three percent value-added Goods and Services Tax (GST). Faced with a sharp economic downturn in 2001, the government announced two extra-budgetary spending and tax cut packages designed to support domestic demand, minimize unemployment, and reduce business costs.

Investment policies are generally open and tailored to attract foreign investment and ensure an environment conducive to efficient business operations. The government vigorously develops and implements industrial policies, and in some limited areas links licenses for certain activities to performance requirements. It does not, however, impose production standards, require purchases from local sources, or specify a percentage of output for export. The government seeks to upgrade Singapore into what it terms a knowledge-based economy, with a particular focus on the logistics, electronics and info-technology, chemicals, life sciences, bio-medical, and healthcare sectors. It also wants to make Singapore a key Asia-Pacific financial center and an info-communication hub. As part of this process, the government has moved to open restricted sectors, such as domestic banking, telecommunications and power, to foreign investment. It extensively uses fiscal policy tools to encourage research and development, as well as attract foreign professionals to work in Singapore.

4. Debt Management Policies

Singapore has no external public debt. The country's total foreign reserves amounted to US$80.4 billion as of end-2000, sufficient to cover six months of imports. Singapore does not receive financial assistance from foreign governments.

5. Significant Barriers to U.S. Exports

Approximately 96 percent of imports are duty-free. Tariffs are primarily levied on cigarettes and alcohol to restrict their consumption. Excise taxes are levied on petroleum products and motor vehicles to restrict motor vehicle use. Import licenses are not required, customs procedures are minimal and designed to facilitate trade, and the standards' code is reasonable. All major government procurements are by international tender. Singapore is a signatory to the WTO Government Procurement Agreement.

While welcoming foreign investment in most areas, important barriers to U.S. service providers remain in some sectors, particularly in finance and professional services.The Monetary Authority of Singapore (MAS) has liberalized domestic restrictions on foreign financial services providers. In 1999, it opened up the local securities market to foreign brokers, and issued "qualifying full bank" (QFB) licenses to four foreign banks. It plans to award two more QFB licenses by end-2001. However, QFBs remain limited to 15 locations (branches or ATMs) and are unable to access the local ATM network. This puts them at a major competitive disadvantage compared to the three Singapore-owned local retail banks.

Foreign law firms can and do set up offices in Singapore, generally to advise multinational clients on third-country matters or financial transactions in Singapore's offshore market. Since 2000, the government has permitted a limited number of foreign law firms to enter into joint ventures (including partnerships) or "formal alliances" with local law firms, which can then market themselves as single service providers. Foreign lawyers in joint law ventures may practice Singapore law if they are registered to do so by the Attorney General, but may not appear before judicial and regulatory bodies or render legal opinions relating to Singapore law.

Singapore opened its telecommunications industry to full competition and allowed full foreign ownership in April 2000. However, the cable industry remains in the hands of a monopoly provider, Singapore CableVision, a government-owned company. The government also restricts the importation of satellite receivers. The government is in the process of opening the power generation and supply sectors to foreign investment and competition. The electricity and gas distribution network will become a regulated monopoly operated by a corporatized-government entity.

Direct selling and multi-level marketing companies face restrictions. The Multi-level Marketing and Pyramid Selling (Prohibition) Act of 2000 strengthened the prohibition on most multi-level marketing arrangements. While the government allows for arrangements that may have some of the features of multi-level marketing, the terms and conditions under which such arrangements can operate are unclear.

6. Export Subsidies Policies

Singapore does not directly subsidize exports. The government offers significant incentives to attract foreign investment, with most incentives directed at export-oriented industries. It also offers tax incentives to exporters and reimburses firms for certain costs incurred in trade promotion. 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 enacted a series of laws and amendments to existing provisions with the aim of rendering its IPR regime fully consistent with the WTO Agreement on Trade-Related Intellectual Property Rights. These measures include numerous amendments to its Copyright Law (1998 and 1999) and the Medicines Act (1998), as well as a new Trade Marks Act (1999), Geographical Indications Act (1999), Layout Designs of Integrated Circuits Act (1999), and Registered Designs Act (2000). Singapore is a member of the World Intellectual Property Organization (WIPO) but has not yet ratified the WIPO Copyright Treaty and the WIPO Performances and Phonograms Treaty. Singapore is a signatory to the Paris Convention for the Protection of Industrial Property, the Patents Cooperation Treaty, and the Budapest Treaty. Singapore also became a member of the Berne Convention in December 1998 and acceded to the Madrid Protocol in 2000. Singapore was removed from the U.S. Special 301 Watch List on April 30, 2001.

Singapore's Patent Law, which came into force on February 23, 1995, established a revised patent system in Singapore and provides patent protection for a maximum term of 20 years, subject to the annual renewal of the patent. Under the revised system, applicants no longer need to obtain a UK patent first. There are no significant IPR problems in the area of patent protection.

The new Trademarks Act, which came into force on January 15, 1999, includes new border enforcement measures and also extends protection of well-known trademarks and collective marks. However, the transshipment of counterfeit products through Singapore is a problem. The Geographical Indications Act, which came into force January 15, 1999, provides additional protection for wines and spirits and seeks to prevent the use and registration of misleading geographical indications (e.g. "Virginia" ham, "California" wine), which would constitute an act of unfair competition within the meaning of the Paris Convention.

Amendments to the Copyright Act enhanced performers' rights, provided new protection for rental rights, strengthened customs controls and procedures, and legalized the seizure of business documents in raids on IPR violators. However, neither the exportation nor transshipment of infringing works, nor the use of infringing copies of software are considered criminal offenses. Most infringing products appear to be imported. While the overall software piracy level is among the lowest in Asia, it remains double that in the United States. Since January 2000, the Intellectual Property Rights Branch (IPRB) of the Singapore Police Force's Criminal Investigation Department (CID), has made progress in conducting sustained operations against retail vendors and distributors of pirated works. But pirated computer software, music, and cinemagraphic works remain commonly available, and the use of unlicensed software continues to be widespread. The government also has not abandoned its "self help" policy on enforcement, which places an undue and expensive burden on rights holders to initiate raids and prosecute pirates. Finally, local universities and other education institutions have thus far failed to implement fully their obligations under the law to pay royalty fees in exchange for the right to duplicate copyrighted printed works for use in course materials.

8. Worker Rights

a. *The Right of Association:* The Singapore Constitution gives all citizens the right to form associations, including trade unions. Parliament may, however, impose restrictions due to security, public order, or morality considerations. The right of association is delimited by the Societies Act, and labor and education laws and regulations.

Singapore's labor force numbered 2.2 million in 2001, of which 315,000 or about 15 percent were organized into 72 trade unions. Almost all of these unions are affiliated with an umbrella organization, the National Trades Union Congress (NTUC), which has a symbiotic relationship with the government.

b. *The Right to Organize and Bargain Collectively:* 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 the 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 of age and restricts children under 17 from certain categories of work.

e. *Acceptable Conditions of Work:* The Singapore labor market offers relatively high wage rates and working conditions consistent with international standards. However, Singapore has no minimum wage or unemployment benefits. The government's enforcement of comprehensive occupational safety and health laws, coupled with the promotion of educational and training programs, have reduced the frequency and severity of industrial accidents during the last decade.

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.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—2000

[In Millions of U.S. Dollars]

Category		Amount
Petroleum		1,718
Total Manufacturing		11,834
Food & Kindred Products	5	
Chemicals & Allied Products	574	
Primary & Fabricated Metals	11	
Industrial Machinery and Equipment	5,411	
Electric & Electronic Equipment	4,081	
Transportation Equipment	284	
Other Manufacturing	749	
Wholesale Trade		1,590
Banking		696
Finance/Insurance/Real Estate		6,217
Services		908
Other Industries		282
Total All Industries		23,245

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

TAIWAN

Key Economic Indicators

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

	1999	2000	[1] 2001
Income, Production and Employment:			
GDP (at current prices)	287.8	309.4	287.0
Real GDP Growth (percent)	5.4	5.9	–0.4
GDP by Sector:			
Agriculture	7.4	6.5	5.1
Manufacturing	76.5	81.6	70.3
Services	184.9	202.7	194.0
Government	29.3	31.5	29.3
Per Capita GDP (US$)	13,114	13,985	12,877
Labor Force (000s)	9,668	9,784	9,830

Key Economic Indicators—Continued

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

	1999	2000	[1]2001
Unemployment Rate (percent)	2.9	3.0	4.6
Money and Prices (annual percentage growth):			
Money Supply (M2)	8.3	6.7	6.3
Consumer Price Inflation	0.2	1.3	0.4
Exchange Rate (NT$/US$): [2].			
Official	32.23	31.34	33.8
Balance of Payments and Trade: [3]			
Total Exports FOB [4]	121.6	148.3	126.2
Exports to U.S. CV [5]	35.2	40.5	33.3
Total Imports CIF [4]	110.7	140.0	113.2
Imports from U.S. FAS [5]	19.1	24.4	18.7
Trade Balance [4]	10.9	8.3	13.0
Trade Balance with U.S. [5]	–16.1	–16.1	–14.6
External Debt	38.6	34.7	30.0
Fiscal Deficit/GDP (pct)	1.1	4.1	4.1
Current Account Surplus/GDP (pct)	3.3	2.9	4.2
Gold and Foreign Exchange Reserves	111.1	111.3	111.0
Aid from U.S. [6]	0	0	0
Aid from Other Countries	0	0	0

[1] 2001 figures are estimated based on data from the Directorate General of Budget, Accounting and Statistics (DGBAS), or extrapolated from data available as of June 2001.
[2] An average of month-end exchange rate figures for each year.
[3] Merchandise trade only. Taiwan service trade statistics are not broken out by country.
[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; 2001 figures are estimates based on data available through August. Taiwan MOF figures for merchandise exports (FOB) to and imports (CIF) from the United States were(US$ billions): (1999) 30.9/19.7, (2000) 34.8/25.1, (2001) 28.6/19.2.
[6] Aid disbursements stopped in 1965.
[7] Figures in the table and the following text disagreeing with those in the previous reports are mainly due to later revisions by DGBAS.

1. General Policy Framework

In 2001, Taiwan suffered from economic recession for the first time in five decades. Taiwan authorities in August estimated the real GDP reversed from six percent growth in 2000 to a decline of 0.37 percent in 2001. The September 11 terrorist attacks in New York and Washington, DC will likely drive the 2001 economic decline even deeper given that exports account for nearly half of the island's GDP. Per capita GDP will, therefore, decline from nearly US$14,000 in 2000 to below $13,000 in 2001. Unemployment rose from below three percent two years ago to exceed five percent in August 2001. Taiwan's foreign exchange reserves as of August 2001 totaled $113 billion, the fourth largest in the world (after Japan, the People's Republic of China, and Hong Kong). Prices remained stable, rising 1.3 percent in 2000 and 0.3 percent in the first eight months of 2001.

Industrial growth is now concentrated in semiconductors, electronic components, and information technology (IT) industries. Almost all new major investments in the past two years went to these industries, which accounted for 35–40 percent of Taiwan's total exports. Rising labor and land costs have long led many manufacturers in labor intensive industries to move offshore, mainly to Southeast Asia and mainland China. Services accounted for 65.5 percent of GDP in 2000, up 1.2 percentage points from 1999. Merchandise exports fell from nearly half of GDP in 2000 to 44 percent in 2001 due to weak world demand for electronic goods.

Economic recession has cut into tax revenue and broadened the fiscal deficit, driving up domestic public debt. The central fiscal deficit, jumping from 1.1 percent of GDP in 1999 to 4.1 percent in 2000, is expected to reach five percent in 2002. During the period of 1999–2002, the central government's outstanding debt will double from 14.3 percent to 28.8 percent of GDP. Taiwan's central authorities now rely largely on domestic bonds and bank loans to finance the fiscal gap. National defense is no longer the largest expenditure category. Social welfare replaced national defense as the largest share of public expenditures in 2000 and 2001. Education, science and culture (ESC) is expected to replace social welfare as the largest public expenditure in 2002. The share for ESC expenditure increased from 16 percent in during 1999–2001 to 17 percent in 2002. On the other hand, the share for defense spending dropped from 20 percent in 1999 to 15 percent in 2001 and 14 percent in

2002. The share for social welfare expenditure, shot up from 11 percent in 1999 to 18 percent in 2000–2001, but is expected to fall to 16.7 percent in 2002. The greatest pressure on the budget now comes from growing demands for improved infrastructure and social welfare spending, including reform of a deficit-plagued national health insurance program initiated in early 1995.

The Working Party for Taiwan's accession to the World Trade Organization (WTO) completed work on all of Taiwan's WTO working party documents in September 2001, and WTO Ministers approved Taiwan's accession agreement in November 2001. 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

Twenty-nine state-owned enterprises have been either totally or partially privatized in the past seven years, including nine in 1998, six in 1999, two in 2000, and three in 2001. During the seven-year period, 14 other state-owned companies have been closed. Liberalization efforts have resulted in the break up of state-owned enterprises' monopolies in wireless and fixed line telecommunications, power generation, and gasoline supply. Taiwan will phase out the monopoly in wine and beer production after it accedes to the WTO. State-owned enterprises accounted for 9.3 percent of GDP in mid-2001, down from 9.5 percent a year earlier. Taiwan's Fair Trade Commission (FTC) acts to thwart noncompetitive pricing by state-run monopolies. FTC exemptions granted in 1992 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, both as part of its effort to accede to the WTO as well as to fulfill other policy objectives. Tariff reductions in July 1997 were designed to fulfill commitments made in the Information Technology Agreement and the WTO Agreement on Trade in Civil Aircraft. Taiwan will reduce tariffs on 5,200 import categories when it accedes to the WTO. The average tariff cut will be 32.4 percent. The nominal tariff rate will be lowered from 8.2 percent to 7.08 percent in the first year after its accession to WTO and to 4.15 percent by 2007. Many of the tariff cuts are of specific interest to U.S. industry.

High tariffs and pricing structures on some goods, in particular on some agricultural products, hamper U.S. exports. However, under the bilateral WTO agreement reached in February 1998, Taiwan began to provide quotas for the import 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 into excise taxes and import tariffs, and also to gradually open the markets after Taiwan accedes to the WTO.

4. Debt Management Policies

Taiwan's outstanding long and short-term external debt as of March 2001 totaled $32.3 billion, equivalent to 11 percent of GDP. Taiwan's outstanding external public debt was $28 million, compared to gold and foreign exchange reserves of $113 billion. Taiwan publishes the debt service ratio for the public sector only, with the ratio nearly zero. Debt service payment figures for the private sector are not available.

Cross-border claims by Taiwan's banks as of March 2001 totaled $49.3 billion. Of the total claims, 36 percent went to nations in Latin America and the Caribbean Area, which maintain diplomatic relations with Taiwan. The credit is mainly used to build industrial zones and foster development of small and medium enterprises. 1.3 percent went to international institutions, including the Asian Development Bank (ADB), one of the two multilateral development banks in which Taiwan 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. Currently, of some 10,344 official import product categories, 1,006 are "regulated" and require approval from relevant authorities based on the qualifications of the importer, the origin of the good, or other factors. Another 130 categories require import permits from the Board of Foreign Trade. Imports of 252 categories are "restricted," including ammunitions and some agricultural products. These items can only be imported under special circumstances, and are thus effectively banned. Eighty-six percent of the import categories are completely exempt from any controls.

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 the employment of foreigners by securities firms, effective upon Taiwan's accession to the WTO. Taiwan removed the foreign ownership limit on companies listed on the Taiwan Stock Exchange and OTC Market in late 2000, with a few exceptions for designated industries. 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 nontrade 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 either upon accession to the WTO, or upon implementation of the new lawyer's law, whichever comes first.

Insurance: In May 1997, the financial authorities announced that 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 on supervision of such companies.

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. Taiwan also permitted foreign firms to operate car leasing in November 1997.

Telecommunications: Taiwan's authorities issued three new fixed line licenses to private consortia in March 2000. Taiwan's private fixed-line telecommunication companies commenced services in August 2001. Taiwan liberalized the submarine cable lease market in August 2000. A U.S.-based submarine cable firm, Asia Global Crossing Taiwan Inc., started cable lease services in August 2001. Two other submarine cable firms are also expected to receive their operation licenses in the first quarter of 2002 and another one is in the application process. The international simple resale (ISR) market was opened in July 2001; seven out of 15 firms that applied for permits were awarded them. Qualified firms are expected to commence services by late 2001. Taiwan is scheduled to open the third generation (3 G) cellular phone market in late 2001. Under the bilateral WTO agreement signed in February 1998, the state-owned Chunghwa Telecom began to lower its 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. Taiwan regulators have begun to address such unfair trading practices. In October 1998 Taiwan's legislature passed a revised Telecom Law. It raised the 20 percent limit on foreign ownership of a telecom firm to 60 percent by allowing a combination of direct and indirect ownership. And, further amendment on the Telecom Law to be considered by the legislature in late 2001 will permit direct foreign ownership to 49 percent. The aggregate of foreign ownership, including direct and indirect, will remain at 60 percent.

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 time-consuming, cumbersome and non-transparent. Global budgeting, planned to begin in mid-2002, is expected to put further stress on U.S. and other research-based pharmaceutical companies. The requirement on foreign pharmaceutical factories to submit pharmaceutical plant validation files has been criticized by industry as onerous. The government agency responsible is seen as unable to process the information adequately. The reimbursement system also fails to account for significant quality differences between different brands of medical devices. In June 2000, Taiwan adopted a new medical device classification analogous to USFDA regulations (21 C.F.R.) to simplify registration procedures. However, Taiwan still subjects certain U.S. medical devices to clinical trials above and beyond those required for approval in the U.S. or EU markets. This testing requirement, combined with annual quotas on the introduction of new products, effectively constrains access of U.S. products to Taiwan's market.

Movies and Cable TV: Taiwan eased import restrictions on foreign film prints, increasing the number of prints permitted 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) 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 programming to negotiate reasonable fees for their programs. Content providers have also experienced persistent problems with advertising masking by cable broadcasters in violation of their contracts.

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; 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. For some of these products, Taiwan has adopted and expanded an inspection and certification registration system to eliminate duplicate inspection efforts. Imported autos face stringent noise, emission and fuel efficiency testing requirements. In March 1999, the United States and Taiwan signed a mutual recognition agreement (MRA) designed to eliminate duplicate testing of information technology equipment. Certain Taiwan exports to the United States previously tested for electromagnetic conformity in labs recognized by Taiwan authorities will no longer require duplicate inspections in a 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 some industries such as agriculture, broadcasting, and liquor and cigarette production. Fixed line telecommunications were liberalized by March 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. An amendment to the Civil Aviation Law that would raise the holding limit to 100 percent on air cargo forwarders 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. In early 1999, Taiwan opened cable and satellite television broadcasting services to foreign investors, subject to a 50 percent ownership limit. In August 2001, Taiwan's authorities proposed an amendment to the Telecom Law raising the foreign ownership limit on wireless and wire-line telecommunications firms from 20 to 60 percent. The government expects legislative passage of the amendment in 2002. In October 1999, Taiwan permitted foreign investment in liquefied natural gas and petroleum gas supply, subject to a 50 percent foreign ownership limit. A 50 percent foreign ownership limit also remains for power generation plants, power transmission or distribution firms, shipping agents, marine cargo forwarders, air-cargo terminals, and air-catering companies. Local content requirements in the automobile and motorcycle industries will be lifted as part of Taiwan's WTO accession. Restrictions on employment of foreign administrative personnel in foreign-invested firms remain in place.

Procurement Practices: Taiwan has committed to adhere to the WTO Agreement on Government Procurement as part of its WTO accession. To prepare for this commitment, a new Government Procurement Law (GPL) became effective in mid-1999. This law marks an important first step towards open, fair competition in Taiwan's multi-billion dollar market for public procurement projects. However, given discriminatory practices that continue to exist, in August 2001, a Memorandum of Understanding on Government Procurement between Taiwan and the United States was signed. Measures referred to in the Understanding, such as a broader definition of suppliers' qualification and establishment of post-award mediation of contract disputes, should improve market mechanisms as well as encourage foreign bidders' participation.

Customs Procedures: Taiwan has amended its laws and regulations to implement the customs-procedure-related WTO agreements, including the Agreement on Customs Valuation, Agreement on Rules of Origin, Agreement on Anti-dumping, Agreement on Subsidies and Countervailing Measures, and Agreement on TRIPS. The customs procedures have, therefore, been streamlined. At times, however, the customs service still uses reference prices that are higher than the import costs reported by importers. This practice will need to be eliminated upon Taiwan's accession to the WTO.

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 will reduce or eventually eliminate such subsidies as part of its commitments to WTO accession.

7. Protection of U.S. Intellectual Property

Intellectual property rights (IPR) protection continues to be a problem between the United States and Taiwan due to weaknesses in Taiwan's legal framework and law enforcement. In preparing for WTO accession, Taiwan has taken steps to amend its IPR laws in compliance with the WTO TRIPS requirements. Taiwan is not a party to any major multilateral IPR convention but is expected to soon become a WTO member. WTO ministers approved Taiwan's terms of accession in November 2001, and Taiwan's membership will become effective 30 days after it files the necessary ratification instrument with the WTO's Director-General.

In face of the U.S. concerns on IPR protection, Taiwan's Intellectual Property Office (IPO) has cooperated with police authorities since 2000 to implement an island-wide "K-plan" to crack down on counterfeit goods. In addition to the "K-plan," the authorities also requested that optical media products (CD, CD-ROM, VCD, and DVD) bear source identification (SID) codes and MASK-ROMs bear special markings for tracking production. To protect optical media products, the U.S. requested Taiwan enact an optical disk law to control and curtail illegal manufacturers of optical media goods. In April 2001, the United States put Taiwan on the Special 301 Priority Watch List up from its placement on the Watch List in 2000. This action resulted from increased concern over Taiwan's inadequate progress in enacting optical media legislation, and Taiwan's failure to shut down known copyright pirates and to curtail increasing on-line piracy. An optical disk law was passed by the legislature in October 2001.

Patents: An amendment to the Patent Law was passed by the legislature in October 2001. The bill extends the terms of patent protection to comply with TRIPS. The amendment also de-criminalizes the infringement of invention patents.

Copyright: In compliance with TRIPS' requirements, a Copyright Law amendment was recently approved by the Legislative Yuan. The new law will treat "computer programs" as literary works conferring economic rights for a term consisting of the life of the author and fifty years after the author's death. Based on the new WIPO Copyright Treaty, the Intellectual Property Office (IPO) has submitted for Executive Yuan approval new draft amendments of the "copyright law." The amendments, subject to legislative approval, will add the definition of public transmission and add provisions such as technological protection measures and electronic copyright for the management of information to protect copyright in digital web-site world.

Optical Disc Law: To protect copyrights of works stored on optical discs, Taiwan's legislature passed an optical disc law to control equipment and production management on October 30, 2001. Manufacturers must apply for production licenses and SID codes used in the manufacture of optical discs. Violations will face a maximum three-year jail sentence and a fine of NT$6.0 million.

Other areas of concern are poor protection for trade dress, such as packaging, configuration, and outward appearance of products, judicial difficulties in handling technical cases, and other judicial delays. The U.S. International Intellectual Property Alliance (IIPA) estimates Taiwan's weak IPR protection caused the U.S. copyright industry to lose US$557 million in 2000.

8. Workers Rights

a. *The Right of Association:* In 1995, the Judicial Yuan ruled that the right to organize trade unions was protected by the Constitution. Teachers formed the first association in February of 1999. The Examination Yuan also recognized that civil servants have a right of association in its proposed "civil servant basic law," submitted to the Legislative Yuan in April 2000. Since taking power in May 2000, President Chen Shui-bian's administration has significantly eased restrictions on the right of association by recognizing six new island-wide labor federations, includingthe Taiwan Confederation of Trade Unions, the Chinese Labor Unions Federation, and the National Trade Union Confederation, etc. The progress of Taiwan democracy over the past decade has largely eased restrictions on association. However, the 2000 Labor Rights Report, produced by the Labor Institute of the National Chengchi University, pointed out that labor not only needs eased restrictions on association, but also increased protection under the law. As of March 2001, some 2.9 million workers, or approximately 30 percent of the 9.8 million-person labor force, belonged to 3,854 registered labor unions.

b. *The Right to Organize and Bargain Collectively:* The Labor Union Law (LUL) still forbids persons employed in administrative or educational agencies of governments at various levels and persons employed in munitions industries to organize labor unions. The settlement of labor disputes law also imposes restrictions making legal strikes difficult, thereby weakening unions' ability to collectively bargain. At present, Taiwan's unions have only 301 collective agreements with large-scale state-run and leading private enterprises.

c. *Prohibition of Forced or Compulsory Labor:* The Labor Standards Law (LSL) prohibits forced or compulsory labor. Apart from forced prostitution and outside-contract jobs done by foreign workers, there were no reports of these practices.

d. *Minimum Age of Employment of Children:* The Labor Standards Law prohibits forced and bonded child labor and stipulates age 15, after compulsory education required by the law ends, as the minimum age for employment. County and city labor bureaus enforce the minimum age law. Child labor is rare in Taiwan.

e. *Acceptable Conditions of Work:* The Labor Standards Law is rigid and not well enforced in areas such as overtime work and pay and retirement payments. At the end of 2000, the LSL covered 5.7 million of Taiwan's 6.8 million salaried workers. Since 1997, minimum wage has remained at NT$15,840/per month (or US$460 at the exchange rate of NT$34.5 per US dollar); however, actual wage payments in the manufacturing sector have reached NT$38,792/per month in 2000, more than double the legal minimum wage. However, new contracts for guest workers, which include provision for deductions for formerly free room and board, have effectively lowered pay rates. Under an amendment to the LSL passed in June 2000, and taking effect in January of 2001, maximum working hours are limited to 84 hours every two-weeks, down from 48 hours/per week. Some employers assert that the amendment has increased production costs and forced them to move business offshore. In view of the recent economic slump, the authorities, following the recommendation of the Economic Development Advisory Committee (EDAC), plan to revise the LSL and allow employers more flexibility. The changes could negatively impact working conditions.

f. *Rights in Sectors with U.S. Investment:* U.S. firms and joint ventures generally abide by Taiwan's labor law regulations. In terms of wage 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—2000

[In Millions of U.S. Dollars]

Category		Amount
Petroleum		60
Total Manufacturing		3,692
Food & Kindred Products	59	
Chemicals & Allied Products	1,483	
Primary & Fabricated Metals	60	
Industrial Machinery and Equipment	188	
Electric & Electronic Equipment	1,454	
Transportation Equipment	65	
Other Manufacturing	381	
Wholesale Trade		871
Banking		703
Finance/Insurance/Real Estate		1,972
Services		154
Other Industries		285
Total All Industries		7,737

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

THAILAND

Key Economic Indicators

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

	1999	2000	[1] 2001
Income, Production and Employment:			
Nominal GDP	121,972	122,020	113,445
Real GDP Growth (pct)	4.2	4.4	[2] 1.5–2.0
GDP by Sector:			
Agriculture	11,815	11,127	9,899
Manufacturing	39,780	40,778	37,815
Services	15,818	15,888	14,647
Government [4]	8,802	8,885	8,801
Per Capita GDP (US$)	1,947	1,955	1,804
Labor Force (000s)	32,719	33,260	[3] 33,490
Unemployment Rate (pct)	4.2	3.7	[3] 3.6
Money and Prices (annual percentage growth):			
Money Supply (M2)	2.1	3.7	[5] 5.4
Consumer Price Inflation	0.3	1.6	[3] 2.0
Exchange Rate (BHT/US$—annual average):.			
Official	37.84	40.16	[6] 44.51
Balance of Payments and Trade:			
Total Exports FOB [7]	56,800	67,940	[3] 63,595
Exports to United States [7]	12,654	14,874	12,804
Total Imports CIF [7]	47,529	62,420	[3] 62,485
Imports from United States [7]	6,385	7,317	7,227
Trade Balance [7]	9,271	5,520	[3] 1,110
Balance with United States [7]	6,270	7,557	5,577
External Public Debt	36,024	33,817	[5] 30,939
Fiscal Balance/GDP (pct)	–5.8	–4.05	[3] –4.2
Current Account Balance/GDP (pct)	10.2	7.5	[3] 4.1
Debt Service Payments/GDP (pct)	11.6	10.4	N/A
Gold and Foreign Exchange Reserves	34,781	32,661	[5] 32,600

Key Economic Indicators—Continued

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

	1999	2000	[1]2001
Aid from United States [8]	20.8	N/A	N/A
Aid from All Other Sources	110.7	N/A	N/A

All figures based on Royal Thai Government data.
[1] 2001 figures are all estimates based on six-month data unless otherwise indicated.
[2] Percentage changes calculated in local currency.
[3] Royal Thai Government projections.
[4] Government expenditure on GDP for illustrative purposes.
[5] Data as of August 2001.
[6] Based on nine-month data average.
[7] Merchandise trade under balance of payments concept.
[8] Based on fiscal year (October-September).

1. General Policy Framework

Since taking office in January 2001, the government of Prime Minister Thaksin Shinawatra has worked to accelerate Thailand's recovery from the 1997–98 East Asian financial crisis. The crisis began in Thailand, when a failed effort to defend the baht (the Thai currency) against exchange-rate speculation led the Bank of Thailand (BOT) to float the baht in July 1997. The baht lost half of its value against the U.S. dollar over the next six months, spreading the crisis to the real sector.

In the decade through 1995, Thailand enjoyed one of the world's highest growth rates. With the onset of the crisis, however, real GDP dropped by 1.5 percent in 1997 and 10.8 percent in 1998. Strong external demand paced an export-led recovery in 1999 and 2000, with GDP rising over four percent in both years. The global growth slowdown, compounded by uncertainties in the wake of the terrorist attacks in the United States, will ease GDP growth to a projected 1.5–2.0 percent in 2001. Over the long term, the Thai government must accelerate the slow pace of economic reform in order to raise the economy's growth potential.

Economic contraction associated with the financial crisis slashed Thai imports, which dropped from $72 billion in 1996 to just over $40 billion in 1998 before rebounding to $62.4 billion in 2000 and a projected $62.5 billion in 2001. Imports from the United States fell correspondingly, dropping from $8.7 billion in 1997 to $6.4 billion in 1999 before recovering to $6.7 billion in 2000 and a projected $7.3 billion in 2001. (Note: Different trade calculation methodologies result in discrepancies between U.S. and Thai figures; this report uses Bank of Thailand data).

In August 1997, a $17.2 billion IMF program helped Thailand begin restructuring its economy and financial sector. The government closed or took over insolvent financial institutions, tightened provisioning requirements for banks, and began implementation of legal reforms to create a more modern, transparent financial sector. While the financial crisis stabilized by late 1998, production and demand did not respond, and the government shifted its focus to stimulating domestic demand. With the support of the IMF, the government ended years of balanced or surplus budgets by running fiscal deficits of over 3 percent of GDP in 1998, close to 6 percent in 1999, about 4 percent in 2000, and a projected 4.2 percent in 2001.

The Thaksin administration has made stimulating domestic demand a priority, and is in the initial stages of implementing a $1.3 billion fiscal stimulus program aimed at job creation. The stimulus program is part of the budget for fiscal year 2002, which began on October 1, 2001. The government is also setting up a $1.8 billion Village Fund scheme, which will allow nearly 80,000 villages and urban communities to set up one million baht (around $23,000) revolving credit programs. Another key government program, the Thailand Asset Management Corporation (TAMC), will collect approximately $29 billion in bad loans, primarily from state-owned banks and private asset management companies. A legacy of the financial crisis, the bad loans will be restructured or even foreclosed with an eye toward facilitating corporate restructuring and improving banks' balance sheets. The government is financing its stimulus programs through domestic bond sales, as well as foreign debt and grant assistance.

Thai monetary policy formally aims at keeping core inflation (excluding raw food and energy prices) between zero and 3.5 percent, but maintaining adequate system liquidity, keeping interest rates low, and stabilizing exchange rate movements are also major policy goals. The government uses a standard array of monetary tools but focuses on open market operations, particularly the repurchase market. The Thaksin administration has retained its commitment to inflation targeting but with a new emphasis on exchange rate stability. Current monetary policy does not target a specific level for the baht, but the government has said it 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 U.S. 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 and depreciated to 50 baht per dollar by January 1998. As reform measures and IMF support took hold, the baht stabilized and has traded in the 36 to 45 baht per dollar range since March 1998, settling at the 42–45 baht per level for most of 2001.

The Thai government began liberalizing the exchange control regime in 1990 and has accepted IMF Article VII 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 in July 1997, the government tightened conditions on foreign exchange, requiring customers to show evidence of foreign currency obligations 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 at any one time to 50 million (about $1.12 million) per non-resident counter party (unless there is an underlying transaction requiring the currency) to cut down on offshore speculation.

3. Structural Policies

Market forces generally determine prices. Under the Price of Goods and Services Act of 1999, the government retains authority to set price ceilings for the prices of sugar and cooking gas. The government is also authorized to monitor the prices of fourteen additional products. Although in practice few commodities are subject to formal price controls, the government uses its control of major suppliers of products and services under state monopoly, such as the petroleum, aviation, and telecommunications sectors, to influence prices in the market. The government plans to sell shares in these state-owned enterprises to the public but will retain majority ownership in each sector.

The Thai taxation system has undergone significant revision since 1992, when a Value-Added Tax (VAT) scheme 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 consumption; the rate is scheduled to revert to 10 percent on September 30, 2002. Exemptions 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. 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. The treaty will automatically terminate on January 1, 2003, however, if the United States and Thailand are unable to agree on an information exchange provision.

The Board of Investment exerts wide-ranging influence on the formulation and implementation of trade and investment policies. It has advanced industrial decentralization and export promotion through the granting of tax holidays, import duty exemptions, and other incentives to foreign direct investors. Thailand has applied to the WTO for an extension of its local content requirements in the manufacture of milk and dairy products, which have been in effect since 1995.

4. Debt Management Policies

Thailand's financial crisis resulted in part from a large private sector external debt burden, but these debt levels have declined markedly since the onset of the crisis, falling from $85 billion at the end of 1997 to $42 billion at the end of July 2001. Thailand entered the crisis with low levels of public debt, but public borrowings have since risen significantly as the government expended heavily to stabilize the financial sector 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 July 2001, the figure had risen to $30.9 billion. Total external debt service as a percentage of exports of goods and services stood at 15.7 percent at the end of June 2001, including 7.5 percent in public debt and 8.2 percent in private sector debt. (Note: Public sector external debt refers to loans borrowed or guaranteed by the government or state-owned enterprises from overseas lenders.)

Public sector debt is mostly 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, triggered by higher budget deficits, is a concern in Thailand, and the government is attempting to diversify its funding sources by developing a domestic bond market. By June 2001, total public sector debt, including the non-guaranteed debt of non-financial state-owned enterprises, had climbed to $62.6 billion, or 55.87 percent of Thailand's GDP, versus $40 billion, or 40 percent of GDP, at the end of 1997.

Thailand consistently met the targets and performance criteria elaborated in its IMF stand-by arrangement, which was completed in June 2000. The government began to repay the IMF in the fourth quarter of 2000 and other bilateral donors in 2001.

5. Significant Barriers to U.S. Exports

Tariffs: Thailand's high tariff structure remains a major impediment to market access in many sectors. A member of the World Trade Organization (WTO) and the ASEAN Free Trade Area (AFTA), Thailand has yet to complete efforts to rationalize a complicated tariff regime that has 44 rates. Highest tariff rates encompass locally produced import-competing products, including agricultural products, autos and auto parts, alcoholic beverages, fabrics, and some electrical appliances. In some cases, tariffs on unfinished products are higher than on related finished products. In the aftermath of the financial crisis, the government increased duties, surcharges, and excise taxes on a range of "luxury" imports from wine to passenger cars. However, the government continues to ease other import duties in line with WTO and AFTA commitments.

Corn and fresh potatoes are subject to a Tariff Rate Quota (TRQ) that limits import levels. The restricted entry period for corn imports under the TRQ, generally February to June, usually ensures that U.S. corn is not competitive in the Thai market.

Import Licenses: Thailand has committed to changing its import licensing procedures in connection with its WTO obligations. Import licenses still are required for 26 categories of items, down from 42 categories in 1995–1996. Licenses are required for the import of many raw materials, petroleum, industrial, textiles, pharmaceuticals, and agricultural items. Imports of used motorcycles and parts, household refrigerators using CFCs, and gaming machines are prohibited. Import of some items not requiring licenses nevertheless must comply with applicable regulations of concerned agencies, including extra fees and certificate of origin requirements in some cases. Imports of food, pharmaceuticals, certain minerals, arms and ammunition, and art objects require special permits from relevant ministries.

Service Barriers: In the banking sector, 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 report that requests for additional personnel customarily are approved. Since 1997, foreign ownership of Thai banks can exceed 49 percent for a period of ten years. (Foreign investors will not be forced to divest shares after 10 years, but will not be able to purchase additional shares.) Limits on foreign ownership of finance companies and securities companies were also liberalized in the aftermath of the financial crisis. Foreigners may hold majority stakes in Thai securities houses, although there are minimum investment requirements and restrictions on expatriate management.

Telecommunications: The provision of telecommunications services is dominated by two state operators, the Telephone Organization of Thailand (TOT) and the Communications Authority of Thailand (CAT). Private participation is currently limited to concessions in wireless and fixed line sectors. The government's telecommunications master plan calls for the corporatization of TOT and CAT, with a view to privatization and coupling with strategic partners in the coming years. A law passed in October 2001 capped foreign ownership of domestic telecommunications companies at 25 percent. The possible retroactive impact of this provision on current private concessionaires, most of which already have over 25 percent foreign ownership, remains unclear. Thailand's WTO commitments require full market liberalization by 2006.

Professional Services: The Alien Occupation Law reserves to Thai nationals certain employment, including within certain professional services such as accounting, architecture, law and engineering, the manufacture of traditional Thai handicrafts, and manual labor. All foreign nationals must obtain a work permit for employment.

Standards, Testing, Labeling, and Certification: The Thai Food and Drug Administration (TFDA) requires permits for the importation of all food and pharmaceutical products. Costs, testing, duration, and demands for proprietary information associated with the permitting process can be burdensome. Labels bearing product name, description, net weight or volume, and manufacturing/expiration dates, printed in Thai and approved by the TFDA must be affixed to all imported food products.

Investment Barriers: The U.S.-Thai Treaty of Amity and Economic Relations of 1966 (AER) accords U.S. citizens and businesses national treatment in many areas, exempting them from restrictions on foreign investment set out in the Alien Business Law (ABL). The AER does not exempt American investors from applicable restrictions in the fields of communications, transport, fiduciary functions, banking involving depositary functions, exploitation of land or other natural resources, and domestic trade in agricultural products. Some of these sectors are subject to limits on foreign equity participation, such as a 25 percent cap in the insurance and telecommunications sectors.

The AER and ABL generally do not affect projects established with Board of Investment (BOI) promotion privileges or export businesses authorized under the Industrial Estate Authority of Thailand. BOI employs a variety of measures, including tax and duty incentives, guarantees against certain risks, and certain permit exemptions, to promote foreign investment in five favored areas: agriculture and agricultural products, environmental protection, technological and human resource development, basic transportation, infrastructure and services, and targeted industries. BOI seeks to steer projects to economically disadvantaged locations and to promote use of local materials in production.

Non-Thai businesses and citizens generally are not permitted to own land unless given permission by the Board of Investment or unless land is on government-approved industrial estates. Exceptions include land necessary to the activities of petroleum concessionaires, part ownership of condominium buildings, and residences for foreign investors who invest a minimum of 40 million baht.

Government Procurement Practices: Thailand is not a signatory to the WTO Government Procurement Agreement. Procurement regulations require that non-discriminatory treatment and open bidding be accorded to all potential bidders. However, procuring agencies are required to accord a 15 percent price advantage to domestic suppliers over foreign suppliers. In addition, they retain the right to accept or reject any or all bids at any time, may modify the technical requirements during the bidding process, and are not bound to accept the lowest bid. A directive from the Prime Minister's office in March 2001 urging ministries and state enterprises to purchase local products and employ local consultants as a budget-saving measure has compounded transparency problems. In some instances, government contracts require use of locally produced or assembled components.

The government may require a counter-trade transaction on government procurement contracts valued at more than 300 million baht on a case-by-case basis, although the practice is not common. Restrictions on distribution by government hospitals of drugs not on the National List of Essential Drugs constrains the availability of imported products not on the list.

Customs Procedures: The Thai Customs Department enjoys considerable autonomy and some of its practices appear arbitrary and irregular. Companies handling U.S. imports into Thailand occasionally reported excessive paperwork and formalities and lack of coordination between customs and other import-regulating agencies. Efforts to introduce a paperless customs system, including adoption of the World Customs Organization harmonized code and the use of an Electronic Data Interchange (EDI) system, have improved operations but are still in the process of being fully implemented. The pilot program for EDI became operational early in 1998 and the system reportedly covered 90 percent of Thai exports and 70 percent of imports as of October 2001. Customs Act amendments that went into effect January 2000 established transaction value as the basic standard for assessing customs duties, but officials reportedly are not applying the new standard in all cases. A government commitment to eliminate certificate of origin requirements for information technology (IT) imports has not been implemented fully, causing delays in the importation of U.S. IT products. Customs officials have been receptive to training programs offered by the U.S. private sector on streamlining customs procedures and implementing "best practices" to improve performance.

6. Export Subsidies Policies

The government maintains several programs that benefit exports of manufactured products or processed agricultural products. These include credit at below market level 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 with odd maturities or values otherwise unavailable in international credit markets; 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 interest rates on export credits below the prime rate offered by commercial banks. A 2000 law established a government office and fund to support small and medium enterprises, including market expansion abroad, but they are not operational yet.

7. Protection of U.S. Intellectual Property

The government has made significant progress in laying the legal foundation for IPR protection and enhancing enforcement efforts. During 1999 and 2000, the government passed amendments to the Trademark Act and the Patent Act, a Protection of Plant Varieties Act, and a Protection of Integrated Circuits Design Law. As of October 2001, the Senate and House had passed versions of a draft Trade Secrets Act, which await reconciliation and publication in the Royal Gazette to become effective. The government has drafted a Protection of Geographic Indications Act and an Optical Disk Factory Control Act for submission to the parliament. 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. A specialized intellectual property court established in 1997 has improved judicial procedures and imposed higher fines. Criminal cases generally are disposed of within six to twelve months from the time of a raid to the rendering of a conviction. An enforcement offensive commenced in June 2001 featured strong statements of commitment by the Prime Minister and cabinet and high-level police officials, boosted resources for enforcement efforts, and an increase in the level of raids on production and distribution facilities.

Despite growing enforcement activity and good cooperation with rights-holders, levels of piracy remain high. Thailand has been on the Special 301 Watch List since 1994, and in June 2001 a consortium of rights-holders filed a petition to have Thailand's GSP benefits revoked unless additional progress was achieved in IPR protection (petition still pending as of October 2001). Thailand is a member of the World Intellectual Property Organization, the Berne Convention, and the WTO Trade-Related Aspects of Intellectual Property (TRIPS) Agreement. Thailand is not a signatory to the Paris Convention or the Patent Cooperation Treaty, although aspects of those instruments are addressed by local law.

Obstacles to effective enforcement are numerous. Resource limitations, especially in the wake of the financial crisis, hamstring police capabilities and judicial administration alike. Corruption and a cultural climate of leniency can complicate many phases of the legal process. Irregularities in police and public prosecutor procedures occasionally have resulted in the substitution of insignificant defendants for major ones and the disappearance of vital evidence. The frequency of raids compromised by leaks from police sources has declined but remains a concern. Relatively few persons are serving time in jail for copyright infringement, although sentences and fines imposed have become more severe. Defendants sometimes disappear while on bail, and sentences occasionally are reduced or overturned on grounds that rights-holders sometimes regard as questionable. Pirates, including those associated with transnational crime syndicates, have responded to stepped up levels of enforcement with intimidation against authorities and rights-holders.

Patent examinations can take more than five years. Recent changes to Thailand's Safety Monitoring Program (SMP) in the pharmaceutical sector allow generic versions of a non-patented product go into SMP and be marketed even while original innovative products are in SMP, giving rise to data protection concerns. For products with a patent pending, civil remedies to recover damages suffered by the patent-holder during the pending of its application are available after the patent is granted but are deemed inadequate by rights-holders. The government retains compulsory licensing authority in some instances but has yet to exercise it. The Government Pharmaceutical Office, a significant producer of pharmaceutical products in Thailand, is exempt from registration and approval requirements in manufacturing and distributing medicine.

Although trademark-holders have won several notable cases, civil remedies remain largely untested as most rights-holders, especially copyright holders, choose to pursue criminal sanctions against violators. Rights-holders report that police cooperation is good and the frequency of raids is climbing. However, police undertake little enforcement apart from cases initiated by rights-holders. Effective prosecutions are labor-intensive for rights-holders, who investigate, participate in raids, help warehouse confiscated property, and prepare documentation for prosecution in a typical case.

The U.S. pharmaceutical, film, and software industries estimate lost sales to American rights-holders at over $200 million annually. Although the government has made progress in cultivating public support for strong intellectual property protection, the market for pirated products remains strong.

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. In practice, however, cases of management action against union organizers occur, and employers use loopholes in the law to fire union organizers. In May, one such instance was accepted by the International Labor Organization's Committee on Freedom of Association. Unions in Thailand may have relationships with unions in other countries, and with international labor organizations. The State Enterprise Labor Relations Act, enacted in early 2000, restored to state enterprise workers the right to form and join trade unions.

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. However, they may be members of employee associations, state enterprise employees, essential workers (telecommunications, electricity, transportation, education, and health care personnel), and civil servants may not strike. Though legally recognized, 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, there are credible reports of sweatshops in which employers prevented workers from leaving the premises. There are no estimates of the numbers of such informal sector sweatshops.

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. Compulsory education is 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. With few exceptions, U.S. companies strictly adhere to Thai labor laws.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—2000

[In Millions of U.S. Dollars]

Category		Amount
Petroleum		2,666
Total Manufacturing		2,767
Food & Kindred Products	105	
Chemicals & Allied Products	399	
Primary & Fabricated Metals	69	
Industrial Machinery and Equipment	1,263	
Electric & Electronic Equipment	509	
Transportation Equipment	93	
Other Manufacturing	329	
Wholesale Trade		318

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—2000—Continued

[In Millions of U.S. Dollars]

Category	Amount
Banking	650
Finance/Insurance/Real Estate	421
Services	70
Other Industries	232
Total All Industries	7,124

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

EUROPE

EUROPEAN UNION

Key Economic Indicators

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

	1999	2000	[1] 2001
Income, Production and Employment:			
Nominal GDP	8,464.5	7,891.5	8,280.7
Real GDP Growth (pct)	2.5	3.4	3.1
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$)	22.4	20.8	21.9
Total Employment (Annual percentage change)	1.6	1.6	1.7
Unemployment Rate (pct)	9.2	8.4	7.8
Money and Prices (annual percentage growth):			
Money Supply Growth (M2/M3)	9.3	N/A	N/A
Consumer Price Inflation	1.2	2.1	2.1
Exchange Rate (USD/ECU annual average)	1.06	0.93	N/A
Balance of Payments and Trade:			
Total Exports FOB	808.5	870.8	N/A
Exports to United States	192.5	214.9	N/A
Total Imports CIF	823.7	953.8	N/A
Imports from United States	167.4	183.6	N/A
Trade Balance	–15.2	–83.0	N/A
Balance with United States	25.1	31.3	N/A
External Public Debt (pct of GDP)	67.7	64.1	60.9
Fiscal Deficit/GDP (pct)	–0.7	1.2	–0.2
Current Balance/GDP (pct)	0.3	–0.2	–0.3
Debt Service Payments/GDP (pct)	N/A	N/A	N/A
Gross Official Reserves (billions of US$)	439.6	N/A	N/A
Aid from United States [2]	N/A	N/A	N/A
Aid from Other Sources	N/A	N/A	N/A

[1] Estimates.
[2] Military aid = 0

Source: European Commission.

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 are ceding to it increasing authority over their domestic and external policies. 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, particularly "traditional" trade issues. 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 and intellectual property rights issues, competency for policy and negotiations is shared between the EU and its member states. Beyond economics and trade, the EU is developing its other two "pillars": the common foreign and security policy (CFSP), and justice and home affairs (police and judicial cooperation).

The EU 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 12 participating countries (Denmark, Sweden and the United Kingdom are currently not included) have a single monetary policy conducted by the European System of Central Banks (ESCB), led by the Frankfurt-based European Central Bank (ECB). Member states generally achieved 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 (three percent of GDP) by seeking to achieve balanced budgets by 2002, although this target is likely to be delayed for some countries due to the current economic slowdown.

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 $90 billion are divided generally among agricultural support (40 percent), "structural" policies to promote growth in poorer regions (40 percent), other internal policies (5 percent), external assistance (5 percent) and administrative and miscellaneous (5 percent).

The EU is currently preparing for the fifth enlargement and is negotiating accession agreements with twelve countries: Bulgaria, Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, the Slovak Republic, and Slovenia. The best prepared of these countries are expected to join the EU by 2004. Turkey is also a formal candidate country but has not yet begun accession negotiations. Work is underway within the EU to update and reform the existing institutional structures to accommodate these potential new members.

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 (Greece joined the monetary union on January 1, 2001). 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 by the end of February 2002. During the transition period, there will be dual circulation between the euro and the respective national currencies, except in the case of Germany.

The ECB 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 currency of Denmark which participates in the new Exchange Rate Mechanism (ERM-2) limiting its fluctuation against the euro to (2.25 percent. 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 (see below).

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 are working on greater coordination of their tax policies, including the taxation of savings interest of non-residents, in addition to agreeing to a Code of Conduct to curb "harmful" business taxation as well as harmonizing the application of VAT to e-commerce transactions.

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 one of the world's largest multilateral financing banks, 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 lend to key developing countries, especially in Central Europe and the newly independent states of the former Soviet Union. To date, it has consistently taken a hard line on the rescheduling of EU debt by borrowing countries.

5. Significant Barriers to U.S. Exports

Import Policies

Import, Sale, and Distribution of Bananas: On April 11, 2001, the U.S. goverment and the European Commission reached an agreement to resolve their long-standing dispute over the EU's banana import regime. The new regime, which is expected to enter into force on January 1, 2002, will provide a transition to a tariff-only system by 2006. During the transition, bananas will be imported into the EU through import licenses distributed on the basis of past trade. In the past, two EU banana regimes were challenged successfully in the WTO, prompting U.S. retaliation worth $191.4 million against EU products. Under the terms of the agreement, the United States has suspended sanctions and will definitively lift the sanctions upon WTO issuance of an Article XIII waiver.

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-1980s, U.S. wines have entered the EU market under a series of "derogations" granting EU regulatory exemptions. Negotiations on an agreement with the EU to ensure the EU market remains open to U.S. wine have been underway for several years but agreement has not been reached on a number of key issues, including in particular mutual recognition of oenological practices. The United States does not believe EU legislation on "traditional expressions" (terms such as "vintage" or "tawny") is consistent with the WTO Agreement on Trade Related Intellectual Property Rights (TRIPS), and therefore does not believe this area is appropriate for bilateral negotiation.

Services Barriers

EU Broadcast Directive: The EU's 1989 Broadcast Directive (Television without Frontiers) provides that a majority of entertainment broadcast transmission time be reserved for European-origin programs "where practicable" and "by appropriate means." Concerns have surfaced in EU accession negotiations where acceding countries are being held to a higher standard than are currently EU member states. The United States continues to monitor developments with respect to the Broadcast Directive, which is scheduled to undergo a revision in 2002.

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. While generally welcoming this move, U.S. airline companies and ground-handling service providers remain concerned that airports can apply for exemptions to continue to have a monopoly service provider until January 1, 2002, and can also limit the number of firms, which can provide certain services on the airport tarmac (ramp, fuel, baggage and mail/freight handling). These potential barriers are partially offset by more liberal bilateral air service agreements, which the United States concluded with individual EU member states.

Postal Services: U.S. package and express mail service providers remain concerned that the prevalence of postal monopolies in many EU countries restricts their market access and subjects them to unequal conditions of competition. The Commission's May 2000 proposal to further limit the scope of the services that can be reserved for monopoly provision has faced stiff opposition in the European Parliament and some EU member states. It would require member states to reduce weight-limits on letters and direct mail from 350g to 50g by January 1, 2003. It would also require a reduction in price limits from five times the standard tariff to 2.5 times, and open up competition in express mail services and outward cross-border mail. However, in November 2000, the European Parliament's Regional Policy, Transport, and Tourism Committee voted that state monopolies could continue on all letter mail below 150g. If Parliament's vote stands, only 10 percent of the postal markets will be liberalized from 2003, instead of the 20 percent favored by the Commission.

Standards, Testing, Labeling and Certification

EU member states still have widely differing standards, testing and certification procedures in place for some products. These differences may serve as barriers to free movement of these products within the EU and can cause lengthy delays in sales due to the need to have products tested and certified to account for differing national requirements. Nonetheless, the advent of the EU's "new approach," which streamlines technical harmonization and the development of standards for certain product groups, based on "essential" health and safety requirements, generally points towards the harmonization of laws, regulations, standards, testing, and certification procedures within the EU. While the United States supports legitimate health and safety measures, we have concerns that the European standardization process lacks transparency and remains generally closed to U.S. stakeholders' direct participation.

Businesses on both sides of the Atlantic have highlighted the importance of standards issues in U.S.-EU trade relations, in the context of the Transatlantic Business Dialogue and other fora. Although some progress has been made, a number of problems have caused concern to U.S. exporters. These include: legislative delays, inconsistent member state interpretation and application of legislation, the ill-defined scope of various Directives, unclear marking and labeling requirements for regulated products, and a frequent tendency to rely on design-based rather than performance-based standards. Such problems can complicate and impede U.S. exports to the EU.

Mutual Recognition Agreements: In order to reduce standards-related trade barriers, the United States and the EU are committed to advancing joint efforts to promote mutual recognition, equivalency, and harmonization of standards. In 1998, both governments negotiated a Mutual Recognition Agreement (MRA) covering several important sectors (medical devices, pharmaceuticals, telecommunications equipment, electromagnetic compatibility, electrical safety, and recreational craft) allowing for conformity assessments to be performed in the United States to EU standards and vice versa. Both sides continue to work on issues related to the implementation of this MRA. Additionally, a separate MRA covering marine safety equipment was signed in June 2001 by the United States and the EU under the Transatlantic Economic Partnership (TEP) and negotiations are continuing on MRAs for insurance services, architects and engineers. Finally, the United States and EU continue to work through TEP in developing a joint text on Guidelines for Regulatory Cooperation.

PECAs: The EU has concluded Protocols to the Europe Agreements on Conformity Assessment and Acceptance of Industrial Products (PECAs) with several Central and East European (CEE) countries that are candidates for EU accession. PECA agreements with the Czech Republic and Hungary entered into force in June and July 2001, respectively. PECA Agreements with Latvia and Lithuania have been initialed, but no implementation dates have been set. PECAs are being negotiated with six other countries in the CEE region.

Under a PECA, the EU and the accession candidate agree to recognize the results of each other's designated conformity assessment bodies/notified bodies, thereby eliminating the need for further product testing of EU products upon importation into that country. Only those products exported to the third country which are: (i) of EU origin, and (ii) certified by an EU notified body with the CE mark illustrating compliance with EU standards, will benefit from the provisions of the PECA. The United States has raised concerns about the PECA rule of origin, and the possible discriminatory effects of this provision, in a variety of WTO and bilateral fora, as well as with PECA partners.

Biotechnology Product Approvals and Labeling: The EU's de facto moratorium on approvals for products made from modern biotechnology is adversely affecting U.S. exports of corn and oilseed rape (canola). In July 2001, the European Commission agreed on proposals for traceability, labeling, and biotech food and feed authorizations. These new proposals and draft Directive 01/18 (formerly known as 90/220) encompass the overall Commission strategy to restart the biotech approval process. The draft legislation contains three key parts: process-based labeling for food and feed products that contain or are derived from biotech ingredients, provisions for event-specific identity markers, and a tolerance for adventitious (unintended or accidental) presence of unapproved varieties. It is now up to the Commission to restart approvals based on companies' voluntary commitments to implement key elements of the draft proposals. There are concerns on the part of industry that many aspects of the new proposals would be unworkable, so that even if approvals were restarted, voluntary implementation of the Regulations as written would prove impossible.

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). The United States has therefore imposed WTO-approved retaliation worth $116.8 million per year, pending EU compliance. A large body of scientific evidence indicates these products are safe as used. Discussions with the EU to resolve this matter are continuing.

Specified Risk Material Ban: In May 2001, the EU adopted new legislation (Regulation 999/2001) affecting third-country requirements to remove specified risk materials (SRMs). The so-called TSE (Transmissible Spongiform Encephalopaties) Regulation replaces the previous SRM ban and includes transitional measures affecting imports as of July 1, 2001. These measures include certification that products of bovine, ovine and caprine origin do not contain SRMs or mechanically recovered meat and that the animals were not slaughtered by pithing or gassing. Additional transitional rules affecting imports entered into effect on October 1, 2001. These include extending the list of products that are obligated to meet the SRM requirements to include: rendered fats, gelatin, petfood, bones and bone products and raw material for the manufacture of animal feedstuffs. Exemptions from the above requirements are given to countries whose geographic BSE risk classification (GBR) is one (free from BSE). The GBR for the United States is two (provisionally free), therefore exporters from the United States will be required to certify SRM removal.

Under the TSE legislation, countries are required to submit information for classification of TSE status. This status is based on the OIE (International Organization of Epizootics) criteria and will be determined by the countries' current GBR status as well as risk management measures, education, notification, surveillance and monitoring, and an affective feed ban in place. Country applications must be submitted to the Commission by January 1, 2002, and the Commission will determine third-country classifications by July 1, 2002. Under current OIE criteria, countries classified as either one or two are not required to remove SRMs. The status of the United States will be reviewed in this context.

Antimicrobial Treatments for Poultry: In 1997, the EU introduced a sanitary regime concerning poultry that did not permit the use of antimicrobial treatments, which most U.S. poultry producers use to reduce the level of pathogens in their products. U.S. poultry exports to the EU of around $50 million per year have since disappeared. Based on a 1998 study by the EU of the safety and efficacy of antimicrobial treatments, which concluded that some treatments could be used as a supplementary measure, the U.S. government has requested that the EU approve the use of certain antimicrobial treatments.

Emergency Measures for Coniferous Non-Manufactured Wood Packing Material: The European Commission has adopted emergency measures requiring the treatment and marking of all new and used coniferous (e.g. pine, spruce, fir) non-manufactured wood packing material (NMWP) originating in the United States, Canada, China, or Japan beginning October 1, 2001, to prevent the introduction of the pinewood nematode. The pinewood nematode is a microscopic eelworm which has caused extensive mortality in pine trees in Japan and China. Work is currently underway in the United States to set up a program to meet the measures adopted by the EU. The United States has chosen to utilize the heat treated or kiln-dried mitigation as the preferred option to eliminate this pest on NMWP. However, the industry is likely to utilize fumigation as well. The International Plant Protection Convention, which is recognized by the World Trade Organization as the official plant protection body, will likely adopt measures very similar to those of the EU in April 2003 for all NMWP (softwoods and hardwoods).

Hushkits or New Engine Modified and Recertificated Aircraft: In 1997, pressure on EU authorities to reduce noise levels resulted in a European Commission (EC) 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 EU member states adopted a regulation limiting the registration and use within the EU of certain aircraft that had been modified and recertificated to be in full compliance with the existing performance-based standard adopted by the International Civil Aviation Organization (ICAO), and to which the EU member states had agreed. The EU regulation that entered into effect on May 4, 2000, establishes a design standard that restricts the operation of those recertificated aircraft that were equipped with "hushkit" noise reduction devices or "re-engined" with engines of a certain design. Ostensibly crafted to reduce noise around European airports, the regulation in effect is a trade barrier and has little impact on noise. It restricts operation of aircraft based on a design standard, and disproportionately impacts U.S. manufacturers and airlines. The United States has asked ICAO to resolve this dispute pursuant to Article 84 of the 1944 Convention of International Civil Aviation (Chicago Convention). With strong support from the United States, the 33rd Assembly of ICAO has unanimously adopted a Resolution that establishes an international framework on how states should manage noise around airports called the Balanced Approach. The European Commission has proposed a Directive that will, hopefully, reflect the principles of the ICAO Resolution and replace the hushkits Regulation before April 1, 2002—the date that the Regulation is scheduled to be implemented.

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 in EU member states. 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. The EU is moving forward with the creation of a European Aviation Safety Agency (EASA). The United States wants to ensure that decisions made by this agency are based on technical criteria and that safety and certification functions are kept strictly separate from commercial or economic policy considerations.

Electrical and Electronic Equipment (EEE): The European Commission (DG Enterprise) is developing a draft Directive that would comprehensively regulate the product design of electrical and electronic equipment. It would be issued as a "new approach" Directive, outlining so-called essential requirements that could be met through harmonized European standards. Unofficial versions of the DG Enterprise draft text have been shared selectively in Brussels and a formal proposal is expected before the end of 2002. While still assessing this proposal, U.S. industry is concerned that the draft has the potential to interfere with design flexibility, delay new product development and introduction, and impose extensive administrative burdens.

Waste Management: In June 2001, the EU Council of Ministers reached political agreement on two related proposals: a Directive focusing on the "take back" and recycling of discarded equipment (known as Waste from Electrical and Electronic Equipment or "WEEE"); and a Directive banning the use of certain substances (lead, mercury, cadmium, certain flame retardants) in new electrical and electronic equipment from January 1, 2007, (known as Restrictions on the Use of Hazardous Substances or "RoHS"). A formal Council 'common position' was adopted in December 2001. The United States supports the drafts' objectives to reduce waste and the environmental impact of discarded products. The United States has expressed concerns, however, that the proposals lacked transparency in their development and would adversely affect trade in products where viable substitutes may not exist. The U.S. government will continue to closely monitor these proposals as they proceed through the legislative process to ensure that they will not unreasonably restrict trade

Acceleration of the Phase-Out of HCFCs: The EU adopted Regulation 2037/2000, a new and stricter Regulation for phasing-out all ozone depleting substances in the EU than that agreed under the Montreal Protocol. The U.S. government actively opposed early drafts, which proposed phase-outs of HCFCs by 2001 without yielding appreciable environmental benefits. The existing Regulation requires the air conditioning industry to phase out its use of HCFCs by 2001 while most other HCFC uses may continue until 2004. Small (100 kW) fixed air conditioners and heat pump units have been exempted from the initial phase-out.

EU Chemicals Policy: In its White Paper "Strategy for a Future Chemicals Policy", the European Commission proposes a new and single system for assessing existing and new chemical substances called REACH (Registration, Evaluation, and Authorization of Chemicals). Under this new system, the burden for testing chemicals and carrying out risk assessments will shift to companies and importers, and they will also be required to make this information available to a central database run by the European Chemicals Bureau. In addition, the new system will extend data requirements to downstream users of chemicals. Potential implications of this new policy for U.S. business include the administrative burden of registering substances, the high cost and limited timeframe to carry out this testing, intellectual property rights issues linked to the release of test data, and the possible ban of some chemical substances based on the "precautionary principle." The U.S. government is actively monitoring this issue and has advocated full transparency and early dialogue with all interested stakeholders.

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 right to provide aviation transport services within the EU is reserved to firms majority-owned and controlled by EU nationals. The right to provide maritime transport services within certain EU member states is also restricted.

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. U.S. firms' right to national treatment in this area was reinforced by the EU's GATS commitments.

Under the 1994 Hydrocarbons Directive, the notion of reciprocity may have been taken further to require "mirror-image" reciprocal treatment, under which an investor may be denied a license to explore for and exploit hydrocarbon resources 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, however, that thus far no U.S.-owned firms have been affected by these reciprocity provisions.

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: Per EU Treaty Article 280, the EU and its member states are jointly responsible for the fight against fraud and corruption affecting the EU's financial interests. A detailed overview of EU and member state achievements in this regard (e.g. legislation protecting the euro against counterfeiting; public procurement legislation introducing a compulsory mechanism for excluding tenderers convicted of fraud/corruption) is provided in the Commission's year 2000 annual report on the fight against fraud. This report, presented in May 2001, is available on-line at http://europa.eu.int/comm/anti—fraud/documents/ annual—reports/index—en.htm. All but one EU member state, Ireland, has ratified the OECD Convention on combating bribery of foreign public officials in international business transactions. The implementing legislation of some countries, however, appears to fall short of the Convention's requirements.

Government Procurement

The EU public procurement market is regulated by four "classic" Directives: public works, public supplies, public services and utilities. The Directives cover contracts above a certain threshold in all public sectors except utilities, which is regulated by a separate Directive applicable to private as well as public undertakings. Large EU tenders for public works/supplies are open to American companies and will remain so under the terms of the Government Procurement Code. However, some contract opportunities in the utilities sector (water, transport, and telecommunications) are closed to U.S.-based companies because of certain articles in EU law permitting a local content requirement of 50 percent. Moreover, in the utilities sector, preference must be given to an EU bid over a non-EU bid if the bids are equivalent and the price difference is less than three percent.

EU procurement rules are in the process of being reworked and simplified. Amendments include the clarification of existing Community Directives by merging the Supplies, Services and Works Directives. The second aim of the reform is to adapt procurement rules to modern administrative needs. Rules would be softened for complex contracts, where a dialogue between contracting authorities and tenderers is envisaged to determine the contract conditions. In addition, contracting authorities would be able to specify their requirements in terms of performance and not only in terms of standards, which would make it easier for U.S. firms to bid on EU tenders. Lastly, the new proposal will exclude telecommunications from the Utilities Directive, and provides for the exclusion of sectors such as water and electricity once liberalization is achieved in these areas. The direct consequence of this move is that neither public nor private telecommunications operators will have to follow procurement rules when awarding contracts, enabling U.S. firms to bid on them. (Note that in 1998 the Commission issued an interpretive Communication in which it said that since most member states had achieved full competition in the area of telecommunications, this sector was to be excluded from the Utilities Directive).

The changes proposed by the European Commission are currently being reviewed by the European Parliament. Parliamentary sources indicated that it is unlikely to be fully approved before the end of November 2001. Various Parliamentary committees have submitted approximately 400 amendments to promote "green" procurement practices, such as specific production processes, eco-labels and environmental auditing certifications, as well as provisions designed to link the procurement procedure to social and labor law. One of the most contentious amendments submitted by the European Parliament would increase the level of thresholds of application of the Directives. Once the Parliament comes to agreement on these issues, it will submit the amended proposals to the Council, which will then work to find a common position with the Parliament and the Commission. This process may last until the end of 2002.

6. Export Subsidies Policies

Government Support for Airbus: Since the inception of Airbus in 1967, the Airbus member governments (France, Germany, Spain and the United Kingdom) have provided massive direct subsidies to their respective member companies to aid in the development, production and marketing of the Airbus family of large civil aircraft. These subsidies have enabled Airbus to garner approximately 50 percent of new orders over the last three years. The Airbus governments continue to subsidize their member companies and have offered financial support for the development of the A380 "superjumbo" aircraft. European officials have claimed that member states' support will be in compliance with the 1992 bilateral Agreement on Large Civil Aircraft. However, the United States believes that government support of Airbus raises serious concerns about member state adherence to their bilateral and multilateral obligations in this sector, including the 1995 WTO Agreement on Subsidies and Countervailing Measures (SCM). It has urged the Airbus governments to ensure the terms and conditions of their support for the A380's development are consistent with commercial terms, reflecting the fact that Airbus is now a highly competitive global producer of aircraft. Discussions on this issue are expected to continue in 2002.

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. In accordance with this Directive, EU shipbuilding subsidies were eliminated as of December 31, 2000. In July 2001, the European Commission put forward a proposed Regulation setting up a "temporary support mechanism" for those segments of the EU shipbuilding industry (container ships and products and chemical tankers) found to be considerably injured by unfair trade practices of Korean shipyards. The proposed Regulation would enter into effect after initiation of a WTO dispute settlement proceeding against Korea and would expire with the conclusion of the WTO proceeding, or in any case on December 31, 2002. EU member states still have to formally approve the Commission's proposal.

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 members of all the relevant World Intellectual Property Organization (WIPO) conventions, and they and the EU regularly join with the United States in encouraging other countries to adopt and enforce high IPR standards, including those in the WTO Agreement on Trade-related Aspects of Intellectual Property Rights (TRIPS). However, there are a few member states with whom the United States has raised concerns, either through Special 301 or WTO Dispute Settlement Procedures, about failure to fully implement the TRIPS Agreement.

Patents: Patent filing and maintenance fees in the EU and its member states are significantly more expensive than in other countries including the United States. In an effort to introduce more reasonable costs, the European Patent Office (EPO) reduced fees for filing by 20 percent in 1997. In July 2000, the European Commission proposed a Regulation to establish a European Community (EC) patent that, once granted, would be valid in all 15 EU member states without additional costly translations. At present, the Regulation is being considered by a Council working group, which hopes to complete its work by the end of 2001. Internal Commission disagreement has blocked progress on a parallel effort to propose an EC software patent. Patent protection for biotechnological inventions is governed by a 1998 Directive harmonizing national member state rules in this area. This Directive is still in the process of transposition.

Trademarks: Registration of trademarks with the European Community trademark office (Office for Harmonization in the Internal Market, or 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 WIPO Madrid Protocol, negotiated in 1989, provides for an international trademark registration system permitting trademark owners to register in member countries by filing a standardized application. EU accession to the Protocol is hampered by Spanish objections, but member states in favor of EU accession hope to persuade Spain to drop its opposition.

Geographical Indications (GIs): In 1999, the United States initiated a WTO dispute settlement case against the EU, based on apparent TRIPS deficiencies in EU Regulation 2081/92 governing geographical indications for agricultural products and foodstuffs. The regulation denies nations treatment to foreign GIs. Under the regulation, only domestic GIs can be registered; foreign GIs cannot be registered and are thus ineligible for protection. Further, the regulation permits dilution and even cancellation of trademarks when a GI is created later in time. At the most recent U.S.-EU consultations on this issue, held in July 2001, the EU indicated it is in the process of amending certain articles of the regulation so as to bring those articles into compliance with the TRIPS Agreement. This would fix many of our concerns. In addition, we have asked for further amendments, and the EU has agreed to take our request into consideration. The United States looks forward to reviewing the adequacy of these amendments, and will consider the next steps in this dispute accordingly.

Copyrights: The EU's legislative framework for copyright protection consists of a series of Directives covering areas such as the legal protection of computer programs, the duration of protection of authors' rights and neighboring rights, and the legal protection of databases. In May 2001, the EU adopted a Directive covering copyright in the digital economy. It guarantees authors' exclusive reproduction rights with a single mandatory exception for cache, or temporary, copies, and an exhaustive list of other exceptions which individual member states can select and include in national legislation. This list is meant to reflect different cultural and legal traditions, and includes private copying "on condition right holders receive fair compensation." EU member states have until the end of 2002 to implement the new rules.

8. Worker Rights

Labor legislation still remains largely the domain of individual member states. Decisions taken at the Lisbon, Luxembourg, Cardiff, and Cologne EU Summit Meetings of the EU have, however, significantly increased cooperation and coordination 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. The Lisbon Summit set a goal to raise the EU's employment rate from 60 percent to 70 percent by 2010. It also stressed the need for appropriate lifelong learning and training to meet the needs of a growing information society. The EU is also beginning to address the problems of the population bulge, pensions, and health care for the elderly through informal coordination mechanisms.

In July 2001, the European Commission put forward a communication setting out a proposed EU strategy to promote core labor standards in the context of globalization. The Commission proposes, among other things, to make existing ILO (International Labor Organization) instruments more effective and to continue efforts to launch a regular international dialogue on trade and labor. The proposed labor standards strategy is subject to European Parliament and Council review before final adoption.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—2000

[In Millions of U.S. Dollars]

Category		Amount
Petroleum		26,051
Total Manufacturing		168,648
Food & Kindred Products	15,594	

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—2000—Continued

[In Millions of U.S. Dollars]

Category	Amount	
Chemicals & Allied Products	52,605	
Primary & Fabricated Metals	9,385	
Industrial Machinery and Equipment	23,141	
Electric & Electronic Equipment	17,490	
Transportation Equipment	15,497	
Other Manufacturing	34,936	
Wholesale Trade		34,365
Banking		18,083
Finance/Insurance/Real Estate		239,523
Services		47,243
Other Industries		39,504
Total All Industries		573,416

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

AUSTRIA

Key Economic Indicators

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

	1999	2000	[1] 2001
Income, Production and Employment:			
Nominal GDP	210,069.7	189,899.5	[2] 190,353.2
Real GDP Growth (pct)	2.8	3.3	1.3
GDP by Sector:			
Agriculture	4,175.1	3,496.3	N/A
Manufacturing	61,525.9	56,269.3	N/A
Services	117,257.9	103,222.4	N/A
Government	13,028.7	11,486.9	N/A
Per Capita GDP (US$)	25,960	23,416	[2] 23,360
Labor Force (000s)	3,701	3,701	3,721
Unemployment Rate (pct)	4.0	3.7	3.8
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	4.6	2.8	N/A
Consumer Price Inflation	0.6	2.3	2.6
Exchange Rate (Euro/US$—annual average) Official	12.91	14.93	15.29
Balance of Payments and Trade:			
Total Exports FOB	64,235.2	64,232,2	[2] 67,310.0
Exports to United States	2,931.5	3,223.9	3,400.0
Total Imports CIF	69,617.4	69,064.3	[2] 72,730.0
Imports from United States	3,719.9	3,785.9	4,000.0
Trade Balance	–5,382.2	–4,832,1	–5,420.0
Balance with United States	–788.4	–562.0	–600.0
External Public Debt [3]	17,925.7	15,447.0	12,206.1
Fiscal Deficit/GDP (pct)	2.2	1.1	0.7
Current Account Deficit/GDP (pct)	3.2	2.8	2.6
Debt Service Payments/GDP (pct) [4]	0.7	1.4	1.4
Gold and Foreign Exchange Reserves (Year-End) [5]	20,193.6	17,394.5	N/A
Aid from United States	0	0	0
Aid from All Other Sources	0	0	0

[1] 2001 figures are all estimates based on latest available data and economic forecasts in October 2001.
[2] The apparent decline in 2000 and/or 2001 figures is a result of exchange rate fluctuations between the euro and the U.S. dollar. In local euro currency, figures show an increase in 2000 and/or 2001.
[3] Since the start of the Economic and Monetary Union (EMU) on January 1,1999, external debt is defined as debt denominated in other currencies than the euro.

[4] Debt service payments on external public debt.
[5] Since the start of the EMU, the Austrian National Bank's foreign exchange reserves are part of the Eurosystem. The apparent decline in the 2000 figure is a result of exchange rate fluctuations between the euro and the U.S. dollar. In euro currency, figures were stable.

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

1. General Policy Framework

Based on per capita GDP, Austria is the fifth richest EU country. Austria has a skilled labor force and a record of excellent industrial relations. Its economy is dominated by services, accounting for 70 percent of employment, followed by manufacturing. Small and medium-sized companies are predominant. After previous governments had privatized most of the formerly state-owned manufacturing industries, the Conservative (OVP)-Freedom Party (FPO) government that took office in 2000, decided to go ahead with further privatization, including in the banking, telecommunications and energy sectors. It was also considering full privatization of partly privatized companies, including Austrian Airlines and OMV petroleum company; but more recently has put these projects on hold due to changed economic conditions.

Exports of Austrian goods and services account for more than 45 percent of GDP. Austria's major goods export market is the EU, accounting for 66 percent of Austrian exports, with 41 percent to Germany and 7 percent to Italy, compared to 5 percent to the United States. However, given Austria's traditional expertise in Central and Eastern European (CEE) markets, exports to that region have soared since 1989, accounting for 13 percent of Austrian exports in 2000. Numerous multinationals have established their regional headquarters in Austria as a "launching pad" to the CEE markets.

The government has been less bound than its predecessors by the Austrian tradition of setting economic policy in consultation with the so-called "Social Partners," 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. The government broke precedent by not consulting with the social partner institutions on important economic policy decisions such as social benefits reform and balancing the budget.

As a member of the EU's Economic and Monetary Union (EMU), Austria is required to keep its budget deficit in line with the EU's Stability and Growth Pact. The budget consolidation process is hard, however, as the federal deficit had to come down from 2.5 percent of GDP in 1999. Strong economic growth and swift implementation of tax increases and pension reform helped the new government to limit the federal deficit to 1.4 percent of GDP in 2000 and the consolidated public sector deficit to 1.1 percent of GDP. The government intends to further reduce the federal deficit to 1.1 percent in 2001 and to 0.7 percent by 2002, and to balance the consolidated public sector budget by 2002. Reduced economic growth prospects, increased spending on family allowances and halting public service reform, however, make the target more difficult to hit.

Other foci of economic policy are introducing the single euro currency, reforming the social and pension systems, implementing an ambitious privatization program, and creating a more competitive business environment. Although Austria's economy has become considerably more liberal and open, foreign investors as well as local businesses must still cope with rigidities, barriers to market entry, and an elaborate regulatory environment in some sectors.

2. Exchange Rate Policies

As one of the twelve 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 government's goal is to balance the consolidated public sector budget by 2002, offsetting the slight federal deficit with a regional and local government surplus. The Austrian National Bank (ANB) is a member of the European System of Central Banks (ESCB) and supports the ECB's focus on maintaining price stability in formulating exchange rate and monetary policies. On December 31, 1998, the exchange rate for the euro was fixed at Austrian schillings (AS) 13.7603.

In 2000, the euro, and with it the Austrian schilling, lost considerable ground against the dollar. In 2001, the dollar continued to rise further against the schilling parallel to its rise against the single euro currency.

3. Structural Policies

Austria's 1995 accession to the EU forced the government to accelerate structural reforms and open the economy, removing many nontariff barriers to merchandise trade and fully liberalizing cross-border capital movements.

While the government continues to be a major player in the economy, government spending (federal, provincial and local governments plus social security, but excluding parastatals) fell to 52.4% of GDP in 2000 from 57.4% 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's plans for a balanced total public sector budget and privatization should reduce this share further. In May 2000, Parliament passed a law establishing a legal framework for privatization of remaining government shareholdings. Meanwhile, the government has sold all its shares in the Postal Savings Bank, Vienna airport company, Austria tobacco company, and Dorotheum auction house and bank, and a majority in Telekom Austria. The government will also review full privatization of its shareholdings in already partly privatized companies, including Austrian Airlines, OMV petroleum company and Voest-Alpine steel. A stated policy of "maintaining the Austrian interest" in banks and basic industries has so far not had any real effect. Foreign investors have been successful in obtaining shares in important Austrian industry sectors, for example the banking, telecom and energy sectors.

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 is now open to competition, but more so in mobile than in fixed-line telephony, including Internet service. The government also moved ahead with the liberalization of the highly centralized and virtually closed electricity market. All customers are allowed to choose their electricity supplier as of October 2001. However, federal, state, and local governments maintain control of the electricity distribution grid. The federal government is likely to keep its 51 percent majority in the federal power company "Verbund" because selling these shares requires a two-thirds majority in Parliament. Preparations are also under way to liberalize the natural gas market in 2002.

In past years, the government has cut red tape to make Austria more attractive for investors. Procedures for investors to obtain necessary permits and other approvals have been streamlined and the time for approvals cut considerably. However, approval for larger projects can still be burdensome and lengthy. The government's plans for implementing "one-stop-shopping" for all necessary permits, even online, have not yet made much progress, in part due to jurisdictional problems. Other measures planned to improve the business climate and stimulate entrepreneurial activity include the reduction of non-wage costs for labor, strengthening the equity market for small- and medium-sized enterprises, reducing the number of laws and regulations for business, drafting a new company law, reforming the Business Code to liberalize establishing new businesses, allowing more flexible work hours, and more liberal shopping hours. So far, progress in all these areas is limited.

4. Debt Management Policies

Austria's external debt management has had no significant impact on U.S. trade. At the end of 2000, the Austrian federal government's external debt amounted to $15.4 billion, 14 percent of the government's overall debt, and consisted of 93 percent bonds and 7 percent credits and loans. Debt service on the federal government's external debt amounted to $2.6 billion in 2000, or 1.4 percent of GDP and 2.8 percent of total exports of goods and services. The total public sector external debt in 2000 was not significantly higher than the federal government's external debt. Total gross public debt was 62.9 percent of GDP at the end of 2000 and, thus, still above the 60 percent ceiling set under the Maastricht convergence criteria. Republic of Austria bonds are rated AAA by recognized international credit rating agencies.

5. Significant Barriers to U.S. Exports

The United States is Austria's largest non-European trading partner, contributing 5.5 percent of Austria's total 2000 imports. The United States was Austria's third largest supplier worldwide after Germany and Italy. 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. A GATT member since 1951, Austria is a signatory to the successor WTO.

Import License Requirements: The EU, and therefore Austria, requires import licenses for a number of products, first and foremost for agricultural and health products on health grounds. In general, an Austrian importer must possess an export license from the supplier country and then obtain permission to import from the Austrian authorities.

Separate from the issue of licensing is the issue of approval of pharmaceuticals for reimbursement under Austrian health insurance regulations. The Austrian social insurance association, "Hauptverband der Sozialversicherungstraeger," decides which products are approved for reimbursement by health insurance plans. Pharmaceuticals not approved by the Hauptverband have higher out-of-pocket costs for patients. Therefore U.S. innovative pharmaceutical companies have complained that difficulty placing products on the list of reimbursable products amounts to a market access restriction. The United States and Austria are discussing this issue under Informal Commercial Exchange (ICE) talks.

Various agricultural products are banned from the Austrian market for the same reasons. 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. The Austrian government, moreover, has ruled out a lifting of the ban in the near future. Further, the EU has not approved any U.S. poultry plants, ruling out the possibility of importing U.S. poultry, or products containing poultry. Finally, the EU has not approved most genetically modified plants available in the United States; 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 Austrian government went well beyond EU requirements in ordering corn to be plowed under in 2001 when it was found to contain adventitious trace amounts of EU-approved GMO varieties. A more detailed discussion of these and other EU-wide barriers can be found in the country report for the European Union.

Service Barriers: Providers of financial services such as insurance and banking have to meet reciprocity requirements, and at least one manager of each branch or subsidiary must have residence in Austria. Providers of legal services must submit specific proof of their qualifications, such as university education or number of years of practice. Potential health and social services providers are subject to an economic test and must obtain a business permit from the local governments. Travel agencies and tour operators require a proof of qualification and must be listed with the Austrian Ministry of Economics. 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.

Several competitors now offer fixed-line telephone service over Telekom Austria lines, which, however, still dominates fixed-line service over the "last mile." The telecommunications' control authority issued an order for unbundling of the local loop in September 2000. Competitors are supposed to negotiate with the incumbent Telekom Austria regarding conditions of local loop access, and will have recourse to the telecoms' control authority if they cannot reach agreement with the dominant carrier. "Third generation" mobile telephony licenses were issued in December 2000.

Labeling requirements: Information is required for most, and all wrapped, foodstuffs identifying the composition of the product, the manufacturer, methods of storage and preparation, and the quantity. Other important requirements include washing instructions on textiles, and certification of safety (the CE mark) on machines, toys, and baby accessories.

Investment barriers: Austria is in compliance with WTO Trade Related Investment Measures (TRIMS) agreement notification. There are limited restrictions on foreign investment in Austria with regard to sectors. However, at least one manager must meet residency and other legal qualifications. Non-residents must appoint a representative in Austria. Although not required in order to gain access to tax incentives, performance requirements may be imposed when foreign investors seek financial or other assistance from the Austrian government. The Residence Law and the Foreign Workers Employment Law exempt skilled U.S. labor (e.g., managers and their dependents) from an increasingly restrictive quota system for residence permits.

Foreign and domestic private enterprises are free to establish, acquire, and dispose of interests in business enterprises, with the exception of railroads, some utilities, and state monopolies. As the government continues to pursue privatization, some of these industries are gradually being opened up to private investment as well. In July 2001, a law on terrestrial private television was adopted that allows foreign investments in this area for the first time.

The Austrian electricity market was fully liberalized for consumers and foreign investors in October 2001, but the majority shares of the Austrian suppliers remain in the hands of various levels of government. In October 2002, the gas market will be completely opened up as well. Overall costs in Austria are similar to those in France and Italy, lower than in Germany and Japan, but higher than in the United States, Canada, and the U.K.

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. In defense contracts, offset agreements are common practice. U.S. firms have reported experiencing a strong pro-EU bias in government contract awards, and a similar pro-EU bias (in some instances an even more narrow call for "Austrian solutions") has also appeared to play a role in some privatization decisions. In a recent procurement case, however, the U.S. firm Sikorsky was able to secure a major contract for "Blackhawk" helicopters over European competitors, in a hard-fought competition in which offsets were a major factor.

Customs Procedures: There are no particularly burdensome procedures. However, in compliance with the EU Generalized System of Preferences, a customs declaration must be made in order to bring goods from a third country to Austria. Depending on the product and the country of origin, specific evidence must be included.

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. Some export promotions, however, fall under the category "development aid." The Austrian Kontrollbank (AKB), Austria's export financing agency, administers the government's export guarantees. Credits under the AKB's export financing scheme are provided in conformity with the rules of the OECD Arrangement on Guidelines for Officially Supported Export Credits ("Consensus"). The AKB publishes conditions and eligible country lists, but they are far from transparent. The Finance Ministry hired a private consultancy firm to review whether comprehensiveness and a proper risk analysis are guaranteed in connection with the AKB's assumptions of liabilities.

7. Protection of U.S. Intellectual Property

The legal system protects registered interests in intellectual property rights, including patents, trademarks, and copyrights. Austria is a party to the World Intellectual Property Organization and several international intellectual property conventions, such as the European Patent Convention, the Paris Industrial Property Convention, 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 the World Trade Organization Treaty on Intellectual Property (WTO TRIPS) negotiations, Austria prefers the "first-to-file" and not the U.S.-favored "first-to-invent" principle. Further, initiatives should be encouraged to promote trade of property protected by copyright, according to Austrian negotiators.

Patents: In compliance with the WTO TRIPS agreement obligations, Austria extended patent terms on inventions to 20 years after application. However, the Parliament has delayed the decision on a patent law amendment that would have implemented the 1998 EU guideline on the protection of biotechnological inventions. This amendment would strengthen regulations on patent offences and compensation, and the obligations to give information.

Copyrights: The 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. In 2001, Austria, in line with EU requirements, implemented a law against product piracy to prevent trade in counterfeit goods. A special problem under Austrian copyright law is that "tourist establishments" (hotels, inns, bed and breakfast establishments, etc.) may show cinematographic works or other audiovisual works, including videos, to their guests without prior authorization from the copyright holder. The United States holds this provision to be inconsistent with Austria's obligations under the Berne Convention and TRIPS. Austrian copyright law also requires that a license fee be paid on imports of home video and DVD cassettes and broadcasting transmissions. Of these fees, 51 percent are paid into a fund dedicated to social and cultural projects. In the view of the United States, the copyright owners should receive the revenues generated from these fees and any deductions for cultural purposes should be held to a minimum.

New Technologies: Due to the alleged possibility of patenting genes, plants and animals, Austria is reluctant to implement the EU directive 98/44/EG on the protection of biotechnological inventions. The delay may infringe U.S. investments. Content piracy on the Internet is another growing problem although the copyright law is fully applicable in this regard. However, the Austrian courts are hesitant to enforce the law against the pirates.

U.S. investors are entitled to the same kind of protection under Austrian patent and copyright legislation as are Austrian nationals. Intellectual property problems do not specifically affect U.S. trade. Austria was not mentioned in the U.S. government's "Special 301" review in 2000.

8. Worker Rights

a. *The Right of Association:* Workers have the constitutional right to form and join unions without prior authorization. All 12 sectoral unions belong to the Austrian Trade Union Federation (OGB), which has a highly centralized leadership structure that does, de facto, not allow other unions to thrive. Although the right to strike is not provided explicitly in the Constitution, it is universally recognized. Labor participates in the "social partnership," in which the leaders of Austria's labor, business, and agricultural institutions jointly try to influence legislation on social and economic issues. Under the current government their impact is decreasing.

b. *The Right to Organize and Bargain Collectively:* Unions have the right to organize and bargain collectively. Almost all large companies, private or state-owned, are organized. Worker councils operate at the enterprise level, and workers are entitled by law to elect one-third of the members of supervisory boards of major companies. Collective agreements covering wages, benefits and working conditions are negotiated exclusively by the OGB with the National Economic Chamber and its associations, which represent the employers. All workers except civil servants are required to be members of the Austrian Chamber of Labor, a public body that is enabled to act for workers' rights along with the OGB.

c. *Prohibition of Forced or Compulsory Labor:* Forced or compulsory labor is prohibited by law, and this prohibition is enforced effectively. Trafficking in women for the purpose of forced prostitution, however, remains a problem.

d. *Minimum Age for Employment of Children:* The minimum legal working age is 15. The law is enforced effectively.

e. *Acceptable Conditions of Work:* There is no legally mandated minimum wage. Instead, nationwide collective bargaining agreements set minimums by job classification for each industry. Workers as well as the jobless are entitled to a variety of generous social benefits that guarantee a high standard of living on average. Over half of the workforce works a maximum of either 38 or 38.5 hours per week, although the legal workweek has been established at 40 hours. The Labor Inspectorate ensures the effective protection of workers by requiring companies to meet Austria's extensive occupational health and safety standards. Slight differences between blue collar and white collar workers with regard to health care were further reduced in 2000.

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—2000

[In Millions of U.S. Dollars]

Category		Amount
Petroleum		(1)
Total Manufacturing		1,114
Food & Kindred Products	39	
Chemicals & Allied Products	73	
Primary & Fabricated Metals	(1)	
Industrial Machinery and Equipment	131	
Electric & Electronic Equipment	403	
Transportation Equipment	228	
Other Manufacturing	(1)	
Wholesale Trade		592
Banking		1,601
Finance/Insurance/Real Estate		126
Services		164

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—2000—Continued

[In Millions of U.S. Dollars]

Category	Amount
Other Industries	(1)
Total All Industries	3,676

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

BELGIUM

Key Economic Indicators

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

	1999	2000	[1] 2001
Income, Production and Employment:			
Nominal GDP (at current prices) [2]	222	230	230.3
Real GDP Growth (pct) [3]	1.5	2.8	2.0
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
Manufacturing	17.8	N/A	N/A
Government	N/A	N/A	N/A
Services	52.6	N/A	N/A
Nontradable Services	17.7	N/A	N/A
Real Per Capita GDP (US$) [4]	24,598	22,519	22,578
Labor Force (000s)	4,514	4,558	4,596
Unemployment Rate (pct)	8.8	7.0	7.0
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	5.5	5.5	N/A
Consumer Price Inflation	1.1	2.7	2.2
Exchange Rate (BF/US$—annual average)	37.48	43.66	45.5
Balance of Payments and Trade:			
Total Exports FOB [5]	179.2	186.1	204.5
Exports to United States [6]	8.2	9.0	9.0
Total Imports CIF [5]	164.9	173.0	194.2
Imports from United States [6]	12.3	13.9	12.5
Trade Balance [5]	14.3	13.1	10.3
Balance with United States [6]	4.1	4.9	–3.5
Current Account/GDP (pct)	4.1	4.5	5.5
External Public Debt	11.2	7.5	N/A
Fiscal Deficit/GDP (pct)	–0.9	–0.5	0.2
Debt Service Payments/GDP	N/A	N/A	N/A
Aid from United States	0	0	0
Aid for All Other Sources	0	0	0

[1] 2001 figures are all estimates based on monthly data available in October 2001.
[2] GDP at factor cost.
[3] Percentage changes calculated in local currency.
[4] At 1985 prices.
[5] Merchandise trade. Government of Belgium data.
[6] FAS.
Source: U.S. Department of Commerce and U.S. Census Bureau.

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 2 percent. Belgium ranked as the twelfth-largest trading country in the world in 2000, with exports and imports each equivalent to about 75 percent of GDP. More than eighty percent of Belgium's trade is with other European Union (EU) members. Eight 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 eight 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 three 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 2002 budget is projected to be balanced and continues the debt reduction policies with the aim of achieving a debt/GDP ratio making substantial progress towards the 60 percent of GDP Maastricht benchmark (from 106.8 percent of GDP in 2001 to 103.7 percent in 2002).

Economic growth this year is mainly created through domestic demand, driven by higher consumer and producer confidence. Wage costs seem to be under control, but unemployment is expected to go up again after reaching a 10-year low in the middle of 2001. However, the seven percent is an average figure which glosses over significant differences, both between demand and supply as well as between regions.

Belgium's unemployment situation improved slowly last year. Standardized EU data put Belgium's unemployment rate at seven percent in June 2001, slightly below the EU's average. For 2002, unemployment is expected to go up again. However, strong regional differences in unemployment rates persist, with rates in Wallonia and Brussels being two to three times higher than in Flanders. 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 slow down considerably in 2001 and 2002, as over-investments and risk-aversion put limits on the recovery (and hence profits) of the corporate sector. Sectors that are expected to perform relatively well in this downturn of the business cycle are energy, pharmaceuticals, and distribution.

Government Role in the Economy

Since 1993, the Belgian government has privatized BF 280 billion worth of public sector entities. In 2000, the government did not raise any further money through privatization, although it is now actively pursuing public private partnerships (PPPs). Further privatization of the last two enterprises with a strong public sector stake, Sabena (if it emerges from its current bankruptcy) and Belgacom, will probably occur before the end of this coalition's term, i.e. 2003.

Balance of Payments Situation

Belgium's current account surplus stagnated in 2000: at 4.1 percent of GDP, it was well above the EU average of 1.5 percent of GDP, and one of the largest in the OECD area. However, during the first half of 2001, the surplus was reduced from euro 3.23 billion one year ago to euro 2.4 billion. This decline can be largely attributed to a slowdown in exports due to the deteriorating international business cycle. Imports were relatively stable in this period because of sustained consumer confidence and exchange-rate movements. Another cause of the decline were the reduced incomes from Belgian foreign investments, mainly in the U.S. capital markets.

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.

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: The top marginal rate on wage and salary income is 55 percent. Corporations (including foreign-owned corporations) pay a standard income tax rate of 33 plus a three percent so-called crisis tax. This is a reduction from the previous 41 percent rate. 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 36 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. In 2000, the federal government announced several measures aimed at gradually reducing the personal income taxes. However, the impact of these will only be measurable before the next general elections in 2003. 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 six 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. Discussions on this subject between industry representatives and the Belgian government may lead to tangible improvements.

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 eight 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 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 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: 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 six 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. Discussions on this subject have been going on between industry representatives, the U.S. Embassy and the Belgian government for several 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.

Within the European Union, the European Commission has authority for developing most aspects of EU-wide external trade policy, and most trade barriers faced by U.S. exporters in EU member states are the result of common EU policies. Such trade barriers include: the import, sale and distribution of bananas; restrictions on wine exports; local (EU) content requirements in the audiovisual sector; standards and certification requirements (including those related to aircraft and consumer products); product approvals and other restrictions on agricultural biotechnology products; sanitary and phytosanitary restrictions (including a ban on import of hormone-treated beef); export subsidies in the aerospace and shipbuilding industries; and trade preferences granted by the EU to various third countries. A more detailed discussion of these and other barriers can be found in the country report for the European Union.

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 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 36 to 33 percent in one year, still representing a loss of $520 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 nonassignability 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 United States, 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: The Community Patent Convention has only been ratified by Germany and Greece, and so a single European patent does not yet exist. In the meantime, the patent applicant can choose between a national and a multiple-country patent. A patent thus granted is valid in Belgium only when a copy of the grant is in one of Belgium's three national languages and is filed with the Belgian Office of Industrial Property. To obtain a national patent in Belgium, the inventor or his/her assignee must file a request with the Office of Industrial Property in the Ministry of Economic Affairs. Officially, the Belgian Patent Office cannot refuse to grant anyone a patent. Normal Belgian patents last for six years, and those who require a twenty year patent must request a "Novelty and Non-Obvious Search." Once granted, the patent is registered with the Register of Patents, again located in the Ministry of Economic Affairs. However, the validity of the Patent is not guaranteed. The Belgian courts have the power to nullify a patent if the court feels that the patent does not meet the Novelty and Non-obvious specifications.

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. Truckers, 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 6.4 percent for the 2000–2002 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 BF 47,265 ($1,074); 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—2000

[In Millions of U.S. Dollars]

Category		Amount
Petroleum		–164
Total Manufacturing		7,346
Food & Kindred Products	1,018	
Chemicals & Allied Products	4,558	
Primary & Fabricated Metals	143	
Industrial Machinery and Equipment	206	
Electric & Electronic Equipment	312	
Transportation Equipment	229	
Other Manufacturing	880	
Wholesale Trade		1,828
Banking		543
Finance/Insurance/Real Estate		4,024
Services		2,996
Other Industries		–163
Total All Industries		16,409

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

BULGARIA

Key Economic Indicators

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

	1999	2000	[1] 2001
Income, Production and Employment:			
Nominal GDP [2]	12.4	12	13
Real GDP Growth (pct)	2.4	5.8	5
GDP by Sector: [3]			
Agriculture	1.9	1.5	N/A
Manufacturing	2.9	2.9	N/A
Services	6.1	6.1	N/A
Government	3.8	3.3	N/A
Per Capita GDP (US$)	1,510	1,459	1,634
Labor Force (000s)	3,819	3,831	3,823
Unemployment Rate (pct) [4]	13.8	18.1	16.8
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	5.3	15.7	15.6
Consumer Price Inflation	6.2	11.4	3.4
Exchange Rate (Leva/US$ annual average): [5]			
Official	1.8	2.1	2.2
Parallel	N/A	N/A	N/A

Key Economic Indicators—Continued

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

	1999	2000	[1]2001
Balance of Payments and Trade:			
Total Exports FOB	4.0	4.8	5.1
Exports to United States (US$ millions)[6]	147	189	225
Total Imports CIF	5.1	5.9	6.5
Imports from United States (US$ millions)[6]	194	191	215
Trade Balance	–1.1	–1.2	–1.4
Balance with United States (US$ millions)[6]	–47	–2	10
External Public Debt	9.4	9.2	8.2
Fiscal Deficit/GDP (pct)	0.9	1.1	1.5
Current Account Balance/GDP (pct)	–5.4	–5.8	–5.2
Debt Service Payments/GDP (pct)	8.4	9.8	9.9
Gold and Foreign Exchange Reserves	3.5	3.4	3.2
Aid from United States (US$ millions)[7]	38.8	64.6	51.1
Aid from All Other Sources (euro millions)[8]	113.6	93.7	277

[1] 2001 figures are annualized Bulgarian National Bank (BNB) estimates based on six to nine months of historical data, unless otherwise stated. All are calendar years. Figures for 1999 and 2000 are official.
[2] GDP and GDP per capita as measured in U.S. dollars declined between 1999 and 2000 due to changes in the exchange rate.
[3] Sectoral GDP data is unavailable, but gross value added by sector is provided for 1999 and 2000.
[4] Annual average.
[5] The CBA is pegged to the EUR. Therefore, the exchange rate reflects the EUR/$ rate. Parallel exchange rate does not exist in Bulgaria as exchange rates were liberalized in February 1991, according to the BNB.
[6] For January to June 2001, exports to the United States were $131 million; imports amounted to $119 million. Source: National Statistics Institute.
[7] Both U.S. Agency for International Development (USAID) and Department of Defense (DOD) provided assistance. For Fiscal 2001, USAID assistance includes $36 million in Southeast Europe enterprise Development (SEED) money, primarily for economic restructuring, democracy building, support for the social sector, and improving laws and law enforcement. For Fiscal 2001, total DOD assistance is projected at $15.1 million. For Fiscal 2000, total DOD assistance totaled $6.8 million ($10.4 million in Fiscal 1999).
[8] Assistance provided by the European Union. The Phare program extended 865.5 million euro between 1989–1999. From 2000 onwards, EU assistance includes two new programs: Instrument for Structural Policies for Pre-Accession (ISPA) providing between 83 million and 125 million euro and Special Accession Program for Agriculture and Rural Development (SAPARD) providing 52 million euro.

1. General Policy Framework

Parliamentary elections in June 2001 resulted in the defeat of the government of Prime Minister Ivan Kostov and his Union of Democratic Forces (UDF) and its replacement by a coalition government led by former king (now Prime Minister) Simeon Saxe-Coburg. The coalition consists of the newly-formed National Movement Simeon II (NMSS), which holds exactly half of the seats in the National Assembly, and the predominantly ethnic-Turkish Movement for Rights and Freedoms (MRF). Despite its substantial progress on far-reaching economic reform, Kostov's government fell due to popular discontent with persistently high unemployment, low incomes, and perceived corruption. The new government is committed to maintaining stable macroeconomic policies, continuing privatization, attracting foreign investment, and achieving membership in NATO and the EU. Key economic portfolios in the new government are held by young, Western-trained and -experienced reformers.

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 (CBA), which succeeded in stabilizing the economy. The 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. The BNB can only refinance commercial banks in the event of systemic risk to the banking system.

In August 2001, the government proposed an economic program including: elimination of tax for reinvested business profits, reduction in individual income tax rates, a 17 percent boost in the minimum wage to 100 leva ($47) per month, doubling the child subsidy to $7.50 per month, hikes in residential energy prices, reform of customs to improve collection and fight corruption, reform and centralization of the privatization process, cuts in administrative personnel, and a business loan fund. During negotiations on a new stand-by agreement the IMF expressed concern over the potential loss of tax revenue and wants the government to maintain a budget deficit of less than 0.5 percent of GDP. With a potentially worsening international economic situation following the September 11 events, the government is reducing its growth estimates, facing less flexibility in policy choices, and reportedly scaling back its tax cut proposals.

In 2000, the government ran a budget deficit of 1 percent of GDP, a figure expected to rise slightly to 1.5 percent of GDP in 2001 due to the government's tax policy aimed at stimulating higher economic growth and job creation coupled with increases in civil servants' wages and pensions. Between January and September 2001, the government ran a budget deficit of BGN 182 million or about 0.6 percent of the projected 2001 GDP. Foreign investment inflows rose to a record US$1.0 billion in 2000. With delays in some large privatization deals, foreign direct investment amounted to US$ 410 million in the first half of 2001. The economy as a whole grew by a faster-than-expected 5.8 percent in 2000. In addition, the true size of the economy is as much as 20 to 30 percent larger than that reported by official statistics, which do not include the informal or shadow economy. However, economic growth, particularly in Bulgaria's private sector, has not been rapid enough to prevent a rise in unemployment, which reached 18 percent in 2000. The Bulgarian government projects sustained economic growth of four to five percent annually over the next few years. In the first half of 2001, GDP grew by 4.8 percent over the same period in 2000.

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. Bulgaria's association agreement with the European Union (EU) took effect January 1, 1994, and Bulgaria began 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 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.

Most commercial banks are licensed to conduct currency operations abroad. Companies may freely buy foreign exchange for imports from the interbank market. 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 liberalized its foreign currency laws effective January 1, 2000. Bulgarian and foreign citizens may take up to BGN 5,000 ($2,200) or an equivalent amount of foreign currency out of the country without declaration. Regulations allow foreign currency up to BGN 20,000 ($8,700) to be exported upon written declaration. Transfers exceeding BGN 20,000 must have the prior approval of the BNB. Foreigners are permitted to export as much currency over the foreign currency equivalent of BGN 20,000 as they have imported into Bulgaria without prior approval. All these regulations remain in effect as of October 1, 2001.

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 have hindered private business development. The government completed a review of licensing regimes and eliminated about 100 of these requirements in 2000. In April 2001, parliament amended the Law on International Commercial Arbitration to allow an international arbiter to participate in arbitration when a foreign-owned company is involved. However, the court would be in Bulgaria.

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. The privatization process has commenced for a number of large enterprises, including the Bulgarian Telecommunications Company, the state insurance company (DZI), a tobacco manufacturer (Bulgartabak), and others. As of September 2001, the Government of Bulgaria had sold approximately 79 percent of state assets destined for privatization. All banks except the State Savings Bank have either been sold or are in the privatization process. Parliament is expected to pass by the end of November 2001 a new Privatization Act aimed at increasing transparency, openness and effectiveness of the privatization process. This Act is expected to make all remaining SOEs (about 1,783 valued at 25 billion leva) available for privatization with the exception of some strategic enterprises such as the nuclear power plant (Kozloduy) and Bulgargas. The Act is also expected to abolish the existing privatization technique of negotiations with potential buyers, mandate privatization only through auctions and tenders, and eliminate all preferences in favor of controversial management-employee buyouts (MEBOs).

Bulgaria taxes value added, profits and income, and maintains excise and customs duties. In 1999, the government reduced the Value Added Tax (VAT) by two percentage points to 20 percent and the profits tax for large businesses by three percentage points to 27 percent. In 2000, the profits tax for large businesses was further reduced by two percentage points, the amount of non-taxable income for individuals was increased and voluntary VAT registration for businesses with turnover from BGN 50,000 to BGN 75,000 was introduced. In 2001, the government further cut the corporate profit tax rate, personal income tax and social security contribution rates by five percentage points, two percentage points and three percentage points, respectively.

4. Debt Management Policies

Bulgaria's democratically-elected government 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 2001, gross external debt amounted to $9.96 billion and the Bulgarian government projects the debt to remain within the same range by the end of 2001. While debt to commercial creditors accounted for 58 percent of the total external debt, debt to official multilateral and bilateral creditors stood at 36 percent. In the coming years, the government hopes to reduce the ratio of foreign debt to GDP to 60 percent (derived from the Maastricht Criteria, but not an actual requirement for joining the EU or EMU), as a result of projected economic growth, limited net borrowing needs, and better debt management. The Bulgarian government has asked Paris Club creditors to swap official debt for infrastructure and environment projects.

Under the Extended Fund Facility (EFF), the IMF provided credits of about US$814 million. The government has sought additional external financing from the World Bank, the European Union, and other donors. World Bank lending to date comprises 27 projects for a total value of US$1.5 billion. In 1999, the World Bank disbursed a second FESAL of US$100 million and approved an Agricultural Structural Adjustment Loan worth US$75 million. In 2000, the World Bank approved an Environment and Privatization Support Adjustment Loan of US$50 million and Health Sector Reform Loan of US$63 million. Two new loans, an Education Modernization Loan of US$14 million and a Child Welfare Reform Loan of about US$8 million, became effective in 2001.

According to the Ministry of Finance, at the end of July 2001 aggregate government foreign debt, excluding guarantees, was US$ 8,176,400,000. Guarantees amounted to US$502.7 million. 64.7 percent of total debt and 67.3 percent of foreign debt were denominated in U.S. dollars, according to the Finance Ministry. In addition, 73.4 percent of foreign debt had floating interest rates.

5. Significant Barriers to U.S. Exports

Bulgaria acceded to the World Trade Organization in 1996. Bulgaria acceded to the WTO Plurilateral Agreement on Civil Aircraft and committed to sign the Agreement on Government Procurement, though it has not yet done so. Bulgaria "graduated" from Jackson-Vanik requirements and was accorded unconditional Most Favored Nation 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 many U.S. companies. In July 2000 a bilateral agreement between the EU and Bulgaria came into force, reducing duties on some EU farm products to zero. 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 and a free trade agreement with Macedonia entered into force in January 2000.

In 1999, 2000, and 2001 average Bulgarian import tariffs were reduced significantly, and the government has committed to a further round of reductions in average most-favored-nation tariff rates. 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 zero to 30 percent (average tariff on industrial products is equivalent to 10 percent) and from about zero to 74 percent for agricultural goods (average tariff on agricultural goods is equivalent to 22 percent). In December 1998, Parliament revoked exemption from 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 were 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.

The State Agency 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. This agency 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.

Bulgaria is making an effort to harmonize its national standards with international standards. Bulgaria is a participant in the International Organization for Standardization and the International Electrotechnical Commission. Bulgaria is in the process of harmonizing 80 percent of its standards to European standards, in anticipation of joining the European Union. As of October 2001, Bulgaria has adopted 3,500 EU standards representing 40 percent of all applicable EU standards. Under the 1999 National Domestic Standards Act, all domestic standards are no longer mandatory. The major requirements for the safety of products are regulated in ordinances issued by the separate ministries in compliance with the respective EU directives. Bulgarian authorities expect to adopt 80 percent of the applicable EU standards by 2005.

All imports of goods of plant or animal origin are subject to European Union phytosanitary and veterinary control standards, and relevant certificates should accompany such goods. However, Bulgarian authorities have modified their national regulations to accept U.S. Department of Agriculture certificates.

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. The government does provide concessionary finance to agricultural producers for purchase of equipment and farming inputs.

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. Bulgarian legislation in this area is considered to be among the most modern in Central and Eastern Europe. Amendments to the Law on Copyright and Neighboring Rights adopted in March 2000 extended copyright protection to 70 years, and introduced a new neighboring right for film producers, provisional measures to preserve evidence of IPR infringement, and special border measures. In September 1999, Parliament passed a series of laws on trademarks and geographical indications, industrial designs, and integrated circuits.

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. 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, the International Convention for the Protection of New Varieties of Plants; the Vienna Agreement Establishing an International Classification of the Figurative Elements of Marks; the Nice Agreement Concerning the International Classification of Goods and Services for the Purposes of the Registration of Marks; the Strasbourg Agreement Concerning the International Patent Classification; and the Locarno Agreement Establishing an International Classification for Industrial Designs. On acceding to the WTO, Bulgaria agreed to implement the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) without a transitional period. In January 2001, the Bulgarian parliament ratified the WIPO "Internet" treaties, the WIPO Copyright Treaty and the WIPO Performance and Phonograms Treaty.

Pharmaceuticals manufacturers note that Bulgaria has not introduced data exclusivity or supplementary patent protection in line with the Agreement on TRIPS and the EU Association Agreement. The industry further claims that drug pricing and reimbursement procedures are not transparent. These companies also report that enforcement of patent rights for their products is ineffective. The Bulgarian government has also proposed amendments strengthening protection for pharmaceutical tests.

Software piracy continues to be a problem, although an industry legalization campaign, which began in 1999, has made dramatic gains against unauthorized software. Local software industry representatives report that, with good cooperation from Bulgarian law enforcement authorities, the campaign has brought the piracy rate down to approximately 80 percent of the market. Thanks to improvements in enforcement and the legal regime, audiovisual piracy has decreased dramatically since 1998.

U.S. industries report that lack of effective judicial remedies for infringement of intellectual property rights is a barrier to investment. U.S. companies have also cited illegal use of trademarks as a barrier to the Bulgarian market.

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 (CITUB) and Podkrepa, which between them represent the overwhelming majority of unionized workers. Although there are other legally registered unions, only CITUB and Podkrepa have the status of "social partners" with the right to participate in the Tripartite Councils that were strengthened as part of the institution of the Currency Board. The unions attained this status through a legislated census, the results of which were announced on December 1998. The next census is scheduled to take place in early 2002.

The 1986 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 (military, police, energy, health-care, post services, and judiciary) 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. Both labor unions challenged the legality of the definition of essential services and they have contacted the ILO to investigate the legality of blanket restrictions on the right to strike for workers in the health, transportation, and energy sectors. The Labor Code's prohibitions against antiunion discrimination include a six-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. As of September 2000, construction battalions in the armed forces have been terminated.

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 legislation conforms to ILO Convention 182, ratified June 17, 2000, by Bulgaria, and EU standards. However, low funding and other pressing economic priorities hamper effective child labor law enforcement, compilation of adequate government statistics, and public awareness campaigns. The shadow economy fosters child labor violations. Observers have estimated that between 50,000 and 100,000 children under 16 are illegally employed in Bulgaria, and the problem appears to be growing due to persistent high unemployment and low wages for adults, particularly in rural areas.

e. *Acceptable Conditions of Work:* The national monthly minimum wage equates to approximately $47. 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, but is weaker in the emerging private sector.

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. The 1998 Law on Safety and Health Conditions regulates health and safety standards in the workplace and requires all employers to introduce minimum health and safety standards by the end of 2001. During this three-year phase-in period, employers that do not provide the minimum health and safety standards in the workplace are obliged to pay an added remuneration to workers. The Law mandates that all factories that do not provide the minimum health and safety standards should be shut down and requires 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—2000

[In Millions of U.S. Dollars]

Category		Amount
Petroleum		1
Total Manufacturing		31
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	10	
Wholesale Trade		0
Banking		0
Finance/Insurance/Real Estate		0
Services		0
Other Industries		2
Total All Industries		33

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

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

CZECH REPUBLIC

Key Economic Indicators

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

	1999	2000	[1]2001
Income, Production and Employment:			
Nominal GDP (US$ billion)[2]	53.06	50.7	54.8
Real GDP Growth (pct)	–0.2	2.9	3.3
GDP by Sector (pct):[2]			
Agriculture	3.7	3.8	3.9
Manufacturing	26.3	27.8	29.0
Services	56.8	56.1	56.5
Government[3]	32.5	33.1	33.5
Per Capita GDP (US$)[2]	5,405	5,004	5.329
Labor Force (000s)	5,170	5,203	5,213

Key Economic Indicators—Continued

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

	1999	2000	[1] 2001
Unemployment (pct)	9.4	8.8	8.5
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	8.1	7.7	10.0
Consumer Price Inflation	2.1	3.9	6.0
Exchange Rate (CKR/US$):			
Official	34.60	38.59	38.90
Balance of Payments and Trade: [4]			
Total Exports FOB (USD bill)	26.8	29.0	21.6
Exports to United States	0.6	0.8	0.7
Total imports CIF (USD bill)	28.9	32.5	23.9
Imports from United States	1.2	1.4	0.9
Trade Balance (USD bill)	–2.06	–3.5	–2.3
Balance with United States	–0.53	–0.61	–0.28
Current Account Deficit/GDP (pct)	–1.5	–4.8	–5.0
External Public Debt [5]	24.3	22.0	23.0
Fiscal Deficit (Central)/GDP (pct)	1.6	1.8	9.4
Debt Service Payments/GDP (pct)	5.6	8.9	6.8
Gold and Foreign Exchange Reserves	12.8	13.1	14.0
Aid from United States [6]	6.5	6.0	8.9
Aid from All Other Sources	N/A	N/A	N/A

[1] Unless stated otherwise, 2001 figures are based on the latest data of the Czech Statistical Office (CSO) from September 2001, 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 percent of GDP.
[4] January through August 2001 data. 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] Military aid only, U.S. AID assistance was phased out by September 30, 1997.

1. General Policy Framework

The Czech Republic is a small, open economy with a free and competitive market. It is currently recovering from unfinished structural reforms problems mainly in the fields of bank privatization, industrial restructuring, legal reform, and financial markets transparency. Unfinished structural reforms lay at the heart of the Czech Republic's severe recession in 1998–1999, which led to an economic contraction of 2.3 percent in 1998. Economic recovery has been strong in 2000 and 2001, growing at 3.9 percent in the first half of 2001. However, a growing fiscal deficit and the effects of the worldwide slowdown may threaten continued expansion.

Until 1998, the Government of the Czech Republic pursued balanced budgets, incurring only small actual deficits. Budget deficits have traditionally been financed through the issuance of government bonds purchased by private investors, predominantly commercial banks. Economic recession, tax shortfalls, and the Social Democratic government's pledge to support a wide range of social welfare and investment programs led to a 1999 budget deficit of 1.6 percent of GDP. The deficit planned for the 2000 budget (1.8 percent of GDP) grew to 2.4 percent, and the deficit planned for the 2001 budget (2.4 percent of GDP) is currently 9.5 percent of GDP and may continue to grow. The 2002 budget, under discussion in late 2001, 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 invest $10 million or more in manufacturing 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. The incentives package was further enhanced by the new Act on Investment Incentives, effective as of May 1, 2000, which codifies, simplifies and extends the original national incentives scheme. The investment threshold was lowered to $5 million in regions with the unemployment rate at least 25 percent higher than the national average and investors in these regions can receive up to 200 thousand crowns (US$ 5,000) for each newly created job plus 35 percent of the requalification costs, among other improvements.

The incentives resulted in a strong inflow of foreign direct investment ($4.9 billion in 1999, $4.6 billion in 2000, $2.3 billion to June 30, 2001), and the trend is expected to continue. Portfolio investments in 2001 were $3.7 billion to June 30, 2001.

The Czech National Bank (CNB) is responsible by law 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 measures including a floating exchange rate, relatively high interest rates, and high compulsory bank reserves designed to dampen inflation and reduce external imbalances. Monetary policy during most of 1998 remained restrictive. In 1999, with the current account well on the way to recovery and the exchange rate of the crown relatively strong, the central bank, ahead of its inflation target for a second year in row, cut interest rates several times. Influenced by the government's expansive fiscal policy, increasing consumer demand and the possibility of new demands for wages increase in the fall, the CNB slightly increased interest rates in 2001. The CNB is likely to meet its net inflation target of two to four percent at the end of 2001.

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, subject to government action on implementing regulations. As of 2000, all capital account restrictions were removed except for the purchase of real estate in the Czech Republic by foreigners. 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 Russia's 1998 financial turmoil. The crown appreciated in value due to significant interest rate differentials between the Czech Republic and its major trading partners. It has remained strong even after the central bank reduced interest rates significantly in 1998 and 1999, as currency traders bet on EU convergence. The CNB's recent move against inflation, weakening foreign currencies, and expected inflows from privatization have pushed the crown to record highs in late 2001.

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. Detailed accession negotiations began in November 1998. Even though the Czech government is striving for full EU membership by end 2003, most observers do not anticipate that will be achieved prior to 2004 or 2005. As part of the EU accession process, many of the Czech Republic's regulatory policies and practices are being harmonized with 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 in the business climate for U.S. firms.

Czech tax codes are generally in line with European Union tax policies. According to OECD methodology, in 2000 tax collections amounted to 39.5 percent of GDP. In 2000, the government reduced taxes on corporate profits from 35 percent to 31 percent. The tax rate for the highest personal income tax bracket was lowered to 32 percent. Employer and employee social insurance contributions are respectively 35 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.

The need for an improved bankruptcy code remains an important structural impediment. Most observers believe the slow and uneven courts and weakness of creditors' legal rights has hampered the current bankruptcy law from acting as an effective vehicle for corporate restructuring. Members of Parliament and others have called for a bankruptcy law with provisions similar to the U. S. Chapter Eleven or "London Rules" for out-of-court settlements to encourage resuscitation of troubled firms. Several amendments, the latest in force as of May 1, 2000, have sought to address these concerns. Presently, there is a three to four-year backlog in the bankruptcy courts and only a small secondary market for the liquidation of seized assets. A complete overhaul of the bankruptcy code is under consideration for late 2001.

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 2000, gross foreign debt measured $22 billion and is not expected to change much in 2001. As of June 30, 2001, gross foreign debt measured $21 billion, the bulk being the debt of companies ($11.8 billion) and commercial banks ($8.3 billion). Debt service as a percentage of GDP and debt service to exports stand at 7.1 percent and 8.5 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. The government was considering its first issuance of Eurobonds in 2001.

5. Significant Barriers to U.S. Exports

The Czech Republic is committed to a free market and maintains an open economy with few barriers to trade and investment. It is a member of the World Trade Organization (WTO) and of the WTO's Information Technology Agreement. The Czech Republic is not a signatory to the General Agreement on Tariffs and Trade (GATT) civil aircraft code.

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. As of 2001, EU industrial products enjoy duty-free status. A number of U.S. companies from different 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 agricultural/food products standards and trade legislation. 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 the Czech food legislation with the EU also means that certain products currently prohibited in the EU will also be prohibited in the Czech Republic. U.S. exporters of beef, poultry, pork and horsemeat are not able to ship to the Czech Republic due to concerns about special risk materials shared by the EU. In November 2000, reacting to the EU BSE outbreak, the Czech State Veterinary Administration prohibited specific risks' materials usage in pet food, and the Animal and Plant Health Inspection Service (APHIS) cannot guarantee that U.S. pet food producers meet this requirement. Another problem with the pet food certificate is the bacterial testing requirement, which is stricter in the Czech Republic than in the EU. APHIS is currently in the process of negotiating possible changes to the Czech veterinary requirements

A final bill in line with EU directives to regulate Genetically Modified Organisms (GMOs) entered into force January 1, 2001, including decrees regulating new GMO varieties for field testing that the Czech Republic continues to approve.

In July 2000, the Czech Republic signed the Protocol on Conformity Assessment and Acceptance of Industrial Products (PECA) with the EU, which as of January 1, 2001, enables imports of EU industrial products without any additional testing. The Czech Republic has refused to extend the benefit of this agreement to products produced in the United States that meet EU certification requirements.

American business people often cite a convoluted, bureaucratic system (both at national and local levels), which can act as an impediment to market access. Often considerable time is required to finalize a deal, or enforce the terms of a contract. On occasion, European companies have sought 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. A procurement law introduced in 1994 proved unsatisfactory. Several revisions aimed at making the law simpler and more transparent failed. Recognizing that no amendment will help, the Czech Republic is currently working on a brand new procurement law to enter force in 2002. The Czech Republic is not a signatory 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 the same, and both are subject to the same tax codes. 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 an OECD member, the Czech Republic committed not to discriminate against foreign investors in privatization sales, with only a few sectors excepted. 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 enforceable secured interests. 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. 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 5,405 authorized rulings, and in the re-licensing process, which is complete, revoked 240 licenses. It has, however, been hampered by budgetary constraints and a lack of rule-making authority. A new law on the Securities Commission is being prepared to improve its status.

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.

6. 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.

7. 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. An amendment providing 70 years of copyright protection for literary works, up from the present 50 years entered into force on December 1, 2000. The Czech Republic passed most of its TRIPs-related legislation in 2000 and the last commitment, the broadcasting law, entered into force in July 2001.

As a result of enforcement weaknesses and delays in indictments and prosecutions, the U.S. government placed the Czech Republic on its Special 301 Watch List during the 1999 cycle. The Embassy continues to work with U.S. industry and Czech government officials to improve enforcement of IPR norms. Two recent legislative amendments expanded the tools for enforcement of IPR. One entered force on December 1, 1999, and boosts the powers of the customs service to seize counterfeit goods. The other, in effect as of September 1, 2000, allows the Czech Commercial Inspection (CCI) to act directly in IPR cases. Formerly, the CCI could only act in conjunction with the police. As a result of these changes, the United States government removed the Czech Republic from the Special 301 Watch List in 2001.

8. Worker Rights

a. *The Right of Association:* Czech 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 CzechMoravian Chamber of Trade Unions (CMKOS), a democratically oriented, republic-wide umbrella organization for member unions. The unions are not affiliated with political parties and exercise their 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 to affiliate with and participate in international bodies. Union membership, compulsory under the Communist regime, has declined since 1990.

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 potential 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 5,000 Czech crowns per month (approximately $132), although the monthly average is 14,018 Czech crowns (approximately $369) per month. Average net wages are 2.7 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 40 hours. It also requires paid rest of at least 30 minutes during the standard 8hour workday, as well as annual leave from 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—2000

[In Millions of U.S. Dollars]

Category		Amount
Petroleum		86
Total Manufacturing		151
Food & Kindred Products	49	
Chemicals & Allied Products	42	
Primary & Fabricated Metals	7	
Industrial Machinery and Equipment	15	
Electric & Electronic Equipment	–88	
Transportation Equipment	136	
Other Manufacturing	–10	
Wholesale Trade		119
Banking		(1)
Finance/Insurance/Real Estate		(2)
Services		42
Other Industries		35
Total All Industries		802

[1] Less than $500,000 (+/–).
[2] Suppressed to avoid disclosing data of individual companies.

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

DENMARK

Key Economic Indicators

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

	1999	2000	[1] 2001
Income, Production and Employment:			
Nominal GDP [2]	176,160	162,608	168,000
Real GDP Growth (pct) [2 3]	2.1	3.2	1.2
GDP by Sector: [4]			
Agriculture	4,018	3,693	3,800
Manufacturing	26,030	24,276	25,000
Services	72,261	68,234	70,700
Government	34,214	30,520	31,500
Per Capita GDP (US$) [2]	33,118	30,467	31,360
Labor Force (000s)	2,823	2,837	2,844
Unemployment Rate (pct)	5.6	5.3	5.2
Money and Prices (annual percentage growth):			
Money Supply Growth (M2) (pct)	2.8	–1.4	2.3
Consumer Price Inflation (pct)	2.5	3.0	2.3
Exchange Rate (DKK/US$ annual average):			
Official	6.98	8.09	8.09
Balance of Payments and Trade:			
Total Exports FOB [5]	49,679	50,132	55,000
Exports to United States [5]	2,774	2,977	3,700
Total Imports CIF [5]	44,669	44,218	47,000
Imports from United States [5]	2,131	1,810	2,000
Trade Balance [5]	5,010	5,914	8,000
Balance with United States [5]	643	1,167	1,700
External Public Debt	25,072	27,070	22,000
Fiscal Deficit/GDP (pct)	–3.1	–2.8	–2.0
Current Account Surplus/GDP (pct)	1.7	2.2	3.1
Debt Service Payments/GDP (pct)	1.4	1.9	1.7
Gold and Foreign Exchange Reserves	24,240	15,093	17,000
Aid From United States	N/A	N/A	N/A
Aid From Other Sources	N/A	N/A	N/A

Note: Dollar figures are based on mean exchange rate for calendar year.
[1] 2001 figures are all estimates based on available data as of October 5, 2001.
[2] Gross Domestic Product in Market Prices.
[3] Percentage changes calculated in local currency.
[4] GDP measured as "Gross Value Added by Industry."
[5] Merchandise trade (excluding European Union agricultural export subsidies).

Sources: Danish Bureau of Statistics, Danish Ministry of Economics, Danmarks Nationalbank (the Central Bank), and Embassy calculations/projections.

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 that effectively links Denmark with the rest of Europe. The Oeresund bridge connecting Denmark and Sweden that opened in 2000 is expected to assist the Oeresund region to become a center and a gateway that will attract significant foreign investment in high-tech industries, including biotechnology, pharmaceutical research, and information technology. 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.

Despite projected economic growth rates of less than two percent annually in 2001 and 2002, the Danish economy is fundamentally strong, with comfortable public budget and balance of payments surpluses. In addition, the Danish economy, due to its dependence on foreign developments, is flexible and ready to adapt rapidly to changed world developments. Following the September 11, 2001, terrorist attacks in the United States, economic growth projections have been slightly reduced and it is the government's hope and goal to avoid a recession. 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 firmly linking the Danish krone to the European Union's (EU) common currency, the euro.

Developments during the first half of 2001 in some key economic indicators (limited growth in private consumption, mostly due to a drop in car sales, and a growing surplus on the current account) suggest that the government's austerity measures, the "Whitsun Package" introduced in the summer of 1998, remain efficient. The Whitsun package, which aimed at curbing private consumption and restoring a balance of payments surplus, includes reduction of tax credits for debt interest payments in order to discourage new loan taking. The measures also aimed at increasing the incentive to work for low-income earners by reducing taxation in the middle bracket of the progressive income tax system. The government projects that the surplus in the public budget will drop from three percent of GDP in 2000 to two percent in 2001, with a further drop to 1.7 percent projected for 2002. This is due to the generally lower economic activity and to new large tax deductions for pension funds' losses in 2001 on their stock holdings. The inflation rate has dropped from three percent in 2000 to 2.3 percent in 2001. The inflation is mostly fueled domestically with wage inflation running at about four percent.

Denmark welcomes foreign investment, and is home to close to 300 subsidiaries of U.S. companies. From 1997 through 1999, U.S. direct investment in Denmark almost quintupled to some $11.2 billion (at market value using the current DKK/$ exchange rate). Most of the increase in U.S. direct investment has been in the form of acquisitions of Danish IT and telecom 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's opt-out of the European Monetary Union's (EMU) third phase (establishment of a joint EU currency and relinquishment of jurisdiction over monetary policy) was maintained in a referendum on September 28, 2000, when 53.2 percent of the voters rejected Danish participation. Several years are likely to pass before a Danish Government will test this opt-out again, although Denmark's economic performance is likely to continue to meet the established convergence criteria for participating in the EMU's third phase.

2. Exchange Rate Policy

Denmark is a member of the European Monetary System (EMS) and its Exchange Rate Mechanism (ERM). From the early 1980s until 1999, the Government linked the krone closely to the German mark through the ERM, and beginning January 1, 1999, (through the ERM2) to the euro. In August 2001, the trade-weighted value of the krone was 2.1 percentage points higher than in August 2000, due mostly to the krone's appreciation against the Swedish krone and the yen. In the first eight months of 2001 compared with the same period in 2000, the krone dropped some six percent against the dollar (from DKK 7.83 to DKK 8.35 to $1.00). Despite this increase in the dollar rate, the krone-value of U.S. exports to Denmark (as measured by the Danish Bureau of Statistics) in the first seven months of 2001 rose some 10 percent. In the same period, Danish exports to the United States benefited from the high dollar and increased close to 30 percent in krone-value. The development in U.S. exports to Denmark indicates that U.S. exports to Denmark in 2000 had reached a base level less sensitive to dollar rises

3. Structural Policies

Danish price policies are based on market forces. The Government's Competition Agency regulates entities with the ability to fix prices because of their market dominance. Denmark, during 1997, changed its competition legislation from the former "control" principle to the internationally recognized "prohibition" principle. The law was expanded in late summer 2000 to include "merger control." Since 1998, the Competition Agency has made raids on some 40 companies and in all but one or two found proof of anti-trust violations.

The highest marginal individual income tax rate, including the gross labor market contribution "tax," is about 64 percent, and applies to taxable earnings exceeding some $37,600 (2001). Foreign executives, earning more than $65,000 annually and foreign researchers working in Denmark on a contract may for a period of up to three 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. The government pays most sick leave and unemployment insurance costs. Employees pay their contribution to unemployment insurance out of their wages, while a large part of unemployment benefits is financed from general revenues.

The Danish United States 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 at present 30 percent and favorable depreciation rules and other deductions exist.

4. Debt Management Policies

Except for 1998, Denmark has had a balance of payments surplus since 1990. Consequently, foreign debt gradually fell from over 40 percent of GDP in 1990 to some 17 percent at the end of 2000. With a projected surplus of more than $5 billion on the balance of payments in 2001, the foreign debt's share of GDP is projected to fall to some 13 percent. Net interest payments on the foreign debt in 2000 cost Denmark some four percent of its goods and services export earnings. Moody's Investors Service and Standard and Poor's give the public domestic debt their highest ratings, Aaa and AAA, respectively. For the public foreign debt, their ratings are Aaa and AA+.

From 1999 to 2000, the net foreign debt (public and private) increased by some $5 billion to $27 billion, mostly due to a drop in the value of foreign stocks held by Danes. At the end of 2000, the public sector foreign debt, including foreign exchange reserves and krone-denominated government bonds held by foreigners, totaled $22 billion and the private sector foreign debt $5 billion.

During 2000, the central government debt denominated in foreign currencies dropped five percent to $10.5 billion, of which 93 percent was denominated in euros (and none in U.S. dollars). The central government foreign debt has an average term of some two years.

Denmark's central government budget 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 Danish Central Bank (Danmarks Nationalbank) 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. The Central Bank closely follows and adjusts Danish interest rates in response to European Central Bank interest rate adjustments. The Danish discount rate as of October 5, 2001, stood at 3.75 percent. The Central Bank's lending rate stood at 4.10 percent, down 1.5 percentage points from late September 2000.

5. Significant Barriers to U.S. Exports

Within the European Union, the European Commission has authority for developing most aspects of EU-wide external trade policy, and most trade barriers faced by U.S. exporters in EU member states are the result of common EU policies. Such trade barriers include: the import, sale and distribution of bananas; restrictions on wine exports; local (EU) content requirements in the audiovisual sector; standards and certification requirements (including those related to aircraft and consumer products); product approvals and other restrictions on agricultural biotechnology products; sanitary and phytosanitary restrictions (including a ban on import of hormone-treated beef); export subsidies in the aerospace and shipbuilding industries; and trade preferences granted by the EU to various third countries. A more detailed discussion of these and other barriers can be found in the country report for the European Union.

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, nondiscriminatory treatment to all foreign investment. Ownership restrictions apply only in a few sectors: hydrocarbon exploration, which usually requires limited government participation, but not on a "carried-interest" basis; arms production, non-Danes may hold a maximum of 40 percent of equity and 20 percent of voting rights; aircraft, 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. While no U.S. banks are directly represented in Denmark, a number of 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 of Denmark liberalized Danish telecommunications services in 1997; however, the network, i.e., the raw copper, remained controlled by the formerly government-owned Tele Danmark A/S (now known as TDC). The large U.S. company SBC Communications (formerly Ameritech) holds a controlling interest, 42 percent, of TDC. Access for other telecom operators to the raw copper opened in 1999. Sonofon, a Norwegian Telenor-controlled cellular mobile telephone network with U.S. Bell South participation, competes with TDC in that area. A number of foreign operators, including Swedish Telia and French Orange, are making strong inroads into the Danish market, which increases competition. The Danish Government on September 20, 2001, awarded 3-G (UMTS) licenses to four companies, TDC, Telia, Orange, and the Hong Kong based HI3G, at a price of $117 million per license.

Danish government procurement practices meet the requirements of the WTO Agreement on Government Procurement (GPA) 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," the EU "Ecoaudit" and the Nordic "Swan Label" requirements may be difficult for some U.S. companies to meet. In addition, local governments to an increasing extent apply "social" criteria in their procurement, e.g., that companies employ welfare recipients in less demanding jobs. The Danish government uses offsets only in connection with military purchases not covered by the GATT/WTO code and EU legislation. Denmark has no "Buy Danish" laws.

Denmark recently finalized a regulation, which will phase out certain industrial greenhouse gases, including hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), and sulphur hexafluoride (SF_6). The Danish government will phase out import, sale, and use of these gases and new products containing them beginning in 2002, with a complete ban in effect by January 1, 2006. There are exemptions for certain products, including small refrigerating systems containing HFCs, medical aerosol sprays, vaccine coolers, and lab equipment, and all production for export is exempt. However, specific exemptions are temporary in nature (e.g., "allowed until further notice"). The phase-out is part of Denmark's Climate Change strategy, which also includes a tax on these gases and products. The U.S. air-conditioning and refrigeration industry has complained about the Danish policy, saying that it doesn't focus on emissions management, nor does it consider the energy efficiency of their products. The regulation has also been criticized for exempting exports.

The Danish government uses offsets 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 $374 million in 2000, about 10 percent of the value of Danish agricultural exports including export subsidies to non-EU countries. Danish government support for agricultural export promotion programs is insignificant. Denmark has limited direct subsidies for its non-agricultural exports except for shipbuilding which, until the end of 2000, benefited from a general EU-wide subsidy of nine percent of the contract value. Denmark opposes resumption of EU shipbuilding subsidies and would rather see an eventual update of the 1994 OECD agreement and subsequent ratification by the world's leading shipbuilding nations, including the United States. The former shipbuilding subsidies have not prevented the closure of many of Denmark's shipbuilders in the face of increased and (allegedly unfairly) low-priced production in the Republic of Korea and elsewhere.

The government does not directly subsidize exports by small and medium size companies. Denmark does, however, have support programs that indirectly assist exports through promotions abroad, establishment of export networks for small and medium-sized companies, research and development, and regional development.

Denmark also has a well-functioning export credit and insurance system. In its foreign development assistance, Denmark, as a general rule, 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 stopped 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 music 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: In mid-2000, the quasi-official Danish copyright collecting agency Copydan entered an agreement with the private U.S. Copyright Clearance Center providing for reciprocal reimbursement of royalty payments for photocopying of copyrighted works. In addition, Denmark in 2001 introduced new legislation which resolved a long-standing TRIPS Article 50 issue with the United States and which is expected to significantly reduce computer software piracy, particularly by private companies. Also in 2001, Denmark introduced a new levy on blank music CDs, the proceeds of which will be shared with U.S. rightholders in a way similar to the present, but naturally declining in value, levy on blank audio tapes.

8. Worker Rights

a. *The Right of Association:* Workers in Denmark have the right to associate freely, and all, except those in essential services and civil servants, have the right to strike. Approximately 80 percent of Danish wage earners belong to unions. Trade unions operate free of government interference. Trade unions are an essential factor in political life and represent their members effectively. During 2000, only 124,800 workdays were lost due to labor conflicts. This compares with the 3.2 million workdays lost in 1998 in connection with the spring 1998 labor contract negotiations (see 8.b below). Greenland and the Faroe Islands have the same respect for worker rights, including full freedom of association, as Denmark.

b. *The Right to Organize and Bargain Collectively:* Workers and employers acknowledge each other's 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 negotiations between the various employers' associations and their union counterparts and present contracts range in length from two to four years. If negotiations fail, a National Conciliation Board mediates, and its proposal is voted on by both management and labor. If the proposal is turned down, the government may force a legislated solution (usually based upon the mediator's proposal). In 1998, for example, failure to reach agreement resulted in a conflict in the industry sector, which lasted 11 days before the government intervened with legislation. In 2000, the mediator's proposal for new four-year contracts in the industrial area won broad approval. In 2001, contracts in the agricultural industry were agreed to between management and labor. 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 at present is equal to about $9.50 per hour. Danish law provides for five weeks of paid vacation each year. However, the most recent private and public sector contract agreements provide for five extra holidays to be phased in not later than 2003. 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 workplace 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—2000

[In Millions of U.S. Dollars]

Category		Amount
Petroleum		1,099
Total Manufacturing		2,340
Food & Kindred Products	(1)	
Chemicals & Allied Products	(1)	
Primary & Fabricated Metals	28	
Industrial Machinery and Equipment	(1)	
Electric & Electronic Equipment	487	
Transportation Equipment	–13	
Other Manufacturing	(1)	
Wholesale Trade		619
Banking		(2)
Finance/Insurance/Real Estate		1,278
Services		111
Other Industries		171
Total All Industries		5,618

[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

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

	1999	2000	2001
Income, Production and Employment:			
Nominal GDP (at factor cost) [10]	128.4	121.4	[1] 123.2
Real GDP Growth (pct)	4.2	5.7	[1] 2.7
GDP by Sector:			
Agriculture, Forestry and Logging	4.2	3.8	[1] 3.8
Manufacturing, Construction, Mining and Quarrying	34.3	34.2	[1] 33.5
Electricity, Gas and Water Supply	2.3	1.9	[1] 2.1
Services	69.9	65.5	[1] 68.0
Taxes on products less subsidies	17.7	15.9	[1] 15.8
Per Capita GDP (US$) [9]	24,830	23,432	[1] 23,747
Labor Force (000s)	2,557	2,589	[1] 2,603
Unemployment Rate (pct)	10.2	9.8	[1] 9.0
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	6.6	0.0	[2] –0.02
Consumer Price Inflation	1.2	3.4	[3] 3.0
Exchange Rate (FIM/US$ annual average)	5.58	6.45	[4] 6.67
Balance of Payments and Trade:			
Total Exports FOB	41.7	45.5	[5] 24.5
Exports to United States	3.3	3.4	[5] 2.0
Total Imports CIF	31.5	33.8	[5] 18.4
Imports from United States	2.5	2.4	[5] 1.2
Trade Balance	10.2	11.7	[5] 6.1
Balance with United States	0.8	0.9	[5] 0.8
External Public Debt	–20.9	–39.4	[6] –5.5
Fiscal Surplus/GDP (pct) [7]	1.9	6.9	[1] 4.1
Debt Service Payments/GDP (pct) [8]	3.0	3.3	[1] 3.1
Gold and Foreign Exchange Reserves	8.4	8.9	[9] 8.4
Aid from United States	N/A	N/A	N/A
Aid from All Other Sources	N/A	N/A	N/A

[1] Estimate, Ministry of Finance. September 2001.
[2] Bank of Finland, August 2000-August 2001.
[3] Bank of Finland, January-August 2001.
[4] Bank of Finland, January-July 2001 average.
[5] Board of Customs, January-July 2001.
[6] Bank of Finland, January-June 2001.
[7] Net financing requirement, percent of GDP.
[8] General government interest expenditures.
[9] Bank of Finland, May 2001.
[10] Declines in Nominal and Per Capita GDP (despite positive growth rates) are due to the depreciating value of the Finnish Mark.

1. General Policy Framework

Fueled by the booming Nokia-led electronics industry, Finland has been amongst the fastest growing economies in the European Union (EU) with GDP growth averaging 4.8 percent per annum since 1994. Finland's membership in the EU, Finland joined on January 1, 1995, also helped spur structural changes in key economic sectors. Unemployment, at 9.8 percent in 2000, however, still remains above the EU average.

A key factor in Finland's recovery from its deep recession of the early 1990's was the strong growth in output in the manufacturing industry deriving largely from the success of telecommunications equipment exports. In 2000, exports accounted for more than 40 percent of Finland's overall output. However, weaker international demand has affected exports and production in the forest and electronics industries, and the latter part of 2001 looks bleak for the export industry. After seven successive years of robust growth, total output leveled off in early 2001. Over the January-July 2001 period, total output grew by 1.6 percent on 2000. The volume of Finland's total output fell for the third month in a row, off one percent year-on-year in July 2001. In July 2001, Ministry of Finance slashed its forecast for 2001 GDP growth by a full percentage point to 2.7 percent and lowered its 2002 estimate to 2.5 percent, due to global economic slowdown and the decline in exports, which is beginning to affect industrial production. The Ministry of Finance's next GDP growth estimate is scheduled for early November 2001, and is expected to be significantly lower, reflecting a continued global economic slowdown, exacerbated in part by the September 11 terrorist attacks on the United States.

In 2000, the central government's finances reached a surplus for the first time since 1990, and rose to 3.5 percent of GDP. After strong growth in 2000, the surplus in central government finances is estimated to decrease considerably this year, especially since business performance is slackening and receipts from corporate income taxes are falling. Inflation reached a rate of 3.4 percent in 2000, becoming one of the highest in the euro zone. This can be explained mainly by higher oil prices, but price increases in housing and the depreciation of the euro has also played a role. The rise in consumer prices slowed down to the euro area average in summer 2001, and with economic growth receding, inflationary pressures are estimated to continue easing in the latter half of 2001. The consumer price index is expected to rise by an average of 2.7 percent in 2001.

State debt is still at a high level, although it dropped from FIM 404.6 ($72.5) billion in 1999 to FIM 376.9 ($ 58.4) billion in 2000, and is expected to total FIM 357.9 ($ 53.6) billion in 2001. The debt-to-GDP ratio is expected to fall only slightly. The overall government debt ratio (ratio of EMU debt to GDP) is predicted to fall from 44.1 percent in 2000 to 42 percent by the end of 2001.

In 2000, Finland's tax ratio (gross wage-earner taxation, including compulsory employment pension contributions, relative to GDP) was up to 46.9 percent from 46.2 percent in 1999. A decrease is expected in 2001 (44 percent) and in 2002 (42.6 percent) due to scheduled tax cuts.

Key fiscal policy aims in the government program are to freeze central government spending at the level of the 1999 budget in real terms, to maintain central government finances in surplus (around 1.5 percent of GDP), and to clearly reduce state debt.

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 has helped reduce the cartelized nature of many Finnish industries. Legislation that took effect at the beginning of 1993 liberalizing foreign investment restrictions has helped spur an increase in foreign portfolio investment and hence has contributed to the internationalization of large Finnish companies. In 2000, capital flowed out of the country in the net amount of FIM 55 ($ 8.5) billion, almost equivalent to the surplus in the current account. The net outflow of foreign direct investment was FIM 65 ($10.1) billion. Investment outflows continue to exceed direct investment in Finland. Finland is hoping to capitalize on its location and expertise to serve as a gateway for foreign investors in the newly independent states of the former Soviet Union and the Baltic states. This effort had scored only limited success with relatively few foreign firms establishing production and warehousing facilities in eastern Finland, close to the major Russian markets. The Russian financial crisis in 1998 caused a significant slowdown in gateway activity, although there are now signs of recovery.

2. Exchange Rate Policy

The European Commission reported on March 25, 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 January 1, 2002. Both euros and Finnish marks will be in dual circulation for a period of two months, January 1-February 28, 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 European Central Bank (ECB). The Finnish mark 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 are taxed at a 17 percent rate. Medicines, books, passenger transportation, accommodation, TV licenses, admission fees to cultural and entertainment events, cinema performances and use of sporting facilities are taxed at an eight percent rate. Services, including health care, education, insurance, newspaper and periodical subscriptions, and rentals are not subject to VAT.

Agricultural and forestry products continue to be subject to different forms of non-VAT taxation. In 1995, a uniform tax rate of 28 percent took effect on capital gains, which include dividends, rental income, insurance, savings, forestry income, and corporate profits. The sole exception was bank interest, on which the tax rate was increased from 20 to 25 percent at the beginning of 1994. The corporate and capital gain income tax rate was increased from 28 per cent to 29 per cent in January 2000.

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 European Fair Trade Association tariff area.

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 many 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.

The only major divestment of state share holdings in 2000 was the sale of three percent of the stake in the telecom service provider Sonera, which brought in FIM 2.02 billion ($30 million) at a time when the firm's stock was near its historic high of 90 Euros. The Finnish state has share holdings in 46 major companies, at present it controls four stock exchange companies: Sonera; the national airline Finnair; the energy group Fortum; and the chemical group Kemira. The Finnish state has decided to sell its majority stake of 56 percent in chemical industry group Kemira to Swedish Industri Kapital, and in return will receive a minority holding of 34 percent in a new, as yet nameless, company. However, in order for the deal to be finalized, the Finnish parliament must authorize the state to sell all of its holdings in Kemira. The wholly state owned Finnish defense group Patria, has decided to sell 27 percent of its shares to European Aeronautic Defense and Space Company (EADS) and become a strategic partner with EADS.

In May 2000, the government reached a decision-in-principle on the use of state sales proceeds between 2000 and 2003. The government will boost basic funding for universities and will commit to certain projects aimed at bolstering long-term growth prospects. The rest of privatization proceeds already realized or forthcoming will be allocated to debt redemption.

State aid to industry was at a relatively high level in Finland in the first years of the 1990s. This was mainly due to the severe depression that Finland experienced at that time. It should be noted, however, that even in those years Finland was no more generous in subsidizing its manufacturing companies than the EU countries on average. The government has begun to reduce subsidies in line with the need for greater fiscal discipline and it is the government's policy to continue this trend. 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 system of direct business subsidies was streamlined in early 2001, so that existing subsidy programs were merged. The system of business subsidies consists of three forms of subsidies, i.e. investment aid, development aid for small and medium sized enterprises, and aid for the operating environment of businesses.

The Finnish economy faces two major challenges. First, the competition the Finnish economy is facing is clearly increasing and spreading to new sectors threatening traditionally sheltered sectors of the economy. Second, with the population aging, labor supply is set to decline in the next decade, correspondingly weakening the financial base by increasing outlays for social security and pensions. Finland's priority during next few years is to rise the effective retirement age. These challenges highlight the importance of fiscal restraint and structural reforms. There is a growing need in general government finances to concentrate on relieving the expenditure pressure caused by the aging population and on reducing the central government debt ratio. The key task in structural policy is to secure prerequisites for employment-oriented stable economic growth. To counter the economic slowdown, Finland plans to lower taxes and increase investment.

4. Debt Management Policies

Under the government's EMU convergence program, the gross government debt is projected to drop from 44.1 percent of GDP in 2000 to 42 percent by the end of 2001.

In May 2001, Standards & Poor's announced it would keep its rating of Finnish long term government bonds at their second-best rating, AA+ , adding that the outlook on long term ratings remains positive. In September 2001, Moody's rated Finnish long-term government bonds at its best rating, AAA. In November 2000, Fitch IBCA confirmed the rating of Finnish long-term government bonds as AAA, short-term foreign currency at F1, and rated the outlook as stable.

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 independent states of 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 0.31 percent of GDP in 2000. The Finnish government estimates foreign assistance will rise to 0.34 percent of GDP in 2001 and 0.341 percent of GDP in 2002.

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 some U.S. company applications for commercialization of genetically modified organisms (GMOs) such as insect-resistant corn. The Ministry for Environment 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 has gone into effect. Finland has exceptions to the EU directives on 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 such companies establish an office in Finland. In most cases, such restrictions will cover workers' compensation insurance companies as well. Auto insurance companies will not be required to establish a representative office, but will have to have a claims representative in Finland.

1995 was the first year of fully open competition in the telecommunications sector in Finland. The Telecommunication Act of August 1996 allows both network operators and service operators to use competitor telecommunication networks in exchange for reasonable compensation. The Telecommunication Act was replaced by the Telecommunications Market Act of 1997, which improved the opportunities of telecommunication operators to profitably lease each other's telecommunications connections. Entry to the sector was also made easier by eliminating a licensing requirement to construct a fixed-telephone network. Only mobile-telephone networks are still subject to license. The number of mobile telephones exceeded the number of fixed-line connections beginning in 1998. Finland's mobile phone penetration is 75 percent, with 3.9 million mobile phones in use. As of September 2001, Finns have been able to make local calls using the operator of their choice by using a five -digit code at the beginning of the number. It is also possible to choose which operator is used when calling from a fixed-line phone to a mobile subscriber.

Finland was the first country to grant licenses for third-generation mobile-phone networks. In March 1999, four telecommunications companies were granted licenses to construct 3G mobile networks in Finland. Contrary to many other European countries, licenses were free of charge and granted to the most qualified applicants, rather than by auction. Licenses were technology-neutral, but all four licensees are expected to use the European UMTS technology. 3G mobile operations are expected to be launched by the beginning of 2002. The world's first 3G WCDMA voice call on the commercial 3G PP (3rd generation partnership program) system was made between Nokia laboratories in Oulu and Salo, Finland, in mid August 2001.

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 remained, 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 were abolished in January 2000, bringing Finland fully in line with EU norms.

Foreigners residing outside of the EEA who wish to carry on trade as private entrepreneurs or as partners 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 from outside the EEA 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.

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.

Within the European Union, the European Commission has authority for developing most aspects of EU-wide external trade policy, and most trade barriers faced by U.S. exporters in EU member states are the result of common EU policies. Such trade barriers include: the import, sale and distribution of bananas; restrictions on wine exports; local (EU) content requirements in the audiovisual sector; standards and certification requirements (including those related to aircraft and consumer products); product approvals and other restrictions on agricultural biotechnology products; sanitary and phytosanitary restrictions (including a ban on import of hormone-treated beef); export subsidies in the aerospace and shipbuilding industries; and trade preferences granted by the EU to various third countries. A more detailed discussion of these and other barriers can be found in the country report for the European Union.

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 decided that payment of shipyard subsidies would end at the end of year 2000. According to Finland's year 2000 supplementary budget, subsidies were granted on ship orders up to a total value of FIM 6 billion ($930 million) and the industry granted an appropriation of FIM 140 ($21.7) million, in order to secure the competitiveness of the shipbuilding industry. Since spring 1996, Finnish shipyards have received 1.1 billion FIM ($169 million) in direct production support. The EU ministers discussed in mid July 2001 a plan to reintroduce subsidies to their shipbuilders as a "temporary support mechanism" to protect the industry from South Korean competition, which was said to benefit from unfair subsidies.

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. Patent rights are consistent with the international standards. In 1996, Finland joined the European Patent Convention (EPC).

Finland is a member of the World Intellectual Property Organization, 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 United States, and by some measures (e.g., BSA), is the lowest in the world.

Finland has been a member of the Paris Convention for the Protection of Industrial Property since 1921, the Berne Convention for the Protection of Literary and Artistic Works since 1928, and the Rome International Convention for the Protection of Performers, Producers of Phonograms and Broadcasting Organizations since 1983.

Finland is a member of the WTO. It shares the U.S. overall philosophy on an open and fair international trading system. Its government procurement practices have been consistent with EU policies and there has been no pattern of discrimination against U.S. businesses.

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 from 67 percent in 1994 to 30 percent in 2000. Retail software revenue lost to piracy amounted to $ 46.5 million in 2000, BSA reported.

The Finnish Copyright Act, which traditionally 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.

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. During 1993–2000, the percentage of workers who were organized dropped from 85 to 79 percent, mainly due to the fact that people between 35 and 44 years of age have started to lose their interest in labor unions, a recent study found. 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 2000, there were 96 strikes and 2001 will be dominated by a five months long doctors' strike, which started in May and ended in September 2001, and proved to be expensive for everyone. Despite this major strike, statistics show that the number of working days lost to strikes has been reduced significantly over the past thirty years. 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. The law prohibits forced and bonded labor by children and adults, and such practices do not exist. The government enforces these prohibitions effectively.

d. *Minimum Age for Employment of Children:* Youths under 16 years of age cannot work more than six 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.

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 sectors. The legal workweek consists of five 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:* Conditions in all 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—2000

[In Millions of U.S. Dollars]

Category		Amount
Petroleum		81
Total Manufacturing		672
Food & Kindred Products	7	
Chemicals & Allied Products	355	
Primary & Fabricated Metals	59	
Industrial Machinery and Equipment	77	
Electric & Electronic Equipment	61	
Transportation Equipment	77	
Other Manufacturing	36	
Wholesale Trade		328
Banking		20
Finance/Insurance/Real Estate		–3
Services		68
Other Industries		114
Total All Industries		1,279

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

FRANCE

Key Economic Indicators

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

	1999	2000	[1] 2001(est)
Income, Production and Employment:			
Nominal GDP	1,383	1,237	1,314
Real GDP Growth (pct)	3.0	3.1	2.3
GDP by Sector (previous year prices): [2]	1,318	1,187	N/A
Agriculture	39	34	N/A
Manufacturing	331	302	N/A
Services	680	613	N/A
Government and Non-Profit Services	268	239	N/A
Per Capita GDP (US$)	23,858	21,355	21,900
Labor Force (000s)	25,983	26,155	25,839
Unemployment Rate (pct average)	11.0	9.5	8.9
Money and Prices (annual percentage growth):			
Money Supply Growth (M3) [3]	7.3	7.6	7.9
Consumer Price Inflation (average)	0.5	1.7	1.7
Exchange Rate (FF/US$—annual average)	6.2	7.1	7.3
Balance of Payments and Trade:			
Total Exports FOB [4]	302	299	296
Exports to United States [4]	23	26	24
Total Imports CIF [4]	285	308	301
Imports from United States [4]	26	29	25
Trade Balance CIF/FOB	17	–9	–5
Balance with United States [4]	–3	–3	–1
External Public Debt	N/A	N/A	N/A
Fiscal Deficit/GDP (pct)	1.6	1.4	1.4
Current Account [4]	37	21	19
Current Account Surplus/GDP (pct)	2.6	1.6	1.5
Debt Service Payments/GDP (pct)	N/A	N/A	N/A
Gold and Foreign Exchange Reserves [5]	71	68	72

Key Economic Indicators—Continued

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

	1999	2000	[1] 2001(est)
Aid from United States	N/A	N/A	N/A
Aid from All Other Sources	N/A	N/A	N/A

[1] Embassy estimates based on published French government data unless otherwise indicated.
[2] GDP excludes Value Added Tax (VAT) and other taxes.
[3] 2001 figure reflects M3 as of July.
[4] 2001 estimate based on seven months.
[5] 2001 estimate based on eight months.

1. General Policy Framework

France is the fifth largest industrial economy in the world, with annual gross domestic product about 15 percent 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 ninth 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 7.3 percent to $20 billion in 2000, while merchandise imports from France grew 15.8 percent to $30 billion, according to the same source. This resulted in a U.S. merchandise trade deficit with France of about $7 billion. French trade data account differently for re-exports and transshipments via neighboring European countries, and as a result France reports a trade deficit of about $1 billion with the United States in 2000. Trade in services is expanding rapidly. In 2000, it added about $2 billion to the total volume of trade between the United States and France. The United States and France are the world's top two exporters in several important sectors, including defense products, agricultural goods, and services.

France's annual real GDP growth rate in 2001 is projected to be about 2.3 percent according to French government estimates, following growth of 3.1 percent in 2000. Economic growth in the first two quarters of 2001 was disappointing. Growth has been domestic-demand led as export growth has been significantly affected by the economic slowdown in the United States and among France's European partners, notably Germany. The employment picture improved early in the year, but deteriorated during summer. The unemployment rate decreased to 8.7 percent in February, remained at this level until May, and began to rise in June, reaching 9 percent in August. Based on government projections the general government budget deficit should stay unchanged at 1.4 percent of GDP in 2001 compared with 2000. Current indicators, notably business and household confidence, show the economic situation deteriorating. International factors, notably effects of September 11 attacks in the United States, are now creating further downward risks to GDP growth. Independent French economists forecast annual growth at about 2 percent in 2001 and to 1.8 percent in 2002.

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 reductions of taxes and government spending, increased flexibility of labor markets, and further deregulation of goods' and services' sectors. Further progress will depend on policies adopted by the government formed after legislative and presidential elections next year, and its room for maneuver.

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. This has produced a slow but progressive opening of telecommunications and electricity markets, and re-structuring of state-owned defense firms. Nevertheless, 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. Within the European Union, the European Commission has authority for developing most aspects of EU-wide external trade policy, and most trade barriers faced by U.S. exporters in EU member states are the result of common EU policies. Such trade barriers include: the import, sale and distribution of bananas; restrictions on wine exports; local (EU) content requirements in the audiovisual sector; standards and certification requirements (including those related to aircraft and consumer products); product approvals and other restrictions on agricultural biotechnology products; sanitary and phytosanitary restrictions (including a ban on import of hormone-treated beef); export subsidies in the aerospace and shipbuilding industries; and trade preferences granted by the EU to various third countries. A more detailed discussion of these and other barriers can be found in the country report for the European Union.

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; exotic meats (e.g., ostrich, emu and alligator); and live crawfish unless authorized by special agreement. Current regulations discriminate against imports of bovine semen and embryos from the United States by strictly controlling their marketing in France.

The French government established a policy on applications of biotechnology in agriculture and food production in 1998 that has restricted imports and production of goods made with transgenic materials or processes, principally corn, soybeans, and derived 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. A 40 percent domestic content requirement for music, excluding classical music and jazz, broadcast by French radio stations mandated by a 1994 law was lowered to 35 percent in 2000. Continuation and growth of a strong French motion picture and television industry 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.

In October 2001, the United States and France amended the 1998 bilateral civil aviation agreement to conform with all the necessary elements of an open skies agreement.

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. French government subsidies to agricultural production are primarily indirect. 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.

In April 2001, the European Union notified the United States that France and several other Member States had made commitments to provide development support for the Airbus A380 (super-jumbo) aircraft. In addition, the French government and local authorities in Toulouse announced in 2001 publicly funded projects valued at more than $270 million to provide infrastructure improvements related to the production of the A380 at Airbus facilities in France.

7. Protection of U.S. Intellectual Property

As a major innovator, France has a strong stake in defending intellectual property rights worldwide. Under the French intellectual property rights regime, industrial property is protected by patents and trademarks, while literary/artistic property and software are protected by the French civil law system of "authors rights" and "neighboring rights." France is a party to the Berne Convention on copyrights, the Paris Convention on industrial property, the Universal Copyright Convention, the Patent Cooperation Treaty, and the Madrid Convention on trademarks. U.S. nationals are entitled to receive the same protection of industrial property rights in France as French nationals. In addition, U.S. nationals have a "priority period" after filing an application for a U.S. patent during which to file a corresponding application in France.

8. Worker Rights

a. *The Right of Association:* The French Constitution guarantees the right of workers to form unions. Although union membership has declined to less than ten percent of the workforce, the institutional role of organized labor in France is far greater than its numerical strength. The government regularly consults labor leaders on economic and social issues, and joint work 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 42.02 per hour (about $5.60). Since February 2000, the legal workweek is 35 hours for firms of 20 or more workers. Firms with fewer than 20 workers will have until January 2002 to reduce their workweek to 35 hours. 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—2000

[In Millions of U.S. Dollars]

Category		Amount
Petroleum		1,010
Total Manufacturing		16,515
Food & Kindred Products	3,387	
Chemicals & Allied Products	3,742	
Primary & Fabricated Metals	3,800	
Industrial Machinery and Equipment	1,330	
Electric & Electronic Equipment	1,242	
Transportation Equipment	594	
Other Manufacturing	2,419	
Wholesale Trade		2,558
Banking		1,823
Finance/Insurance/Real Estate		9,964
Services		5,537
Other Industries		1,680
Total All Industries		39,087

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

GERMANY

Key Economic Indicators [1]

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

	1999	2000	2001
Income, Production and Employment:			
Nominal GDP [2]	2113.5	1868.6	1867.5
Real GDP Growth (pct, y/y) [3]	1.8	3.0	0.8
GDP by Sector (pct):			
Agriculture	6.4	5.8	5.8
Manufacturing	22.8	23.3	23.3
Services	70.8	70.9	70.9
Government [4]	48.2	47.3	47.4
Per Capita GDP (US$)	25,711.7	22,732.4	22,719.0
Labor Force (000s) [5]	38,838	40,204	41,155
Unemployment Rate (pct) [5]	10.5	9.6	9.4
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	5.2	4.1	4.0
Consumer Price Inflation	0.6	2.0	2.5
Exchange Rate (DM/US$—annual average)	1.84	2.04	2.02
Balance of Payments and Trade:			
Total Exports FOB	546.1	549.1	252.7
Exports to United States	55.2	58.5	30.5
Total Imports CIF	475.9	495.3	288.3
Imports from United States	26.8	29.4	16.0
Trade Balance	69.8	53.8	71.1
Balance with United States	28.4	29.1	14.5
External Public Debt [6]	1287.9	1122.4	1121.4
Fiscal Deficit/GDP (pct)	–1.4	1.5	–2.4
Current Account Deficit/GDP (pct)	–0.2	–1.7	–1.1
Debt Service Payments/GDP (pct)	3.5	3.3	3.3
Gold and Foreign Exchange Reserves	99.6	90.2	84.9
Aid from United States	0	0	0
Aid from All Other Sources	0	0	0

[1] 2001 figures are all estimates based on the first half, except GDP and fiscal balance, which are full-year forecasts.
[2] At 1995 prices.
[3] Percentage change in real GDP calculated in DM, national currency, at 1995 prices.
[4] Also included in services category.

[5] 2001 figures based on eight-month average and Embassy forecast.
[6] Total outstanding public debt

1. General Policy Framework

Germany's economy is the world's third largest, with total output equivalent to just under two trillion in 2000 (in nominal terms). Real GDP growth, which had dropped to 1.5 percent in 1999, rose to 3 percent in 2000. Most German public and private forecasters are now estimating growth to be less than one percent for 2001. 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 cyclical upswing in 2000 was based on the recovery in global conditions. The current decline in global economic indicators is reflected in German figures for 2001. Inflation remains very low, partly as a result of deregulation in the electricity and telecommunications sectors, and after rising in 2000 with the impact of higher oil prices, is now once again receding.

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. Differences in economic growth between western Germany, faster, and "new" states in the east, slower, have at least temporarily complicated economic convergence between the two regions, a key national objective. In addition, unemployment rates remain high, appearing to stagnate at almost four million people unemployed nationwide. Germany's total population stands at just over 82 million. Unemployment is about twice as high in eastern Germany as in the west.

Increased government outlays associated with German unification 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 raising 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 contributed to the dramatic ballooning of public sector deficits and borrowing since 1990 and thus 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 sought the cooperation of unions and employers in fashioning its labor market policies. Consensus has been possible on some issues, such as wage restraint in centrally negotiated agreements, expansion of training opportunities for young people entering the work force and improved opportunities for older workers. However, on many other issues there has been no consensus and the government has pursued its own course of action, generally favoring pro union policies. Deficit reduction efforts have focused on federal spending restraint; one-off revenues, such as the auction of Universal Modem Telecommunications System (UMTS) wireless telephone licenses in 2000, have been applied toward debt reduction. The government has introduced tax reforms, which reduce corporate income tax rates and close loopholes, extending relief to families, and raise energy taxes for environmental reasons. The government has made progress in 1999 and 2000 in reducing the budget deficit. Strong economic growth and favorable demographic trends combined in 2000 to increase employment significantly and to reduce unemployment rates. However, unemployment has climbed steadily in 2001, due primarily to slower economic growth, and unemployment is again at politically sensitive levels. Slower growth and the fiscal actions taken in response to the September 11 terrorist attack in the United States are expected to lead to an increase in the budget deficit. Germany employs a broad range of fiscal and market tools in financing public expenditures.

2. Exchange Rate Policies

On January 1, 1999, the euro was introduced in Germany and the Deutsche Mark was fixed at 1.96 to the euro. Euro notes and coins will be introduced on January 1, 2002, but many non-cash transactions are already denominated in the new currency. 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 economy 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 EU partners, the impact of German unification, pressure from globalization on traditional manufacturing industries, and 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 by the OECD. These can be broadly grouped as follows:

(1) a rigid labor market;

(2) a regulatory system that discourages new market entrants; and

(3) high marginal tax rates and high contribution rates mandatory for social insurance programs.

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 compatibility with the desired economic growth and employment levels identified by the German government and Germany's competitiveness as a location for business and investment. The government, as noted, has pursued tax reform, but the significant tax overlay encompassing federal, state and local taxes remains one of the highest tax burdens in the world. The government has not undertaken formal structural reform of the labor market and has instituted some changes that make the market more inflexible. At the same time, however, gradual changes are taking place in the labor market as a result of competitive forces, new technologies, new forms of employment, and the process of negotiations between unions and employers, at both the firm and the industry level.

In recent years, the government has reorganized the German Federal Railroad, the Federal Post (Deutsche Post) and Deutsche Telecom (DT). The initial public offering for Deutsche Post (DP) was in November 2000 and was quite successful. The government opened the telecommunications network to competition on January 1, 1998, the date when its new Regulatory Authority for Telecommunications and Post (RegTP) began operation. From that time on, the government has reduced its ownership share of the former monopoly DT to 42 percent in several tranches. Since then, however, U.S. telecommunications trade associations also filed complaints with USTR (in February 1999, 2000, and 2001) under Section 1377 of the Omnibus Trade and Competitiveness Act of 1988, charging that Germany was not fully complying with the WTO's Basic Telecommunications Agreement. USTR continues to monitor the German market. The federal government also has sold its remaining stake in the national airline, Lufthansa. The EU gas liberalization directive went into effect on August 10, 2000, but the negotiated third-party access agreement (TPA) agreed to by market participants in Germany has not produced the degree of competion that followed the electricity deregulation in April 1998. 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.

Despite the real progress in market liberalization in recent years, lack of competition and overregulation remain a problem and drive up business costs. Services subject to excessive regulation and/or market access restrictions continue to affect the telecommunications, posts, utilities, banking and insurance sectors. For example, after RegTP issued numerous procompetitive decisions in 1998–1999, competitors to incumbent DT charged that decisions have since then tended to favor DT, or at least have not promoted competition. The state's large ownership share of DT, however, has made the government very sensitive to the DT share price, which plummeted in 2001 to below its initial offering price after reaching its high in March 2000. In 2001, the government extended the DP monopoly on letter service until 2007, having earlier undertaken to lift the monopoly on January 1, 2003. DP lost two cases brought by competitors before EU competition authorities in 2001. On the positive side of the structural reform ledger, the German government in 2001 also repealed two important laws dating to the 1930s that severely limited price competition.

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 (consolidated) budget by 2004.

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 Germany. 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. In 2000, U.S. exports to Germany totaled $29.4 billion, while U.S. imports from Germany reached $58.5 billion. 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, however, enforces import license requirements placed on some products by the European Union.

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 and internet service providers. Germany has no foreign ownership restrictions on telecommunications services. Germany has supported the "safe harbor" agreement of July 2000 that bridges different approaches to protection of personal data between the United States and the EU. A 1998 EU data privacy directive prohibits businesses from exporting "personal information" unless the receiving country has in place privacy protection that the EU deems adequate.

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, can restrict market access for many U.S. products (e.g., genetically modified organisms and hormone-treated beef).

Government Procurement: Germany's government procurement is nondiscriminatory and appears to comply with the GATT Agreement on Government Procurement. The German Public Procurement Reform Act, which establishes examining bodies that have the responsibility to review the awarding of public contracts and to investigate complaints pertaining to the procurement process, came into effect on January 1, 1999.

Investment Barriers: Under the terms of the 1956 U.S.-FRG Treaty of Friendship, Commerce and Navigation, U.S. investors are afforded national treatment. The government and industry actively encourage foreign investment in Germany. As noted above, U.S. investors in recently privatized/deregulated sectors, such as postal services, telecommunications and energy, have encountered government activities that favor former monopolists. Beyond this, 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.

Within the European Union, the European Commission has authority for developing most aspects of EU-wide external trade policy, and most trade barriers faced by U.S. exporters in EU member states are the result of common EU policies. Such trade barriers include: the import, sale and distribution of bananas; restrictions on wine exports; local (EU) content requirements in the audiovisual sector; standards and certification requirements (including those related to aircraft and consumer products); product approvals and other restrictions on agricultural biotechnology products; sanitary and phytosanitary restrictions (including a ban on import of hormone-treated beef); export subsidies in the aerospace and shipbuilding industries; and trade preferences granted by the EU to various third countries. A more detailed discussion of these and other barriers can be found in the country report for the European Union.

6. Export Subsidies Policies

Germany does not directly subsidize exports outside the European Union's framework for export subsidies for agricultural goods. Competitors have charged DP with cross subsidization to preserve its domestic market share and gain entry to and increase market share in third countries, including the United States. The European Commission in early 2001 ruled against DP on a formal antitrust complaint from a U.S. parcel delivery company for abusing its dominant position. The Commission, however, is continuing a major anti-trust investigation of state aids for DP, which has been underway since 1994.

The German government is also providing a DM 2.5 billion loan on attractive terms to Airbus Germany for the development of the A 380 airliner. Repayment is contingent on future sales of the airplane.

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. Germany's commitments under the intellectual property rights portions (TRIPS) of the Uruguay Round, implementation in 1993 of the EU's Software Copyright Directive, as well as an educational campaign by the software industry have helped address concerns from some U.S. firms about the level of software piracy.

8. Worker Rights

a. *The Right of Association:* Article IX of the German Constitution guarantees full freedom of association. Worker 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 used infrequently. Basic wages and working conditions are negotiated at the industry level between trade unions and employer associations. Nonetheless, some firms, especially 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 have withdrawn at least part of their workforce from the jurisdiction of the employers association, complaining of rigidities in the centralized negotiating system. Those no longer covered by centrally negotiated agreements have not, however, refused to bargain as individual enterprises. German law mandates a system of work councils with broad rights of "codetermination" on some aspects of company policy and practice. In addition, German law provides for worker membership on supervisory boards of larger firms and those in particular industries. Thus many 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 generally bars child labor under age 15. There are exemptions for children employed on 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, the collective bargaining agreements set minimum pay rates and are legally enforceable. In most cases, 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—2000

[In Millions of U.S. Dollars]

Category		Amount
Petroleum		2,946
Total Manufacturing		26,801
Food & Kindred Products	467	
Chemicals & Allied Products	4,873	
Primary & Fabricated Metals	1,210	
Industrial Machinery and Equipment	6,063	
Electric & Electronic Equipment	2,537	
Transportation Equipment	6,979	
Other Manufacturing	4,673	
Wholesale Trade		3,215
Banking		699
Finance/Insurance/Real Estate		14,678
Services		2,729
Other Industries		2,542
Total All Industries		53,610

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

GREECE

Key Economic Indicators

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

	1999	2000	[1] 2001
Income, Production and Employment:			
Nominal GDP [2]	124,808.0	111,940.0	119,914.0
Real GDP growth (pct) [3]	3.3	4.3	4.5
GDP by Sector: [4]			
Agriculture	8,928.0	7,545.0	7,685.0
Manufacturing	24,125.0	20,980.0	21,815.0
Services	81,280.0	74,535.0	78,760.0
Of which:.			
Government	8,050.0	7,235.0	7,545.0
Per Capita GDP (US$)	11,848.4	10.618.6	11,350.9
Labor Force (000s)	4,434.8	4,461.4	4,488.1
Unemployment Rate (pct)	11.9	11.1	11.0
Money and Prices (annual percentage growth):			
Money Supply Growth (M4N Dec)	5.5	10.4	[5] 6.5
Consumer Price Inflation	2.6	3.1	3.5
Exchange Rate (DRS/US$ annual average):.			
Official	305.6	365.4	375.0
Parallel	N/A	N/A	N/A
Balance of Payments and Trade:			
Total Exports FOB [6]	10,510.0	10,760.3	10,500.0
Total Exports FOB [7]	8,546.9	10,201.3	10,700.0
Exports to United States [8]	563.1	591.4	[9] 301.5
Total Imports CIF [6]	28,422.0	28,501.3	28,500.0
Total Imports CIF [7]	26,493.4	30,436.0	29,800.0
Imports from United States [8]	995.5	1,221.8	[9] 692.5
Trade Balance [6]	–17,912.0	–17,741.0	–18,000.0
Trade Balance [7]	–17,946.5	–20,234.7	–19,100.0
Balance with United States	432.4	630.4	[9] 391.0
External Public Debt	33,600.0	27,045.0	24.990.0
Fiscal Deficit/GDP (General Government) (pct)	1.8	1.1	[10] (–0.5)
Debt Service (Public Sector)Payments/GDP(pct)	17.5	19.6	16.9

Key Economic Indicators—Continued

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

	1999	2000	[1]2001
Gold and Foreign Exchange Reserves	18,948.6	13,533.3	[11]7,000.0
Aid from United States	N/A	N/A	N/A
Aid from All Other Sources	N/A	N/A	N/A

[1] 2001 figures are all estimates based on available data in October.
[2] GDP at market prices.
[3] Percentage changes calculated in local currency.
[4] Factor cost.
[5] M3. The monetary factor used in the Economic Monetary Union.
[6] Merchandise Trade; National Statistical Service of Greece; Customs Data.
[7] Trade; Bank of Greece data; on a settlement basis for 1999. The Bank of Greece data, especially those on exports, used to underestimate true trade figures since exporters were not obliged to deposit their export receipts in Greece. Effective 1999, the Bank of Greece has been implementing a new set of accounts to be in line with other EU central banks. The new data are based on the new system (resident/non-resident basis).
[8] U.S. Department of Commerce. U.S. exports and general imports, customs value.
[9] January-July 2001 data.
[10] (–) denotes surplus.
[11] Eurosystem reserves definition. Foreign exchange reserves do not include: (1) claims on non-euro area residents in euro (2) claims on euro area residents in foreign currency and euro, and (3) the contribution of the Bank of Greece to the ECD capital and foreign reserve assets.

1. General Policy Framework

Greece, a member of the European Union (EU) since 1981, officially joined the EU Economic and Monetary Union (EMU) on January 1, 2001, and became a part of the EU single currency club. Its economy is segmented into the state sector, estimated at 40 percent of GDP, and the private sector, 60 percent of GDP. It has a population of 10.7 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, such as roads, rail, and telecommunications, reflects its middle-income status. Per capita GDP is $11,350, 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 65 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 2000 imports were $28.5 billion, while exports were only $10.8 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. Greece's growth (4.5 percent projected in 2001) has greatly depended on EU financing the last decade. Greece has received about $20 billion for major infrastructure projects (road and rail networks, ports, airports, telecommunications, etc.) from the EU over the period 1994–99. Greece will get another EU structural funds package of about $24 billion for the period 2000–2006. Greece will also undertake a number of infrastructure projects to host the 2004 Summer Olympic Games.

Greece joined the Economic and Monetary Union (EMU) as of January 1, 2001, having met all the macroeconomic convergence criteria for participation in the EMU established by the Maastricht Treaty. This positive outcome was the result of the implementation of a six-year convergence program designed to meet EMU entry requirements. Greece's fiscal balance has improved due to higher tax revenues and greater fiscal discipline. A more effective tax collection system, abolition of numerous tax exemptions, and the imposition of additional taxes led to higher revenues. Expenditures rose slightly in real terms due to a small increase in the wage bill (public sector) and a higher increase in government subsidies and support to social insurance funds. Outlays for interest payments showed a small decline due to lower interest rates. Greece has managed to keep inflation close to the EU average, at around 3.6 percent for the first eight months of 2001. In 2000, the unemployment rate dropped to 11.1 percent from 11.9 percent in 1999 and is expected to drop further to 11 percent in 2001. By the end of 2000, as a result of a fiscal policy focused on expanding revenue collection, the government budget deficit to GDP ratio had fallen to 1.1 percent. According to preliminary data, the 2001 general government budget shows for the first time a surplus of 0.5 percent of GDP.

Greece's large general government debt (102 percent of GDP or $119 billion in 2000) stems to a great extent from government acquisition of failing enterprises and a deficit run public sector for many years. Greece's social security program has also been a major drain on public spending. Deficits are financed primarily through issuance of government securities. For 2001 the government expects a reduction of the debt to 98.9 percent of GDP. The government debt to GDP ratio is projected to decline further to 95.2 percent in 2002, 90.5 percent in 2003 and 84 percent of GDP in 2004. Outlays for military procurement, the cost of 2004 Athens Olympic Games, and pressure from social insurance's rising obligations may make it increasingly difficult to meet these targets unless a comprehensive economic policy and necessary reforms are implemented.

The Bank of Greece, Greece's central bank, is a member of the European Central Bank, which determines the monetary policy to be followed by the EU member countries participating in the EMU.

2. Exchange Rate Policy

Greece's foreign exchange market is in line with EU rules on free movement of capital. As of January 1, 2001, when Greece joined the EMU, the drachma's central rate was set at 340.75 drachmas per euro.

3. Structural Policies

Greece's structural policies need to conform to the provisions of the EU Single Market and the Maastricht Treaty on Economic and Monetary Union. Since Greece joined the Eurozone on January 1, 2001, it will have to undergo serious structural reform to sustain EMU convergence criteria. Toward this end, the Greek government has opened its telecommunications market and has plans to gradually liberalize its energy sector. In the energy field, the Greek energy market has entered a phase of deregulation. Since February 19, 2001, about 34 percent of eligible customers of middle and high-tension voltage may obtain their electricity from producers other than the state monopoly, the Public Power Corporation (PPC). To date, however, there is no other electricity supplier. The electricity market in Greece will have to be fully deregulated by the year 2005.

The Greek government plans to privatize or sell minority stakes in public sector enterprises and organizations by the end of 2001. In accordance to this plan, at the end of June 2001 the government issued a bond loan convertible to about 10 percent of the stocks of the Hellenic Telecommunications Organization (OTE), which reduced government holding to 42 percent. The privatization plan also includes Hellenic Petroleum (23 percent currently traded in the market), Olympic Airways, Public Power Corporation, Natural Gas Corporation, Hellenic Aerospace Industry, the port operations in Piraeus and Thessaloniki, and the Agricultural Bank of Greece. 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 several years.

About one quarter of the goods and services included in the Consumer Price Index (CPI) are still 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). The latest legislation was voted in Parliament in December 2000 and provides for tax relief measures including: gradual reduction of the top tax rate for personal income to 40 percent from the current 45 percent; gradual reduction of the tax on corporation profits from the current 40 to 37.5 percent in 2001 and 35 percent in 2002; adjustment of the personal income tax scale to inflation every two years; higher tax rebates to large families; and lower taxes for new farmers.

4. Debt Management Policies

Greece's "General Government Debt" (the Maastricht Treaty definition) is projected at $119 billion, or 98.9 percent of GDP (market prices) in 2001. External debt accounted for 24.2 percent of total government debt in 2000 and is projected to drop to 20.8 percent in 2001. 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, 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. As a result, U.S. companies often employ 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. In November 1997, however, 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: Under the “Open Skies” aviation agreements that the United States has with most EU member states, there are no restrictions on bilateral routes, capacity or pricing. Greece is one of several member states without an Open Skies agreement, and where the U.S.-Greece bilateral aviation agreement still contains some limitations.

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 for film, software, music, and books is problematic, but has improved in the last few years.

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.

Recently, 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: Greek authorities take into serious consideration local content and export performance when evaluating applications for tax and investment incentives. However, they are not mandatory prerequisites for approving investments.

Greece, which restricted 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 recently opened its telecommunications market and has plans to gradually liberalize its energy sector. 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 has entered a phase of deregulation since February 19, 2001. The electricity market in Greece will have to be fully deregulated by the year 2005.

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.

6. Export Subsidies Policies

The government does not use national subsidies to support exports. However, some agricultural products (most notably cotton, olive oil, tobacco, cereals, canned peaches, and certain other fruits and vegetables) receive production subsidies from the EU which enhance their export competitiveness.

7. Protection of U.S. Intellectual Property

Greek laws extend protection of intellectual property rights to both foreign and Greek nationals. Greece is a party to the Paris Convention for the Protection of Industrial Property, the European Patent Organization, the World Intellectual Property Organization, the Washington Patent Cooperation Treaty, and the Berne Copyright Convention. As a member of the EU, Greece has harmonized its legislation with EU rules and regulations. The WTO TRIPS agreement was incorporated into Greek legislation as of February 28, 1995 (Law 2290/95).

Despite Greece's legal framework for (Law 2121 of 1993 on copyrights and Law 2328 of 1995 on media) and voiced commitment to copyright protection, Greece has been on the Special 301 "Priority Watch List" from 1994 to April 2001. The U.S. government launched a WTO TRIPS non-enforcement challenge and consultations under WTO auspices were started in June 1998. The United States, Greece and the European Union observed that estimated levels of television piracy in Greece have fallen significantly since 1996. According to statistics from the company for protection of audio-visual works, losses from audio-visual piracy have fallen from 60 million U.S. dollars in 1996 to 10 million U.S. dollars in 2000. Also, since 1998 several criminal convictions for television piracy have been made in Greece.

In April 2001, Greece, the United States, and the European Commission sent a letter to the WTO outlining the Greek government's commitment to continue to reduce the level of audiovisual piracy. Consequently, the United States Trade Representative announced that the U.S., Greece, and the European Commission had resolved their dispute over audiovisual piracy and Greece was upgraded from the Priority Watch List to the Special 301 Watch List.

Another significant intellectual property protection problem in Greece is lack of effective protection of copyrighted software. The piracy rate for entertainment software is very high in Greece. Pirated copies of console games enter Greece from Eastern and Central Europe and are produced locally. Pirated CD-based games are also imported and represent 90 percent of the illegal market with the rest locally produced on CD copiers. The Business Software Alliance reports the problems of counterfeit products loaded on hard disks and sales of counterfeit products throughout Greece. Like the other copyright industries, the computer software industry reports that it experiences long delays and non-deterrent fines, which kept its piracy rate in 2000 at 66 percent of total sales, the highest in the European Union.

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. U.S. companies report that counterfeit apparel is routinely brought into Greek ports from other non-EU countries.

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 ban strikes that they find illegal and abusive. Legislation permits dismissal of workers participating in illegal strikes, particularly those workers who have been designated as skeleton staff in public enterprises and utilities, so "social needs" will not be disrupted during a strike.

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 hazardous industries and lower age limits for family businesses, theaters, and the cinema.

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.

The government launched a second legalization process in 2001 allowing undocumented immigrants who were living in Greece for more than one year to apply for residence and work permits. About 350,000 immigrants from the estimated 800,000 aliens were registered and received a six month permit, during which they have to produce additional supporting documents in order to qualify for a full temporary residence permit valid for a year which is renewable. About 250,000 aliens had registered during the previous legalization programs and received "green cards" which allow them to live and work in the country for one to three years. Those issued green cards have the same labor and social security rights as Greek workers. Nonregistered immigrants are 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—2000

[In Millions of U.S. Dollars]

Category		Amount
Petroleum		78
Total Manufacturing		29
Food & Kindred Products	–30	
Chemicals & Allied Products	33	
Primary & Fabricated Metals	2	
Industrial Machinery and Equipment	0	
Electric & Electronic Equipment	13	
Transportation Equipment	0	
Other Manufacturing	11	
Wholesale Trade		178
Banking		117
Finance/Insurance/Real Estate		152
Services		40
Other Industries		77
Total All Industries		672

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

HUNGARY

Key Economic Indicators

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

	1999	2000	[1] 2001
Income, Production and Employment:			
Nominal GDP	48.02	46.32	[2] 50.0
Real GDP Growth (pct)	4.4	5.2	3.8
GDP by Sector: (pct)			
Agriculture	4.8	4.1	4.0
Manufacturing	27.7	29.2	29.2
Construction	4.7	4.6	4.8
Services	43.0	42.6	42.7
Government	19.8	19.5	18.8
Per Capita GDP (US$)	4,808	4,621	4,903
Labor Force (000s)	4,113	4,146	4,080
Unemployment Rate (pct)	6.5	6.0	5.6
Money and Prices (annual percentage growth):			
Money Supply Growth (M3)	16.1	12.7	[3] 15.1
Average Consumer Price Inflation	10.0	9.8	7.8
Official Exchange Rate (HUF/$ annual average)	237.29	282.27	290
Balance of Payments and Trade:			
Total Exports FOB	25.0	28.1	29.3
Exports to United States	.5	.6	[4] .7
Total Imports CIF	28.0	32.1	32.8
Imports from United States	1.9	2.7	2.5
Trade Balance	–3.0	–4.0	–3.5
Balance with United States	–1.4	–2.1	–1.8
Current Account Deficit/GDP (pct)	4.4	3.3	3.0
Net External Public Debt	2.9	–0.2	[5] 2.0
Fiscal Deficit/GDP (pct)	3.9	3.5	3.4
Debt Service Payments/GDP (pct)	9.3	9	8.5
Gold and Foreign Exchange Reserves	10.9	11.2	[5] 12.0
Aid from United States (US$ millions)	9.9	4.0	0
Aid from All Other Sources	N/A	N/A	N/A

[1] Source: Central Statistical Office and National Bank data through October 2001, except as noted.
[2] Apparent inconsistency with growth figures due to the strengthening of the dollar against the Hungarian forint.
[3] September 2000 to September 2001.
[4] Source: U.S. Department of Commerce; 2001 figures projected from January to August data. U.S and Hungarian-source bilateral trade figures differ markedly, due to country-of-origin distinctions in exports whose final assembly occurs in Hungary.
[5] August 2001.

1. General Policy Framework

Hungary has 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 to 1994) 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 to 1998) achieved economic stabilization through an IMF-coordinated austerity program adopted in March 1995, and accelerated privatization and economic reform. In 2000, Hungary continued to post solid increases in industrial output, exports, and overall output. Continued economic restructuring under the current government (elected in May 1998) is expected to allow for sustainable growth in the medium term. Regional disparities in economic growth, income and employment exist in Hungary.

A revised privatization program enacted in 1995 gave new momentum to sales of government enterprises and assets, largely on a cash basis, 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 comes from the private sector, and Hungary has progressively lowered government expenditures as a percentage of GDP. Other significant reforms initiated in 1995 include means testing of social welfare payments (partially reversed by the current government) and pension reform (implemented in January 1998). The unfinished reform agenda includes rationalizing health care, tax reform and local government financing.

Privatization revenues helped to reduce substantially Hungary's foreign debt. The government has an unblemished debt payment record and since late 1996 all major credit rating agencies have rated its foreign currency obligations at investment grade. Foreign currency reserves stood at $12 billion through August 2001, enough for more than four months of imports.

The government has pledged to continue reducing fiscal deficits. The consolidated budget deficit in 2001 will equal about 3.4 percent of GDP, down from 3.5 percent in 2000. However, the government has dramatically increased off-budget spending for road construction and housing, bringing the real deficit to more than five percent of GDP. Hungary finances its state deficit primarily through foreign and domestic bond issues. Projections for Hungary's 2001 current account deficit vary widely, but recent monthly statistics indicate that the deficit could end up lower than the 2000 deficit of $1.5 billion. Following a cumulative decline of 17 percent from 1995 to 1996, net real wages are expected to increase 5 to 7 percent in 2001, after an estimated 4.3 percent increase in 2000.

Hungary has been a leader among Central European countries inattracting foreign direct investment, with an estimated $23 billion in cumulative inflows since 1989. The United States is a leading investor in Hungary with over $8 billion in cumulative FDI since 1989. Tax incentives and related credits are available for foreign investments, especially in underdeveloped regions. Hungary will have to transform these into regional development schemes after its EU accession. Hungarian law currently permits the establishment of companies in customs-free zones, which are exempt from indirect taxation tied to the turnover of goods. These zones, the engines of Hungarian industry and foreign trade, will face significant changes after Hungary's EU accession, but until then there are no plans to reduce the preferences guaranteed to them.

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 the earliest possible accession date of January 1, 2003.

2. Exchange Rate Policy

The Government Decree on Foreign Currency (effective June 16, 2001) made the Hungarian forint fully convertible and abolished remaining restrictions on currency transactions, including permitting foreigners to buy Hungarian bonds and invest in derivatives. Foreigners and Hungarians can maintain both hard currency and forint accounts. Hungary widened the intervention band for the forint from ± 2.25 to ± 15 percent on May 4, 2001, and eliminated the crawling peg on October 1, 2001. These changes have allowed the forint to fluctuate freely within the larger band. The forint was widely considered to be undervalued prior to the changes. In the months since, the forint appreciated steadily and in recent months settled at a rate about 9 percent above the reference peg to the Euro, an appreciation of about 7 percent. The crawling peg, in place since 1995, coupled with liberalization and prudent fiscal and monetary policy helped slow average annual inflation from 28.3 percent in 1995 to 9.8 percent in 2000. The strengthening of forint in 2001 is expected to further reduce inflation in 2001 and 2002.

3. Structural Policies

The market freely sets prices for most products and services. User prices for pharmaceuticals, public transport, and utilities are set in some cases by the state. The government offers a wholesale floor price for many agricultural products. Public opposition and regulatory intervention have prevented utility prices (e.g., natural gas for heating and cooking) from reaching market levels, causing power companies to receive less than the cost-plus-eight percent return stipulated in privatization contracts. MOL has suffered significant losses since 2000 because the government fixed natural gas prices at a level substantially lower than world market prices.

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 income tax remains low at 18 percent. A ten-year corporate tax holiday applies to investments of at least $33 million, as of October 2000, or $10 million in less developed regions, and a five-year, 50 percent tax holiday applies to investments of at least $3.3 million. Other incentive programs exist, including some offered by counties and municipalities. Consult the Country Commercial Guide for additional information.

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 next areas of government finance reform are health care and local government financing. Health care costs are emerging as a drain on the budget and a source of fiscal indiscipline. The government continues to control pharmaceutical prices in order to limit health spending. Wholesale reforms are unlikely until after the 2002 election.

4. Debt Management

Hungary is a moderately indebted country with gross foreign debt expected to be $33.5 billion at the end of 2001. Net public domestic debt was $20.2 billion at the end of June 2001. Hungary is one of a handful of countries that has never defaulted or rescheduled its foreign debt. Moody's has upgraded the foreign currency ceilings for bonds and bank deposits in Hungary from Baa1 to A3, and other major credit rating companies to A- at the end of 2000. A standby credit arrangement with the IMF ended in February 1998 by mutual agreement. Hungary is expected to have reserves of $12 billion at the end of 2001.

5. Significant Barriers to U.S. Exports

Hungary's trade policies are shaped primarily by its World Trade Organization (WTO) commitments and its efforts to accede to the European Union (EU). Hungary's progressive implementation of its Uruguay Round agreements has generally improved U.S. access to the Hungarian market. Hungary cut its average most-favored-nation (MFN) import duties from 13.6 percent in 1991 to 8.0 percent in 1998. Hungary has not yet acceded to the WTO Information Technology Agreement (but must as a condition of EU membership) and does not belong to the WTO Plurilateral Agreement on Civil Aircraft.

Under Hungary's 1993 EU Association Agreement, Hungary completely eliminated tariffs on industrial products from the EU as of January 1, 2001. EU non-industrial exports can also enter Hungary with reduced tariff rates on a selective basis. However, until Hungary adopts the EU common external tariff (CXT), U.S. exports to Hungary are subject to MFN tariff rates, which are often quite high. For example, Hungary's MFN rate on automobiles is 43 percent, while automobiles of at least 60 percent EU origin enjoy duty-free access. These differentials between tariffs on EU goods and U.S. goods disadvantage U.S. exporters, and the United States is in ongoing discussions with Hungary to reduce the differentials in key areas. Duty must be paid on imports from outside the Pan European Free Trade Zone, which may then be exported duty-free to other countries within the Zone. Duty paid on inputs processed and then exported within the zone is no longer refundable, a problem that the Hungarian government has addressed on a case-by-case basis for U.S. firms exporting from Hungary to European markets.

Although 96 percent of imports (in value terms) no longer require an import license, quota constraints apply to some 20 product groups, including cars, textiles, and precious metals (the quotas, however, are not actually reached 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 progressively replaced by tariff-rate quotas. In 1997, Hungary eliminated an import surcharge imposed as part of the March 1995 austerity package.

For domestic political reasons, Hungary has not yet implemented an amendment to the 1996 Media Law which would harmonize Hungary's broadcast regime with EU directives on content and quotas. Current draft legislation would require that over 50 percent of both public and private TV broadcasting be European programming, where practicable. In the meantime, the more restrictive original law still governs, which requires 70 percent European content. The Media Act revision would also limit any single cable provider to one-sixth of the household market. The Unified Communications Act passed in 2001 will eliminate the monopoly of the formerly state-owned telecommunications company at the end of 2001. Smaller local telephone operators have monopoly rights for local services until the end of 2002.

On February 26, 2001, Hungary and the EU signed a Protocol to the Europe Agreement on Conformity Assessment and Acceptance of Industrial Products (PECA), under which the EU and Hungary agreed to recognize the results of each other's designated conformity assessment bodies, thus eliminating the need for further product testing of EU products imported into Hungary. However, it appears these benefits will only apply to products that are both of EU country origin and bear the "CE" mark denoting compliance with EU standards. As such, products of U.S. origin that bear the CE mark may not receive testing-free entry into Hungary.

The United States government has, and will continue to, discuss its concerns over PECA with Hungary and the EU in bilateral and multilateral settings.

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. Hungary has requested a seven-year transition period after EU accession to eliminate this restriction.

Under the November 1995 Law on Government Procurement, public tenders must be invited for purchases of goods with a value over $33,000. As of October 2000, the same is true of construction projects worth $66,000 or designs and services worth over $16,500. Bids that contain 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 involving government tenders.

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).

6. Export Subsidies Policies

The Hungarian 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. Hungary offers no direct export subsidies on industrial products, but does give export subsidies to some agricultural products. 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 abiding by the terms of that agreement in phasing out subsidies, despite continued political pressure from domestic constituencies.

7. Protection of U.S. Intellectual Property

Intellectual property rights laws in Hungary are generally good, but insufficient resources, court delays, and relatively light penalties hamper enforcement. In 1993, the United States and Hungary signed a comprehensive Bilateral Intellectual Property Rights Treaty. Hungary 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. In compliance with its TRIPS obligations, Hungary enacted a new copyright law that went into effect on September 1, 1999, that introduced modern copyright legislation. Some question exists of whether sufficient legal authority exists for civil ex parte search procedures.

In May 2001, the United States Trade Representative announced that it had upgraded Hungary to the Special 301 Priority Watch List because Hungary does not adequately protect confidential test data submitted by pharmaceutical companies seeking marketing approval, contrary to its obligations under Article 39.3 of TRIPS. On April 12, 2001, the Hungarian government issued a ministerial decree to provide this so-called data exclusivity protection, but the decree does not take effect until January 1, 2003, and would not provide protection for test data submitted prior to that date. The Hungarian government claims that its unfair competition legislation is adequate to prevent generic drug manufacturers from using data submitted by multinational research pharmaceutical firms, but examples exist where generics have actually come to market prior to or very soon after the original product. The United States has urged Hungary to rectify this situation at every possible opportunity. Hungary did not provide product patents (only process patents) for pharmaceuticals before 1994, and examples exist of domestic generic drugs coming to market before process patents expire.

Pharmaceutical manufacturers have also tried unsuccessfully to get the Hungarian government to reverse the burden of proof in patent infringement court cases. The industry has also reported a lack of transparency in the Hungarian government's drug pricing and reimbursement policies, claiming the government discriminates against imported drugs in favor of domestically produced generics.

Trademark infringement is a problem in Hungary, with various counterfeit goods (e.g., perfumes, clothing) available on the local market. These goods appear to be entering Hungary from other countries rather than being manufactured here. The number of civil actions brought before the Budapest Metropolitan Court (the exclusive court of competence for these cases) is up dramatically since 1997, but the enforcement of sanctions against the sale of pirated goods is still lacking. There are no available estimates of the losses incurred by the various industries due to either black or gray market activities. This area of IPR infringement is receiving increased attention from Hungarian and international law enforcement, however, due to the involvement of organized crime and connections with money laundering schemes.

Copyright protection is weak in Hungary, with pirated CDs, tapes, videos, and software available on the local market. Many of these products are produced in Hungary. Video and cable television piracy is widespread, and local television and cable companies regularly transmit programs without authorization. U.S. industry estimates that 40 percent of the videotapes available in Hungary in 2000 were pirated copies. Local groups such as the Business Software Alliance and the Hungarian Anti-Piracy Association are funded in part by manufacturers associations (e.g., Motion Picture Association) and are working to reduce the level of piracy, in cooperation with Hungarian law enforcement. There are about 1,000 software copyright court cases tried each year. Government cooperation has been good, but not enough resources are available to effectively stop copyright infringement.

The Pharmaceutical Research and Manufacturers Association estimates it loses between $50 and $100 million annually due to the data exclusivity problem and other weaknesses in Hungary's patent protection regime. The International Intellectual Property Alliance estimated losses to U.S. trade in 2000 due to copyright piracy at $55.6 million.

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 private sector. 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—2000

[In Millions of U.S. Dollars]

Category		Amount
Petroleum		–47
Total Manufacturing		834
Food & Kindred Products	(1)	
Chemicals & Allied Products	62	
Primary & Fabricated Metals	(1)	
Industrial Machinery and Equipment	399	

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—2000—Continued

[In Millions of U.S. Dollars]

Category	Amount	
Electric & Electronic Equipment	79	
Transportation Equipment	107	
Other Manufacturing	66	
Wholesale Trade		151
Banking		([1])
Finance/Insurance/Real Estate		([1])
Services		–55
Other Industries		76
Total All Industries		1,040

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

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

IRELAND

Key Economic Indicators

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

	1999	2000	[1] 2001
Income, Production and Employment:			
Nominal GDP [2]	2,267.0	91,300	97,700
Real GDP Growth (pct) [3]	10.5	11.5	6.0
GDP by Sector: [4]			
Agriculture	3,627	3,360	N/A
Manufacturing	35,140	36,013	N/A
Services	45,568	45,858	N/A
Government	3,172	2,878	N/A
Per Capita GDP (US$)	424,067	23,652	25,310
Labor Force (000s)	1,711	1,732	1.779
Unemployment Rate (pct) [5]	5.6	4.1	3.7
Money and Prices (annual percentage growth):			
Money Supply Growth (M3E) [6]	N/A	N/A	N/A
Consumer Price Inflation (pct)	1.6	5.6	5.3
Exchange Rate (IP/US$—annual average):.			
Official	.74	.85	.92
Parallel	N/A	N/A	N/A
Balance of Payments and Trade:			
Total Exports FOB [7]	70,200	73,125	75,600
Exports to United States	10,894	13,131	*7,488
Total Imports CIF [7]	46,777	50,900	49,800
Imports from United States	7,733	8,288	*4,564
Trade Balance	23,423	22,225	*15,899
Balance with United States	3,161	8,750	*2,923
External Public Debt [8]	46,845	40,483	34,294
Exchequer Surplus/GDP (pct) [9]	1.7	3.1	2.6
Debt Service Payments/GDP (pct)	3.6	2.4	N/A
Gold and Foreign Exchange Reserves	5,693	6,794	N/A
Aid from United States [10]	5	8	8
Aid from All Other Sources [11]	1,322	2,197	N/A

* Total for January-June 2001.
[1] 2001 figures are estimates based on data available through June 2001.
[2] GDP at current market prices.
[3] GDP at constant market prices (local currency).
[4] GDP at constant factor cost.
[5] ILO definition.
[6] Broad money (from 1998 CBI discontinued publishing M3E).
[7] Merchandise trade.
[8] Total amount owed by Irish government at year ending December 31, 1999 and 2000 at the average yearly exchange rate. The figure for year 2001 represents the value of government debt on March 31, 2001.

[9] General government.
[10] In 2000, the United States contributed 19.6 million dollars to the International Fund for Ireland (IFI). A further 19.6 million dollars is committed for 2001. It is estimated that a quarter of this amount is spent in the Republic of Ireland's border counties.
[11] These figures include transfers from the EU's European Social fund, Regional Development Fund, Cohesion Fund and Special Program for Northern Ireland and the border counties, as well as the contributions from countries other than the United States to the IFI.

Sources: Central Bank of Ireland (CBI), Central Statistics Office (CSO), and National Treasury Management Agency (NTMA).

1. General Policy Framework

In 2001, the Irish economy continues to grow strongly, albeit at a slower rate than previous years. The unprecedented double-digit economic growth recorded in 1999 and 2000 has tapered off and signs of slowdown are apparent. Last year's significant expansion in output was driven by strong domestic demand and impressive external trade performance. The deceleration on growth, as witnessed in the first six months of 2001, reflects the impact of a slowdown in the U.S. and the European Union and the effects of animal health problems.

Most commentators trace the origins of Ireland's "Celtic Tiger" economy to the economic policy mix put in place in the late 1980s and maintained by successive governments since then. This included: (1) tight control of public spending in order to reduce government borrowing and taxation on corporate and personal incomes; (2) a de facto incomes policy, operated through national economic programs agreed by the government, employers, and trade unions, in order to limit wage growth and boost employment creation; (3) the ten (12.5 percent beginning in 2003) percent corporate tax rate for international manufacturing and service companies, together with generous grants to export-oriented multinational firms who locate in Ireland; and (4) high levels of investment in education, training and physical infrastructure, much of it funded by generous transfers from the European Union. In contrast to the economic policies of the 1970s and early 1980s, the policy mix in the last decade has centered on supply-side reforms to the economy, aimed at improving the attractiveness of Ireland as a location for overseas investment and increasing competitiveness of Irish-made goods in the international marketplace.

The results have been impressive. Real Irish GDP growth has averaged over eight percent since 1994, and real Irish incomes have increased by almost two-thirds since the beginning of the decade. Fast growth has been accompanied by increasing openness to the world economy. In 2000, total imports and exports were equivalent to over 140 percent of GDP, compared with under 100 percent a decade earlier. Thanks in large part to the strong performance of Irish-based U.S. and other multinational firms, Ireland now enjoys a huge surplus in merchandise trade (equivalent to 29 percent of GDP in 2000), which more than offsets trade deficits in services and factor incomes. Despite fast growth, inflation remained low for much of this period, averaging just two percent in 1994–97. Since late 1999, however, inflation has accelerated from year-on-year rates of 2 percent to a rate of 7 percent in November 2000, and slowed to 4.6 percent in August 2001. The weak value of the euro vis-a-vis the U.S. dollar, higher oil prices, increasing wage costs, rising disposable incomes, relatively low interest rates, lower taxes, fast employment, and strong growth in property prices have together resulted in these recent levels of high inflation.

Fiscal policy: After the runaway public deficits of the mid 1980s, the Irish government has since maintained a more prudent fiscal position. Fast economic growth, combined with limited growth in public spending, has kept Ireland's general government deficit below 2.5 percent of GDP since 1989. In recent years, Irish governments have enjoyed large general government surpluses. In 2000, the general government surplus was 3.6 percent of GDP and is expected to contract to 2.6 percent in 2001. This was consistent with the provisions of the 1992 Maastricht Treaty, which required EU member states to keep their fiscal deficits below three percent of GDP, and allowed Ireland to be confirmed in May 1998, along with ten other EU member states, as a starting participant in the final stage of economic and monetary union (EMU), which began in 1999.

In spring 2000, the European Commission censured Ireland for pursuing "an over expansionary fiscal policy." Tax cuts in four consecutive budgets, coupled with significant increases in the Government of Ireland's spending, prompted the Commission to issue a formal censure to Ireland. In the Commission's eyes, Ireland breached the European Union's Broad Economic Policy Guidelines, and it was obligated to either postpone future tax cuts or cut back on public spending.

Government surpluses, together with fast growth in national income, have reduced Ireland's Debt/GDP ratio from over 125 percent in 1987 to 39 percent at the end of 2000. The National Treasury Management Agency predicts a further decline in 2001 in the ratio of about eight percentage points and another five percentage points in 2002. In nominal terms, national debt at the end of 2000 amounted to just over 34.7 billion dollars. Of this, 5.5 percent was denominated in non euro currency. The burden of debt service costs on the economy and the taxpayer continued to fall in 2000. The ratio of interest payments to tax revenues declined by 2.5 percentage points, continuing the downward trend of the past several years. As a result, interest on the debt now absorbs some 7.6 percent of tax revenue compared to almost 28 percent in 1990.

Personal income and consumption taxes form the bulk of total government tax revenue. There are two personal tax rates, the standard 20 percent rate and the higher 42 per cent rate. The higher rate kicks in at slightly below the median industrial wage (about 23,000 dollars). In a bid to secure continued trade union commitment to modest nominal wage increases and to make entry level jobs more attractive to the long-term unemployed and non traditional participants in the Irish workforce (older citizens and mothers), the current government lowered personal tax rates and introduced a tax credit system. The rate of Value Added Tax (VAT), a consumption tax, at 20 percent, is high by European standards. VAT rates in EU Members States, including Ireland, can be raised, but not lowered, without EU approval.

The standard rate of corporate tax is 20 percent. Corporate taxation, however, makes a relatively modest contribution to public finances, and few U.S.-owned businesses pay this rate because of the special ten percent rate available to companies producing internationally-traded manufactured goods and services, and to companies operating in certain industrial zones. Most Irish-based, U.S.-owned businesses pay corporate tax at the special ten percent rate. In response to European Commission criticism that the special rate of corporate tax constituted a subsidy to industry, the government committed to harmonize the special and standard rates to one single rate of 12.5 percent by 2003, thereby eliminating the differential treatment. In the interim, corporate taxes will fall from rates of 20 percent in 2001 to 16 percent in 2002 and finally to 12.5 percent in 2003.

Monetary policy: Beginning in 1999, monetary policy in Ireland, as in the other eleven EU states adopting the single European currency, is formulated by the European Central Bank (ECB) in Frankfurt. The Irish Central Bank will continue to exist as a constituent member of the European System of Central Banks (ESCB) and will be responsible for implementing a common European monetary policy in Ireland (i.e. providing and withdrawing liquidity from the Irish inter-bank market at an interest rate set by the ECB). The governor of the Irish Central Bank (currently Maurice O'Connell) will, ex officio, have one vote in the ECB's 17-member monetary policy committee, although each national central bank governor in the committee will be expected to disregard the individual performances of their own national economies in formulating a common monetary policy for the euro area. The 1992 Maastricht treaty identifies price stability as the primary objective of monetary policy under EMU. Price stability is defined by the ECB as a year-on-year increase in the harmonized index of consumer prices for the euro area of below two percent. In making its assessment of future consumer price movements, the ECB will consider trends in money supply, private sector credit, and a range of intermediate price indicators. The primary instrument of monetary policy is expected to be open market operations by the ECB and the national central banks (purchases and repurchases of government securities at a discount rate announced weekly).

2. Exchange Rate Policies

On January 1, 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 continues to circulate until the introduction of euro notes and coins in January 2002, it acts as a "denomination" of the euro, with an irrevocably fixed exchange rate to the euro and the eleven other participating currencies. The conversion rate between the Irish pound and the euro was fixed at the rate of one euro to Irish pounds 0.787564.

The euro is freely convertible for both capital and current account transactions. The Maastricht Treaty makes exchange rate policy for the euro the responsibility of EU finance ministers, subject to the proviso that exchange rate policy does not threaten price stability in the euro area. Ireland is unique among all other euro members in that its largest trading partner, the UK, remains, for the near future, outside the single euro currency. Ireland's loss of control over its exchange rate with UK sterling poses risks to Irish industry dependent on UK suppliers. The current weak value of the euro vis-à-vis sterling places pressure on Irish importers to increase the flexibility of their cost base. Conversely, the weak euro has helped Irish producers to increase export flows to the UK and U.S. The fear at present is that the euro will appreciate against sterling and the dollar making Irish exports relatively expensive and uncompetitive. The Irish pound averaged $1.17 against the dollar in 2000 (IP 1.0 = $ 1.35), and is expected to average in the region of $1.15 (IP 1.0 = 1.15) in 2001.

3. Structural Policies

Economic policy in Ireland is geared primarily towards maintaining low unemployment and raising average living standards, although income redistribution, social cohesion and regional development are also important goals. After the failure of expansionary fiscal policies in the late 1970s to stimulate growth, government policy makers focused on supply-side measures aimed at creating an environment attractive to private enterprise and in particular to inward direct investment by export-oriented multinationals. The most important policies in this regard have been:

(a) Tight control over the public finances in order to maintain macroeconomic stability. In 1997, Ireland recorded its first general government surplus in over 50 years;

(b) The development of a social consensus on economic policy through national wage agreements negotiated by the government, employers, and trade unions. The latest agreement, the Program for Prosperity and Fairness, took effect at the beginning of April 2000 and trades off continued wage/pay moderation by trade unions in return for substantial cuts in personal taxation;

(c) The promotion of greater competition and liberalization in the economy, and reducing the number of state-owned industries, particularly in the provision of transport, energy and communications services;

(d) The availability of a special ten percent rate of corporate taxation and generous grants to attract foreign investment, which rises to 12.5 percent from 2003 onwards;

(e) a commitment to the single European market and to Irish participation in EMU;

(f) High levels of investment in education and training (of all OECD countries, only the Japanese workforce has a higher proportion of trained engineers and scientists); and

(g) Improvements in physical infrastructure (in all areas from roads to environmental systems to housing stock, details of which are contained in the National Development Plan 2000–2006). Structural investment between 2000–2006 is expected to total around 48 billion dollars. Much of this will be funded by Irish tax payers as opposed to previous national development plans, which were funded by generous EU transfers.

The success of the above policies in attracting foreign investors and raising incomes has had two distinct effects on U.S. exports to Ireland. First, over 580 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. Second, the fast growth in both personal incomes and corporate profitability in Ireland has led to a strong increase in demand for U.S. capital and consumer goods from Irish companies and workers. The combination of the above two effects has seen U.S. exports to Ireland increase by a factor of five between 1983 to 2000. 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 government debt. Ireland's General Government Debt at the end 2000 amounted to just over 40.5 billion dollars (using average 2000 exchange rates), equivalent to just over 31 percent of GDP. By end 2000, Ireland's comparative indebtedness was the second lowest among the 15 EU Member States. 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. However, because of increased fiscal rectitude since the late 1980s, Ireland is the only EU Member State to have a lower Debt/GDP ratio in 1997 than it had in 1991.

While the absolute level of debt has remained within a relatively narrow range over recent years, the ratio of Debt to GDP has declined sharply because of the very strong growth of the Irish economy. Reported 2000 debt service expenditure was 2,579 million dollars, some 43 million dollars below the budget of 2,622 million dollars.

The burden of debt service costs on the economy and the taxpayer continued to fall in 2000. The ratio of interest payments to tax revenues declined by 2.5 percentage points, continuing the downward trend of the past several years. As a result, interest on the debt now absorbs approximately 7.6 percent of tax revenue compared to almost 30 percent in 1990. Debt servicing costs are expected to continue to fall significantly as a proportion of national income and total government expenditure in the coming years, reflecting moderate interest rates, falling nominal debt levels and sustainable Irish income growth. This should pave the way for further reform of the personal taxation system, resulting in lower personal income tax levels and thus increasing consumer demand for U.S. exports of goods and services.

5. 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 2000 were valued at 8.4 billion dollars (17 percent of total imports), up from just over three billion dollars in 1990. Irish exports to the United States have increased at an even faster rate over the same period. Irish exports to the U.S. in 2000 standing at 13.1 billion dollars resulting in a 4.7 billion dollars trade surplus for Ireland. Ireland has been running a trade surplus with the United States since 1997.

The United States is the second largest exporter of goods to Ireland. The UK is the only country to outstrip the U.S. in the terms of value of merchandise products exported to Ireland. There are several significant barriers to trade of importance to potential U.S. exporters, particularly with regard to trade in services. Specifically, 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. Under the agreement, any carrier of passengers or cargo providing North Atlantic services to Dublin airport must also provide service to Shannon airport on Ireland's west coast. In addition, under the bi-lateral U.S.-Ireland civil aviation agreement, the "Shannon stopover" requirement adds unnecessary costs to both U.S. air carriers and U.S. exporters.

Ireland's markets for electricity and gas are being liberalized in accordance with EU energy directives. Ireland has opened 33–40 percent of its electricity market to competition, in accordance with EU guidelines. This development has sparked significant interest among electricity suppliers, both domestic and foreign, in the Irish electricity market. However, the provision of electricity in Ireland is relatively costly for suppliers owing to low demographic density in areas outside the major urban centers. The experience of private sector investors in the Irish energy market has been mixed. Suppliers of electricity have fared better than those in the gas sector.

The market for telecommunications services in Ireland was fully liberalized in December 1998: more than one year ahead of the original timetable agreed to with the European Commission in 1996. Prior to liberalization, the state-owned telecommunications company, Telecom Eireann, was the monopoly provider of voice telephony services to the general public. The market for leased lines and other data transmission services was progressively liberalized earlier in the 1990s. Telecom Eireann was publicly floated on the Dublin and New York stock exchanges in May 1999, under its new name "Eircom." As part of privatization, Eircom sold off the state-owned cable network, "Cablelink" to "Ntl," an Anglo-U.S. firm, which is presently launching a raft of telecommunications services ranging from an extension of the cable network to the provision of next generation internet facilities.

There are three licensed mobile telephony network providers. These include Eircell (formerly a subsidiary of Eircom and now owned by a UK-based Vodafone), Esat-Digiphone and Meteor (U.S. consortium). A competitive market environment is emerging in Ireland in both land based and mobile telecoms networks. The EU's telecom ministers decision of October 2000 agreed to a series of "local loop unbundling rules." As a result, access to the last mile of telephone lines was liberalized in Ireland January 1, 2001. The Office of the Director of Telecommunications has set a tariff for the "last mile," which is presently being challenged by Eircom in the Irish courts.

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 certain foods containing genetically modified organisms (GMOs), bananas from outside the Caribbean area, cosmetics containing specified risk materials (SRMs), and some wines, although as with other goods, the above restrictions are determined at EU level.

Ireland has been a member of the World Trade Organization (WTO) since January 1, 1995. The WTO agreement was ratified by the Irish parliament in November 1994. As a member of the EU, however, Ireland participates in a large number of EU regional trade agreements, which may distort trade away from countries with whom Ireland trades purely on an MFN, non-preferential WTO basis.

6. Export Subsidy Policies

The government generally does not provide direct or indirect support for local exports. However, companies located in designated industrial zones, namely the Shannon Duty Free Processing Zone (SDFPZ) and Ringaskiddy Port, receive exemptions from taxes and duties on imported inputs used in the manufacture of goods destined for non-EU countries. Furthermore, Ireland applies a special ten percent rate of corporation tax (the standard rate is 20 percent) to companies producing manufactured goods and services for export to companies operating out of the SDFPZ and the International Financial Services Center (IFSC) in Dublin. Under pressure from the European Commission, which viewed the special tax as a subsidy to industry, the Irish government is now committed to eliminating the special rate by harmonizing at 12.5 percent by 2003.

In May 1998, the United States instituted WTO dispute settlement consultations with Ireland in relation to Ireland's "special trading house" tax regime. Under section 39 of the Irish Finance Act 1980, the ten percent rate of corporation tax is available to "special trading houses," which are companies that act as an access mechanism and marketing agent for Irish-manufactured products in foreign markets. Following the U.S. action, the Irish government announced in June 1998 its intention to seek parliamentary approval for the termination of the scheme "at the earliest opportunity." Trading houses already licensed under the scheme continued to receive the tax break until December 31, 2000, when the scheme expired under existing EU directives.

Other activities that qualify for the special ten percent rate of corporate taxation include design and planning services rendered in Ireland in connection with specified engineering works outside the European Union. This applies 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 20 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 (CAP), the Irish Department of Agriculture, Food and Rural Development administers CAP Export Refund and other subsidy programs on behalf of the EU Commission.

7. 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. In July 2000, Irish President McAleese signed new legislation that brought Irish Intellectual Property Rights (IPR) law into compliance with Ireland's obligations under the WTO Trade-related Intellectual Property Treaty (TRIPs). Following final administrative preparations required under the new law, the legislation came into force in early fall 2000 and gives Ireland one of the most comprehensive systems of IPR protection in Europe.

The new Irish legislation is a wholesale reform of previous Irish IPR law. Among its many provisions, this new legislation specifically addresses several TRIPs inconsistencies in Irish copyright, patent and trademark legislation, which had been of concern to foreign investors, including the absence of a rental right for sound recordings, the lack of an "anti-bootlegging" provision, and low criminal penalties which failed to deter piracy. The new legislation should, by improving enforcement and penalties on both the civil and criminal sides, help reduce the high levels of software and video piracy in Ireland (industry sources estimated that in 2000, approximately 50 percent of PC software used in Ireland was pirated).

As part of this new comprehensive copyright legislation, changes were also made to revise the non-TRIPs conforming sections of Irish patent law. Specifically, the new IPR legislation addresses two concerns of many foreign investors about the previous legislation. One, the compulsory patent licensing provisions of the previous 1992 patent law were inconsistent with the "working" requirement prohibition of TRIPs articles 27.1 and the general compulsory licensing provisions of article 31. Two, applications processed after December 20, 1991, did not conform to the non-discrimination requirement of TRIPs article 27.1.

In light of Irish government progress in passing new IPR legislation, USTR suspended WTO dispute settlements proceeding against Ireland and removed Ireland from the "watchlist" in its latest annual special 301 review of intellectual property protection by U.S. trading partners.

Ireland offers exceptional trade and business opportunities in the technological services sector, particularly for e-commerce and other internet related businesses. The Irish government has put into place, ahead of many of its fellow EU Member States, flexible, market driven legal and regulatory regimes on key issues such as electronic signatures, consumer and data protection, encryption policy, and intellectual property protection for internet based industries. The government, as part of its goal of making Ireland a transatlantic e-commerce hub, has aggressively invested in broad bandwidth throughout the country. Irish officials are also proactively supporting Irish private and public involvement in development of the "next generation internet." The recently announced "Technology Foresight Fund," an Irish government program to fund basic scientific research projects with potential for commercial development, will focus on computers and internet related research, as one of its priorities. There are no major trade barriers to exports or investment in e-commerce or internet related sectors.

Opportunities in the biotechnology sector also exist. An initial government sponsored "Consultation Paper" on biotechnology development, released in 1999, strongly argued for increased government support for all areas of biotechnology research, development, and commercialization. Irish policies in the planting and consumer sale of genetically modified (GM) crops and food products are still evolving and there are some restrictions on importation of GM seeds and foods, in accordance with existing EU directives. Research involving GM crops and products is being conducted in Ireland after approval from the Irish environmental ministry.

Ireland is a growing center for biomedical research and the Irish government has identified it as a priority sector for development. Both Irish and U.S. biomedical firms are active in Ireland. There are no significant barriers to either the export of biomedical products or foreign direct investment in the biomedical sector.

8. Worker Rights

a. *The Right of Association:* The right to join a union is guaranteed by law, as is the right to refrain from joining. The Industrial Relations Act of 1990 prohibits retribution against strikers and union leaders. About 55 percent of workers in the public sector and 45 percent in the private sector are trade union members. 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 734,842 members.

b. *The Right to Organize and Bargain Collectively:* Labor unions have full freedom to organize and to engage in free collective bargaining. Legislation prohibits antiunion discrimination. In recent years, most terms and conditions of employment in Ireland have been determined through collective bargaining in the context of a national economic pact. The current partnership agreement, the Program for Prosperity and Fairness, trades off moderation by trade unions in wage demands in return for cuts in personal taxation by the government. Employer interests in labor matters, and during the negotiations of these national partnership agreements, are represented by the Irish Business and Employers Confederation (IBEC). Foreign-owned businesses participate in IBEC at all levels. 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 of 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, the Irish government announced in April 1998 proposals for the introduction of a national hourly minimum wage of Irish pounds 4.40 (around 5.30 dollars), which came into effect in April 2000. The national minimum wage was increased in July 2001 to Irish pounds 4.70.

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 set a maximum of 48 working hours per week, requires that workers be given breaks after they work certain periods of time, imposes limits to shift working, and mandates four weeks annual leave for all employees. Worker rights legislation increasingly is being set by the European Commission, and further Directives in this area, including rights for part-time workers and the right of equal treatment, can be expected in coming years.

f. *Rights in Sectors with U.S. Investment:* The worker rights described above are applicable to 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—2000

[In Millions of U.S. Dollars]

Category		Amount
Petroleum		667
Total Manufacturing		9,874
Food & Kindred Products	(1)	
Chemicals & Allied Products	3,753	
Primary & Fabricated Metals	192	
Industrial Machinery and Equipment	460	
Electric & Electronic Equipment	1,433	
Transportation Equipment	32	
Other Manufacturing	(1)	
Wholesale Trade		620
Banking		–50
Finance/Insurance/Real Estate		12,668
Services		9,277
Other Industries		313
Total All Industries		33,369

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

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

ITALY

Key Economic Indicators

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

	1999	2000	[1] 2001
Income, Production and Employment:			
Real GDP [2]	1,170.7	1,204.8	1,225.9
Real GDP Growth (pct) [3]	1.6	2.9	1.7
GDP (at current prices) [3]	1,179.8	1,073.8	1,123.0
GDP by Sector:			
Agriculture	33.7	28.6	N/A
Manufacturing	247.9	225.8	N/A
Construction	51.3	47.2	N/A
Services	846.9	771.2	N/A
Government	202.6	181.1	N/A
Per Capita GDP (US$)	20,469	18,563	19,416
Labor Force (millions)	23.4	23.5	23.7
Unemployment Rate (pct)	11.4	10.6	9.6
Money and Prices (annual percentage growth):			
Money Supply Growth (M2) [4]	6.8	4.4	4.3
Consumer Price Inflation	1.7	2.5	2.8
Exchange Rate (Lira/US$ annual average of market rate)	1818	2102	2160
Balance of Payments and Trade:			
Total Exports FOB [5]	245.4	237.0	103.0
Exports to United States [5]	21.9	24.6	10.1
Total Imports CIF [5]	220.5	235.7	102.5
Imports from United States [5]	10.7	12.5	5.5
Trade Balance [5]	14.9	1.3	0.5
Balance with United States [5]	11.2	12.1	5.8

Key Economic Indicators—Continued

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

	1999	2000	[1] 2001
External Public Debt	75.3	77.7	4.6
Fiscal Deficit/GDP	1.9	1.5	1.5
Current Account Surplus/GDP (pct)	0.7	–0.4	–0.6
Debt Service Payments/GDP (pct) [6]	6.8	6.2	6.4
Gold/Foreign Exchange Reserves	45.2	40.4	47.1

[1] 2000 estimates based on data available through June.
[2] 1995 prices; GDP at factor cost.
[3] Percentage changes calculated in local currency. Exchange rate changes account for discrepancy between rising GDP figures (calculated in local currency) and falling current price GDP (calculated in dollars).
[4] 1999 and 2000 data are the growth rate of M2 in the euro area through December 1999 and 2000. 2001 data is through June 2001.
[5] Merchandise trade. 2001 data through May.
[6] Represents total debt-servicing costs.

1. General Policy Framework

Italy has the world's sixth largest 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 on January 1, 2002. The lire will co-exist with the euro from January 1 to February 28, and can be used as an official currency for transaction. After February 28, 2002 and for a period of ten years, lire can be exchanged for euros only at the Bank of Italy. Public opinion polls consistently rank Italy as one of the most "pro-euro" countries in Europe.

Italy has a private sector characterized by a large number of small and medium-sized firms and a few multinational companies with wellknown names such as Fiat, Benetton, 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 and social problems.

The Italian 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 significantly in some sectors. In other sectors, particularly in energy, the State still has a strong presence. The government retains a potentially blocking "golden share" in industrial companies privatized thus far. The 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 high in comparison to EU standards, driven up 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 1990s, Italy started to address a number of macroeconomic problems in order to qualify for first round EMU membership. The public sector deficit fell from 1.9 percent of GDP in 1999 to 1.5 percent at end-2000, aided by higher than expected tax revenues. This year, lower than expected GDP growth and lower than expected tax revenues, particularly in capital gains, are expected to produce a deficit/GDP ratio well above the 0.8 percent target and as high as 1.2 percent. The level of public debt, second highest among the EMU countries as a share of GDP, has started to decline but remains over 100 percent of GDP. The Italian government plans to reduce the debt level gradually to the EMU target level of 60 percent of GDP in 2016.

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 these powers have been transferred to the European Central Bank, with the Bank of Italy retaining banking supervision responsibilities. Consumer inflation accelerated from 1.7 percent in 1999 to 2.5 percent for 2000, fueled by higher oil prices, a weakening euro and worsening of terms of trade. This trend continued through the first seven months of 2001, producing an average inflation of 2.9 percent. Inflation is expected to slow in the last part of the 2001, producing an average annual inflation rate of about 2.8 percent. Producer prices also accelerated from minus 0.3 percent in 1999 to 6.0 percent in 2000, because of higher prices for petroleum and other raw materials and of the strengthening of the dollar versus the euro. Producer price increases decelerated to four percent in the first half of 2001 and are expected to decelerate further in the second half of the year.

2. Exchange Rate Policy

On January 1, 1999 Italy relinquished control over exchange rate policy to the European Central Bank. The Euro, now used for non-cash transactions, begins circulation in January 2002 in twelve countries of the EU, including Italy. Italy's participation in the euro will simplify trade for those companies exporting to several EU countries.

3. Structural Policies

Italy has not implemented any structural policies over the last three 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 antitrust 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-1970s. 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 5.6 percent of total debt. Italy maintains relatively steady foreign debt targets, and uses issuance of foreigndenominated debt essentially as a source of diversification, rather than need.

5. Significant Barriers to U.S. Exports

In general, EU agreements and practices determine Italy's trade policies. These policies include preferential trade agreements with many countries.

Import Licensing: With the exception of a small group of largely agricultural items, practically all goods originating in the United States 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. More than 70 percent of Italy's population of 57 million use mobile phones. 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 telecommunications sector, Italy issued more than 140 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.

Obtaining rights-of-way is one area where U.S. firms may have experienced difficulties. U.S. companies have raised concerns that current and former state parastatals (highways, gas, railways) hold almost all the best rights-of-way licenses. Under Italian code, state-owned entities are not obligated to concede rights-of-way to communications' licensees. In addition, the Government of Italy and the Communications Authority maintain that they do not have any authority over local law provisions and decisions by municipalities that give preferential treatment to the former state-owned companies. Embassy will continue to monitor this issue carefully and raise this issue with appropriate Italian government officials.

There has also been some recent concern regarding the continued presence of the government in the telecommunications market. In addition to maintaining a golden share in Telecom Italia, the Government of Italy has a controlling interest, through parastatal energy company ENEL, in WIND/Infostrada, the second largest national operator, as well as significant interest in Blu, another large national telecoms operator. In addition, the new center-right government is pursuing a plan to reduce responsibilities of the independent Communications Authority in favor of expanding the role of the Communications Ministry. Under plans of the former center-left government, the Ministry was slated to be abolished.

In August 1997, Italy established an independent regulatory authority for all communications, including telecommunications and broadcasting. Concerns remain regarding regulatory due process, transparency, and even-handedness in general. Nevertheless, the Italian market is much more open to services imports in this sector than it was prior to implementation of the EU telecommunications' 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 to 20 percent of their seats, distributed over no fewer than three screens, to screening 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.

Italy imposes some limits on foreign ownership in banks. According to the Banking Law, a foreign institution wanting to increase its stake in a bank to above five percent needs authorization from the Bank of Italy.

Some professional categories (e.g. engineers, architects, lawyers, accountants) face restrictions that limit their ability to practice in Italy without possessing EU/Italian nationality, having received an Italian university degree, or having been authorized to practice by government institutions. Regarding lawyers in particular, a recent Italian law could force foreign firms to reorganize the internal structures of their Italian firms.

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.

Starting October 1, 2001, the EU, including Italy, requires that blood products, gelatin, tallow and mechanically removed meat such as that used in some pet foods, be subject to Commission regulation 1326/2001. This regulation requires that various animal products, even pet foods, not intended for human consumption, not contain specified risk materials (SRMs) and that these foods be certified to that effect.

In August 2000, Italy banned the commercialization of four biotech corn varieties that had been approved by the European Union after extensive testing. The ban appears to violate EU regulations.

Rulings by individual local customs authorities can be arbitrary or incorrect, resulting in denial or delays of U.S. exports' entry 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 antitrust law gives the Antitrust Authority 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 antitrust 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 nontransparent 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 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 operating at present similar to the initial subsidies.

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 August 2000, the Italian Parliament enacted the long-awaited "anti-piracy" law, providing for higher criminal penalties for IPR violations. Italy has since been removed from the U.S. Trade Representative's Special 301 IPR "Priority Watch List" to the "Watch List." According to American film, music and software industry representatives, enforcement against piracy has been improving over recent years. With this new legislation, law enforcement agencies and magistrates are empowered with more effective tools to combat piracy and are, according to the industry, already obtaining very good results. In August 2001, the Government of Italy passed implementing regulations for the anti-piracy law. The regulations appear to generally satisfy U.S. industry, with some exceptions. The United States government will continue to closely monitor developments in this area.

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 the workplace. The unions claim to represent between 35–40 percent of the work force. Trade unions are free of government controls and have no formal ties with political parties. The right to strike is embodied in the constitution and is frequently exercised. In April 2000, a new law changed provisions of a 1990 measure governing strikes affecting essential public services (e.g., transport, sanitation, and health). The new law defined minimum service to be maintained during a strike as 50 percent of normal, with staffing by at least one-third the normal work force. The law established compulsory cooling off periods and more severe sanctions for violations. Besides transport worker unions, the law also covers lawyers and self-employed taxi drivers. These changes enjoyed the backing of the three major national trade union confederations, which sought to avoid inconvenience to tourists and the traveling public alike during the Catholic Church's Jubilee year.

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. By custom, although not by law, national collective bargaining agreements apply to all workers, regardless of union affiliation. Dismissals of workers must be justified in writing. If a judge deems the grounds spurious, he can order that a dismissed worker be reinstated or compensated. In firms employing more than 15 workers, the option to choose between reinstatement and compensation lies with the worker. In firms with fewer than 15 workers, this choice is the employer's.

c. *Prohibition of Forced or Compulsory Labor:* The law prohibits forced or compulsory labor, including that performed by children, and generally it does not occur. Some illegal immigrants and children were forced into prostitution. Trafficking of illegal immigrant women and children for prostitution and forced labor is also a problem.

d. *Status of Child Labor Practices and Minimum Age for Employment:* The law forbids the employment of children under age 15, with some limited exceptions, and requires that those between the ages 15–18 receive their education either in school for academic instruction or at a job site for vocational training. There also are specific restrictions on employment in hazardous or unhealthful occupations for men under age 18, and women under age 21. The enforcement of minimum wage laws is difficult in the extensive underground economy. Estimates of the number of child laborers differ, ranging from 30,000 to 350,000. The most probable figure may be in the range of 50,000. Most of these cases involve immigrants, but instances involving Italian children also have been reported. The footwear and textile industries have established a code of conduct that prohibits the use of child labor in their international as well as national activities, applicable to subcontractors as well. In 1999, a child labor clause was attached to the national labor contract in the health sector, whereby the parties committed themselves not to use surgical tools produced by child labor. The law forbids forced or bonded labor involving children. Italy ratified ILO convention 182 prohibiting the worst forms of child labor following completion of parliamentary action in May 2000.

e. *Acceptable Conditions of Work:* Minimum wages are not set by law, but rather by collective bargaining agreements on a sector by sector basis. These specify minimum standards to which individual employment contracts must conform. A 1997 law reduced the legal workweek from 48 to 40 hours. Most collective agreements provide for a 36 to 38 hour workweek. The average contractual workweek is 39 hours but is actually less for many industries. Overtime work may not exceed 2 hours per day or an average of 12 hours per week. Unless otherwise limited by a collective bargaining agreement, ceilings established in a 1998 law set maximum permissible overtime hours in industrial sector firms at no more than 80 per quarter and 250 annually. The law sets basic health and safety standards and guidelines for compensation for on-the-job injuries. For most practical purposes, European Union directives on health and safety also have been incorporated into the law. Labor inspectors are from the public health service or from the Ministry of Labor. 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 jeopardizing their continued employment.

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—2000

[In Millions of U.S. Dollars]

Category		Amount
Petroleum		(1)
Total Manufacturing		14,498
Food & Kindred Products	934	
Chemicals & Allied Products	3,588	
Primary & Fabricated Metals	96	
Industrial Machinery and Equipment	1,167	
Electric & Electronic Equipment	1,346	
Transportation Equipment	989	
Other Manufacturing	6,376	
Wholesale Trade		2,637
Banking		270
Finance/Insurance/Real Estate		1,929
Services		2,236
Other Industries		(1)
Total All Industries		23,622

[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]

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

	1999	2000	[2] 2001
Income, Production and Employment:			
Nominal GDP [3]	399.8	369.0	379.5
Real GDP Growth (pct) [4]	3.7	3.5	1.5
GDP by Sector:			
Agriculture	9.9	9.0	9.0
Manufacturing	59.6	55.7	57.5
Services	136.5	127.7	132.4
Government	42.3	38.3	38.5
Per Capita GDP (US$)	25,304	23,208	23,719
Labor Force (000s)	7,292	7,439	7,543
Unemployment Rate (percent)	4.0	3.6	3.2
Money and Prices (annual percentage growth):			
Money Supply (M2) [5]	8.4	10.3	9.9
Consumer Price Inflation	2.2	2.6	4.5
Exchange Rate (guilders/US$ annual average):.			
Official	2.07	2.39	2.50
Balance of Payments and Trade:			
Total Exports FOB [6]	198.3	206.2	209.6
Exports to United States [7]	8.5	9.7	10.2
Total Imports CIF [6]	189.3	195.5	197.8
Imports from United States [7]	19.4	22.0	23.0
Trade Balance [6]	9.0	10.7	12.8
Balance with United States [7]	–10.9	–12.3	–11.0
Current Account Surplus/GDP (pct)	4.1	5.1	5.0
External Public Debt [8]	0	0	0
Debt Service Payments/GDP (pct) [8]	13.2	7.3	4.3
Fiscal Deficit/GDP (pct)	0.4	1.5	1.0
Gold and Foreign Exchange Reserves [9]	N/A	N/A	N/A

Key Economic Indicators [1]—Continued

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

	1999	2000	[2] 2001
Aid from United States	0	0	0
Aid from All Other Sources	0	0	0

[1] All figures have been converted at the average guilder/US$ exchange rate for each year.
[2] 2001 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] Netherlands contribution to euro-zone monetary aggregates.
[6] Merchandise trade.
[7] Sources: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 2001 figures are estimates based on data available through October 2001.
[8] All public debt is domestic and denominated in guilders. Debt service payments refers to domestic public debt.
[9] Since January 1, 1999, published by the European Central Bank on a consolidated basis.

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, which 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 successfully reduced its role in the economy during the 1990s, and structural and regulatory reforms have been an integral component of Dutch economic policy since the early 1980s. Telecommunication services have been fully liberalized since January 1, 1998, and further deregulation and privatization of the Dutch electricity and gas markets will take place in 2004. 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 sustained and environmentally sustainable economic growth and development by way of fiscal consolidation, labor and product market reforms, economic restructuring, energy conservation, environmental protection, regional development, and other national goals. Economic policy is conducted within the framework of a national environmental action plan. General elections in May of 2002 will result in a new coalition government, which will likely continue current policies but also emphasize security, healthcare and education.

After more than four years of average four percent GDP growth, falling unemployment and modest inflation, the Dutch economy has shifted into lower gear. The Dutch economy is expected to expand by less than two percent in 2001 and 2002 as a result of declining real growth rates for exports, consumer spending, and corporate investment. Employment growth will slow down considerably, stabilizing the level of unemployment at slightly over three percent of the labor force. Consumer price inflation will peak in 2001at close to five percent, partly reflecting imported inflation and a hike in indirect taxes. Inflation is forecast to ease to 2.5 percent in 2002.

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 balance registered a surplus of 1.5 percent of GDP in 2000, and is expected to remain in surplus in 2001 (one percent of GDP) and beyond. The stock of public debt is forecast to fall from a high of 62.9 percent of GDP in 1999, to 51.7 percent in 2001. Both fiscal deficit and public debt have converged well below the deficit and debt criteria in the EMU's Growth and Stability Pact.

The deficit is largely funded by government bonds. Since January 1, 1994, financing has also been covered by Dutch Treasury Certificates (DTC). DTCs replace a standing credit facility for shortterm deficit financing with the central bank that, 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 policy is no longer under the exclusive control of the Dutch authorities but is determined by the Eurosystem (the European Central Bank and the 11 national Central Banks in the euro area), and is attuned to the euro area as a whole. On December 31, 1998, the exchange rate of the euro vis-a-vis the guilder was fixed 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 initiated a fundamental reform of the tax system. The new tax regime entails a shift from direct to indirect taxes, a broadening of the tax base, and a reduction of the tax rate on labor. On January 1, 2001, in a first step in the reform process, Dutch authorities lowered wage and individual income taxes, while raising excise duties, "green" taxes, and Value-Added Tax (VAT) rates. The highest marginal tax rate on wage and salary income was reduced from 60 percent to 50 percent, while the top VAT rate was increased from 17.5 to 19 percent. The effective corporate income tax rate in the Netherlands is among the lowest in the European Union. Effective January 1, 1998, the standard corporate tax rate paid by corporations (including foreign-owned corporations) was reduced from 36 percent to 35 percent on all taxable profits. Since January 1, 1997, the Dutch have been offering multinationals a more attractive tax regime for their group finance activities, effectively reducing the 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. Investment subsidies are available to foreign and domestic firms alike. Subsidies are also available to stimulate research and development and to encourage development and use of new technologies 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 close to five percent of GDP and no external debt, the Netherlands is a major creditor nation. Since the early 1980s, gross public sector debt (EMU criterion) has grown sharply, to 81.2 percent of GDP. Starting in 1993, the Dutch fiscal balance has drastically improved. The debt to GDP ratio is also falling more rapidly than anticipated. Debt servicing and rollover in 2000 fell to less than eight percent of GDP, with interest payments amounting to three 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 2001. Official Development Aid (ODA) amounts to 0.8 percent of GDP or $3.5 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 relatively few trade complaints are registered by U.S. firms.

The few trade barriers that do exist usually result from common EU policies. Within the European Union, the European Commission has authority for developing most aspects of EU-wide external trade policy, and most trade barriers faced by U.S. exporters in EU member states are the result of common EU policies. Such trade barriers include: restrictions on wine exports; local (EU) content requirements in the audiovisual sector; standards and certification requirements (including those related to aircraft and consumer products); product approvals and other restrictions on agricultural biotechnology products; sanitary and phytosanitary restrictions (including a ban on import of hormone-treated beef); export subsidies in the aerospace and shipbuilding industries; and trade preferences granted by the EU to various third countries. A more detailed discussion of these and other barriers can be found in the country report for the European Union.

The following are areas of bilateral concern for U.S. exporters:

Offsets for Defense Contracts: All foreign contractors must provide at least 100 percent offset/compensation for defense procurement over five million Dutch Guilders (about $2.5 million). The seller must arrange for the purchase of Dutch goods or permit the Netherlands to domestically produce components or subsystems of the systems it is buying. A penalty system for noncompliance with offset obligations is under consideration.

Broadcasting and Media Legislation: The Dutch fully comply with the EU Broadcast Directive. 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. Cartel legislation, which took effect in 1996, bans cartels unless its proponents can conclusively demonstrate a public interest. Since 1998, the United States has received no complaints by U.S. firms of having been disadvantaged by cartels in the Netherlands.

Pharmaceuticals: U.S. pharmaceutical companies have complained that the criteria used by the Dutch Health Insurance Board too often result in their new-to-market products being incorrectly classified with compounds determined by the board as "therapeutically equivalent" (and therefore reimbursable at a lower rate) than as "unique, innovative compounds," reimbursed at a higher international reference price. U.S. companies have also voiced concerns that the Dutch Health Insurance Board procedures have resulted in considerable and unnecessary delays in classifying products for reimbursement.

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 of the interest costs of the 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.

Adhering to the EU shipbuilding regime, the Dutch have discontinued generic support of their shipbuilding industry effective January 1, 2001.

7. Protection of U.S. Intellectual Property

The Netherlands has a generally good set of IPR legislation and regulations in place. 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 inventions are granted retroactively from 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 Europewide 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 potentially detrimental to U.S. investors and exporters.

The enforcement of antipiracy laws remains a concern to U.S. producers of software, audio and videotapes, and textbooks. According to the estimates of the Business Software Alliance, as much as 40 percent of all software used in the country is illegally copied. The Dutch government has recognized the need to protect intellectual property rights and law enforcement personnel have worked with industry associations to find and seize pirated software. Dutch IP legislation explicitly includes computer software as intellectual property under the copyright statutes.

8. Worker Rights

a. *The Right of Association:* The right of Dutch workers to associate freely is well established. One quarter of the employed labor force belongs to unions, but union-negotiated collective bargaining agreements are usually extended to cover about three-quarters of the workforce. Membership of 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. 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 2000, some 9,400 labor days were lost due to industrial disputes compared with 75,800 days in 1999.

b. *The Right to Organize and Bargain Collectively:* This right is recognized and well established. There are no union shop requirements. Discrimination against workers because of union membership is illegal. Dutch society has developed a social partnership between 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 that 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-hour workweek is established by law, the official average workweek for adults working full time currently averages 37 hours. Work-shortening programs (ADV) effectively reduce the average workweek to 36 hours. The gross minimum wage in 2001 amounted to about $1,000 per month. The legallymandated minimum wage is subject to a semi-annual 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—2000

[In Millions of U.S. Dollars]

Category		Amount
Petroleum		3,149
Total Manufacturing		24,228
Food & Kindred Products	2,830	
Chemicals & Allied Products	12,832	
Primary & Fabricated Metals	–52	
Industrial Machinery and Equipment	2,925	
Electric & Electronic Equipment	3,584	
Transportation Equipment	–26	
Other Manufacturing	2,135	
Wholesale Trade		10,486
Banking		(1)
Finance/Insurance/Real Estate		71,373
Services		4,602
Other Industries		(1)
Total All Industries		115,506

1 Suppressed to avoid disclosing data of individual companies.

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

NORWAY

Key Economic Indicators

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

	1999	2000	[1]2001
Income, Production and Employment:			
Nominal GDP	153,526	161,807	164,700
Real GDP Growth (pct)[2]	1.1	2.3	2.4
Real Mainland GDP Growth (pct)	1.0	1.8	1.5
GDP by Sector:			
Agriculture	2,942	2.642	2,600
Manufacturing	16,627	14,795	14,900
Oil and Gas Production	21,756	38,780	38,400
Services	87,324	82,841	84,300
Government	23,944	24,739	26,600
Per Capita GDP (US$)	34,423	36,037	36,519
Labor Force (000s)	2,330	2,350	2,360
Unemployment Rate (pct)	3.2	3.4	3.3
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	5.5	8.5	8.0
Consumer Price Inflation	2.3	3.1	3.3
Exchange Rate (NOK/US$—annual average)	7.8	8.8	9.0
Balance of Payments and Trade:			
Total Exports FOB	45,680	60,136	58,800
Exports to United States[3]	4,051	5,710	5,650
Total Imports CIF	35,474	34,386	35,400
Imports from United States[3]	1,440	1,544	1,900
Trade Balance	10,206	25,750	24,400
Balance with United States	2,611	4,166	3,750
External Public Debt	922	850	750
Fiscal Surplus/GDP (pct)	2.7	10.8	14.6
Current Account Surplus/GDP (pct)	3.9	14.3	13.7
Debt Service Payments/GDP (pct)	42	72	100
Gold and Foreign Exchange Reserves[4]	24,819	27,939	29,000
Aid from United States	0	0	0
Aid from All Other Sources	0	0	0

[1] 2001 figures are all estimates based on monthly data in October 2001.
[2] Growth figures are based on local currency GDP values.
[3] U.S. Department of Commerce statistics.
[4] Includes gold but excludes assets in the state petroleum fund.

1. General Policy Framework

Exploitation of Norway's major non-renewable energy resources, crude oil and natural gas, will most likely remain the major foundation for production and income growth for at least the next three decades. On Norway's offshore continental shelf, remaining oil reserves, discovered plus undiscovered, will last for some 30 years at current extraction rates, while the equivalent figure for natural gas is about 125 years. On the mainland, energy-intensive industries such as metal processing and fertilizer production will remain prominent thanks to abundant hydropower resources.

Some constraints continue to limit Norway's economic flexibility and ability to maintain international competitiveness. Labor availability remains limited by Norway's small 4.5 million population 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 remains protected from international competition by subsidies and other barriers to trade.

State intervention in the economy remains significant. The government owns up to 50 percent of domestic businesses, although part-privatization of state oil firm, Statoil, and state telecoms group, Telenor, has taken place over the past year. In December 2000, the Government of Norway proposed part-privatization of Statoil, up to one-third of the company, and the sale of 21.5 percent of the State Direct Financial Interest (SFDI) to Statoil, 15 percent, and other oil companies, 6.5 percent. Parliament agreed to the Government of Norway's plan, and 23 percent of Statoil was sold in an initial stock market offering on June 18, 2001. Telenor, meanwhile, was part-privatized in December 2000, leaving the government with a stake of 78 percent. In June 2000, the Government of Norway announced that the state stake in Telenor may be cut to 34 percent. While part-privatization has been taken place, the state is expected to remain in effective control of Statoil, Telenor, and Norway's two leading banks by keeping stakes of at least one-third, enough to control the boards of these enterprises. 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 33.5 percent of total government 2001 revenue. Since 1995, Norway has been a net foreign creditor and has posted budget surpluses. The surpluses are transferred to a petroleum fund and invested in foreign assets (an estimated US$67 billion at the end of 2001) to meet future spending.

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 liquid gas driven buses and the electric car. 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 government aims to keep the Norwegian currency (krone) stable. On March 29, 2001, the government issued a new regulation on monetary policy, with the introduction of an inflation target of 2.5 percent. The central bank noted that the new policy guidelines would few implications for Norwegian foreign exchange rate policy because stable inflation goes along with currency stability.

By way of background, the Norwegian krone was un-pegged from the European Currency Unit (ECU) in December 1992. Since 1994, the government's stated policy has been to maintain krone stability vis-à-vis European currencies. The central bank uses interest rates and open market operations to foster currency stability in a managed float. With the introduction of the euro January 1, 1999, Norwegian policy was to keep the krone stable against the 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 being the most heavily subsidized in the OECD. While some progress has been made in reducing subsidies in the 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, deregulation of government telecommunications services has taken place since 1998.

4. Debt Management Policies

The state's exposure in international debt markets remains very limited thanks to the Norway's growing oil wealth and the country'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$ 750 million in 2001. Norway's status changed from a net debtor to a net creditor country in 1995 largely because of the oil/gas-boosted budgetary surpluses.

5. Significant Barriers to U.S. Exports

Norway is a member of the WTO and supports free trade principles, but 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 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 limited due to government part-ownership of the two largest commercial banks, and the existence of specialized state banks, which offer subsidized loans in certain sectors and geographic locations.

Restrictions also remain in the distribution of alcohol, 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.

6. Export Subsidy Policies

As a general rule, the Norwegian government does not subsidize exports, although some heavily subsidized goods, such as cheese, 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 after other major shipbuilders including the United States and Japan ratify the agreement.

7. 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.

8. Worker Rights

a. *Right of Association:* Workers have the right to associate freely and to strike. The government can invoke compulsory arbitration under certain circumstances with the approval of parliament.

b. *The Right to Organize and Bargain Collectively:* All workers, including government employees and the military, have the right to organize and to bargain collectively. Labor legislation and practice is uniform throughout Norway.

c. *Prohibition of Forced or Compulsory Labor:* The Government of Norway 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 three days of paid leave are granted per year. 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—2000

[In Millions of U.S. Dollars]

Category		Amount
Petroleum		4,192
Total Manufacturing		810
Food & Kindred Products	(1)	
Chemicals & Allied Products	19	
Primary & Fabricated Metals	9	
Industrial Machinery and Equipment	210	
Electric & Electronic Equipment	7	
Transportation Equipment	–11	
Other Manufacturing	(1)	
Wholesale Trade		325
Banking		(1)
Finance/Insurance/Real Estate		609
Services		253
Other Industries		(1)
Total All Industries		6,303

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

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

POLAND

Key Economic Indicators

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

	1999	2000	[1] 2001
Income, Production and Employment:			
Nominal GDP	155,200	157,700	176,400
Real GDP Growth (pct)	4.1	4.8	2.0
GDP by Sector (pct):			
Agriculture	4.5	2.9	N/A
Manufacturing [2]	36.5	31.7	N/A
Services	46.3	53.1	N/A
Government	12.7	12.3	N/A
Per Capita GDP (US$) [3]	4,014	4,082	4,564
Labor Force (000s)	17,214	17,300	N/A
Unemployment Rate Year-end (pct)	13.1	15.0	17.0
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	19.3	11.8	15.0
Consumer Price Inflation (annual average)	7.3	10.1	6.0
Exchange Rate (PLN/US$; annual average):			
Official	3.97	4.35	4.12
Balance of Payments and Trade:			
Total Exports FOB (US$ billions) [4]	26.3	28.3	32.0
Exports to United States (US$ billions) [5]	0.8	1.0	1.1
Total Imports CIF (US$ billions)	40.7	41.4	43.9
Imports from United States (US$ billions) [5]	0.8	0.7	1.0
Trade Balance (US$ billions)	–14.4	–13.1	–11.9
Balance with United States (US$ billions) [5]	0.0	0.3	0.1

Key Economic Indicators—Continued

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

	1999	2000	[1] 2001
External Public Debt (US$ billions)	32.1	33.0	N/A
Fiscal Deficit/GDP (pct)	2.0	2.2	4.0
Current Account Surplus/Deficit/GDP (pct) [6]	–7.5	–6.3	–5.8
Debt Service Payments/GDP (pct) [7]	3.4	4.0	4.5
Gold and Foreign Exchange Reserves (US$ billions) [8]	27.3	25.5	28.0
Aid from United States (US$ millions) [9]	26.3	10.0	70.0
Aid from Other Sources (US$ millions) [10]	300	820	900

[1] Polish government estimates as of August 2001, unless otherwise noted.
[2] Manufacturing including construction.
[3] Per capita GDP given in nominal terms.
[4] Polish government trade figures, without transshipments via third countries.
[5] U.S. Dept. of Commerce and U.S. Census Bureau; exports FAS, imports customs basis.
[6] Including estimated unrecorded trade.
[7] Debt service includes paid interest and principal.
[8] Data available through August 2001.
[9] U.S. government estimate; includes economic and military assistance. In 2000, the United States provided Poland with law enforcement and export control programs worth about $1 million, military assistance programs totaling about $12.2 million, and excess defense articles valued at about $56 million.
[10] EU declared assistance; includes PHARE; 2001 includes ISPA and SAPARD.

1. General Policy Framework

Over the past decade, Poland has transformed its economy with generally sound macroeconomic management and a commitment to structural reforms, making it one of the most successful and open transition economies. After four consecutive years of annual six to seven percent growth, the Polish economy slowed in 1998, in large part due to the Asian and Russian crises. Since then, Poland's economy has grown more slowly due to declining domestic demand (both consumption and investment); GDP growth for 2001 is estimated at below two percent. Over the last decade, the private sector has grown as a result of privatization and liberalization, but many of the larger, publicly-owned enterprises inherited from the communist era, notably those in such sectors as coal mining, steel, and rail transport, remain in need of further restructuring. Polish agriculture sector remains handicapped by surplus labor, inefficient small farms, and lack of investment. Government estimates indicate the shadow "gray economy" now generates around 15–16 percent of GDP.

Government Priorities: A member of the WTO, OECD, and NATO, Poland now considers membership in the European Union (EU) one of its highest priorities. The process (supported by a majority of Poles) affects most economic policies, from the budget to reforms. By fall 2001, Poland had provisionally closed 17 of 29 negotiating chapters. Poland hopes to close the remaining chapters by the end of 2002, in time for accession on January 1, 2004. Poland continues to liberalize its trade and investment regimes through international (WTO, OECD), regional (Central European Free Trade Agreement or "CEFTA"), and various bilateral agreements. Poland also seeks improvement in bilateral economic relations with Russia, Ukraine, and China.

Fiscal Policy: Reforming Poland's public finances is one of the highest priority challenges facing the government elected in September 2001. While Poland's central government debt, at 40 percent of GDP, remains moderate, the combination of slower economic growth and new spending commitments enacted by the parliament in recent years has put the budget under strain. The original draft forecast for the 2002 government deficit, before corrective measures, was over ten percent of GDP. The government is seeking to cap the deficit at five percent. New public borrowing has been limited in recent years due to sizeable privatization revenues. However, the number of companies to be privatized is shrinking rapidly and revenues from this source will dry up within the next few years, forcing action to curb the budget deficit to prevent the government debt ratio from approaching the constitutional limit of 60 percent of GDP. The constitution prohibits the National Bank of Poland (NBP) from financing the budget deficit. The government's flexibility in curbing public spending is limited, however, by Poland's generous social insurance system (retirement, disability, unemployment, and welfare benefits), debt service obligations, and the costs of the four major reforms (affecting the health, education, pension, and administrative systems) implemented in 1998–99. Poland's overall public spending is governed by the 1998 Act on Public Finances, which clarifies the responsibilities of the various budgetary players, sets measures to improve the transparency of public finances, establishes rules for local governments, and prepares for Poland's EU accession. It also establishes procedures to be followed if total public debt, including government guarantees, exceeds certain limits.

Monetary Policy: An independent, 10-member Monetary Policy Council (MPC) sets monetary policy, which is implemented by the NBP, using a formal inflation target. Increasingly restrictive fiscal and monetary policies reduced annual average inflation from 37 percent in 1993 to 10.1 percent in 2000. In 1999, average CPI inflation was 7.3 percent, but an acceleration in late 1999 and early 2000 led the MPC to miss its targets in both years. In response, monetary policy was tightened significantly, with the MPC raising rates by a total of six percentage points from late 1999 to the fall of 2000. As a result of both tighter money and the slowing economy, inflation has dropped significantly, with the estimated CPI increase for 2001 of 4.7 percent, below the MPC's six-to-eight percent target range. The target for 2002 is five percent and that for 2003 is below four percent. Despite substantial reductions in nominal interest rates in 2001 (a cumulative 6.0 percentage points through October), real interest rates have remained high, dampening economic growth and keeping the Polish zloty relatively strong.

2. Exchange Rate Policies

On April 12, 2000, the NBP abandoned the crawling peg it had used since 1991 and allowed the zloty to float freely. The decision was in line with government plans to let the zloty find its equilibrium level before applying for participation in the European Exchange Rate Mechanism and then the European Monetary Union. As the zloty had been floating within the 15 percent band for several years without NBP intervention, the decision to float did not have a significant impact on the foreign exchange market. The government reserves the right to intervene in the market to prevent destabilizing swings.

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 securities issued in OECD countries, 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. Poland's remaining restrictions on capital movements, other than foreign direct investment flow and short-term capital flow, are limited to real estate investment abroad and in Poland. The remaining restrictions on foreign direct investment concern 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, coal, and some pharmaceuticals continue. The government hopes eventually to 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. The government has also taken steps to promote greater competition in the Polish markets for oil and telecommunications services, where price rises contribute considerably to inflation.

Taxes: Poland's total tax burden, at 41 percent of GDP, is comparable to that of many Western European countries. However, only about half of this amount is collected by the central government, with the remainder going to the social insurance system, local governments, and various special-purpose extra-budgetary funds. A tax reform package approved in late 1999 significantly reduced corporate income taxes and streamlined exemptions. Value-Added Tax (VAT) rates were also revised to meet EU rules, but a companion bill to reduce and simplify personal income taxes was vetoed by the president. The corporate income tax rate was reduced to 30 percent in 2000, 28 percent in 2001, 24 percent in 2003, and 22 percent in 2004. Personal income tax rates remain unchanged at 19, 30, and 40 percent. The new government, which took office in October 2001, is expected to introduce changes to the tax system and undertake deep reforms of public finances. Under pressure from the EU, Poland amended the rules governing special economic zones (SSEs) that permit tax breaks for foreign investment. These new regulations are less advantageous for investors than the old rules, but more compliant with EU mandates. Under the new regulations, which entered into force January 1, 2001, new companies registered in SSEs are eligible to receive grants amounting up to 50 percent of initial capital. The new regulations are not retroactive.

Regulatory Policies: Poland's regulatory regime is being harmonized with EU standards. Existing regulatory structures are variously faulted for the excessive burden imposed on businesses, lack of transparency and predictability, and lack of effectiveness. An independent regulator for the telecommunications sector began functioning in 2001. Current concerns include product certification standards and pharmaceutical registration and pricing mechanisms, which effectively impede market access.

4. Debt Management Policies

Poland improved its foreign debt situation through rescheduling agreements with the Paris Club (1991) and the London Club (1994), which reduced Poland's debt by nearly half. As of July 2001, Poland's total official foreign debt was $28.2 billion, including $20.1 billion to the Paris Club, $2.2 billion to other institutions (IMF, World Bank, EBRD and BIS), $4.1 billion in Brady Bonds, and $1.7 billion in other foreign bonds. Since 1995, Poland has held investment grade ratings from various agencies and has been a net borrower on the world capital markets at a small premium over German bond rates. In September 2001, Poland had a Moody's rating of Baa1 and a Standard and Poor's rating of BBB+ (stable outlook). Debt servicing remains relatively low both in relation to government expenditure (12–14 percent) and GDP (3 percent), although amortization payments are scheduled to rise significantly in the next few years. Foreign debt servicing represents a sustainable proportion of exports of goods and services. As of mid-2001, the private sector had an estimated $30 billion in foreign debt. The share of short-term foreign debt in Poland's total foreign debt oscillates around 13.5 percent and has remained almost unchanged since 2000. Poland's total state debt (foreign and domestic) amounted to 40 percent of GDP in July 2001. The Ministry of Finance plans to establish a public debt risk management agency similar to those operating in other OECD-countries.

5. Significant Barriers to U.S. Exports

Tariffs: Poland's tariff policy reflects a trend toward liberalization as required by its WTO commitments and a strong bias in favor of its regional free trade partners (EU, EFTA, CEFTA, Estonia, Latvia, Lithuania, Israel, and Turkey). In 2000, duty-free industrial imports from the EU and Poland's free trade partners accounted for 72.3 percent of total industrial imports. By the end of 2000, Poland had eliminated most tariffs and trade barriers on industrial goods from the EU and EFTA countries (except cars and steel products). Poland and the EU agreed in 2000 to eliminate tariffs on a range of unprocessed agricultural goods and are negotiating a similar agreement on processed agricultural products. The reduction or elimination of tariff and trade barriers with other free trade partners is also continuing. U.S. exporters in a broad range of industry sectors have complained that the growing differences between Most Favored Nation (MFN) tariffs applied to U.S. goods and preferential tariffs applied to goods from the EU and Poland's free trade partners have diminished their business prospects and ability to compete on the Polish market. While giving the EU and its free trade partners preferential access, Poland has maintained MFN tariffs at levels that often exceed the EU common external tariff rates that Poland must adopt upon joining the EU. Thus, many U.S. firms face a bigger competitive disadvantage in Poland than in the EU. The U.S. and Polish governments have been engaged for some years in an effort to address this and other bilateral trade issues. In June 2001, they agreed to a package of measures including the suspension in 2002 of Polish tariffs on a limited range of industrial and agricultural goods of interest to U.S. exporters, continued U.S. support for Poland's participation in the Generalized System of Preferences (GSP) program until it joins the EU, and the creation of a formal dialogue for addressing bilateral trade concerns.

Import Licenses: Licenses are required for strategic goods on Wassenaar dual use and munitions lists, as well as for fuel and tobacco. Imports of U.S. grain and oilseed imports, which had amounted to some $100 million in 1997, are blocked by Poland's zero tolerance phytosanitary inspection policy for several common weed seeds. Scientific evidence indicates that such weed seeds already exist in Poland and neighboring countries, yet Polish authorities have been unwilling to relax their zero tolerance policy. While neighboring EU countries do not have a zero tolerance policy on weed seeds, it remains unclear whether Poland will be required to adopt the less restrictive EU tolerance levels when it joins the EU. Certificates from the United States Department of Agriculture are required for meat, dairy products and live animals. Poland banned imports of meat and bone meal (MBM) in February 2001from countries that have Bovine Spongiform Encephalopathy (BSE). Previously, Poland had annually imported upwards of 300,000 tons of MBM valued at $100 million, virtually all from the EU. Poland refused to permit imports of U.S. MBM as an alternative, despite the fact that the United States has no reported cases of BSE, unless U.S. MBM undergoes more costly heat and pressure treatments outlined in European Commission decision 96/449/EC. Poland also banned imports of gelatin of bovine origin from all countries in February 2001 because of BSE concerns. Poland implemented regulations on biotechnology and genetically modified organisms (GMO), following EU norms in mid-2001.

Services Barriers: Poland has made progress, but many barriers remain, especially in audiovisuals, 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 liberalization commitments made by Poland upon joining the OECD. However, legislation passed by the Parliament in 2000 requires broadcasters to meet the 50 percent quota only where practical, thereby bringing 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 allowed firms from OECD countries to open branches and representative offices in the insurance and banking sector in 1999, as well as subsidiaries of foreign banks. The government began to sell stakes in the state telecommunications monopoly (TPSA) in October 1998, and agreed to open domestic long-distance service to competition in 1999 and international services in 2003. Parastatal enterprise France Telecom became TPSA's largest shareholder in 2001, but the government still retains significant control. Several competitors now provide local phone service and domestic long distance service. Thus far, government regulatory agencies' efforts to curb anti-competitive behavior by TPSA, which retains a monopoly over interconnection and international long distance, have been insufficient.

Standards, Testing, Labeling, and Certification: Harmonization of standards, certification, and testing procedures with those of the EU, including greater reliance on voluntary standards, is now the main objective of Polish standards policy. Under the 1997 European Conformity Assessment Agreement, Poland agreed to introduce an EU-compatible certification system; to gradually align its regulations and certification procedures with the those of the EU; to remove from mandatory certification those products free from certification requirements in the EU; and to automatically provide a "B" safety certificate to EU products subject to mandatory certification. However, there have been delays in implementing these commitments. Currently, products manufactured in Poland or imported into Poland for the first time that can be of potential danger or serve to protect or save health, life or environment, are subject to certification with a reserved safety mark of Polish Research and Certification Center or to issuance by the manufacturer at his risk a declaration of compliance. A Polish "B" safety certificate has been required since 1997 for imports and domestic products and affects about one third of all products marketed in Poland. Poland does not automatically accept the EU "CE" mark or other international product standards. Non-acceptance of many international standards, certification, and conformity testing procedures are associated with long delays, involving expensive testing processes. Poland has bilateral mutual recognition agreements on standards and conformity testing procedures with Ukraine, China, Belarus, Germany, the Czech Republic, the Russian Federation, Italy, and Switzerland, which allow the importation of certain products from these countries based on conformity statements issued by the foreign producer. Phytosanitary standards on weed seeds have had a major adverse impact on the ability of U.S. farmers to export grains to Poland. Pharmaceuticals and medical materials are subject to entry in the Register of Pharmaceuticals and Medical Materials, which requires positive results of laboratory tests.

Investment Barriers: Lack of transparency and clearly stated rules in government decision-making processes, as well as outright corruption, are widely recognized as informal barriers to foreign investment. Polish law permits 100 percent foreign ownership of most corporations. However, some restrictions remain on foreign investment in certain "strategic sectors," such as mining, steel, defense, transport, and energy, while certain controls remain on other foreign investment. Broadcasting law still restricts foreign ownership to 33 percent, while foreign ownership of air transport is confined to 49 percent. The cap on foreign ownership in telecommunications was lifted on January 1, 2001. No foreign investment is currently allowed in gambling. The privatization of the energy, steel, and telecommunications sectors envisions significant foreign investment, as does a restructuring plan for the defense industry. The privatization process lacks transparency and relatively few U.S. firms have shown interest in investing in state-owned firms, in part because of transparency concerns but also because of the unstable regulatory environment. As a result of OECD accession, foreigners in Poland may purchase up to 4,000 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 stateowned enterprises. In actual practice, many government procurements are carried out in a non-transparent manner that has produced highly publicized accusations of corruption. The exception for state-owned enterprises is a loophole that often produces questionable tender results. 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 may qualify for "domestic" status. There is also a protest/appeals process for tenders thought to be unfairly awarded. Since September 1997, Poland has been an observer to the WTO's Government Procurement Agreement (GPA). In order to accede to the GPA in accordance with its EU accession requirements, Poland is expected to start GPA accession negotiations in 2002. In June 2001, the Law on Public Procurement has been amended to conform to the EU regulations.

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, Lithuania, and Turkey, 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 in January 1998, but some problems remain, including the amount of paperwork required and the lack of electronic clearance procedures. A new, EU-compatible tariff classification system to be introduced in January 2002 may cause some initial confusion.

6. Export Subsidies Policies

With its 1995 WTO accession, 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 stateowned enterprises continue to receive direct or indirect production subsidies to lower export prices. Polish industry and exporters criticize the government for too little export promotion support. Poland's export insurance agency has limited resources and rarely guarantees contracts to highrisk countries such as Russia, placing Polish firms at a disadvantage to most western counterparts.

7. Protection of U.S. Intellectual Property

While Poland has significantly improved its legal framework for intellectual property rights protection, this progress is overshadowed by insufficient enforcement and recent moves to abolish the confidentiality of proprietary test data for pharmaceutical drugs ("data exclusivity"). 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, and audio-visual works, as well as industrial patterns. Amendments to the Copyright Law, designed to bring it fully into compliance with Poland's TRIPS obligations, were enacted in July 2000. The amendments provide full protection of all pre-existing works and sound recordings. Amendments designed to bring the Industrial Property Law, which protects patents and trademarks, into compliance with TRIPS obligations were implemented in August 2001.

Poland suffers from high rates of piracy, in large part due to weak control of its eastern border and reluctance to clean up or shutdown large outdoor markets. Most pirated materials available, particularly CDs and CD-ROMs, are produced in the former Soviet Union and Romania. With better laws in place and improved cooperation between government and industry, enforcement has improved in recent years. Nevertheless, the cumbersome judicial system and the general lack of knowledge about IPR remain impediments. Criminal penalties increased and procedures for prosecution were somewhat simplified when the amendments to the Copyright Law took effect. Industry associations estimate 2000 levels of piracy in Poland to be: 33

percent for sound recordings, 25 percent for motion pictures, 54 percent for business software, and 85 percent for entertainment software. Poland is currently on the "Special 301 Watch List" due primarily to ineffective enforcement.

Separately, pharmaceutical producers are affected by substandard data exclusivity and patent protection for their products. Until late 2001, test data submitted to the government to register a drug generally received three years of data exclusivity. However, in a number of cases, the data exclusivity period was actually less. In a turn for the worse, Parliament passed and the President signed new EU accession related legislation in fall 2001 that, among other things, abolishes the period of data exclusivity until Poland joins the EU. This law clearly violates Poland's WTO TRIPS commitments and stands to have a negative impact on foreign R&D pharmaceutical companies operating in Poland. The U.S. government is actively engaged with the Polish government in an effort to restore the period of data exclusivity. To join the EU, Poland will also have to change its law to provide for supplemental protection certificates (patent extensions). The adoption of EU compatible patent legislation and the re-registration of Polish pharmaceuticals according to EU-compatible criteria are problematic issues in Poland's accession process.

8. 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 officers, 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 under 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 or exceed the above five worker rights standards. 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—2000

[In Millions of U.S. Dollars]

Category		Amount
Petroleum		4
Total Manufacturing		1,171
Food & Kindred Products	106	
Chemicals & Allied Products	367	
Primary & Fabricated Metals	56	
Industrial Machinery and Equipment	–4	
Electric & Electronic Equipment	1	
Transportation Equipment	5	
Other Manufacturing	640	
Wholesale Trade		335
Banking		1,014
Finance/Insurance/Real Estate		89
Services		20

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—2000—Continued

[In Millions of U.S. Dollars]

Category	Amount
Other Industries	110
Total All Industries	2,743

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

PORTUGAL

Key Economic Indicators

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

	1999	2000	[1] 2001
Income, Production and Employment:			
Nominal GDP [2]	114.2	104.9	109.0
Real GDP Growth (pct) [2] [3]	3.1	3.3	1.7
GDP by Sector: [4]			
Agriculture	4.3	4.0	3.9
Industry	29.5	29.3	29.3
Services	66.2	66.7	66.8
Government	44.7	44.6	46.0
Per Capita GDP (US$) [2]	11,420	10,490	10,583
Labor Force (000's)	5,057	5,097	5,187
Unemployment Rate (pct)	4.5	3.8	3.9
Money and Prices (annual percentage growth):			
Money Supply (M2)	9.5	5.2	6.4
Consumer Price Inflation	2.4	2.3	4.3
Exchange Rate (PTE/US$ annual average)	188	218	224
Balance of Payments and Trade:			
Total Exports FOB [4]	23.9	23.2	22.8
Exports to United States [5]	1.2	1.6	1.7
Total Imports CIF [4]	38.6	38.1	35.3
Imports from United States [5]	1.0	1.0	1.3
Trade Balance	–14.7	–14.9	–12.5
Balance with United States	0.2	0.6	0.4
External Public Debt	N/A	N/A	N/A
Fiscal Deficit/GDP (pct) [2]	1.7	1.4	1.1
Current Account Deficit/GDP (pct)	8.4	10.0	10.1
Debt Service Payments/GDP (pct)	N/A	N/A	N/A
Gold and Foreign Exchange Reserves	14.1	14.2	13.9
Aid from the United States	0	0	0
Aid from All Other Sources	N/A	N/A	N/A

[1] 2001 figures are estimates based on available data in October; some previous year figures have been revised.
[2] Portuguese Ministry of Finance.
[3] Percentage changes calculated in local currency.
[4] Portuguese Ministry of the Economy.
[5] Department of Commerce.

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-seven 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-seven 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.

Portugal has experienced a broad-based economic expansion since 1993. Much of this growth can be linked to the country's successful efforts to join the 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, moderate inflation rates and stable interest rates. Lower interest rates 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 Portuguese economy has continued to expand over the past year, the rate of growth has moderated, and is forecast to be lower than the EU average for the coming year.

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 a projected 100 percent of disposable income by the end of 2001. Other manifestations include an inflation rate that is persistently higher than the Euro-zone average, a large and 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. Moreover, the government has found it difficult to impose fiscal restraint; government spending continues to rise as a percent of GDP.

2. Exchange Rate Policy

On January 1, 1999, Portugal and 10 other European countries entered the European 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 over 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 its aggressive privatization schedule. By the end of 1999, total privatization receipts reached $23.5 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.

The government has recently instituted a number of tax reform measures, embodied in both the December 2000 Tax Reform Act and the 2001 Budget Law. These initiatives recognize the need to widen the tax base, improve tax administration, and harmonize policies with other EU jurisdictions. A new tax administration body, the General Tax Administration, was created in September 1999, to coordinate the auditing, training and planning of the individual tax directorates. Supplementary professional qualification is being provided by the Tax Training Institute, and several hundred new inspectors have been hired.

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 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 3.2 percent of GDP in 2000.

5. Significant Barriers to U.S. Exports

Within the European Union, the European Commission has authority to develop most aspects of EU-wide external trade policy, and most trade barriers faced by U.S. exporters in EU member states are the result of common EU policies. Such trade barriers include: the import, sale and distribution of bananas; restrictions on wine exports; local (EU) content requirements in the audiovisual sector; standards and certification requirements (including those related to aircraft and consumer products); product approvals and other restrictions on agricultural biotechnology products; sanitary and phytosanitary restrictions (including a ban on import of hormone-treated beef); export subsidies in the aerospace and shipbuilding industries; and trade preferences granted by the EU to various third countries. A more detailed discussion of these and other barriers can be found in the country report for the European Union.

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 sectors. 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

Trademark Protection: 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. The law, however, is not considered to be entirely consistent with the terms of the trade related intellectual property provisions of GATT (TRIPS).

Copyright Protection: Portugal is finishing the process of adopting EU directives in the form of national legislation. Most recently, the country adopted the EU directive on protection of data bases (Decree Law 122/2000, July 4, 2000). Software piracy remains a problem, however.

Patent Protection: Currently, Portugal's patent protection is afforded by the Code of Industrial Property that went into effect on June 1, 1995. In 1996, new legislation was passed to extend the life of then-valid patents to 20 years, consistent with the provisions of TRIPS. The current code, however, remains inconsistent with TRIPS in certain regards. Portugal's perceived weak protection for test data, coupled with high registration costs, have restricted the introduction of new drugs into the country.

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 one to three 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 of Portugal is fighting child labor through the office known as PEETI (Plan for Eliminating Exploitation of Child Labor), which was established by legislation passed in July 1998, and falls under the jurisdiction of the Ministry of Labor and Solidarity. The group collaborated with the ILO in 1998 and 1999 in a first of its kind survey to try to ascertain the extent of child labor in Portugal. The survey, which polled thousands of students and their parents, indicates that there are between 18,000 and 34,000 children who perform some kind of work in Portugal. The survey also indicates, however, that the majority of these situations constitute children working for their parents on family-owned farms, in which the labor does not interrupt education. Portugal ratified ILO Convention 182 on June 1, 2000.

PEETI has called for stronger domestic legislation specifying the minimum age for employment, to be applied to all sectors of the economy. The organization also supports legislation which will extend labor laws to include all work done that has an economic value, even that done for family-owned businesses and farms. Finally PEETI is pushing legislation which makes it a felony to continue to employ minors once a firm has been notified of a violation.

Portugal has a regular system of unannounced inspections of firms by the Inspectorate General of Labor to check for the illegal employment of minors. Many current violations of labor laws, however, are thought to occur in the home, where children are engaged on a "piece-work" basis in the clothing and footwear sectors and where labor inspectors do not have authority to inspect. To fight this phenomenon, the Government of Portugal has begun a program of unannounced inspections involving representatives of the Inspectorate General of Labor, the Social Security Inspection Services, and a representative of the court.

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 2001, the monthly minimum wage was raised to 67,000 escudos/month (approximately $305 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—2000

[In Millions of U.S. Dollars]

Category		Amount
Petroleum		(1)
Total Manufacturing		479
Food & Kindred Products	113	
Chemicals & Allied Products	95	
Primary & Fabricated Metals	–11	
Industrial Machinery and Equipment	(1)	
Electric & Electronic Equipment	237	
Transportation Equipment	69	
Other Manufacturing	(1)	
Wholesale Trade		278
Banking		128
Finance/Insurance/Real Estate		214
Services		491
Other Industries		(1)
Total All Industries		1,784

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

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

ROMANIA

Key Economic Indicators

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

	1999	2000	[1] 2001
Income, Production and Employment:			
Nominal GDP (Billion Current Lei) [2]	521,735.5	796,533.7	1,103,100
Real Lei GDP Growth (pct) [3]	(3.2)	1.6	4.5
GDP by Sector (Million US$):	34,026.9	36,724.8	37,820.0
Agriculture	4,729.7	4,192.4	5,656.5
Manufacturing	9,459.5	10,136.9	11,348.0
Services	19,837.7	22,395.5	20,815.5
Per Capita GDP (US$)	1,512.3	1,639.5	1,692.4
Labor Force (Millions)	9.8	9.5	9.5
Unemployment Rate (pct)	11.8	10.5	9.9
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	44.9	38.0	25.4
Consumer Price Inflation	54.8	40.7	32.6
Exchange Rate (Lei/US$ annual average):.			
Official	15,333.0	21,689.2	29,160.0
Parallel	16,315.0	22,139.9	29,352.0
Balance of Payments and Trade:			
Total Exports FOB [4]	8,504.7	10,366.5	12,025.1
Exports to United States [4]	316.9	379.8	408.9

Key Economic Indicators—Continued

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

	1999	2000	[1] 2001
Total Imports CIF [4]	10,395.3	13,054.5	16,918.6
Imports from United States [4]	362.4	391.1	458.3
Trade Balance FOB/CIF [4]	–1,890.6	–2,688.0	–4,893.5
Balance with United States	–45.5	–11.3	–49.4
External Public Debt [5]	6,220.3	6,884.2	7,100.0
Fiscal Deficit/GDP (pct) [6]	4.0	3.7	3.6
Current Account Deficit/GDP (pct)	3.8	3.8	7.9
Debt Service Payments/GDP (pct) [7]	10.4	5.9	5.1
Gold and Foreign Exchange Reserves [8]	2,492.9	3,396.6	4,506.5
Aid from United States	56.0	33.8	36.0
Aid from All Other Sources	172.8	324.2	300.0

[1] 2001 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] Public Guaranteed Debt included.
[6] Consolidated budget deficit.
[7] Short-term, included.
[8] Official reserves with the central bank.

1. General Policy Framework

Despite a slow start, market-based economic reforms have steadily picked up pace in 2001, the first year of the new government GDP growth has increased dramatically, exports have continued to grow, moderately tight fiscal policy has resulted in lower inflation, there has been modest progress in privatization, and industrial output has increased. On the negative side, a surge in imports has led to a widening current account deficit.

GDP is expected to rise around 4.5 percent in 2001. (The informal economy is estimated at more than 25 percent of official GDP. The current account deficit has widened to more than double normal figures, and external public debt has only slightly increased. Improved tax collection and tight public spending should bring the consolidated budget deficit down to around 3.5 percent of GDP under the new IMF's. Public direct and guaranteed external debt service was projected to drop to 5.1 percent of the GDP in 2001. Foreign public debt has increased only slightly, and Romania has continued to meet its debt obligations on time and in full. As a result of Romania's continued good record on debt service and steady growth of official foreign exchange reserves, , up 56.7 percent by June 2001 from June 2000, rating agencies have upgraded Romania's country rating to B(B) by Fitch, B(B) by Standard and Poor's, B-three (B3) from Moody's Investor Service.

Romania is committed to becoming a member of the European Union (EU), which is by far its largest trading partner, and has opened 15 accession chapters so far, of which eight are closed. Trade with the EU now accounts for 68 percent of Romania's merchandise exports and 56 percent of imports. Trade with the United States accounts for 3.4 percent of Romania's exports and 3.3 percent of its imports. In 2001, U.S. exports to Romania are projected to grow 17 percent.

2. Exchange Rate Policy

The foreign exchange market was liberalized in February 1997. The Leu is fully convertible for current account transactions and foreign investment. The Leu depreciated less in 2001 compared to 2000. For the first half of the year, the nominal devaluation was 12.5 percent, while the real appreciation was 2.3 percent. The central bank has remained committed to increasing the official forex reserves and has agreed to full future convertibility of the capital account, but the necessary conditions for the later are not yet in place and may require three to four years to complete.

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, taxation, and SMEs. While new legislation is necessary to create a basis for a market economy, frequent regulatory change has slowed down the pace of trade and investment. Legal framework implementation has remained a serious problem, given subjective and sometimes corrupt manipulations. Another major legislative problem is the politically driven change of direction after elections, when several market-oriented ordinances adopted by the former government were immediately repealed by the new one, often without being submitted them to parliament for debate. Two of the most important ordinances repealed referred to private pension funds and the protection of minority shareholders. Both have impacted foreign investments in Romania, although the impact of repeal of the former was negative, while the repeal of the latter was mixed.

Agricultural prices are generally determined by market forces, and there are no export quotas. Over the past two years tariffs have been reduced by 66 percent. However, very modest progress has been made in agricultural sector privatization, and Agriculture Structural Adjustment (ASAL) program agreed with the World Bank was terminated. The Agricultural Bank's privatization, completed in 2001, represents a good reform opportunity both for agri-business investments in Romania, as well for the development of the retail banking sector.

Currently, deep-seated problems remain in the agricultural sector. Among them:

- the continued pervasive state presence, including in acquisition prices, 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;
- limited financial services, few private input suppliers, and little extension services;
- agricultural coupons for tiled lands that arrive too late to be helpful for agricultural production.

The pace of reform in heavy industry has been even slower. The state has retained ownership of 65 percent of the industrial sector. Plant inventories and arrears have been up in 2001. While the government remains committed to privatizing, albeit with only moderate success to date, most liquidation procedures were halted and productive assets have been re-opened for social cause, regardless of financial cost. The recent privatization of Sidex, the largest steel plant, is a positive sign. Meanwhile, industrial direct or indirect subsidies such as soft loans are still largely concentrated in loss-making industries such as truck and tractor construction. However, tax incenives granted to potential growth sectors, such as IT or aluminum represented positive exceptions to this rule in 2001. Other sectors having good growth driving potential such as food-processing have received no support.

As a rule, the government does not interfere with market forces by implementing price controls; however, in order to provide some social comfort and anti-inflation leverage, it has sometimes released supplies from the state reserves of basic foodstuffs such as edible oil, sugar, etc.

4. Debt Management Policies

At the end of June 2001, Romania's medium and long-term external debt amounted to $10.0 billion, up slightly from $9.9 billion at the end of 2000. The National Bank's foreign exchange reserves amounted to $4.5 billion, gold included, and the total reserve assets of the banking system reached $5.7 billion in June 2001. Romania has claims against foreign countries amounting to $3 billion.

The Government of Romania succeeded in avoiding default in 1999 without resorting to roll-over, and since then has increased foreign exchange reserves. In 1999–2000, Romania succeeded in significantly cutting the current account deficit. In 2001, the trade deficit has been driving a booming current account deficit. After long negotiations, the previous government concluded with the IMF a new stand-by loan worth $535 million, the first installment ($73 million) of which was released in August 1999. A second tranche was released in June 2000 after significant delay, but the program expired in February 2001 without any more disbursements. The IMF Board approved a new 380 million Stand-By Agreement on October 31. The first installment was $66 million, and the first program review is scheduled for February 2002.

The previous government received a $300 million Private Sector Structural Adjustment Loan (PSAL) from the World Bank, which was fully disbursed. Under the PSAL, the Government of Romania worked to reform the banking sector, close loss-making firms, and improve the business environment. The World Bank will continue this work with the new Government of Romania through a second PSAL that is expected to be approved shortly.

Despite the absence of an IMF program, the Government of Romania succeeded in tapping international private capital markets this year at favorable rates. A January 2001 Eurobond issue in the amount of EUR 150 million, with an interest rate of 11.5 percent for five years was re-opened in March for another EUR 150 million, with the same maturity, at an 11.25 percent interest rate. In June 2001, EUR 600 million were obtained for seven years at 10.65 percent, but there was sufficient demand to have sold EUR 1300 million in bonds. The spreads on Romanian debt have remained stable despite emerging market turmoil dues to Argentina's debt problems.

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 that directly prejudice foreign trade or business operations. Tariff preferences resulting from Romania's Association Agreement with the EU have disadvantaged U.S. exports in several sectors, including agriculture, telephonic equipment, computers, and beverages.

Bureaucratic red tape and frequent changes in the legal framework make doing business in Romania challenging. Negotiating contracts can be time consuming 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 and expedient legal recourse to recover claims against debtors has represented a further complication for foreign investors.

The cost of doing business in Romania is relatively high for the region, particularly for office rental, transportation and telecommunication services. Lack of an efficient payment system further delays transactions in Romania. Capital requirements for foreign investors are not onerous, but local capital remains expensive. Also, taxes on both profits and operations are steep. Investors complain of inconsistency in Romania's policy on tax incentives for foreign companies. Foreign companies have qualified for some tax exemptions based on the size of their direct investment.

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 obstacle to investment. Government approval of joint ventures requires extensive documentation. U.S. cumulative direct investments in Romania totaled US$ 693.2 million by December 2000, which represents 8.2 percent of the total foreign direct investment in Romania. The figure for 2000 is US$ 107.2 million.

Romania is a full 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 a commercial and 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. Modern patent, trademark, and copyright laws are in place. In 2001, the Romanian Parliament ratified the latest copyright and neighboring right treaties of Geneva that Romania had signed and adhered to since 1996: WIPO copyright treaty and WIPO artistic performance and phonogram treaty. Still, enforcement is limited and often ineffective, especially in the copyright area.

Pirated copies of audio and video cassettes, CDs, and software are still 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 Berne Convention, the World Intellectual Property Organization, the Paris Intellectual Property Convention, the Patents Cooperation Treaty, the Madrid Convention, and the Hague Convention on Industrial Design, Drawings and Models. As a country in transition, Romania implemented the WTO agreement on intellectual property beginning January 1, 2000. Industrial property law amendments needed for full compliance with TRIPS have already been drafted, but not yet enacted. These drafts include the law for changing and completing Patent Law (64/1991) and the draft law for changing and completing Industrial Drawing and Model Protection (129/1992).

The TRIPS-consistent Copyright and Neighboring Rights Law has been 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 and appropriate budget. The Business Software Association estimates that currently, pirated products account for about 77 percent of the Romanian market, down from 95 percent prior to the law's coming into force. The music piracy rate is estimated at 55 percent and audio-visual piracy about 50 percent. In order to solve this problem, the government drafted a bill that came into force in 2001 regulating the customs' right to check on imports from the IPR point of view.

On March 26, 2001, almost five years after the passage of the Copyright Law, Romania carried out the first mass-destruction of seized counterfeited CDs and music tapes.

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). In early 2001, the government concluded a Social Pact with national union confederation and employer associations, under which the unions agreed not to stage national strikes, in return for promises regarding wages, pensions and new labor legislation. However, the Social Pact does not prevent local unions from staging protests and strikes protesting privatization or restructuring of their companies or wage levels that do not keep the pace with the rate of inflation.

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 workweek 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—2000

[In Millions of U.S. Dollars]

Category		Amount
Petroleum		(1)
Total Manufacturing		27
Food & Kindred Products	(1)	
Chemicals & Allied Products	(1)	
Primary & Fabricated Metals	0	
Industrial Machinery and Equipment	1	
Electric & Electronic Equipment	0	
Transportation Equipment	5	

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—2000—Continued

[In Millions of U.S. Dollars]

Category		Amount
Other Manufacturing	0	
Wholesale Trade		21
Banking		0
Finance/Insurance/Real Estate		(1)
Services		0
Other Industries		24
Total All Industries		106

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

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

RUSSIA

Key Economic Indicators

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

	1999	2000	[1] 2001
Income, Production and Employment:			
Nominal GDP [2]	4,546	7,063	[3] 5,475.9
Real GDP Growth (pct)	5.4	8.3	[3] 5
GDP Growth 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 Personal Income (US$)	650	900.3	1,228
Labor Force (000s)	72,000	72,300	71,000
Unemployment Rate (pct)	12.6	10.4	8.2
Money and Prices (annual percent growth):			
Money Supply Growth (M2)	57.2	47.1	[3] 19.4
Consumer Price Index (percent increase)	36.6	20.2	[3] 13.9
Exchange Rate (Ruble/US$—annual average)	24.63	28.15	[4] 29.4
Balance of Payments and Trade:			
Total Exports (FOB)	72.9	103.0	51.3
Exports to United States	5.8	7.8	[6] 4.1
Total Imports (CIF)	30.3	33.9	19.5
Imports from United States	1.8	2.3	[6] 1.6
Trade Balance	42.6	69.1	31.8
Balance with United States	4.0	5.5	[6] 2.5
Current Account	24.6	46.3	[7] 11.7
External Public Debt	159.7	147	[8] 141
Fiscal Deficit/GDP (pct)	1.7	–2.46	[5] –4.2
Debt Service Payments/GDP (pct)	5.9	2.4	[5] 3.5
Gold and Foreign Exchange Reserves	12.5	27.9	[4] 37.9
Aid from United States (US$ millions) [9]	1,937.1	1,108.9	978.9
Aid from All Other Sources	N/A	N/A	N/A

[1] 2001 data has been provided for the last available period (8/00) unless otherwise noted.
[2] Billions of Russian Rubles.
[3] Data for the period January-August 2001.
[4] Data as of September 28, 2001.
[5] Data for the period January-July 2001.
[6] U.S. Commerce Department data for the period January-July 2001.
[7] Data for the first quarter of 2001.
[8] Data as of January 2001.
[9] U.S. government assistance (by fiscal year) including food assistance, not including donated humanitarian commodities shipped by U.S. government.

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 is in its third year of economic growth, albeit at a slower rate. Continued high commodity prices spur this growth, but increased private consumption and investment also contribute. Significant ruble appreciation since mid 2000 has sharply reduced exports and accelerated imports, but import substitution industries. The economy has continued to benefit from increased monetization of the economy, a substantially improved fiscal situation, and a perception of greater political stability. Further economic growth depends on several factors, some internal (continued structural reform, domestic investment, improved rule of law) and some external (oil and other commodity prices, foreign investment flows).

The Russian economy grew 8.3 percent in 2000. In the first six months of 2001, GDP increased 5 percent (year-on-year) and forecasts for calendar year 2001 are for 5.5 percent GDP growth. However, real appreciation of the ruble in the second half of 2000 due to the strong current account surplus and relaxation of fiscal and monetary policies slowed the growth of export and industrial production. Net exports are a declining but still large contributor to GDP (estimated at 16 percent, down from 24 percent in 2000), as oil and other commodity prices remain relatively high. Imports in dollar terms have only recently begun to rise, although the weakness of the euro against both the dollar and the ruble has masked import volume increases. (Note: Many of Russia's imports are denominated in euros.) Domestic demand is increasing and becoming a major economic driver. Total investment also increased substantially in 2001, up eight percent during the first eight months of 2001. Both foreign and domestic investment grew, and increasing amounts went into light industry and food processing, indicating deepening economic recovery and increased productivity.

In the medium term, economic development will depend on a continued recovery in domestic demand and investment, underpinned by progress on structural reform. The Russian government has made impressive strides to implement its reform program, passing a major tax reform, simplifying the tariff system, reducing administrative barriers to business, and allowing for the sale of commercial and residential land in cities and villages. However, problems in the investment climate, including poorly functioning judicial and enforcement systems and poorly developed capital markets, present significant disincentives to domestic and foreign investment. The banking sector has stabilized from its collapse in 1998, but still does not effectively intermediate savings to productive investments on a large scale. State banks increasingly are crowding out private banks for commercial lending. Capital flight has leveled off, however, and flight capital is returning home to Russia in the guise of foreign investment.

Russia continues to exhibit fiscal discipline, based on better fiscal policy and tax collection and achieved primary and overall surpluses in 2000. In the first eight months of 2001, the federal budget surplus was R85 billion, or 1.5 percent of GDP. Expenditures were R895 billion and revenues were R980.1 billion. Budget surpluses were largely due to higher energy sector tax receipts and improvements in compliance. A relaxation of fiscal and monetary policy in the fourth quarter of 2000 resulted in a surge of capital outflows; in the first quarter of 2001, however, key monetary aggregates were in line with projections. The budget surplus has been the major factor in this regard, absorbing the monetary liquidity created by the huge increase in foreign reserves. Restraining monetary growth has been a significant challenge, in the context of high dollar inflows and the government's desire to build reserves and avoid significant ruble appreciation or inflation. While the Central Bank of Russia (CBR) is limited in its sterilization efforts due to lack of financial instruments, the recent lifting of the 0.8 percent tax on bonds and other measures make it easier for the CBR to issue its own bonds, which, along with increased use of its deposit mechanism, should help to absorb liquidity. The Russian government and CBR continue to coordinate their fiscal and monetary policies to try to avoid substantial real ruble appreciation. The CBR has intervened selectively to even out exchange rate fluctuations, preventing sharp appreciation or depreciation. Inflation was about 18 percent in 2000, and is projected to be 16–18 percent for 2001.

The positive trend for Russia's economy should be put in perspective. The cost of Russia's 1998 financial collapse was significant. Measured in dollar terms at the average rate of exchange (and keeping in mind that the sharp devaluation may have magnified the drop), Russia's GDP in 1999 was only about $183 billion, slightly more than half of its value in 1995 ($337 billion). Even with strong growth registered in 2000 and some real ruble appreciation, Russia's GDP in dollar terms may not reach pre-crisis levels until 2001 or later.

2. Exchange Rate Policy

The objective of the CBR's exchange rate policy is to prevent sharp fluctuations. The CBR and Russian government also are working together to prevent significant real ruble appreciation due to high dollar inflows from high oil and commodity prices. The nominal ruble/dollar exchange rate has been rising relatively smoothly over the first nine months of 2001, and was up by 4.4 percent by the end of September. Even though the ruble depreciated in nominal terms, it continued to grow in real terms and was up by 9.5 percent in the first nine months of 2001. This real appreciation in exchange rates has only partially offset the large devaluation in 1998, so the price competitiveness of imported goods (including U.S. goods) has recovered only marginally.

During the first nine months of 2001, the CBR's international reserves grew to post-Soviet record levels of $37.9 billion: up by 33.92 percent since Jan.2001. Relatively high ruble liquidity, as reflected in the approximately R75–90 billion held in banks' correspondent accounts at the CBR, reflects the CBR's purchase of dollars. Monetary base growth over the first nine months reflects the same fact. Most of these CBR ruble emissions have been "sterilized" by the Russian government's budget surplus, rather than by traditional central bank operations.

Part of the ruble's strength can be explained by administrative controls maintained by the CBR. The CBR still restricts banks from trading on their own accounts, converting funds in S-accounts from the GKO restructuring, and depositing amounts equivalent to those it holds in S-accounts of non-residents. The CBR also continues restrictions on foreign exchange for export contracts, but a new law implemented on August 10, 2001, reduces the rate from 75 to 50 percent of the repatriated export proceeds that must be sold on authorized exchanges. Under these conditions, the CBR only needs to make tactical interventions in the foreign exchange markets to smooth volatility.

3. Structural Policies

The Russian government in 2001 continued to pursue the course of market economic structural reforms outlined in the government's "Strategy of Development of the Russian Federation through 2010." Minister of Economic Development and Trade German Gref, whose Center for Strategic Research developed this reform plan, is pressing forward on its implementation. The plan focuses on modernizing the economy through releasing private initiative and ensuring a favorable environment for economic activity, including fair rules for competition, deepening of the rule of law, integration into the world economy, and reform of Russia's natural monopolies. The strategy includes a detailed table of actions to be undertaken in its initial 18 months, and more general goals for the following eight years.

The continued emphasis on reform from above, coupled with the more cooperative Duma (parliament) that emerged from the December 1999 elections, has made some significant progress on reform legislation in 2001. That said, the government has husbanded its political capital, and pressed only for top priority reforms. Following upon the individual income tax reform in 2000, the Duma passed a new corporate profits tax that lowers rates to 24 percent, and brings deduction practices close to international standards. The Duma also passed a new land code that will legalize sales of non-agricultural land. Other measures passed this year include the first tranche of the government's de-regulation package. The measures recently passed will limit the number of sectors subject to licensing, protect businesses from excessive inspections, and simplify business registration.

Despite the progress on some structural reforms, much additional work remains in key areas such as banking reform, judicial reforms, corporate governance, agricultural land reform, and changes needed to bring Russia's legislation into line with WTO requirements.

4. Debt Management Policies

The Government of Russia is seeking to reduce substantially its internal and external debt, and to minimize new debt or contingent guarantee liabilities. In 2000 and 2001, government budget surpluses, combined with trade and current account surpluses, have allowed Russia to meet external debt payments and build Central Bank reserves. Since the August 1998 financial crisis, it has restructured almost all of its internal and pre-1992 external debt with the London and Paris Clubs, and completed the restructuring of its MinFin3 bonds. The 2002 Russian government budget assumes payment of roughly $14 billion in official debt service payments falling due. In 2003, the Government of Russia faces a debt spike to $19 billion because of higher MinFin and Eurobond payments, although it has prepaid $1 billion of this already and may have repurchased some of its private sector debt. At this point, the Government of Russia is not seeking a new Paris Club restructuring. The IMF is monitoring Russian economic performance in the context of a Post-Monitoring framework. Given its strong international reserve situation, the government is not seeking a Stand-by facility.

The CBR continues to prohibit the conversion of S-account (accounts through which non-residents invested in government securities) rubles to foreign currency, except during occasional CBR foreign exchange auctions. Investors also may invest restricted S-account rubles in certain securities and trade assets within a S-account. Many foreign S-account holders have been able to repatriate their funds, at substantial discounts, through schemes by which they bought and then resold authorized securities.

5. Significant Barriers to U.S. Exports

Complicated economic conditions continue to pose a greater hurdle for U.S. exports to Russia than statutory trade barriers. Despite continuing economic growth, imports are only now beginning to approach pre-1998 levels, as incomes remain low and real appreciation of the ruble has been slow. Russia's overall imports in the first half of 2001 rose almost 25 percent from the still depressed levels for the same period in 2000. U.S. exports to Russia also increased in 2001, up about 18 percent from the previous year's level. With reduced availability of trade finance, exporters remain cautious about entering the Russian market, where they now face much stronger domestic competition from Russian companies that used the weak ruble to build up their market share.

Since 1995, Russian tariffs have generally ranged from zero to thirty percent, with average import tariff rates at 11.4 percent. For some products, however, including poultry and automobiles, compound duties with minimum tariffs per unit or by weight effectively raised tariff rates above their ad valorem equivalents. This has particularly affected poultry imports, although this year's modifications in compound poultry duties have brought effective duties closer to the nominal 25 percent rate. In addition, excise taxes are applied to a select group of imports, while Value-Added Tax (VAT) is applied to virtually all imports. The VAT, which is applied on the import price plus tariff, is currently 20 percent with the exception of some medicines, food products and items for children, which are taxed at 10 percent. Russia's new unified tariff regime, which applies the same duty across broad product categories, took effect in January 2001. These new tariffs generally range from 5 to 20 percent, with a very small number of items remaining at the zero (insulin), 25 (poultry, automobiles), and 30 percent (sugar) levels. For sugar, Russia also has resorted to high seasonal tariffs on top of these rates and the introduction of a tariff rate quota. The Russian government is discussing imposing tariff rate quotas on other imports, including rice, poultry and red meats. The first results show the new tariff structure has made modest progress in the government's goal of simplifying customs administration, reducing fraud, and through better compliance eventually increasing customs revenues, although more thorough going customs reform will be needed to make more substantial progress toward these objectives.

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); and on aircraft and certain aircraft components (for which tariffs are set at 20 percent). For the time being, the Russian government has suspended waivers on aircraft import tariffs for purchases by Russian airlines.

Throughout 2001 Russia maintained export duties (for exports to non-CIS countries) on many products 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 25 percent. Throughout the year, the government has adjusted export duties on crude oil and oil products to reflect changes in world oil market prices, with the duty now set at 34 euros per ton.

Import licenses are required for the importation of various goods, including ethyl alcohol and vodka, color TVs, sugar, combat and sporting weapons, self-defense articles, explosives, military and ciphering equipment, encryption software and related equipment, radioactive materials and waste including uranium, strong poisons and narcotics, and precious metals, alloys and stones. Most import licenses are issued by the Russian Ministry of Economic Development and 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. The government has continued tight controls on alcohol production, including import restrictions, export duties, and increased excise taxes. Many of these controls are designed to increase budget revenues.

The Law on Protective Trade Measures, passed in spring 1998, gives the government authority to undertake antidumping, countervailing duty and safeguard investigations, under certain conditions. Because of the law's provisions and Russian companies' lack of familiarity with such measures, Russian companies have only been able to file successful actions in a handful of cases, mostly safeguards cases. So far, there has not been a single successful anti-dumping action under the law. The Ministry of Economic Development and Trade has stated it plans by the end of 2001 to submit amendments to the Law on Protective Trade Measures, to make easier for Russian companies to file actions. Under the government's economic reform plan, such protective actions are to replace tariffs as the preferred method for protecting domestic industry.

The June 1993 Customs Code standardized Russian customs procedures, bringing them generally in accordance with international norms, but significant problems remain. 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. An April 2000 State Customs Committee restriction that forced U.S. poultry importers to ship directly through Russian ports remains in place. The Veterinary Service regularly promulgates internal regulations that impede trade. On the positive side, Russian customs is implementing the "ClearPac" program in the Russian Far East that facilitates customs clearance from the United States, and there is discussion of extending the program to other regions.

U.S. companies continue to report that Russian procedures for certifying imported products and equipment are non-transparent, expensive, time-consuming 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. The Government of Russia is considering a reform of its standardization law, to be submitted to the Duma by the end of the year. Some reform proposals would reduce the number of areas subject to standards to a minimum. Occasional jurisdictional overlap and disputes between different government regulatory bodies compound certification problems.

Some of Russia's current legislation in the services sector is overtly protectionist. In theory, foreign participation in banking has been limited to 12 percent of total paid-in banking capital, but the legal basis for this restriction was never fully established. In the aftermath of the financial crisis, foreign banks' share has exceeded this limit, but the government has taken no action. The Government of Russia's most recent banking strategy has proposed abolishing this quota entirely. Foreign investment is also limited in other sectors, such as electricity generation and aviation. An October 1999law implicitly allows majority-foreign-owned insurance companies to operate in Russia for the first time, but restricts their 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 insurance companies currently licensed in Russia from these restrictions. In practice, foreign companies are often disadvantaged vis-à-vis Russian counterparts in obtaining contracts, approvals, licenses, registration, and certification, and in paying taxes and fees.

Despite the passage of a revised 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 rights to purchase securities, to transfer property rights, to protect rights in Russian courts, to repatriate funds abroad after payment of duties, and to receive compensation for nationalizations or illegal acts of Russian government bodies. The law goes on to state, however, that Federal law may provide for a number of exceptions, including where 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 potential large number of exceptions thus gives considerable discretion to the Russian government. The law provides a "grandfather clause" to protect existing "priority" (foreign charter capital of over $4.1 million and with a total investment of over $41 million) foreign investment projects with a foreign participation over 25 percent from unfavorable changes in the tax regime or new restrictions on foreign investment, but the law's protections have not been effective. Lack of corresponding customs and tax legislation has so far prevented implementation of these tax protections.

The September 2001 passage of a land code for non-agricultural land will for the first time permit foreign ownership of real estate.

The government maintains a monopoly on the sale of precious and several rare-earth metals, conducts centralized sales of diamonds, and conducts centralized purchases for export of military technology. In November 2000, Russia changed its previous regime for arms export sales and established a unified state arms sales organization, Rosoboroneksport through merger and consolidation. Arms exports require licensing by the Ministry of Economic Development and Trade. Export control policy is coordinated by the interagency Export Control Commission.

Most of these issues are up for negotiation as part of the terms of Russia's accession to the World Trade Organization (WTO). The government has made accelerated WTO accession its top economic priority. By mid 2001, the government completed twelve working party meetings. The pace of accession negotiations has accelerated throughout the year, as bilateral goods and services market access negotiations continue to make progress. The Russian government provided a revised services market access offer in early 2001, and has also revised its goods tariff offer. 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. Low domestic prices for energy, which are provided to all industries, are seen by some as providing a hidden subsidy to some export industries, such as metals producers. The government is moving to encourage more realistic pricing for energy, however. Soft credits are at times provided to small enterprises for specific projects. Senior Russian officials have publicly advocated establishing an export credit agency, along the lines of the U.S. Exim Bank, but no concrete steps have been taken to establish such an agency.

7. Protection of U.S. Intellectual Property

Under the U.S.-Russia Trade Agreement, which was originally signed with the Soviet Union in 1990, Russia is obligated to take steps to provide for the adequate and effective protection and enforcement of intellectual property (IP). To address these obligations, the United States and Russia established a bilateral working group, which met again in February 2001. In addition, Russia must fully comply with the Trade-Related Aspects of Intellectual Property Rights (TRIPS) Agreement upon its accession to the WTO. In 2001, the U.S. Trade Representative retained Russia on the "Special 301" Priority Watch List for a fifth year, due in large part to concerns over weak enforcement of IP laws and regulations as well as the lack of retroactive copyright protection for U.S. works in Russia. In 2000, the U.S. copyright industry filed a petition with the U.S. Trade Representative requesting review of Russia's eligibility under U.S. Generalized System of Preferences (GSP) program, citing deficiencies in Russia's IP regime and inadequate enforcement of IP in Russia. The U.S. government continues to review this petition.

Russia is a member of 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), 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 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. The government submitted new draft legislation in June 2001 to the Duma to provide for retroactive protections for copyrights and other measures to bring Russia into compliance with its bilateral and multilateral obligations, but the Duma has yet to take action on these laws.

Legal enforcement of intellectual property rights (IPR) has seen some improvements through 2001, although the overall level of piracy remains high. A new Criminal Code that took effect January 1, 199, contains considerably stronger penalties for IPR infringements, and amendments passed by the Duma in 2001 will further increase penalties. However, there are still disappointingly few cases in which these penalties have been applied. Widespread sales of pirated U.S. videocassettes, recordings, books, computer software, clothes, toys, medicines, foods and beverages continue, and there are disturbing signs of increased manufacturing capacity for optical media that could be used to produce pirated product.

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.

Losses to U.S. industry from pirated products sold in Russia (a significant portion of which are produced in third countries) are estimated to be significant, although there are few reliable estimates of their value, or of the value of purchases that Russian consumers, with their limited incomes, would make of non-pirated goods. Counterfeit goods also cause significant losses and may pose dangers to consumer health and safety. Investors in the consumer goods sector continue to warn the Russian government that they will not make further investments if infringement of intellectual property rights continues.

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 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 continued to work with management to discourage the establishment of new unions. While recent court decisions have supported the right of association and often ruled in favor of employees, enforcement of these decisions remains difficult. Registration procedures for unions are governed by the Law on Trade Unions, which specifies that registration requires a simple “notification” and submission of documents. Regional Departments of Justice throughout Russia have often ignored the procedures set out by this law and refused to register new unions by requiring changes in charter documents or confirmation of attendance at founding conferences. Such practices have prevented the registration of new unions or the re-registration of existing ones.

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. Past 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 considered technically illegal, as the procedures for disputes remain exceedingly complex. Moreover, courts have the right to order the confiscation of union property to settle damages and losses to an employer, if a strike is found to be illegal. Reprisals for strikes are common, although strictly prohibited by law.

In December 2001, the Duma will consider amendments to a proposed new draft Labor Code. The draft code seeks to diminish the role of government in setting and enforcing labor standards and to move toward more flexible labor markets. In the conceptual scheme of the new code, trade unions are expected to play a balancing role in representing workers’ interests. There are significant gaps in the proposed regime, however, including the lack of a clear enforcement mechanism for failure or refusal by an employer to engage in good faith collective bargaining or other obligations. Moreover, there is a substantial risk that existing unions will be dominated by employers under the proposed labor relations scheme, particularly in industries with oligopolistic structures. Final approval of a new code is not expected until the spring of 2002, at the earliest.

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. The increase in the number of children working and living on the streets is largely the result of drastic economic changes and a deterioration in the social service infrastructure.

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. While the overall problem of nonpayment of wages has diminished greatly, wage arrears in June 2001 equaled over $1.14 billion. The monthly minimum wage of $10.20 (300 rubles) remains below the official subsistence level of $51 (1,507 rubles) and approximately 31 percent of the population have incomes below this survival level. Workers' freedom to move in search of new employment is constrained economically and is further limited by the system of residency permits, which is still in use in cities such as Moscow and St. Petersburg. 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 existing Labor Code and are the same as in other parts of the country.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—2000

[In Millions of U.S. Dollars]

Category		Amount
Petroleum		496
Total Manufacturing		138
Food & Kindred Products	157	
Chemicals & Allied Products	–73	
Primary & Fabricated Metals	(1)	
Industrial Machinery and Equipment	3	
Electric & Electronic Equipment	2	
Transportation Equipment	0	
Other Manufacturing	(1)	
Wholesale Trade		–76
Banking		3
Finance/Insurance/Real Estate		3
Services		–294
Other Industries		366
Total All Industries		635

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

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

SPAIN

Key Economic Indicators

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

	1999	2000	[1] 2001
Income, Production and Employment:			
Real GDP (1995 Prices) [2]	538.4	484.7	487.6
Real GDP Growth (pct) [3]	4.0	4.1	3.0
GDP (At Current Prices)	599.3	558.3	580.7
GDP by Sector:			
Agriculture	21.1	18.3	19.1
Industry	120.0	109.3	113.7
Construction	44.5	44.6	43.5
Services	356.1	332.1	345.4

Key Economic Indicators—Continued

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

	1999	2000	[1] 2001
Government	57.7	54.1	56.2
Per Capita GDP (US$)	14,957	13,992	14,554
Labor Force (000s)	16,423	16,844	17,000
Unemployment Rate (pct)	15.9	14.1	12.7
Money and Prices (annual percentage growth):			
Money Supply (M2)	6.0	3.7	3.0
Consumer Price Inflation	3.0	4.0	3.3
Exchange Rate (PTA/US$ annual average)	156.3	180.678	185.0
Balance of Payments and Trade:			
Total Exports FOB [4]	111.4	113.7	127
Exports to United States [4]	4.8	5.5	6.4
Total Imports CIF [4]	146.3	153.4	171.0
Imports from United States [4]	7.9	8.0	9.0
Trade Balance [4]	–34.9	–39.7	–44.0
Balance With United States [4]	–3.1	–2.5	–2.6
External Public Debt	66.4	61.1	60.0
Fiscal Deficit/GDP (pct)	1.1	0.3	0.0
Debt Service Payments (Paid)	N/A	N/A	N/A
Gold and Foreign Exchange Reserves	39.8	35.2	36.0

Sources: Bank of Spain, Spanish National Institute of Statistics

[1] 2001 figures are all estimates based on available monthly data in June.
[2] GDP at factor cost. GDP appears lower in 2000 and 2001 due to exchange rate fluctuations.
[3] Percentage changes calculated in local currency.
[4] Merchandise trade. Spanish Customs.

1. General Policy Framework

Spain's economy continues to perform well. The Government of Spain estimates 3 percent GDP growth for the year 2001, a deceleration from the 4.1 percent growth in GDP for 2000. Thus far, growth continues to be broadly based and is supported by the services sector, agriculture, construction, consumer demand, and capital good investment. Growth prospects have been dampened in part due to the effects of the global economic slowdown.

Throughout the 1990s 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 budget deficit/GDP ratio to fall to 0.4 percent in 2001. The government's overall debt/GDP ratio should fall to 60 percent in 2001.

Although high compared to EU averages, Spain's current unemployment rate of 12.7 percent is Spain's lowest level in over a decade. Employment growth in early 2001 was underwritten by changes in 2000 that provided flexibility in hiring practices. Recently released monthly unemployment figures show slight increases in unemployment starting in July 2001.

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 through July 2001 was 0.893 or 186.6 pesetas to the dollar. The rate in September 2001 was 1 euro equals $0.904

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 follows the U.S.-EU mutual recognition agreements in its application of certain nontariff regulations and conformity assessment procedures applied to certain goods from the United States.

Spain requires import licenses and imposes quotas on certain industrial products. While there are no quotas on U.S.-origin manufactured products, Spain 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 invoice 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.

Not infrequently, U.S. products face rigorous application of import requirements. Goods that are shipped to a Spanish customs area without proper import licenses or declarations are subject to considerable delay, may run up substantial demurrage charges, and have recently been rejected outright. 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.

Current Investment Law complies with all EU regulations. Non-EU resident investors must obtain Spanish government authorization to invest in broadcasting (signatories to the WTO Telecoms Agreement are exempt from this requirement), gaming, air transport, or defense. EU resident companies (i.e. companies deemed European under article 58 of the Treaty of Rome) are free from almost all restrictions.

4. Debt Management Policy

Almost 30 percent of Spanish medium and long-term debt is held by non-residents. Approximately 21 percent of Spanish government debt is short-term (less than one year) and 79 percent is long-term (i.e. maturities greater than five years).

At the end of August 2001, international reserves at the Bank of Spain totaled 39.1 billion euros or $35.2 billion.

5. Significant Barriers to U.S. Exports:

In general, EU agreements and practices determine Spain's trade policies. Within the European Union, the European Commission has authority for developing most aspects of EU-wide external trade policy, and most trade barriers faced by U.S. exporters in EU member states are the result of common EU policies. Such trade barriers include: the import, sale and distribution of bananas; restrictions on wine exports; local (EU) content requirements in the audiovisual sector; standards and certification requirements (including those related to aircraft and consumer products); product approvals and other restrictions on agricultural biotechnology products; sanitary and phytosanitary restrictions (including a ban on import of hormone-treated beef); export subsidies in the aerospace and shipbuilding industries; and trade preferences granted by the EU to various third countries. A more detailed discussion of these and other barriers can be found in the country report for the European Union.

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. In compliance with the Uruguay Round agreement all import duties on agricultural products have been reduced by an average of 20 percent, though in sensitive sectors some tariffs remain at prohibitively high levels.

In addition to these mechanisms, the EU employs a variety of strict animal and plant health standards which act as barriers to trade. At times, 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 beef production in the EU, including in Spain, 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 two WTO rulings (original case and appeal) 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 that 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.

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 and specified non-grain feed ingredients and sorghum from non-EU countries. The Uruguay Round agreement effectively extended this agreement indefinitely.

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 bioengineered agricultural products has halted U.S. corn exports to Spain. Due to the EU's failure to approve all but two transgenic corn varieties, U.S. corn exports to Spain have virtually been eliminated, costing U.S. exporters about $100–150 million per year. The figure for the entire EU would be somewhat higher. Unless the EU takes steps to lift its moratorium on approval of transgenic products and streamlines its biotech product approval process, U.S. exporters will continue to be unable to ship U.S. corn to Spain. The United States remains interested in maintaining access to the Spanish feed grain market and will continue to press the EU on this issue and is currently exploring the concept of providing USDA certified, identity preserved corn shipments, containing only EU approved varieties.

Telecommunications: Spain liberalized its telecommunications market beginning in 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 in 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 three digital television platforms, Via Digital, Canal Satellite Digital, and Onda Digital/Retevision (over a terrestrial network), which currently offer digital television programming. Spain's mobile telephony market has also experienced a very rapid growth in subscribers. The government granted four licenses for third generation mobile telephony in 2000, and six licenses for wireless local telephone services. New opportunities are emerging in advanced telecommunications services, including the internet and high-speed data transmission. Finally, the government 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: In 1999, the Spanish Parliament adopted legislation that incorporated the EU Television without Frontiers Directive and revised the 1994 Spanish law on television broadcasting. The 1999 law explicitly requires television operators to reserve 51 percent of their annual broadcast time for European audiovisual works. It also created an "investment quota," obliging television operators to devote 5 percent of their annual earnings to finance European feature length films and films for European television. This investment quota was further defined in new July 2001 legislation (60 percent of the investment quota must be spent on audiovisual works in one of Spain's official languages).

Motion Picture Screen Quotas and Dubbing Licenses: In 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. In July 2001, the Spanish Parliament adopted new legislation that maintains the film screen quotas. The new law notes that it is possible that the screen quotas may be eliminated in five years.

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. In 1998, the Catalan regional government adopted a decree under its new law on language policy, which called 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, the regional government annulled the legislation in 2000.11Product Standards and Certification Requirements: Product certification requirements have been liberalized considerably since Spain's entry into the EU leading to increased transparency of process. National regulations in the telecommunications sector now conform to EU directives. CE registration in any EU member state is recognized in Spain, which shortens the approval process particularly for telecom and medical equipment. 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.

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 U.S.-EU Mutual Recognition Agreement, when fully implemented, will permit certain conformity assessments (e.g., product tests) to be performed in the United States to EU requirements. This should improve market access, reduce costs, and shorten the time required to market certain U.S. products in the EU.

Aviation: Under the "Open Skies" aviation agreements that the United States has with most EU member states, there are no restrictions on bilateral routes, capacity or pricing. Spain is one of a few member states without an Open Skies agreement.

6. Export Subsidies Policies

Spain aggressively uses "tied aid" credits to promote exports in Latin America, the Maghreb, and China. Such credits reportedly are consistent with the OECD arrangement on officially supported export credits.

Total Spanish agricultural exports in 2000 totaled $16.4 billion. While the majority, typically 75 percent, of Spain's agricultural trade is confined to markets within the EU, some of Spain's exports are subsidized with EU funding and compete with the United States in third-country markets. Most of this trade is destined for Eastern Europe or North Africa. Spanish products receiving the most EU export funding include sugar, rice, wine, red meat, and dairy products. Spain generally receives about $200 million annually in EU funds to directly subsidize agricultural exports (1999 = $222.2 million, 2000 = $194.4 million). This export subsidy support is minor when compared to the $5.5–6.0 billion of domestic support Spain receives annually under the Common Agricultural Policy (CAP).

The Spanish government has indicated that it is likely to provide financial support to Airbus for the development of the A380 megaliner. The terms of its financial support are not available at present.

7. Protection of U.S. Intellectual Property

Spanish patent, copyright, and trademark laws 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 1992, Spain enacted a modernized Patent Law, which increases the protection afforded patent holders. With this law, Spain's pharmaceutical process patent protection regime expired and product protection took effect. Given the long (10 to 12 years) 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 2002 or 2003. 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 losses as a result. In 2000, the government introduced an amendment to Article 100 of the Medicine's Act in an attempt to address the issue, but it has not resolved the problem.

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. 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 detect counterfeit products more effectively.

Spain further revised its patent and trademark laws in 2001 to facilitate an easier application and approval process, increase consumer protection, incorporate new technology into procedures, and further synchronize Spanish laws with modern EU regulations and other multilateral agreements. Major changes to the system, to be implemented fully by July 2002, will allow applicants to enjoy a 15 percent discount on fees using electronic applications, to apply for multiple classes of trademarks and patents with a single application, and to be informed earlier of the chances of approval. Changes also include increased minimum fines and punishments for trademark violations, more legal recourses for trademark and patent holders, and allowing consumer protection groups to participate in the application process. Spain has also introduced the concept of a "notorious trademarks", well-known trademarks with high-volume sales and value which will enjoy new special protections, as well as including protections against third-party use of a registered trademark in web domains. In October 2001, the Spanish Patent Office (OEPM) was authorized to conduct preliminary examinations of international patents, the only office to accept applications in the Spanish language.

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. The Spanish Constitutional Court has accepted the case for review. A decision is still pending.

Spanish Copyright Law provides a solid framework for intellectual property rights protection of movies, videocassettes, sound recordings, and software. It includes provisions that allow for unannounced searches in civil lawsuits and searches to take place under these provisions. Spain has a low incidence of motion picture, i.e. video, and audiocassette piracy. The Spanish government prohibits the running of cable across public thoroughfares and also strictly enforces the Copyright Law that stipulates that no motion picture can be shown without authorization of the copyright holder.

Software piracy has periodically been a serious problem for Spain, leading to its inclusion on the Special 301 "watch list" in 1999. Measures instituted by the Spanish Government to improve property rights for software in recent years led to Spain's removal from the Special 301 list in 2001.

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 and 2 by autonomous authorities) and a month's paid vacation. The employee receives his/her 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—2000

[In Millions of U.S. Dollars]

Category	Amount	
Petroleum		149
Total Manufacturing		8,603
Food & Kindred Products	1,593	
Chemicals & Allied Products	1,832	
Primary & Fabricated Metals	1,277	
Industrial Machinery and Equipment	123	
Electric & Electronic Equipment	1,020	
Transportation Equipment	1,838	
Other Manufacturing	921	
Wholesale Trade		1,608
Banking		2,096
Finance/Insurance/Real Estate		1,176
Services		559
Other Industries		370
Total All Industries		14,561

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

SWEDEN

Key Economic Indicators

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

	1999	2000	[1]2001
Income, Production and Employment:			
Nominal GDP [2]	240.3	224.5	206.6
Real GDP Growth (pct) [3]	4.1	3.6	1.6
GDP by Sector:			
Agriculture	7.0	6.5	6.0
Manufacturing	45.5	43.6	39.4
Services	107.3	101.2	92.3
Government	48.5	43.3	39.0
Per Capita GDP (US$) [2]	27,124	25,333	23.213
Labor Force (000s)	4,308	4,362	4,405
Unemployment Rate (pct)	5.6	4.7	4.0
Money and Prices (annual percentage growth):			
Money Supply Growth (M3) [4]	6.8	6.1	1.0
Consumer Price Inflation	0.3	1.3	2.6
Exchange Rate (SEK/US$)	8.26	9.16	10.24
Balance of Payments and Trade:			
Total Exports FOB [5]	84.8	87.0	77.6
Exports to United States [6]	7.8	8.2	7.9
Total Imports CIF [5]	68.6	72.8	66.0
Imports from United States [6]	4.0	4.9	3.9
Trade Balance [5]	15.55	14.08	12.50
Balance with United States [6]	3.9	5.0	5.4
External Public Debt [7]	35.9	27.4	23.1
Fiscal Balance/GDP (pct)	3.9	1.3	8.2
Current Account Surplus/GDP (pct)	3.7	2.9	1.9
Foreign Debt Service Payments/GDP (pct)	5.4	5.7	6.6
Gold and Foreign Exchange Reserves	18.4	17.9	14.7
Aid from United States	0	0	0
Aid from All Other Sources	0	0	0

[1] 2001 figures are all forecasted before the September 11 terrorist attacks on the United States. The effect of the attacks on the Swedish economy is still uncertain, but experts all agree that growth for 2001 will be lower than previously estimated.
[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. Census Bureau 2001 figures are estimates based on data available through July.
[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 1980s 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 7.3 percent. (Swedes quote two unemployment figures, open and "hidden." "Hidden" unemployment, those in government training and work programs, accounts for 2.6 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 on an EU level.

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. Domestic demand is now driving Sweden's strong growth (the growth figure for 2000 is estimated at 3.9 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 1980s and the conservative coalition government at the beginning of the 1990s 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 1980s. No capital or exchange controls remain. (The central bank does track transfers for statistical purposes).

3. Structural Policies

Sweden's tax burden is 52.2 percent of GDP for 2001. Central government expenditure during the recent severe recession was nearly 75 percent of GDP, and in 2001 it will come down to 54 percent. The maximum marginal income tax rate on individuals is 56.7 percent. Effective corporate taxes are comparatively low at 28 percent, though social security contributions add about 32 percent to employers' gross wage bills. The Value-Added Tax has a general rate of 25 percent, a lower rate of 12 percent for food, domestic transportation, and tourist-related services, and a rate of 6 percent for daily and weekly papers, cultural events, and commercial sports.

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-manufactured. 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 nonproliferation 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 borrowed heavily in foreign currencies starting from the fall of 1992, increasing the central government's foreign debt five-fold to about a third of the public debt. Since then, the ratio has come down to one fifth of 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 1990s. Total debt is declining from early decade highs as a result of budgetary surpluses and strong economic growth. Gross government debt is projected to drop to 52.4 percent of GDP in 2001 and to 50.2 in 2002.

5. Significant Barriers to U.S. Exports

Sweden is open to imports and foreign investment and it campaigns vigorously for free trade in the World Trade Organization (WTO) and other fora. Import licenses are not required except for items such as military material, hazardous substances, certain agricultural commodities, fiberboard, ferro alloys, some semi-manufactures of iron, and steel. Sweden enjoys licensing benefits under section 5(k) of the U.S. Export Administration Act. Sweden makes wide use of EU and international standards, labeling, and customs documents in order to facilitate exports.

Sweden has harmonized laws and regulations with the EU's. Sweden is now open to virtually all foreign investment. 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

Swedish law generally provides adequate protection of all property rights, including intellectual property. As a member of the European Union, Sweden adheres to a series of multilateral conventions on industrial, intellectual, and commercial property. Swedish copyright law protects computer programs and databases. Enforcement of the law, however, has been less than ideal, although a contradiction between Sweden's constitution and its international obligations to protect unpublished, copyrighted material has been resolved in a satisfactory manner. Still, there are some minor restrictions of the rights granted under Swedish Copyright Laws that violates Sweden's national treatment obligations arising from the Berne Convention and the TRIPS agreement.

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. Around 80 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 nonunion 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—2000

[In Millions of U.S. Dollars]

Category		Amount
Petroleum		93
Total Manufacturing		2,860
Food & Kindred Products	–27	
Chemicals & Allied Products	206	
Primary & Fabricated Metals	(1)	
Industrial Machinery and Equipment	293	
Electric & Electronic Equipment	846	
Transportation Equipment	183	
Other Manufacturing	(1)	
Wholesale Trade		354
Banking		(1)
Finance/Insurance/Real Estate		6,022
Services		1,141
Other Industries		(1)
Total All Industries		11,371

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

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

SWITZERLAND

Key Economic Indicators

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

	1999	2000	[1] 2001
Income, Production and Employment:			
Nominal GDP [2]	259.3	241.1	60.8
Real GDP Growth (pct) [3]	1.5	3.0	1.7
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 [4]	37.7	34.1	8.9
Per Capita GDP (US$) [5]	36,319	33,889	35,603
Labor Force (000s) [6]	3,258	3,225	N/A
Unemployment Rate—Average (pct) [7]	2.7	2.0	1.8
Money and Prices (annual percentage growth):			
Money Supply (M3) [8]	1.0	–1.6	–1.8
Consumer Price Inflation (pct) [9]	0.8	1.6	1.3
Exchange Rate—Average (SFr/US$) [10]	1.50	1.69	1.70
Balance of Payments and Trade:			
Total Exports [11]	76.3	74.9	20.4
Exports to U.S. [12]	8.7	8.7	4.6
Total Imports [13]	75.6	76.1	20.2

Key Economic Indicators—Continued

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

	1999	2000	[1] 2001
Imports from U.S. [12]	4.6	5.2	2.3
Trade Balance [14]	0.7	–1.2	0.2
Balance with U.S. [12]	4.1	3.5	2.3
External Public Debt [15]	68.2	64.0	63.3
Fiscal Deficit/GDP (pct) [15]	0.7	–1.1	N/A
Current Account Surplus/GDP (pct) [16]	11.6	12.9	9.8
Debt Service Payments/GDP (pct) [17]	0.9	0.9	0.7
Gold and Foreign Exchange Reserves [18]	40.9	47.6	52.0
Aid from U.S.	0	0	0
Aid from All Other Sources	0	0	0

[1] If 2001 figure is not noted as partial data, then it is an estimate.
[2] 2001 figure is through March. 1999 figure through March was 61.0. 2000 figure through March was 57.1.
[3] 2001 figure is through March. 1999 figure through March was 0.6. 2000 figure through March was 3.9.
[4] Including Social Welfare Expenditures; 2001 figure is through March. 1999 figure through March was 9.4. 2000 figure through March was 8.5.
[5] Note: The Nominal GDP and the Average Population used in the calculation of the 2001 data are estimates. These figures are SFr 421,500.003106 and 7.1319.106 persons, respectively.
[6] Full-time equivalent employment; 2000 figures are provisional.
[7] 2001 figure is a mean average of data through June. 1999 figure through June was 3.0. 2000 figure through June was 2.2.
[8] 2001 figure is a mean average of data through June. 1999 mean average through Junewas 1.1. 2000 mean average through June was 1.6.
[9] 2001 figure is a mean average of data through June. 1999 mean average through Junewas 0.5. 2000 mean average through June was 1.6.
[10] 2001 figure is through June. 1999 figure through June was 1.47. 2000 figure through June was 1.65.
[11] 2001 figure is through March. 1999 figure through March was 17.9. 2000 figure through March was 18.1.
[12] 2001 figures are through June.
[13] 2001 figure is through March. 1999 figure through March was 18.2. 2000 figure through March was 18.5.
[14] 2001 figure is through March. 1999 figure through March was -0.3. 2000 figure through March was -0.3.
[15] Federal government only (i.e. excluding cantons and communities).
[16] 2001 figure is through March. 1999 figure through March was 10.4. 2000 figure through March was 14.7.
[17] Federal government only (i.e. excluding cantons and communities). Note: The GDP figure used in the calculation of the 2001 data is a bank estimate for the entire year—not the first quarter data specified in "2001 Nominal GDP". This figure is SFr 421.5 Billion.
[18] 2001 figure is a mean average of data through June. 1999 mean average through June was 40.4. 2000 mean average through June was 42.1.

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, and a large services sector (i.e., banking and insurance). 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, but not part of the EEA or a member of the EU. With some two-thirds of its exports going to Europe, the government pursues policies aimed at maintaining Switzerland's competitiveness in Europe while seeking to diversify its export markets. The Swiss parliament and a subsequent public referendum both approved bilateral agreements, which Switzerland concluded with the EU in December of 1998, which cover seven different sectors. Before the agreements can take effect they must first be ratified by all 15 EU member states. Ratification has been concluded in every country except France, Ireland, and Belgium. These countries are expected to complete the process before the end of 2001.

After strong economic growth during the eighties, the Swiss economy was western Europe's weakest between 1990–1996, with growth averaging around zero percent per year (unemployment, however, never rose 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 that passed in 1998 essentially requires the federal budget to be balanced by 2001. The government is on track to achieve this, due to strict control of expenditures and higher tax receipts thanks to improved economic growth. GDP growth of 1.5 percent in 1999 improved to 3.0 percent in 2000 before falling back to an expected 1.7 percent in 2001. Expectations for 2002 are a fall in GDP growth to 1.8 percent.

No systematic use is made of fiscal policy to stimulate the economy. 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 discount rate adjustments and open market operations.

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 1990s). The SNB has shown its willingness to follow an accommodating money supply policy, even to exceed its money supply growth targets when necessary, to minimize upward pressure on the franc.

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 has brought liberalization and privatization to the Swiss telecommunications sector, opening the market to investment and competition from foreign firms. Over 50 Swiss and foreign companies are now offering fixed line services. Mobile telephony is shared by the three operators Swisscom, Sunrise (Teledenmark), and Orange (France Telecom), all of which also own third generation mobile telephony licenses (UMTS). In total four such licenses were auctioned off in December 2000.

Agriculture is heavily regulated and supported by the federal government. Legislation that took effect January 1, 1999, is gradually 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 1999 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 generally in Switzerland. New draft legislation has been introduced in Parliament that would further strengthen competition laws by enhancing the impartiality of the government-appointed Competition Commission, and by allowing the government to punish firms for first offenses (currently punishment can only occur after a firm has received one warning).

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. 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 that became effective in this sector in 1998, this market has been greatly opened to foreign competitors.

Standards, Testing, Labeling, and Certification: The government must approve all genetically modified organism products before they can be sold and consumed in Switzerland. In addition, all food products with a genetically modified organism content above one percent must be labeled as such. A new law took 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 antimicrobial substances in the raising of beef and pork as well as the production of eggs from chickens kept in certain types of battery cages. The United States 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 Agreement on Government Procurement 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 some agricultural items, the Swiss market is essentially open for the import of U.S. goods.

6. Export Subsidies Policies

Switzerland's only subsidized exports are in the agricultural sector, where exports of dairy products (primarily cheese) and processed food products (chocolate products, grain-based bakery products, etc.) benefit from state subsidies. Switzerland is gradually reducing the export subsidies as required under World Trade Organization (WTO) rules.

7. Protection of U.S. Intellectual Property

Switzerland has one of the best regimes in the world for the protection of intellectual property and protection is afforded equally to foreign and domestic rights holders. Switzerland is a member of all major international intellectual property rights conventions and was an active supporter of a strong IPR text on the GATT Uruguay Round negotiations. Enforcement is generally very good. 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 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.

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 $91 million in 2000 (down from $107 million in 1999). 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 List.

8. Worker Rights

a. *The Right of Association:* All workers, including foreign workers, have freedom to associate freely, to join unions of their choice, and to select their own representatives.

b. *The Right to Organize and Bargain Collectively:* Swiss law gives workers the right to organize and bargain collectively and protects them from acts of antiunion discrimination. The right to strike is legally recognized, but a unique informal agreement between unions and employers has meant fewer than 10 strikes per year since 1975.

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—2000

[In Millions of U.S. Dollars]

Category		Amount
Petroleum		152
Total Manufacturing		4,698
Food & Kindred Products	86	
Chemicals & Allied Products	2,779	
Primary & Fabricated Metals	134	
Industrial Machinery and Equipment	607	
Electric & Electronic Equipment	556	
Transportation Equipment	49	
Other Manufacturing	486	
Wholesale Trade		15.577
Banking		2,974
Finance/Insurance/Real Estate		28,384
Services		1,687
Other Industries		1,402
Total All Industries		54,873

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

TURKEY

Key Economic Indicators

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

	1999	2000	[1] 2001
Income, Production and Employment:			
Nominal GNP	187.4	201.9	[2] 149.8
Real GNP Growth (pct)	–6.4	6.1	[2] 8.0
Real GNP growth by Sector (pct): [3]			
Agriculture	–4.6	4.1	–1.6
Manufacturing	–5.0	5.6	–5.2
Services (total)	–21.9	57.7	36.4
Government	2.7	1.9	3.7
Per Capita GNP (US$)	2,878	2,986	[2] 2,261
Labor Force (000s)	21,644	20,180	[3] 21,127
Unemployment Rate (pct)	7.3	6.3	[3] 6.9
Money and Prices (annual percent growth):			
Money Supply Growth (nominal M2)	106.5	42.5	[4] 85.6
Consumer Price Inflation (pct)	68.8	39.0	[2] 65.0
Exchange Rate (TL/US$ annual average)	417,581	623,704	[5] 1,300,000
Balance of Payments and Trade 6/:			
Total Exports FOB	26.6	27.3	35.0
Exports to United States	2.4	3.1	3.5
Total Imports CIF	40.7	53.9	45.0
Imports from United States	3.1	3.9	3.0
Trade Balance	–14.1	–26.7	–10.0
Balance with United States	–0.5	0.8	–0.5
External Debt stock	105	117.8	[7] 111.9
Budget Deficit/GNP (pct)	12	–10.5	[8] –16.28
Current Account Balance/GNP (pct)	–0.7	–4.9	[2] 1.1
External Debt Service Payments/GNP (pct)	9.9	10.9	[1] 11.0
Gold and Foreign Exchange Reserves [7]	35.0	37.4	[9] 32.7
Aid from United States	0.018	0.008	[10] .003

Key Economic Indicators—Continued

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

	1999	2000	[1] 2001
Aid from All Other Sources	N/A	N/A	N/A

[1] Unless otherwise noted, 2001 data are annualized projections based on the first six months of the year.
[2] Official (Turkish Government) estimate.
[3] First half of 2001.
[4] End of August 2001.
[5] Official estimate for average TL/USD exchange rate.
[6] Suitcase Trade Included. Embassy projection based on the January-July 2001 actual trade data.
[7] June 2001 (end-year figure expected to be similar).
[8] Turkish Finance Ministry projection for 2001.
[9] As of September 28, 2001. This figure includes foreign exchange reserves of commercial banks and other financial institutions. Central bank foreign exchange reserves and gold reserves were worth $20.0 billion.
[10] Fiscal 2001 IMET funding was $1.6 million; the USAID Population Program totaled $1.4 million in Fiscal 2001.

Source: Turkish State Institute of Statistics, Turkish Treasury Undersecretariat, Central Bank of Turkey, U.S. Embassy sources. IMF commitments in 2001. Turkey introduced a direct support system for farmers in 2001 under a World Bank.

1. General Policy Framework

Since the early 1980s, Turkey's economic policy makers have moved away from the statist principles on which the Republic was founded, reducing protectionist measures and opening the economy to foreign trade and investment. Entry into a customs union with the European Union in January 1996 was a major milestone in terms of market opening.

Although Turkey enjoyed relatively high rates of economic growth in the 1990's, large public sector deficits have contributed to persistently high inflation and periodic economic crises as various governments have been forced to rein in spending. In December 1999, Turkey introduced an IMF-backed three-year disinflation and structural adjustment program to resolve its fundamental fiscal problems. The program rested on fiscal discipline, far-reaching structural reforms and, until February 2001, an exchange-rate regime based on a peg that crawled with targeted inflation. The program brought inflation down to 39 percent in 2000, from 69 percent in the previous year. However, weaknesses in the financial sector, attributable in part to years of politically directed lending at state-owned banks, erupted in a financial crisis in November 2000. The government's assumption of a considerable portion of these institutions' questionable loans dramatically increased the government's internal debt burden. This increase, coupled with the perception that the government was not fully committed to structural reforms, led to a second crisis in February 2001. With overnight interest rates soaring over 1500 percent, Turkey abandoned its fixed (crawling peg) exchange rate and floated the Turkish lira. Since then, Turkey has struggled to reduce high interest rates and inflation, and has faced a sharp decline in output. The downtown in emerging markets following the September 2001 terrorist attacks in the United States has put additional pressure on Turkey's exchange rate and on public finances.

As a result of the 2001 crisis, Turkey revised its economic growth forecast to -8.0 percent for 2001, though many analysts believe the recession will be even deeper. The GOT forecasts a return to growth of about four percent in 2002. Inflation in 2001 is projected to increase to 85 percent, and then to fall to about 35 percent in 2002.

2. Exchange Rate Policy

Until February 22, 2001, the Turkish Lira (TL) was fixed in value to a basket of the U.S. dollar and the euro under a crawling exchange rate policy. On that date, the Turkish authorities allowed the TL to float. Although the TL is fully convertible, it lost nearly 60 percent of its value relative to the U.S. dollar between February and October 2001.

3. Structural Policies

Turkey has made progress in liberalizing its trade, investment, and foreign exchange regimes. Nevertheless, successive governments' failure to complete structural reforms has limited private sector growth, efficient distribution of economic resources, and allowed state-owned enterprises to impose substantial burdens on the state budget. Government control of key retail prices, especially in the energy and utilities sectors, contributes to market distortion, as prices are sometimes manipulated to meet political objectives, held in check before elections and accelerating after. The government actively supports the agricultural sector through both subsidized inputs and high support prices, although these have been limited by fiscal austerity and Turkey's program.

Turkey's IMF program commits the government to implement far-reaching structural reforms in banking, energy, civil aviation, and telecommunications, among other sectors. New banking legislation has improved government supervision to reduce the possibility of future banking crises. The Government of Turkey plans to privatize nearly 100 percent of Turk Telecom, the state monopoly provider of fixed voice services, with up to 45 percent of the company available to a foreign investor. The Turkish government has also committed to liberalizing voice telephony by 2004. A new electricity market law, providing for a market in electric power and an independent regulatory body, was passed in February 2001. Other major state-owned firms, including Turkish airlines and the Turpas oil refiner, are also slated for privatization.

Turkey provides a variety of investment incentives to both domestic and foreign investors. These include exemptions from certain taxes on profits, value-added and customs duties on machinery and equipment imports. Turkey also provides soft loans for research and development as well as special tax holidays and discounted utility charges for investments in the country's eastern and southeastern provinces.

4. Debt Management Policies

As of June 2001, Turkey's gross outstanding external debt was about $111.9 billion (or about 65 percent of GNP), 56.0 percent of which is government debt. Turkey has had no difficulty servicing its foreign debt in the past.

Rates on Turkey's lira-denominated domestic debt decreased significantly in 2000, from an average of 110 percent in 1999, to the 35 to 40 percent level as a result of the disinflation program. However, the banking sector crisis in November 2000 and February 2001 caused Treasury bill rates to rise to over 90 percent. As a result of rising rates on Treasury bills, Turkey may face a serious domestic debt rollover problem in 2002.

5. Significant Barriers to U.S. Exports

The introduction of Turkey's customs union with the EU in 1996 resulted in reduced import duties for U.S. industrial exports. The weighted rate of protection for non-EU/EFTA industrial products dropped from approximately 10 percent to 5 percent. By comparison, the rate of protection for industrial exports from EU and EFTA countries in 1995 had been six 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. As part of the customs union agreement, Turkey revised its trade, competition, and incentive policies to meet EU standards.

The customs union excludes nonprocessed agricultural commodities. For many of these, Turkey maintains steep tariffs as well as non-tariff barriers. 300,000 tons of wheat and 28,000 tons of rice are allowed duty free entry from the EU. U.S. exporters, as well as some Turkish importers, have voiced continued frustration over tariff and non-tariff barriers to agricultural trade. Although, the ban on breeding cattle imports was lifted in 1999, permits are limited by Ministry of Agriculture and Rural Affairs (MARA) regulations. Imports of feeder cattle and meat remain prohibited.

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) require licenses. Moreover, a number of agricultural commodities and other processed products require licenses. In addition, the government requires laboratory tests and certification that quality standards are met for imports of human and veterinary drugs and foodstuffs. While food import control certificates can be issued in one to two weeks, delays at MARA headquarters are frequent and limited government testing facilities adversely affects imports. Recent changes in procedures and standards for some imported foods products, like corn, rice, and bananas, also discouraged trade. Some U.S. exporters report that a new regulation restricting import of obsolete items has been applied arbitrarily to exclude equipment which has been manufactured more than a few months prior to importation.

Services Barriers: Establishment in financial services, including banking and insurance, and in the petroleum sector requires special permission from the GOT. The equity participation ratio of foreign shareholders is restricted to 20 percent in broadcasting, and 49 percent in aviation, value-added telecommunication services and maritime transportation.

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 government is preparing a new bill on public procurement which, when passed, should improve transparency. The entry into force of a Bilateral Tax Treaty between the United States and Turkey in 1998 eliminated the application of a 15 percent withholding tax on U.S. bidders for Turkish government contracts.

Investment Barriers: Turkey has an open investment regime, but all companies, regardless of nationality, are subject to excessive bureaucracy, political and macroeconomic uncertainties, and a sometimes unclear legal environment. There is a screening process for foreign investments, which the government applies on a MFN basis; once approved, firms with foreign capital are treated as local companies.

The Turkish government accepts binding international arbitration of investment disputes between foreign investors and the state; this principle is enshrined in the U.S.-Turkish Bilateral Investment Treaty (BIT). For many years, there was an exception for "concessions" involving private (primarily foreign) investment in public services. In 1999, the Parliament passed a package of amendments to the constitution allowing foreign companies access to international arbitration for concessionary contracts. In 2000, the Turkish government completed implementing legislation for arbitration. In 2001, the Parliament approved a law further expanding the scope of international arbitration in Turkish contracts. The BIT entered into force in May 1990.

Turkey is a founding member of the World Trade Organization.

6. Export Subsidies Policies

Turkey employs a number of incentives to promote exports, although programs have been scaled back in recent years to comply with EU directives and WTO standards. Historically, wheat and sugar are the main subsidized commodities, and Turkey exceeded its wheat export subsidy limits for grains in 2000. Due to lower production, Turkey is not expected to subsidize wheat exports in 2001. With the assistance of the World Bank, Turkey is shifting from production subsidies to a more efficient direct support payment system for farmers. The Turkish Eximbank provides exporters with credits, guarantees, and insurance programs. Certain tax credits also are available to exporters.

7. 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. In 2001, the Parliament enacted amendments to the copyright law which provide retroactive protection, expand the list of protected items and increased deterrent penalties against piracy. These amendments brought Turkey into compliance with the WTO Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS). In recognition of Turkey's progress in the IPR area, USTR removed Turkey from its Special 301 Priority Watch List and placed the country on its Watch List in 2001.

Although intellectual property holders have praised Turkey's new legislation as a significant improvement in the legal regime, at least one company alleges that implementing regulations governing broadcasting do not adequately protect producers of intellectual property. In the software area, 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. However, foreign drug manufacturers contend that data exclusivity infringement and restrictive government price and procurement policies are serious barriers. Trademark holders contend that there is widespread and often sophisticated counterfeiting of their marks in Turkey.

Turkish police and prosecutors are working closely with trademark, patent, and copyright holders to conduct raids against pirates within Turkey. Although several cases have been brought to conclusion successfully, U.S. industry believes continued enforcement efforts are needed.

8. Worker Rights

a. *The Right of Association:* Workers, except police and military personnel, have the right to associate freely and to form representative unions. This right encompasses civil servants, including school teachers. The constitutional right to strike is restricted. For example, the Constitution does not permit strikes among civil servants, workers engaged in the protection of life and property, and those in the mining and petroleum industries, sanitation services, national defense, and education. Turkish law requires collective bargaining before a strike. The law specifies the steps that a union must take before it may strike or before an employer may engage in a lockout. Nonbinding mediation is the last of those steps. Unions are forbidden to engage in secondary (solidarity), political, or general strikes, or in slowdowns. The right to strike is suspended for the first 10 years in free trade zones, although union organizing and collective bargaining are permitted. In sectors in which strikes are prohibited, disputes are resolved through binding arbitration.

b. *The Right to Organize and Bargain Collectively:* All industrial workers have the right to organize and bargain collectively, and most industrial and some public sector agricultural workers are organized. The law requires that, in order to become a bargaining agent, a union must represent not only 50 percent plus 1 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 and statutes prohibit compulsory labor, including that performed by children, and the government generally enforces these provisions in practice.

d. *Minimum Age for Employment of Children:* The constitution and labor laws forbid the full-time 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 states that “no one shall be required to perform work unsuited to his/her age, sex, and capacity.” With this article and related laws, the Turkish government guarantees to protect 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 to set minimum wages at least every two years through a tripartite government-union-industry board. In recent years, it has done so annually. In 2000, there were two adjustments which were cumulatively less than the inflation rate. Public workers who are part of the collective labor agreements also received an inflation-indexed increase and a five percent prosperity rate increase. The Labor Law sets a 45 hour work week, although most unions have bargained for fewer hours. The law also 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. The law mandates occupational safety and health regulations and procedures, but in practice limited resources and lack of safety awareness often result in inadequate inspection and enforcement programs.

f. *Rights in Sectors with U.S. Investment:* Conditions do not differ in sectors with U.S. investment.

Parliament recently endorsed a package of constitutional amendments which, when implemented, should strengthen worker rights in Turkey.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—2000

[In Millions of U.S. Dollars]

Category		Amount
Petroleum		46
Total Manufacturing		746
Food & Kindred Products	191	
Chemicals & Allied Products	81	
Primary & Fabricated Metals	(1)	
Industrial Machinery and Equipment	0	
Electric & Electronic Equipment	–12	
Transportation Equipment	228	
Other Manufacturing	(1)	
Wholesale Trade		30
Banking		351
Finance/Insurance/Real Estate		2
Services		53
Other Industries		150
Total All Industries		1,378

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

UKRAINE

Key Economic Indicators

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

	1999	2000	2001
Income, Production and Employment:			
Nominal GDP	31.57	31.79	[1] 24.79
Real GDP Growth (pct) [2]	–0.4	5.8	[1] 10.8
GDP by Sector:			
Agriculture	3.33	4.46	[4] 4.8
Manufacturing	8.64	10.99	[4] 11.6
Services	12.68	15.33	[4] 14.2
Government	N/A	N/A	N/A
Per Capita GDP (US$)	619	656.0	N/A
Labor Force (millions)	22.7	23.13	N/A
Unemployment Rate (pct) (Official Rate)	4.3	4.22	[1] 3.65
Money and Prices (annual percentage growth):			
Money Supply Growth (M3)	41	45	[1] 19
Consumer Price Inflation	19.2	25.8	[1] 3.3
Exchange Rate (Hryvnia/US$—annual average)	5.22	5.44	[1] 5.35
Official	4.39	5.43	[1] 5.34
Balance of Payments and Trade:			
Total Exports, FOB (State Statistics Committee)	16.2	19.52	[4] 9.71
Exports to United States (US$ million) [3]	538	725.5	[4] 256.4
Total Imports, CIF (State Statistics Committee)	15.2	18.12	[4] 7.98
Imports from United States (US$ million) [3]	568	360.4	[4] 217.7
Trade Balance	–0.48	–1.4	[4] –1.74
Balance with United States (US$ million) [3]	–30	365	[4] 38.7
External Public Debt/GDP (pct)	39.4	32.6	[5] 26.3
Fiscal Surplus (Deficit)/GDP (pct)	–1.5	–0.7	[4] 1.5
Current Account Deficit/GDP (pct)	2.6	4.7	[4] 3.0
Debt Service Payments/GDP (pct)	1.24	1.81	[5] 2.05
Gold and Foreign Exchange Reserves	1.09	1.48	[6] 2.72
Aid from United States (US$ million) [7]	195	185	169
Aid from All Other Sources [8]	1.05	N/A	525

[1] 2001 figure based on data available January through August. Source: International Center for Political Studies in Kiev and the Government of Ukraine.
[2] Percentage changes calculated in local currency, adjusted for inflation.

[3] Merchandise trade.
[4] 2001 figure based on data available January through June. Source: International Center for Political Studies in Kiev and the Government of Ukraine.
[5] 2001 figure based on data available January through July. Source: International Center for Political Studies in Kiev and the Government of Ukraine.
[6] 2001 figure based on data available January through September. Source: International Center for Political Studies in Kiev and the Government of Ukraine.
[7] Figures for 1999 and 2000 are actual FY expenditures. For 2001, assistance was focused on economic reform and privatization, small business development, energy and environment (including nuclear safety/Chornobyl), democracy and local government, legal reform, and health and social development.
[8] In September 1999, Ukraine fell out of compliance with IMF standards and disbursements under the EFF facility were suspended until December 2000. Ukraine went off track in January 2001 and completed the prior actions for the resumption of the Funds program in September 2001. In September 2001, the World Bank's Board of Directors confirmed that Ukraine had successfully completed conditions precedent to the first disbursement of the World Bank's Programmatic Adjustment Loan and voted to go forward with this new lending program. The next disbursement, currently scheduled for 2002, will require Board review to determine whether reform benchmarks were achieved. Until the resumption of the IMF's lending program, the World Bank had held off additional lending to Ukraine.

1. General Policy Framework

Since achieving independence in August 1991, Ukraine has followed a course of democratic development and slow economic reform. While significant progress has been achieved, particularly in the last few years, a tremendous amount of work still lies ahead. Ukraine ranks among the poorest countries in Europe. Basic prerequisites for sustained economic growth such as adherence to the rule of law and respect for market forces remain elusive. Until these basic weaknesses are addressed, Ukraine is unlikely to attract the volumes of foreign or domestic investment the country needs to raise living standards. The country's resources and economic strengths include rich agricultural land, significant coal and modest gas and oil reserves, a strong scientific establishment, and an educated, skilled workforce. After suffering a decade of annual economic declines, Ukraine's economy grew by six percent in 2000, triple the rate initially forecast for the year. While initial 2001 economic projections foresaw real growth of approximately 4 percent and inflation of 12.3 percent, actual results again greatly exceeded expectations. Real GDP growth for the first eight months of 2001 was estimated at approximately 10.5 percent. Inflation for the same period was only 3.3 percent.

The government has recently been successful in efforts to achieve macroeconomic stability, but Ukraine still has much progress to make in key structural areas such as pushing ahead with strategic privatization, widening the tax base, and improving contract enforcement. Past deficit financing of the budget 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, pension, and energy arrears. Most of these practices have stopped; in particular, the government is meeting its current wage and pension obligations and has paid off pension arrears. However, the value added tax (VAT) refund arrears have accumulated rapidly in 2001, reaching 4.5 billion hyrvnia in July. The Ministry of Finance has stopped offsets and barter transactions in executing the budget with virtually 100 percent of budget transactions are now in cash (as opposed to about 50 percent in 1999).

The Ukrainian government improved the quality of the 2001 budget and by limiting the deficit. The IMF voiced doubts about the government's ability to collect an expected 5.9 billion UAH from privatization in 2001. As a result, the government sequestered funds in the third and fourth quarters, when most privatization revenues were scheduled to flow in. Ukraine's better-than-expected fiscal position also was achieved by increased tax collection and higher than expected economic growth. A new Budget Code passed in March 2001 calls for further reform of the budget process and will be the guiding document for the formation of the 2002 budget. It is expected to further improve Ukraine's budget process. Ukraine was initially hit hard by the August 1998 Russian financial crisis, but has managed to weather the effects of this crisis relatively well since then.

For much of its history, Ukraine has relied upon various measure to support its national currency, the hryvnia, in the face of downward pressures brought about by internal forces such as high inflation and external shocks such as the 1998 financial panic, which resulted in a 23 percent depreciation of the real exchange rate. With the onset of economic growth in 2000, however, pressure on the hryvnia began to abate and the currency largely stabilized. Thus far in 2001, the hryvnia has appreciated against the U.S. dollar slightly to UAH 5.27 to the dollar. The strength of the hryvnia is mirrored in Ukraine's foreign reserve situation. As of September 2001, Ukraine's foreign reserves reached $2.72 billion, their highest level since independence. In response to the improved economic performance, lowered inflation and improved reserves, the National Bank of Ukraine has lowered its key discount rate four times thus far in 2001 and by September it stood at 15 percent.

Ukraine is an emerging market at the crossroads of Eastern Europe, Russia, Central Asia, and the Middle East, and holds great potential as a new market for U.S. trade and investment. Despite this promise, serious obstacles remain. Foreign direct investment (FDI) is $83 per capita and $4.064 billion overall. U.S. investment, at $689.3 million (through July 2001), is the largest single source of FDI in Ukraine. Private investment (including U.S. investment) is greatly hampered by rampant corruption, over-regulation, lack of transparency, high business taxes, an inability to enforce contracts, and inconsistent application of local law.

Ukraines's three-year, $2.6 billion IMF EFF program began in 1998 and stipulates that the government must take steps towards tax reform, a lower budget deficit, deregulation, and other measures to encourage private investment. From September 1999 to December 2000 and January through September 2001, the IMF halted programs due to slippages in project implementation. The EFF was restarted in September 2001 after Ukraine made substantial progress in meeting the IMF's macro-economic objectives and in ensuring greater budget/fiscal transparency, privatization, and overall economic reform. At the same time, the World Bank approved disbursement of the first tranche of its Programmatic Adjustment Loan (PAL) to Ukraine.

In August 2001, the U.S. Trade Representative revoked Ukraine's Generalized System of Preferences (GSP) privileges as a result of Ukraine's inability to protect intellectual property rights. At the same time, USTR published a list of products that could be targeted for sanctions should Ukraine not take serious steps to rapidly improve IPR protection. The goods targeted for sanctions include textiles, chemicals, and some steel products, all of which Ukraine exports to the United States in large quantities. While USTR has not announced the estimated cost of the potential sanctions, the Ukrainian government has estimated that Ukraine will lose $400 million in exports. The textile industry in Ukraine has estimated that the sanctions would force the industry to cut 40,000 jobs. USTR has given Ukraine until December 20, 2001 to make significant progress in IPR protection before a decision on sanctions will be made.

Despite some progress in deregulation, Ukraine still awaits a much-needed surge in new investment. Domestic and foreign investors remain 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 situation in the private banking sector, rife with non-performing loans and lacking good lending opportunities, remains precarious. The parliament approved a new banking law in January 2001. By January 17, 2002, all commercial banks will need to be relicensed under the more stringent requirements of this law. The law introduces western-style capital adequacy requirements and structures to improve supervision of commercial banks. Since 1998, the number of banks in Ukraine has decreased to 155 from 186. Because of the new and more stringent licensing requirements, this number is predicted to shrink by an additional 15–25 instutututions that will either have to merge, be bought out, or disappear entirely.

2. Exchange Rate Policy

Ukraine has taken several measures to maintain exchange rate stability. Although the National Bank of Ukraine (NBU) lifted most currency transaction restrictions in March-June 1999 (including lifting prohibition of advance payment on import contracts) and opened an interbank market for foreign exchange, enterprises are still obliged to sell 50 percent of their hard currency earnings. This requirement was slated for removal in the spring of 2000, but it is still in place. It is unclear whether the NBU will issue a resolution removing the requirement, which it continues to use as a measure to maintain exchange rate stability.

Foreign exchange related restrictions have produced hardships for U.S. firms doing business with Ukraine. U.S. exporters are reluctant to ship goods without prior payment, while U.S. businesses operating in Ukraine, many of which are highly dependent on imports, have had difficulties in getting inputs needed for their operations. Overall, Ukraine will need to introduce more flexible exchange rate policies, as this is key for underlying macroeconomic adjustment.

3. Structural Policies

Ukraine's burdensome and nontransparent tax structure remains a major hindrance to foreign investment as well as to domestic business development. Personal income and social security taxes remain high. 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. A new tax code is currently being considered by the Rada. According to the proposed new code, a number of taxes and duties would be reduced and others, such as an innovation fund tax, some insurance fund taxes and some local taxes would be eliminated. The Value-Added Tax (VAT) eventually would be decreased by 3 percent, from 20 to 17 percent. A key issue will be to ensure that if the tax code substantively reduces taxes it must also increase the tax base by a commensurate amount to protect fiscal sustainability.

The regulatory environment is chaotic, and Ukraine's product certification system, though undergoing some positive changes, still remains an obstacle to trade, investment, and the development of domestic business. The regulatory environment is closely associated with corruption, which has worsened in recent years, according to Transparency International. They ranked Ukraine as the world's ninth most corrupt nation in 2001. Procedures for obtaining various licenses remain complex, unpredictable and subject to graft. This significantly raises the cost of doing business in Ukraine and encourages the maintenance of the shadow economy. In June 2000, the Rada passed a law on licensing which identified 70 types of business activity that require a license and established a procedure for licensing. The law is intended to coordinate and simplify previously conflicting rules on licensing. In addition, in May 2001 the Rada passed a law "On Recognition of Conformity," which greatly reduces the list of goods and services subject to compulsory certification. Compulsory certification is required for goods designated as potentially dangerous to humans or the environment.

4. Debt Management Policies

As of June 2001, Ukraine's foreign debt stood at $7.75 billion, or roughly 20 percent of GDP. This represented a decrease from the 2000 figure of $10.58 billion. External debt service as a percent of GDP was 4 percent in 2000 and is estimated to be 3.5 percent in 2001. The largest individual creditors are the IMF, World Bank, and other IFIs. In September 2000, general parameters for future state-debt policies (specifically 2001–2004) were issued to help curb the growing foreign debt. The parameters call for a more structured money borrowing policy, including the use of different lending sources from year to year. Ukraine has managed to restructure its private external debt in a comprehensive fashion and eased repayment crunches owing to the short-term nature of Ukraine's debts. As long as Ukraine stays on track with the IMF, it should use Paris Club restructuring to help smooth debt payments.

5. Significant Barriers to U.S. Exports

An array of taxes and duties remains a major obstacle to trade or investment. These taxes include VAT, import duties and excise taxes. 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. The maximum import duty in Ukraine is currently 20 percent, a reduction from 25 percent last year. Excise duty rates are charged in addition to import duties and range from 10 to 100 percent of the declared customs value. This can result in duties and fees amounting to over 100 percent of the declared value of the item. In July 2001, a new law "On Customs Tariff of Ukraine" entered into force. Under this law, the government cannot introduce or change import tariffs and duties without corresponding legislation from the Rada. Ukraine's tariff system now encompasses 97 product categories and lists over 10,000 products subject to import duties. A new law "On Introducing Changes in Certain Legal Acts Regarding Taxation of Excisable Goods" entered into force in January 2000. Under this law, the number of excisable goods has decreased. Goods still subject to excise taxes now fall into five main groups: alcohol, tobacco, oil products, automobiles, and jewelry. Previously there had been 20 categories of excisable goods. All imported goods are subject to VAT (currently 20 percent). Energy imports are technically also subject to VAT, but the rate has been set at zero.

Ukraine's domestic production standards and certification requirements are arduous but apply equally to domestically produced and imported products and can thus be seen as an impediment to business in general rather than just to U.S. exports. Product testing and certification generally relate to technical, safety and environmental standards, and efficacy requirements for pharmaceutical and veterinary products. Such testing often requires official inspection of the company's production facility at the company's expense. Unfortunately, testing is often done in sub-standard facilities and on a unit-by-unit basis rather than "sample" testing. In cases where Ukrainian standards are not established, country of origin standards may be accepted.

Import licenses are required for very few goods. Goods that need licenses include medicines, pesticides, and some industrial chemical products. The United States is urging Ukraine to enact licensing legislation for optical media production. These licensing requirements would help alleviate the severe CD piracy problem in Ukraine.

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, all serve to impede U.S. exports to and investment in Ukraine.

6. Export Subsidies Policies

Over the last several years, as part of its effort to balance the budget, the government has significantly reduced the amount of direct subsidies it provides to state-owned industries. Nonetheless, subsidies remain an important factor in Ukraine's economy, particularly in the coal and agriculture sectors. These subsidies, however, do not appear 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 support small business.

In October 2000, the Council of Ministers of the European Union gave Ukraine the status of a country with a market economy. In addition to moving Ukraine closer to WTO accession, the new status indicates that subsidies to exporters are fewer in the eyes of pro-market entities, such as the World Bank, and will allow Ukraine to better protect its interests. Furthermore, in-kind subsidies, in the form of reduced tax payment, have been significantly reduced.

As of 2001, there were eleven Special Economic Zones (SEZ) and nine priority investment territories (PIT) in operation, offering tax and import duty exemptions and other benefits to encourage investment and production of goods for export. The zones have been criticized for encouraging existing firms to relocate, rather than spurring new investments, and for being used to import finished consumer goods tax-free. There is a moratorium on creation of new SEZs until 2003. Nevertheless, such regions remain a significant factor in Ukraine's strategy for attracting investment, and no existing SEZs or PITS have been phased out. The IFIs, IMF and World Bank, have suggested that the zones be eliminated and have advised the government to focus instead on improving the overall investment climate in the entire country. The government has said that it will gauge the effectiveness of all SEZs and PITs to determine whether any should be eliminated.

7. Protection of U.S. Intellectual Property

Since gaining its independence, Ukraine has made progress in enacting legislation and adopting international conventions to protect intellectual property rights. Nonetheless, further changes in legislation and strengthened enforcement are necessary before Ukraine establishes a modern, internationally acceptable level of intellectual property protection as enshrined in the World Trade Organization's TRIPs agreement. Intellectual property rights violations range from petty trademark, geographic indication, and patent theft to industrial scale copyright infringements. In March 2001, the Office of the United States Trade Representative (USTR) designated Ukraine a Priority Foreign Country under U.S. trade law as a result of widespread piracy and export of optical media products. In August 2001, USTR published a list of Ukrainian exports to the United States, which could be subject to trade sanctions if Ukraine failed to take adequate steps to address the problem. At the same time, USTR revoked Ukraine's preferential duty-free treatment for certain exports to the United States under the Generalized System of Preferences (GSP). USTR will be forced to impose sanctions if Ukraine does not fulfill the requirements of the United States-Ukraine Joint Action Plan to Combat Optical Media Piracy, which was announced in June 2000. GSP privileges will be reinstated only after Ukraine passes legislation to combat optical media piracy and implements the provisions of the legislation.

As part of its commitments under the plan, Ukraine has taken measures to strengthen copyright protection while introducing criminal liability for copyright violations. In 2001, Ukraine passed The Law on Copyrights and Neighboring Rights and a Criminal Code, which introduces penalties for IPR violations. The Parliament has also passed a new Civil Code, which includes a book on intellectual property rights; the President has announced his intention to sign the Civil Code in the near future. The government has also committed itself to introducing a licensing regime for the manufacture of optical media products in order to adequately deal with commercial scale CD piracy. The country's trademark laws are generally viewed as adequate. Enforcement, however, has been uneven, since police, prosecutors and judges have only recently started to increase the attention paid to intellectual property violations. Thus piracy of well-known consumer brand names is common business practice in Ukraine. Rules governing geographic indications are still believed to be inadequate to fulfill the WTO's TRIPs agreement.

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 Geneva Phonograms Convention, the Trademark Law Treaty, and the Budapest Treaty. Ukraine recently ratified the Rome Convention and the WIPO Copyright Treaty and the WIPO Performances and Phonograms Treaty. The country's political leadership has defined WTO ascension as an important policy goal of the country. A working group meeting was held in June 2000. 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.

8. 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. Despite these constitutional assurances, however, a new trade union law signed by the president in September 1999 introduced a requirement for unions to register with the Ministry of Justice. It also established categories of unions and limited the ability of newer unions to represent workers in nation-wide negotiations. This was brought before the Supreme Court of Ukraine, and in November 2000 the court struck down several restrictive provisions of the law.

In principle, all workers and civil servants (including members of the armed forces) are free to form unions. In practice, the government discourages certain categories of workers, for example, nuclear power plant employees, from doing so. The successor to the Soviet trade unions, known as the Federation of Trade Unions (FPU), often works independently of the government, but most FPU affiliates are closer to management. Independent unions provide an alternative to the official FPU unions in many sectors of the economy but are generally much smaller than FPU unions. The new 1999 trade union law, drafted with the help of the FPU, hampers the activities of independent unions. Although to date the consequences of the law have been mixed, it is potentially a dangerous hurdle for the development of free and truly independent worker representation. Specifically, Articles 11 (scope of union type) and 16 (registration) are criticized by independent unions and the International Labor Organization (ILO). In 1999, the ILO publicly stated that the law was not in compliance with its Convention 87 on the freedom of association, to which Ukraine is a party. In August 2000, the AFL-CIO filed a petition with the United States Trade Representative to strip Ukraine of its GSP status, in part due to this law. In October 2000 the Supreme Court of Ukraine began consideration of a constitutional challenge to the law, and in November the court found several provisions of the law unconstitutional, prompting both a positive response from the ILO and the refusal by the USTR to consider the AFL-CIO's petition on Ukraine.

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. The government, in agreement with trade unions, establishes wages in each industrial sector and invites all unions to participate in the negotiations. To participate in collective bargaining agreements, however, a union must obtain legal status through registration. In addition, to participate in nation-wide negotiations a union must meet requirements to be registered as a nation-wide union. Independent unions generally find the 1999 trade union law to be more restrictive than the old Soviet legislation because of difficulty in obtaining national status and registration. To acquire national status, a union must have representation in more than half of the regions of Ukraine, or at one third of the enterprises in a regionally based sector, or to have a majority of union members in the sector. Without a national level of registration the union cannot negotiate at the national level, in effect prejudicing the bargaining process against the independent unions and favoring the official unions. This aspect of the 1999 trade union law violates the ILO's Convention 87 on Freedom of Association and Collective Bargaining, to which Ukraine is a party. The law is further criticized by the ILO for its failure to amend an older collective bargaining provision whereby the largest unions (FPU) are permitted to represent all unions when a common bargaining strategy cannot be agreed upon. A new law, currently pending in parliament, would give proportional representation to all unions engaged in collective bargaining negotiations. In the meantime, the Ukrainian Supreme Court struck down the provisions of this law requiring that certain benchmarks be met for a union to be able to bargain collectively at different levels.

c. *Prohibition of Forced or Compulsory Labor:* The constitution prohibits compulsory labor, and it is not known to occur. Human rights groups, however, describe the common use of army conscripts and youths in alternative service for refurbishing and building private houses for army and government officials as compulsory labor. 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. The extent to which the decree is enforced is unknown, but there have been no recent reports of complaints from university students.

d. *Minimum Age for Employment of Children:* The minimum employment age is 17 years. In certain non-hazardous industries, enterprises may negotiate with the government to hire employees between 14 and 17 years of age, with the consent of one parent. The government does not specifically prohibit forced and bonded labor of children, but the only reports of such practices involve girls trafficked for sexual exploitation.

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. Conditions are especially hazardous for miners. Mining accidents claimed the lives of 216 miners during the first half of the year. It is estimated that there are 5.2 deaths per million tons of coal extracted. 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. In addition to poor conditions, many workers go without pay for months due to the poor status of the economy and the inability of many older enterprises to earn income.

f. *Rights in Sectors with U.S. Investment:* Enterprises with U.S. investment frequently offer higher salaries and are more observant of regulations than their domestic counterparts. Otherwise, conditions do not differ significantly in sectors with U.S. investment from those in the economy in general.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—2000

[In Millions of U.S. Dollars]

Category		Amount
Petroleum		0
Total Manufacturing		(1)
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	(1)	
Wholesale Trade		–46
Banking		0
Finance/Insurance/Real Estate		(1)
Services		0
Other Industries		54
Total All Industries		76

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

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

UNITED KINGDOM

Key Economic Indicators

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

	1999	2000	[1] 2001
Income, Production and Employment:			
Nominal GDP	1,443.6	1,441.8	1,447.0
Real GDP Growth (Pct)	2.2	3.1	1.9
GDP by Sector: [3]			
Agriculture	15.1	N/A	N/A
Mining	29.1	N/A	N/A
Manufacturing	239.3	N/A	N/A
Services	924.9	N/A	N/A
Government	65.1	N/A	N/A
Per Capita GDP (U.S.$)	24,262	24,130	23,205
Labor Force (Millions)	30.1	30.1	30.1
Unemployment Rate (Pct)	4.1	3.6	3.2
Money and Prices (Annual Percentage Growth):			
Money Supply Growth [4]	11.7	4.6	6.1
Consumer Price Inflation	1.6	2.9	2.1
Exchange Rate (US$/BPS—Annual Average)	1.62	1.52	1.42
Balance of Payments and Trade: [5]			
Total Exports FOB	252.1	273.4	288.7
Exports to United States	39.4	43.9	43.5
Total Imports CIF	287.8	315.4	340.9
Imports from United States	39.6	41.6	41.6
Trade Balance	–26.2	–28.8	–37.7
Balance with United States	–0.2	–2.3	1.9
Total Public Debt/GDP (Pct)	44.7	42.1	39.6
Fiscal Deficit/GDP (Pct)	1.7	2.1	0.8
Current Account Deficit/GDP (Pct)	–1.1	–1.7	–1.5
Gold and Foreign Exchange Reserves	34.1	37.6	46.7
Aid from United States	0	0	0
Aid from All Other Sources	0	0	0

[1] Converted from British Pound Sterling (BPS) at the average exchange rate for each year.
[2] All 2001 figures are forecasts, unless otherwise indicated.
[3] Gross value added at current basic prices. "Agriculture" includes hunting, forestry and fishing. "Services" includes electricity, gas, and water supply, construction, wholesale and retail trade, transport and communication, financial intermediation, adjustment for financial services, education, health, social work, and other services. "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.

Sources: The Oxford Economic Forecasting and London Business School 2000 Economic Outlook, the UK Office for National Statistics, and the Bank of England.

1. General Policy Framework

The United Kingdom (UK) has the fourth largest economy in the industrialized world, with an estimated nominal GDP of about $1.45 trillion in 2001. The UK's 59.8 million inhabitants live in an area the size of New York and Pennsylvania (which have a population about half the size). Per capita income is forecast to be approximately $28,144 in 2001.

The UK is in its ninth year of economic expansion since the 1991–92 recession. Real GDP growth was 1.9 percent in 2001, down from 2.2 and 3.1 percent in 1999 and 2000, respectively. The two largest impacts on the British economy have been the global economic slowdown, including the downturn of the U.S. economy, and the outbreak of foot and mouth disease. The slowdown in the U.S. economy affects the UK through export markets as U.S. imports compose approximately three percent of overall GDP. Moreover, overinvestment in telecommunications infrastructure, including prices paid for third generation licenses by British firms, could exacerbate the UK slowdown.

Since the outbreak of foot and mouth disease in February 2001, some 5.8 million animals have been culled. This is approximately 13 percent of the total livestock population in the country, although the majority of the cull is sheep. The impact of the outbreak is expected to lower GDP only 0.1 percent as the agricultural sector makes up just 2.7 percent of overall economic output. The indirect effects of the foot and mouth outbreak could prove more damaging in the tourism sector, which accounts for 4.0 percent of GDP.

The main engine of growth in the UK economy is the services sector, which accounts for about 75 percent of GDP. Business, finance, transport, storage and communication services were the principal drivers in service growth, as the sector continued to strengthen into 2001. However, the service sector is expected to slow to 3 percent growth in 2001 from 3.4 percent last year. The service sector has proven more resilient than manufacturing, which makes up 20 percent of GDP. It is believed that the service sector will account for most of GDP growth in 2001 as manufacturing is close to technical recession. One reason for this is the weakness of the euro relative to the pound sterling, which has made exports to the EU more expensive. Another is the dramatic fall in telecommunications equipment demand that has led to large manufacturing job losses in this sector.

Since breaking even in 1998, the current account continues to be in deficit. In 1999, the deficit equaled 1.2 percent of GDP. A U.S. slowdown could contribute to a widening of the UK current account deficit, which is expected to be 1.5 percent of GDP in 2001. This is, however, modest compared to a level of 4.6 percent of GDP in 1989. For the second year in a row, the UK is forecasted to have a trade surplus with the United States of 1.9 percent.

Government consumption rose at an annual rate of 3.2 percent in the first quarter of 2001. This higher government consumption and investment is expected to boost GDP growth in 2001, with increases in pensions spending, and changes to the working families tax credit. Unemployment has fallen every year since 1993. In 2001, unemployment is expected to be 3.2 percent. Employment expanded by 218,000 new jobs during the first eight months of 2000, and more people are employed in Britain than ever before.

Fiscal Policy: The Labour government has adhered to its “Code for Fiscal Stability” since it was elected into office in May 1997, as the balance of current government receipts and expenditures has turned into a surplus. Outstanding public sector net debt was reduced to 31.6 percent of GDP in March 2001 from a recent peak of 44.4 percent in mid 1997. However, higher spending, together with the impact of slower economic growth on government revenues, will lead to a sharp reduction in the budget surplus.

Tax Policy: Chancellor Gordon Brown’s budget plan for 2000–2 sought to take advantage of the booming economy in order to provide additional tax cuts and credits. In March 1999, the Chancellor announced a new 10 percent “starting rate” of tax, the lowest since 1962, on the first 1,500 pounds (now 1,520) of taxable income. In March 2000, the budget included further increases in public spending for health and education along with more cuts in taxes. In keeping with the Labour government’s promise from last year, the income tax “basic rate” (applied to taxable earnings from 1,521 to 28,400 pounds) will be reduced from 23 percent to 22 percent for the 2000–2001 tax year. The government will also extend the New Deal and Working Families Tax Credit Program in 2001. Many new measures will be established to ease the transition between coming off welfare and going to work, including one-off grants of up to 400 pounds and efforts to assist in purchasing cars, tools or interview suits. In line with the government’s central theme of promoting modernization through investment in high-tech industries, the Chancellor announced that capital gains taxes for businesses in operation over five years will be reduced from 40 percent to 10 percent (previously only companies in business over ten years received this lower rate). These plans are predominantly aimed at helping the working poor; high-income earners will experience a greater tax burden through a number of tax increases.

Monetary Policy: In 1997, Chancellor Gordon Brown granted the Bank of England independence in setting monetary policy to achieve the inflation target of 2.5 percent. The Bank of England’s dominant policy instrument is its ability to set the interest rate each month in order to maintain price stability. Inflation remains under control, averaging three percent for 2000 and two percent in 2001. This has allowed the Bank of England to reduce interest rates to the lowest level in years. The Monetary Policy Committee surprised the financial markets in August by cutting UK interest rates to five percent. In September, the Committee cut interest rates again by 25 basis points to 4.75 percent as a reaction to the decline of international financial markets caused by the September 11 terrorist attacks in the United States.

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. Sterling appreciated significantly between the beginning of 1996 and early-to-mid-1998, with the trade-weighted exchange rate index (1990=100) rising from a low of 83.5 to a high of 107.1 in

April 1998. The pound lost ground against the dollar in 2001, however forecasts show a gradual recovery between 2002–2005. In contrast, the pound weakened against the euro in 2001 and continued weakening is predicted in the following three years.

The current government favors joining the new European common currency in principle, provided that the following five economic tests are met:

1. There is convergence between EU and UK business cycles and economic structures.
2. The EMU provides flexibility for the British economy.
3. Membership has a positive investment impact.
4. The British financial services industry is sufficiently prepared for entry.
5. Membership promotes growth, stability, and employment.

At present, the British public is divided on the issue.

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 labor market flexibility and relatively low labor costs 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 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. Further liberalization of the financial services, air travel, energy, and telecommunications sectors are all economic goals of the Labour government.

The main economic focus of the Labour government, re-elected in May 2001, was welfare reform, trade liberalization, and productivity improvement. The relationship with Europe also dominates the economic landscape of the UK, particularly on the question of whether the UK should adopt the single European currency.

As the European Union (EU) continues to integrate, instances of friction have arisen between the UK and other member states due to the UK's more flexible economic environment. UK labor laws, for example, allow employers greater leeway to reduce staff than do their counterparts elsewhere in the EU. The UK also has disagreed with other member states on tax and other policies.

Private sector production, transportation, warehousing, communications, and distribution facilities infrastructure in the UK are adequate, although some of the physical assets employed show the need for repair and replacement. Much of the responsibility for public sector infrastructure in the UK has been transferred to the private sector and to independent executive agencies that are accountable to government departments. To supplement government investment, Public Private Partnership (PPP) initiatives have enabled private finance initiative schemes to create viable business entities from public assets at minimal cost to the government. Since 1997, the Department of Trade and Industry reports that over 150 contracts have been signed. The recent establishment of a PPP for air traffic control was extremely controversial, and the public worries that similar schemes will be established in health and other services.

4. Debt Management Policies

The UK has no meaningful external public debt. London is one of the foremost international financial centers in the world, and British financial institutions are major intermediaries of credit flows to 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.

Within the European Union, the European Commission has authority for developing most aspects of EU-wide external trade policy, and most trade barriers faced by U.S. exporters in EU member states are the result of common EU policies. Such trade barriers include: the import, sale and distribution of bananas; restrictions on wine exports; local (EU) content requirements in the audiovisual sector; standards and certification requirements (including those related to aircraft and consumer products); product approvals and other restrictions on agricultural biotechnology products; sanitary and phytosanitary restrictions (including a ban on import of hormone-treated beef); export subsidies in the aerospace and shipbuilding industries; and trade preferences granted by the EU to various third countries. A more detailed discussion of these and other barriers can be found in the country report for the European Union.

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. Talks since 1994 towards an Open Skies agreement have not been successful but negotiations are continuing. The U.S. goal continues to be to negotiate an agreement that benefits as many cities, airlines, and consumers as possible.

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. 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 seven million workers, about one-third of the work force, are organized. Employers are barred from discriminating based on union membership. The Employment Relations Act of 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. In 2001, the UK agreed to an EU directive that will compel employers to consult their workforces on issues such as layoffs and plant closures.

Unions are legally 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. Most union contracts are of much shorter duration (typically one year), than in the United States. Like the United States, however, most collective bargaining can occur on virtually any issue at any level—unlike many other European states where industry-wide, national bargaining is still widely practiced.

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. "Closed shops," which restrict employment to union members, are illegal.

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:* The UK's first official national minimum wage took effect on April 1, 1999. As of October 1, 2001, the minimum wage became 4.10 pounds, with a special "development rate" of 3.50 pounds for 18 to 21 year-olds. Daily and weekly working hours are limited by law, according to an EU directive outlawing mandatory workweeks longer than 48 hours.

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 conscientious. Unions have a legal right to appoint safety representatives where an employer has recognized their union. In non-unionized workplaces, the employer must still consult employees but can choose to do so directly or set up a system of employee representatives on health and safety, whose rights are more limited than union safety representatives.

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—2000

[In Millions of U.S. Dollars]

Category	Amount	
Petroleum		15,749
Total Manufacturing		50,994
Food & Kindred Products	4,815	
Chemicals & Allied Products	16,170	
Primary & Fabricated Metals	2,188	
Industrial Machinery and Equipment	9,022	
Electric & Electronic Equipment	3,977	
Transportation Equipment	4,319	
Other Manufacturing	10,504	
Wholesale Trade		7,953
Banking		9,930
Finance/Insurance/Real Estate		100,273
Services		17,258
Other Industries		31,227
Total All Industries		233,384

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

THE AMERICAS

ARGENTINA

Key Economic Indicators

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

	1999	2000	[1] 2001
Income, Production, and Employment:			
GDP (at Current Prices) [2]	283	285	276
Real GDP Growth (pct)	–3.0	–0.5	–2.0
GDP by Sector (pct):			
Agriculture, Forestry, Fishing	4.6	4.8	5.0
Industry	27.6	27.6	24.3
Manufacturing [3]	18.1	17.6	17.1
Services	67.7	67.7	68.0
Government [3]	10.7	11.0	10.9
Per Capita GDP (US$)	7,750	7,700	7,400
Labor Force (Millions)	14.2	14.4	14.7
Unemployment Rate (pct) (May)	14.5	15.4	16.4
Money and Prices (annual percentage growth):			
Money Supply (M2) (Dec.)	–1.4	–3.9	–12.0
Consumer Price Inflation (Dec./Dec.)	–1.8	–0.7	–1.5
Exchange Rate (Peso/US$) [2]	1.0	1.0	1.0
Balance of Payments and Trade:			
Total Exports FOB	23.3	26.4	27.4
Exports to United States [4]	2.6	3.1	3.1
Total Imports CIF	25.5	25.2	22.7
Imports from United Stated [4]	4.9	4.7	4.5
Trade Balance	–2.2	1.2	4.7
Balance with United States [4]	–2.3	–1.6	–1.4
External Public Debt	84.8	84.6	84.0
Fiscal Deficit, GDP (pct) Federal Government	–2.5	–2.4	–2.7
Consolidated Public Sector	–4.2	–3.6	–3.7
Current Account Deficit/GDP (pct)	–4.2	–3.1	–2.5
Debt Service Payments/GDP (pct) [5]	3.6	4.3	5.0
Gold and Foreign Exchange Reserves	26.4	25.1	15.0
Aid from United States	N/A	N/A	N/A
Aid from All Other Sources	N/A	N/A	N/A

[1] Figures for year 2001 are Embassy estimates based on January through August data.
[2] The Argentine peso was tied to the U.S. dollar at the rate of one to one in 1991.
[3] Manufacturing and Government figures show percentage of total GDP.
[4] Source: U.S. Department of Commerce; Calendar Year 2001 figures are estimates based on data available through July.
[5] External public debt service payments.

1. General Policy Framework

Following years of high inflation and exchange rate instability, beginning in 1990 Argentina undertook a series of reforms, which stabilized the economy through the 1990s. The peso was linked to the dollar under a currency board arrangement, many barriers to trade and investment were dismantled, and by the mid-1990s, most state-owned entities were privatized. Despite a sharp recession in 1995, real GDP growth averaged over six percent a year from 1991–1997. However, the Mexican peso crisis, the Asian and Russian financial crises, the continuing depreciation of the Brazilian currency, as well as a lack of government fiscal restraint resulted in a recession in 1998 that continues through today. The economy is estimated to shrink two percent in 2001.

President Fernando de la Rua, who took office in December 1999, has maintained the principle elements of the country's economic policy, including the convertibility of the peso and the dollar, as well as relatively open markets for trade. Recent changes in currency, tax, and trade regulations have created uncertainty in the trade and investment community about doing business in Argentina. However, in the long term, Argentina retains promise as a market for well-informed U.S. business people.

Argentina's financial sector is considered sound and foreign capital flows freely. However, Argentina's fiscal situation remains a concern. A zero deficit law, which cut government employees' salaries and limits government spending to its income on a monthly basis, was instituted in July of 2001. Tax evasion, however, remains a major problem. In January 2001, Argentina concluded a new $40 billion bailout package with the International Monetary Fund (IMF) that briefly increased lender and investor confidence. In June 2001, it consolidated a large part of its debt in an exchange of bonds, which also increased investor confidence briefly. In August, it obtained an additional five billion dollars in an expanded IMF credit.

2. Exchange Rate Policy

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, under a currency board type of arrangement called "convertibility." This rate is expected to remain unchanged in the medium term. Argentina has no exchange controls.

3. Structural Policies

Argentina's economic reforms in the last decade have achieved 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 drastically cut the average import tariff. Argentina's average applied tariff currently is around 13.5 percent.

Argentina, Brazil, Paraguay, and Uruguay established the Southern Cone Common Market (Mercosur) in 1991, and in 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. However, the tariff on capital goods, which account for over 40 percent of U.S. exports to Argentina was reduced to zero in 2001. Argentina, as a member of Mercosur, is discussing the prospect of a free trade agreement with the Andean community and the European Union (EU). It is also engaged in negotiations to establish the Free Trade Area of the Americas (FTAA), and in Mercosur-U.S. negotiations known as the Four Plus One process.

Argentina signed the Uruguay Round agreements in April 1994. Its congress ratified the agreements at the end of 1994, and Argentina became a founding member of the World Trade Organization (WTO) on January 1, 1995.

4. Debt Management Policies

Argentina's public debt maturities are mostly concentrated in the medium to long term. Public sector debt increased in 2000, rising to almost $130 billion. Public sector debt service payments on external debt in 2001 will represent about five percent of GDP. The turmoil in international financial markets in recent years complicated Argentine access to foreign capital; however, through additional financing from the IMF and the large debt exchange of June 2001, the government seems to have met its external financing requirements through 2001. Despite this, Argentina growth and tax collections remain stagnant, and the country remains vulnerable to external shocks.

5. Significant Barriers to U.S. Exports

Argentina and Brazil protect their respective automobile assembly industries through a combination of quotas and high tariffs negotiated among Mercosur members. The government has negotiated a new common Mercosur auto policy with Brazil and other Mercosur members that extends quotas and tariffs through 2005.

Although Argentina is one of the most open markets in Latin America, domestic political pressure, the impact of the continuing devaluation of Brazil's real, and continued high unemployment in Argentina have led the government to take some ad hoc protectionist measures.

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, it is not fully functional.

Services Barriers: In 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: Foreign investment receives national treatment under Argentine law. Firms need not obtain permission to invest in Argentina. Foreign investors may wholly own a local company, and investment in firms whose shares trade on the local stock exchange requires no government approval. There are no restrictions on repatriation of funds.

The United States-Argentina Bilateral Investment Treaty (BIT) came into force in 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 on-going disputes with Argentine national or provincial authorities.

Government Procurement Practices: Argentina is not a signatory to the WTO Government Procurement Agreement. The de la Rua administration has re-established a “Buy Argentine” preference that allows Argentine companies to lower their bids as much as five percent to match foreign companies’ bid offers. Argentine sources receive preference only when all other factors (price, quality, etc.) are equal.

Customs Procedures: Customs procedures are opaque 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. In 1997, the government merged the customs and tax collection authorities to boost revenues and improve efficiency. In September 2001, it abolished a troublesome pre-shipment inspection system that verified the price, quality and quantity of imports.

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 established a “convergence factor” exchange-rate differential for imports and exports in 2001. Under this system, exporting companies receive an advantageous exchange rate for foreign currency received for exported products. The exchange rate for exports, which is adjusted daily, sets the value of one peso at the equivalent of 50 U.S. cents plus one half the value of the EU’s currency, the euro.

7. Protection of U.S. Intellectual Property

Argentina belongs to the 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 the United States withdrew 50 percent of Argentina’s 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 decree in 1996 that improves earlier Argentine patent legislation, but provides less protection than that called for in the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). Starting in November 2000, this decree authorized the National Institute for Intellectual Property (INPI) to provide pharmaceutical patent protection. As a result, more than 100 pharmaceutical patents have been issued. However, the new patent regime does not provide patent protection for products under development, does not adequately protect confidential data, and contains ambiguous language on parallel imports and compulsory licenses. As a result of these shortcomings, the U.S. government has been in WTO dispute settlement consultations with Argentina for more than one year.

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. Regardless, video and CD piracy remains a serious problem. Efforts are underway to combat this, including arrests, seizure of pirated material, and introduction of security stickers for cassettes. In 1998, the Argentine Congress enacted legislation making software piracy a criminal offense. However, the Argentine government has yet to comply fully with an agreement to legalize unlicensed software in use in government offices.

Trademarks: Trademark laws and regulations in Argentina are generally TRIPS-consistent. The key problem is a slow registration process, which the government has worked to improve.

Trade Secrets: Although Argentina has no trade secrets 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 be interpreted to cover this technology, 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 to 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. The passage of a major labor reform law in May 2000 promotes bargaining on a local, provincial or company level, rather than negotiating at the national level on a sectoral basis. 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 2000.

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 6 hours a day or 35 hours a week. The law is generally enforced, but there are credible reports that child labor in the informal economy is increasing.

e. *Acceptable Conditions of Work:* The national monthly minimum wage is $200, although 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 generally 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—2000

[In Millions of U.S. Dollars]

Category	Amount
Petroleum	654
Total Manufacturing	3,623

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—2000—Continued

[In Millions of U.S. Dollars]

Category		Amount
Food & Kindred Products	883	
Chemicals & Allied Products	1,549	
Primary & Fabricated Metals	213	
Industrial Machinery and Equipment	47	
Electric & Electronic Equipment	–5	
Transportation Equipment	151	
Other Manufacturing	785	
Wholesale Trade		389
Banking		2,319
Finance/Insurance/Real Estate		5,633
Services		698
Other Industries		1,172
Total All Industries		14,489

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

THE BAHAMAS

Key Economic Indicators

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

	1999	2000	[1] 2001
Income, Production and Employment			
Nominal GDP (Current Prices)	4575	4920	5170
Real GDP Growth (pct)	6.0	5.0	3.5
GDP by Sector (Estimated pct):			
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$)	15,004	15,850	16,361
Labor Force (000s)	156,000	157,640	N/A
Unemployment Rate (pct)	7.8	7.0	7.8
Money and Prices (Annual Percentage Growth):			
Money Supply (M2) (% Increase)	12.3	8.4	N/A
Commercial Interest Rate (Percent)	6.75	6.00	N/A
Personal Savings Rate	3.28	2.71	2.70
Consumer Price Inflation [2]	1.3	1.6	1.5
Exchange Rate (US$/B$—annual average)	1.00	1.00	1.00
Balance of Payments and Trade:			
Total Exports (FOB)	428.1	766.1	N/A
Exports to United States [3]	335.9	485.6	148.6
Total Imports (CIF)	1907.1	2275.8	N/A
Imports from United States [3]	1671.6	1991.2	535.8
Trade Balance	–1249.3	–1346.0	N/A
Balance with United States	–646.7	–753.8	N/A
External Public Debt	106.5	115.9	N/A
Fiscal Deficit/GDP (pct)	4	3	3.4
Gold Reserves	N/A	N/A	N/A
Foreign Exchange Reserves	404.0	342.6	N/A
Debt Repayment	72.5	75	90
Aid from United States	0	100.0	252,000
Aid from All Other Countries	N/A	N/A	N/A

[1] Finance Ministry Projections.
[2] As of March 2001.
[3] Source: 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.

Central Bank economists had already predicted a slowdown in the Bahamian economy due to the recession in the U.S. Since the September 11 terrorist attacks in the U.S., key economic indicators in The Bahamas has declined severely. Tourism, the largest economic sector in The Bahamas, was immediately affected. Major hotels report occupancy rates as low as 15 percent, less than a quarter the normal rate for this time of year. Businesses in the tourist district report a 50 percent decrease in sales. Hotels have already announced that they are moving to a reduced workweek and furloughing some employees. The general consensus is that sizable layoffs of personnel by the hotels and many businesses dependent on the tourist trade are almost inevitable. If this downturn in tourism continues, the economic loss to The Bahamas will be enormous.

The United States remains The Bahamas' major trading partner. U.S. exports to The Bahamas went from $842 million in 1999 to $1026.6 million in 2000. Approximately 88 percent of its imports originate in the United States, and most Bahamian purchases of third-country exports are acquired through American distributors. According to data from the Ministry of Economic Development, the average tariff rate has fallen from 40 to 30 percent while the number of customs duty rates were reduced from 123 to 29 over the last decade. 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 Bahamas received observer status in the WTO in 2001 and declared its intent to pursue full accession. A WTO Working Party has been formed to consider Bahamian accession.

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 2001/2002 balanced budget totaled $1035 million with no new taxes. Government outlays for education, health, social benefits and services, and national security accounted for the majority of the Government's total expenditure. Total debt service declined by $5.2 million to $67.8 million in 2000 which, combined with marginally increased exports of goods and nonfactor services, resulted in a smaller debt service ratio of 2.8 percent relative to 3.0 percent in 1999. 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 2001–2002 is projected to increase to $1,030 million. This represents an increase of 3.2 over the 2000/1 budget or about 4.9 percent over the projected 2000/1 outturn.

Again this year, the budget emphasized duties to promote e-commerce and development of the telecommunications infrastructure. Consequently, the Bahamian government plans to move ahead with completing the privatization of The Bahamas Telecommunications Corporation (Batelco). The Bahamian government's policy requires that internet access is provided to all Bahamian schools free of charge and that the cost of this access will be allocated among all telecommunications providers. In order to promote this, custom duties on computer hardware, computer parts, computer paper, and cameras, including still image versions, were eliminated. In addition, the Public Utilities Commission (PUC) implemented new license fees for Internet Service Providers and a wide range of telecommunication services provided by Batelco. Some of those fees, including Internet service, public paging, specialized mobile radio trunking, and private specialized mobile radio are considered too high. Conversely, the PUC's existing radio communication license fees are substantially lower than those charged in several other countries and will be increased.

The Bahamian government has continued its policy of rationalization of Customs duties and providing relief to Bahamians where possible and reduced customs duty on a number of items including office equipment and supplies, carpet and other floor covering, some small household appliances, appliances used in medical, surgical, dental and veterinary science, some fruits and vegetables, and some vitamins.

The 1999–2000 budget cut tariff rates on imported video and audiotapes 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.

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 temporally on chicken, and reduced on combination TV and radio appliances, combination TV and VCR appliances, and golf carts.

The government knows 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 123 separate import duty rates to 29 rates as of July 1, 1997. 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 1999, which has not changed.

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 2.2 percent as of June 2001.

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 results of these incentives has been slow, particularly in view of the devastating fire that destroyed a part of downtown Nassau including the straw market (a favorite tourist shopping site specializing in handicrafts and souvenirs), on September 4th. The tourism industry has also declined significantly as a result of the September 11th terrorist attacks against the United States.

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 2000 that foreign capital inflows for the decade of the 1990s went from $84.6 million in 1990 to $820.8 in 1999.

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; and over $100,000, tax is 1.5 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) and other public utilities. It has also established a Public Utilities Commission to regulate local public utilities corporations.

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 Bahamian Stock Market is now up and running with 15 stocks.

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 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 International Business Companies Act, simplifying procedures and reducing costs for incorporating companies.

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.

In addition, in June 2000, Sun International lost its government tax concession because it failed to proceed with its commitment to commence the 700-room Phase III of its resort complex in July 1, 2000. The Bahamian government originally granted the $3 million tax incentive package in return for Sun's commitment to construct 1200 additional hotel rooms on Paradise Island, but part of these incentives were to be suspended if work did not begin on replacement of the old Holiday Inn and Paradise Paradise Hotels by January 2000. Sun International's Chairman and CEO Sol Kerzner said Sun had to commit all its development resources to repairing hurricane damage in 1999 and developing its Ocean Club Resort, golf course and time share project (part of its Phase II development). Kerzner also said that the labor environment (shortage of skilled workers) and massive overspending on the project's first two phases resulted in his decision to halt Phase III. In February 2001, Sun International officially opened its new Harborside Resort of timeshare condominiums on Paradise Island and completed renovations to the Ocean Club.

4. Debt Management Policies

The National Debt comprising Government Direct Debt and Contingent Liabilities, which are the Government Guaranteed borrowings of the Public Corporations, amounted to $1.88 billion at the end of 2000.

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 still 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.

According to data from the Ministry of Economic Development, the average tariff rate in the Bahamas has fallen from 40 to 30 percent while the number of duty rates were reduced from 123 to 29 over the last decade.

The Ministry of Agriculture restricted banana imports in October 1995, as part of an effort to create a market for locally grown bananas. The restrictions have been extended to include other varieties of produce for which the Ministry determines that local farmers (e.g. Christmas poinsettias, romaine lettuce, yellow squash, and zucchini) can meet the demand. 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. 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. The law allows for compulsory licensing of encrypted signals to the local cable company, a violation of the Berne Convention. The Bahamian government has promised to amend the law to prohibit the practice.

The majority of videos available for rent are the result of unauthorized copying 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 videotapes, 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. Although these laws are fully enacted, they are still widely ignored.

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:* In 2001, the government passed the Employment and Protection Act, and has promised to pass a Minimum Wage Bill and a Health and Safety Bill. Two other pieces of legislation (the Trade Union and Industrial Relations and Industrial Tribunal bills) were abandoned as politically infeasible. The total package had drawn heavy criticism from both Bahamian employers and trade unions. The Minimum Wage Bill, has been criticized as going against recent IMF advice for the GCOB to increase labor productivity and control wages in order to sustain future economic growth. If enacted, the bills will give the Government the right to establish wage minimums for the private sector, shorten the work week, increase paid vacations, guarantee paid sick leave and severance pay, and grant employees new protections against unfair dismissal.

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 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—2000

[In Millions of U.S. Dollars]

Category	Amount	
Petroleum		631
Total Manufacturing		(1)
Food & Kindred Products	0	
Chemicals & Allied Products	(1)	
Primary & Fabricated Metals	0	
Industrial Machinery and Equipment	–2	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade	(1)	
Banking		–3,783
Finance/Insurance/Real Estate		3,507
Services		32
Other Industries	55	
Total All Industries	668	

1 Suppressed to avoid disclosing data of individual companies.

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

BOLIVIA

Key Economic Indicators

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

	1999	2000	[6] 2001
Income, Production and Employment [1]			
Nominal GDP	8,323	8,456	[7] 8,112
Real GDP Growth (pct)	0.4	2.4	0.5
GDP growth by Sector:			
Agriculture	2.89	2.97	2.00
Manufacturing	2.40	1.65	0.80
Services [2]	4.94	–1.63	–1.00
Government	1.53	0.92	1.20
Per Capita GDP (US$)	1,027	1,020	977
Labor Force (million)	2.4	2.5	2.6
Unemployment Rate (pct) [3]	8.0	7.5	N/A
Money and Prices (annual percentage growth):			
Money Supply Growth (M2) [4]	–2.8	13.1	8.0
Consumer Price Inflation	3.1	3.4	3.0
Average Exchange Rate (Bs/US$)	5.80	6.17	6.58
Parallel	5.84	6.20	6.62
Trade and Balance of Payments:			
Total Exports FOB	1,139	1,328	1,490
Exports to United States FOB	465	349	392
Total Imports CIF	1,855	1,977	2,015
Imports from United States CIF	438	431	439
Trade Balance	–704	–600	–525
Balance with United States	27	–82	–47
Current Account Deficit/GDP (pct)	–8.5	–7.1	–6.5
External Public Debt	4,574	4,460	4,680
Debt Service Payments/GDP (pct) [5]	2.6	3.0	3.2
Fiscal Deficit/GDP (pct)	3.4	4.0	6.0
Gold and Foreign Exchange Reserves	1,114	1,184	1068
Aid from United States	76	155	138
Aid from All Other Sources	530	468	410

[1] IMF projections, UDAPE, National Institute of Statistics (INE), Central Bank of Bolivia and Embassy projection.
[2] Does not include electricity, gas, water, transportation, or communications.
[3] For urban areas; data does not consider underemployment.
[4] Includes National Currency Deposits indexed to U.S dollar and U.S dollar deposits.
[5] Includes short-term debt.
[6] 2001 figures are yearly projections.
[7] The pace of devaluation of the boliviano exceeded that of inflation, which resulted in a lower nominal GDP (in dollars), though real GDP increased.

1. General Policy Framework

Nineteen 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 in the business community by exposing it to increasing international competition. Parallel reforms in the judicial system, such as the implementation of the new Code of Criminal Procedures in March 2001, should help strengthen the rule of law in the coming years.

The foundation of this new economic system was the privatization (called "capitalization" in Bolivia) of five large state-owned corporations and the establishment of a regulatory system to monitor the key sectors. The capitalization program has succeeded in promoting steady rates of growth of private investment, principally from the United States and in the hydrocarbons sector. Moreover, the opening of the telecommunications sector, programmed for November 2001, has attracted other U.S. operators that have committed significant amounts of investment in Bolivia during 1999 and 2000. This investment portends enhanced prospects for economic growth in the coming years. Although the Government initially projected economic growth for 2001 at four percent, an ongoing economic slowdown caused mainly by low commodity export prices and economic slowdown in Bolivia's principal trading partners, including the United States, obligated authorities to lower growth projections for 2001 to only 0.5 percent. The United States has been Bolivia's largest trading partner and the largest direct investor during the last decade.

Macroeconomic indicators have improved steadily since the Government undertook stabilization and structural reforms in the mid-1980s. However, the Bolivian economy has been essentially stagnant since 1999. Commercial bank deposits had more than doubled since 1991, to over $4.4 billion in 1999, but significantly decreased to $4 billion in 2000 and to $3.6 billion as of August 2001. At the same time the amount of non-performing loans have increased from $266 million in 1999 to approximately $578 million as of August 2001 (over 18 percent of the total loan portfolio). 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 2000), decreasing slightly to $980 million (April 2001). Net reserves were slightly more than five months of imports as of February 2001. As tax revenue dropped due to the economic downturn, the budget deficit for the non-financial public sector increased to 3.4 percent of GDP in 1999, 4.0 percent in 2000 (largely as a result of pension reform), and likely even higher for 2001 and 2002. Lately, the public deficit has been financed primarily by domestic debt purchased by local banks and pension administrators.

The money supply (M1) has grown steadily since 1991, with M1 now averaging around 12 percent of GDP. Total liquidity (M4) represented approximately 53 percent of GDP in 2000. Although the M2 growth rate had decreased significantly since 1997, reaching negative levels during 1999, it increased by approximately 13 percent in 2000 and it is expected to grow by 8 percent in 2001. 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 may be written in dollars. Banks offer dollar accounts and make loans in dollars. In fact, at the end of August 2001, nearly 91 percent of the $3.6 billion of deposits in the Bolivian financial system was denominated in dollars. The Bolivian Central Bank usually adjusts its discount rate and conducts open market operations to control money supply. In addition, the Bank has infrequently changed reserve requirements for commercial banks.

Low rates of inflation at home and abroad have helped to lower interest rates. By December 2000, the average rate paid on dollar deposits was approximately 4.25 percent, and the average rate charged on dollar loans was 15.29 percent. Increased bank competition and new foreign investment in the sector will likely cut financial spreads, making credit still cheaper in the near-term. Financial spreads continued to grow in 2001 due to a large increase in banks' non-performing loans portfolios.

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, which fell with respect to the dollar by 6.2 percent in 1999, 6.7 percent in 2000, and 5.5 percent as of September 2001.

3. Structural Policies

A variety of laws have liberalized the economy significantly since the change in Bolivia's economic policies in the mid-1980s. Bolivia has consolidated economic stability through the application of a policy of fiscal and monetary discipline since 1986. Markets for goods and services and interest rates were liberalized, an exchange rate policy was applied based on a single flexible exchange rate, and a tax reform law was implemented.

In 1990, the Government of Bolivia lowered import 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 on goods, whether imported or produced domestically. There are also excise taxes charged on some consumer products. Generally, no import permits are required, except for the import of arms and pharmaceutical products. However, in an effort to fight contraband imports, the Government of Bolivia issued Supreme Decrees 26327 and 26328 on September 22, 2001, establishing automatic import licenses and labeling norms for selected products such as cooking oil, sugar, pasta, and wine. While the import licenses are established for two years, there is no time limit for the labeling requirement. Further regulation must be issued in the coming months in order to apply these two new decrees.

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, which was further elaborated in the Arbitration Law, enacted on March 11, 1997. Bolivia ratified a Bilateral Investment Treaty with United States on June 7, 2001; the treaty came into effect in July 2001.

The 1996 Hydrocarbons Law authorized YPFB (the petroleum parastatal company) 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. The recent Mining Law taxes 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 the new Banking Law, the Government of Bolivia enacted a new financial law in 1998, the Law of Property and Popular Credit, which changed the organization of financial regulatory bodies. It also provided for improved regulation for all types of financial institutions and promoted stability in the financial system, while also inducing greater competition and efficiency. Although the government has announced several times its intention to enact a deposit insurance law, the bill has yet to be approved by the Bolivian congress.

The Government of Bolivia created a Sectoral Regulation System (SIRESE) in October 1994 to regulate the electricity, telecommunications, hydrocarbons, transportation, and water sectors. The Electricity Law (1994), the Telecommunications Law (1995) and the Hydrocarbons Law (1996) defined the functions and attributions of their respective Superintendents. The five Superintendencies are autonomous institutions whose activities are financed through the assessment of fees on firms operating in their respective sectors. SIRESE is led by a General Superintendent, to whom decisions handed down by the individual Superintendents may be appealed. Concessions of public services and licenses are granted by administrative resolution issued by the respective Superintendent. The SIRESE law establishes general principles governing anti-competitive practices. Specifically, companies engaged in regulated activities are forbidden from participating in agreements, contracts, decisions and/or practices whose purpose or effect is to hinder, restrict or distort free competition.

4. Debt Management Policies

The Government of Bolivia owes about $4.3 billion to foreign creditors as of April 2001. Almost two-thirds of this amount is owed to international financial institutions, principally the Inter-American Development Bank, the International Development Agency of the World Bank, and the Andean Development Corporation. One-third is owed to foreign governments and less than 0.5 percent is owed to private banks. Bilateral debt payments have been rescheduled six times by the Paris Club, and several foreign governments, including the United States, have unilaterally forgiven substantial amounts of bilateral debt. In 1998 and 2001, Bolivia entered into the Highly Indebted Poor Country (HIPC) I and II programs respectively. The first agreement will reduce multilateral debt stock by approximately $460 million in present value (NPV) terms over the life of the agreement, while the second or enhanced HIPC will do so by $854 million in NPV terms. The Consultative Group of international donors in 1999 approved an additional $960 million in aid for Bolivia. In addition, the Consultative Group meeting in September 2001 approved an additional $1.3 billion in aid.

5. Significant Barriers to U.S. Exports

There are no significant barriers to U.S. exports or U.S direct investment in 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. However, Bolivia has neither endorsed the Plurilateral Agreement on Government Procurement nor declared any commitment on civil aircraft and related services.

Import licenses are usually required for firearms, certain chemical products and seeds. Pharmaceutical products must be approved under World Health Organization guidelines and registered with the Vice Ministry of Health. Insecticides require an import permit and a "free sale" certificate from the Ministry of Agriculture. The Government of Bolivia issued Supreme Decrees 26327 and 26328 on September 22, 2001, establishing automatic import license and labeling norms for selected products such as cooking oil, sugar, pasta, and wine. Import permits, which must be obtained from the Vice Ministry of Industry and Commerce, are required for imports of used clothing and rags.

Bolivia's commitments under GATS are modest, although its liberalization efforts have established the bases for expanding them. In some cases, existing legislation offers more liberal treatment to foreign and domestic providers than the GATS agreements. For instance, Bolivia has undertaken several commitments in telecommunications; hospital services; hotels and restaurants; travel agencies and tour operators; and recreational, cultural and sporting services. Bolivia has endorsed several protocols on financial services and has committed to ratifying the fifth protocol.

Although the Ministry of Agriculture issued a one-year resolution banning the import of products containing genetically modified organisms in January 2000, this resolution has not been enforced.

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 Bolivian government enacted a law establishing 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, which came into effect on July 7, 2001.

On July 28, 1999, the Government of Bolivia enacted Supreme Decree 1990 mandating an in-depth customs reform. This new law gave the Government of Bolivia the necessary tools to begin fighting the corruption that permits huge amounts of contraband into Bolivia, resulting in significant losses of tariff revenue. The law depoliticized the selection of customs officials and has helped professionalize the customs service, though much remains to be done.

6. Export Subsidies Policies

The Government of Bolivia 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 Nairobi Treaty. In 2000, the U.S. Trade Representative placed Bolivia on the "Special 301" Watch List, where it remained in 2001. Although the Government of Bolivia, both domestically and within the framework of the Andean Community, has enacted several regulatory norms relating to copyrights, trademarks and patents, enforcement remains weak.

Weak enforcement of existing laws has done little to discourage piracy in Bolivia. Nonetheless, there have been some recent positive developments. In 1997, the Government of Bolivia created the National Intellectual Property Service, which for the first time unified the administration of patents, trademarks, copyrights, and other intellectual property. In 1992, the government enacted the Copyright Law, which together with key changes in the Code of Criminal Procedure, effected in 2001, should create the proper legal environment to enforce IPR protection. The Government of Bolivia has proposed a draft Intellectual Property Law that should bring Bolivia's IPR protection up to the standards specified in the WTO TRIPS Agreement. Although the government hoped to enact this law during 2000, the Bolivian Congress has yet to discuss the bill. Creating awareness in the judiciary and among the public of IPR rights is another formidable challenge facing the National Intellectual Property Service.

According to the International Intellectual Property Alliance Report for 2000, piracy resulted in estimated total losses to U.S. businesses in Bolivia of $28.1 million during 2000. Estimated losses were $4.1 million due to piracy of business software, $15 million in sound recording and music, $2 million in motion pictures, $1.5 million in entertainment software, and $5.5 million in book piracy. According to the IIPA, Bolivia has one of the highest rates of software piracy in Latin America, with an estimated 84 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 of Bolivia to dissolve unions, through this power to thwart union activities has not been known to have been used 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 of Bolivia does not prosecute those responsible, nor does it impose penalties.

Unions are not free from influence by political parties, but organized labor is increasingly looking outside the established party structure to represent its interests. 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. Labor leaders complain, however, that a Supreme Decree established in 1985 that included a provision for the free contracting of labor has been abused by employers to dismiss employees for organizing workers. 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 and a 1999 law specified a broad range of activities not suitable for employment of adolescents. The Labor Code permits apprenticeship for those 12 to 14 years of age. Wage employment for children under 14 is illegal. In the large informal sector, however, urban children hawk goods, shine shoes and assist transport operators; rural children often work with parents on family farms or cooperative mines from a early age. Children are not generally employed in factories or formal businesses. Responsibility for enforcing child labor provisions resides in the Labor Ministry, but a severe lack of resources means that enforcement is almost non-existent.

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 latest IMF's agreement, but it has yet to do so.

e. *Acceptable Conditions of Work:* The law establishes annually a minimum wage. The 2001 minimum wage was established at Bs 400 per month (approximately $60), including bonuses and fringe benefits. The minimum wage does not provide a decent standard of living, and most workers in the formal sector 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 5 1/2 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, mining and telecommunications. 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—2000

[In Millions of U.S. Dollars]

Category		Amount
Petroleum		–7
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		0
Services		(1)
Other Industries		181
Total All Industries		170

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

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

BRAZIL

Key Economic Indicators

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

	1999	2000	[1] 2001
Income, Production and Employment:			
Nominal GDP [2]	530	596	500
Real GDP Growth (pct) [3]	0.8	4.5	1.5
GDP by Sector (pct share):			
Agriculture	8.3	7.8	8.0
Industry	35.5	37.2	36.0
Services	56.2	55.0	56.0
Per Capita GDP (US$) [4]	3,200	3,600	3,000
Labor Force (millions)	79.3	80.4	81.5
Unemployment Rate (pct)	7.6	7.9	8.0
Money and Prices (annual percentage growth):			
Money Supply (M2)	7.8	3.3	9.0
Consumer Price Index [5]	9.0	6.0	6.7
Exchange Rate (R$/US$ annual average):			
Commercial	1.82	1.83	2.41
[Depreciation (pct)]	58	0.5	32
Balance of Payments and Trade:			
Total Exports FOB [6]	48.0	55.1	59.0
Exports to United States [6]	10.9	13.4	14.8
Total Imports FOB [6]	49.2	55.8	58.2
Imports from United States [6]	11.9	13.0	14.2
Trade Balance [6]	–1.2	–0.7	0.7
Balance with United States [6]	–1.0	0.3	0.6
External Public Debt [7]	100.8	92.5	95.0
Current Account Deficit/GDP (pct)	4.4	4.1	5.2
Fiscal Deficit/GDP (pct):.			
Nominal	10.0	3.6	8.0
Primary (excludes interest)	–3.1	–3.4	–3.4
Debt Service Payments/GDP (pct)	2.7	2.9	3.7
Gold and Foreign Exchange Reserves	36.3	33.0	36.0
Aid from United States (US$ millions) [8]	13.9	12.7	15.4
Aid from Other Countries	N/A	N/A	N/A

[1] Estimates except where noted.

[2] GDP at market prices.
[3] Percentage change calculated in local currency.
[4] At current prices.
[5] Source: IPCA (Broad National CPI).
[6] Merchandise trade; Source: Ministry of Development, Industry, and Foreign Trade (MDIC). Trade totals are preliminary for entire year. U.S. totals are extrapolated from January-July data.
[7] Non-financial public sector (excludes Petrobras and CVRD).
[8] USAID only.

1. General Policy Framework

Brazil's economic performance in 2000 was solid and stable, with moderate growth (4.4 percent), relatively low inflation (6 percent), falling interest rates (15.75 percent at year-end), fiscal discipline (primary surplus equal to 3 percent of GDP) and stable external accounts.

Entering 2001, there were widespread expectations that the economic trends would continue along the same lines. However, the economy has been hampered by several factors, most notably an economic crisis in Argentina, falling growth in the major world economies, a serious electricity shortfall in Brazil, and most recently the aftermath of the September 11 terrorist attacks in the United States. Several political scandals and uncertainty as to the outcome of the 2002 presidential election have also increased investor uncertainty. The exchange rate has weakened appreciably through mid-October (42 percent for the year), raising the prospect of higher inflation, which in turn has led the Central Bank to raise interest rates (19 percent). A shortage of rain has led to electricity rationing (20 percent reduction from 2000 consumption levels). The higher interest rates and electricity rationing will affect economic activity, and GDP growth projections for the year are now around 1.6 percent. Market expectations for GDP growth in 2002 are 2.5 percent.

In the past decade, Brazil has undertaken a number of economic reforms that should allow it to absorb these shocks. In 1994, Brazil initiated an economic stabilization plan, known as the Real Plan. The plan was highly successful in reducing longstanding inflation. The plan also inaugurated one of the world's largest privatization programs. However, growth slowed, the economy was dependent on external financing, and the government failed to control its finances, which left the economy vulnerable to external shocks. Following the Russian debt default in August 1998, the economy entered into recession. In spite of a $42 billion assistance package negotiated with the IMF and other lenders, the government was forced to float and devalue the real in January 1999. Brazil complied with all the key targets in its 1998 program, and in August 2001 signed a new $15 billion program with the IMF, which extends until December 2002.

Since 1999, the government has been dedicated to fiscal discipline, highlighted by the passage in May 2000 of the Fiscal Discipline Law, which sets strict limits on government spending at the federal and sub-federal level. The government also initiated an inflation targeting program as the basis of monetary policy, wherein the government sets a target and the Central Bank strives to bring keep inflation within two percentage points of the target. Inflation was right on target for 2000 (six percent). The 2001 target is four percent, but inflation will exceed not only the target, but most likely will breach the two percentage points band (i.e., six percent). If inflation exceeds the outer band, the Central Bank president needs to address an open letter to the Minister of Finance explaining why the target was not met. The inflation target for 2002 is 3.5 percent, while market expectations for the year are 5.6 percent.

While many changes have been implemented, the government needs to continue its economic reform program, notably tax and pension reform. The balance of payments has also emerged as a concern. Brazil has been financing its large current account deficit with record levels of foreign direct investment ($30.5 billion in 2000). However, investment declined in 2001 (the 2001 estimate is $19 billion), so part of the current account deficit will have to be financed by external borrowing. Foreign direct investment for 2002 is expected to be around $15 billion. The trade balance probably will likely show a small surplus in 2001, and an improved outlook in 2002 (an approximately $3 billion surplus). Exports have grown rapidly but have been hampered by weak prices for Brazilian commodities and more recently by slowing foreign demand. Meanwhile, imports, which had grown rapidly, have dropped recently because of weak local demand.

The Brazilian Statistical Institute (IBGE) has estimated that the economy grew 4.46 percent in 2000. Growth was balanced across basic sectors, with industry growing 5 percent, services by 3.9 percent and agriculture by 3 percent. Within the industrial sector, mining turned in the best performance with 11.5 percent growth. Manufacturing activity grew 5.7 percent and construction by 2.1 percent. In the services sector, the communications subsector turned in the best performance by far with a 17 percent expansion. Commerce rose 5.5 percent and transportation 3.4 percent. GDP grew 3.1 percent in the first half of 2001, but growth will be much lower in the second half of the year.

In 2001, Brazil's average applied tariff was 13.8 percent. Brazil currently maintains no applied tariff rates in excess of 35 percent, but does have safeguard measures in place for some imports, such as toys. A small number of imports are banned altogether, such as remanufactured auto parts. Brazil and its Mercosur partners, Argentina, Paraguay and Uruguay, implemented the Mercosur Common External Tariff (CET) on January 1, 1995. The CET covers approximately 85 percent of 9,394 tariff items and ranges between zero and 23 percent. Most of the remaining 15 percent should be covered by 2003, and full coverage should be reached by 2006. Exceptions to the CET include telecommunications equipment, computers, some capital goods and products included on Brazil's national list of exceptions to the CET, such as footwear, powdered milk, automobiles, wine and consumer electronics. Brazil, and its Mercosur partners, implemented a temporary general across-the-board 3 percentage point tariff increase in late 1997 and early 1998 in response to balance of payments difficulties. The measure was originally due to expire at the end of 2000. A half-percentage point decrease was agreed to by Mercosur members effective January 2001, and an additional one percentage point decrease will take place on January 1, 2002, with the remaining one percentage point decrease likely taking place in 2003. There have been some trade tensions recently, particularly between Argentina and Brazil, over Argentine changes to its tariff and import regimes affecting Mercosur parties, and over the trade impacts of Brazilian currency depreciation under its floating exchange rate regime.

Chile and Bolivia became associate members of Mercosur in October 1996, and in August 1999, Brazil signed a trade preference agreement with the Andean Community. In June 2000, the Common Market Council of Mercosur established a December 2001 deadline for the negotiation of a Free-Trade Area between Mercosur and the Andean Community, which would replace the existing bilateral agreements between both regional agreements' members. The negotiations, however, are proceeding slowly.

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 switched to a unitary, floating rate foreign exchange regime in January 1999. There is also an informal parallel market but volumes are small. The government has acted to remove impediments to a fully convertible currency, both for current and capital account transactions. In mid-2000, it eliminated numerous regulations affecting exchange transactions and consolidated all remaining requirements into one regulation.

The exchange rate was stable for most of 2000, and the Central Bank intervened on only limited occasions to prevent excess volatility. However, the real depreciated roughly 40 percent in the first 10 months of 2001, and the Central Bank has increased the measures taken to support the real. It maintains that it is taking these measures to prevent excessive movement in the exchange rate, and that it is not seeking to set the actual exchange rate. Measures that the Central Bank have taken include sales of dollars into the exchange market; increased placement of dollar-indexed government debt, which serves as a hedge against devaluation; and an increase in banks' reserve requirements, which reduces liquidity.

3. Structural Policies

Although some administrative improvements have been made in recent years, the Brazilian legal and regulatory system is not fully transparent. The government has historically exercised considerable control over private business through extensive and frequently changing regulations. Brazil accelerated the privatization program initiated in 1990 to reduce the size of the government, improve public sector fiscal balances, and transfer much of the infrastructure investment responsibilities to the private sector. The government has created new regulatory agencies for the telecommunications, petroleum and electricity sectors. As part of its efforts to keep inflation down, the government is reluctant to allow raises in public utility rates that fully reflect cost increases including those related to currency depreciation.

Steel companies and most petrochemical companies owned by the government, the main exception being Petrobras, have 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. Most electric distribution companies have been privatized, but most generation capacity remains under government control. The government has auctioned concessions for cellular services (although some of the concessions offered in 2001 did not receive any bids), petroleum exploration, and hydroelectric generation. Privatization revenues peaked in 1997–98, and the pace of privatization since then has slowed, although the government sold the Sao Paulo state bank Banespa for $3 billion in November 2000. The government had planned to privatize several electricity generation companies in 2001, but those plans have been placed on hold with the electricity crisis. As of July 2001, Brazil realized $84.9 billion in direct sales revenues and a further $18.1 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, production, movement, consumption, property 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. The government, congress, and private sector have endorsed various plans to simplify the various value-added and transaction taxes, but the proposals have not advanced. While the overall objective remains simplification, the government imposed an additional tax on financial transactions as a temporary revenue raising measure, although the tax has been extended until 2002, and the government is seeking to extend it until 2004. Currently, tax collections at all levels amount to about 31 percent of GDP.

4. Debt Management Policies

Brazil's total external debt as of August 2001 was $210 billion, of which 44.2 percent was owed by the public sector (excluding Petrobras foreign branches) and the remainder by the private sector. This was down slightly from debt at the end of 2000, $217 billion. In mid-2001, the Central Bank reduced its estimate of outstanding foreign debt by $30 billion, to reflect debt that had been prepaid by the private sector but not reported to the Central Bank. 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. In August, Brazil negotiated a new $15 billion IMF program, as a follow-on to its prior program. The new program will remain in force until the December 2002, the end of the current government. In 2001, the Government of Brazil issued approximately $7 billion in foreign debt, which more than rolled over the $4 billion in debt that matured during the year.

A large share of total government debt, including some debt issued domestically, is denominated in or indexed to a foreign currency. As the real has weakened, the stock of debt in terms of local currency has risen. Furthermore, the majority of domestic debt carries a floating interest rate, and interest rates have increased in the course of 2001. As a result, the stock of government debt has risen in 2001, from 49 percent of GDP at the end of 2000, to 54 percent as of August 2001.

5. Significant Barriers to U.S. Exports

Since 1990, Brazil has made substantial progress in reducing traditional border trade barriers (tariffs, import licensing, etc), although tariff rates in many areas such as information technology and automobiles remain high. Significant non-border trade barriers remain.

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, a wide variety of products were subject to non-automatic licensing. A primary concern was the reported use of minimum reference prices by Customs officials both as a requirement to obtain import licenses and/or as a base requirement for import. Such measures have been characterized by Brazil 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. In July 2000, the United States held WTO dispute settlement consultations with Brazil over the reference price issue. The Brazilian government reportedly modified its customs regime somewhat, but has not codified these changes in publicly available documents. The significant depreciation in the real since 1999 has probably made it unnecessary for Brazilian authorities to continue using these "administrative procedures" for the time being.

Agricultural Barriers: Brazil prohibits the entry of poultry and poultry products from the United States, alleging lack of reciprocity. The issue, however, should not be reciprocity, but rather the fulfillment of WTO obligations regarding sanitary and phytosanitary decisions, which dictate that such determinations shall be based only upon sufficient scientific evidence.

For the past several years, Brazil blocked U.S. wheat imports due to several phytosanitary issues related to wheat, including TCK smut, cereal stripe and flag smut. In March 2001, the Ministry of Agriculture lifted the ban on U.S. Soft Red Winter, Hard Red Spring, and Hard Red Winter wheat. The ban remains on Duram and White wheats. Exports of the approved wheat varieties must come with an additional declaration in the phytosanitary certificate that "the wheat comes from an area free of Anguina tritici," and cannot be shipped out of west coast ports. Importation of U.S. wheat from the states of Washington, Oregon, Idaho, California, Nevada, and Arizona remains prohibited due to phytosanitary concerns. USDA continues to work with the Brazilian government to resolve the import restriction.

The debate over agricultural biotechnology in Brazil has escalated dramatically during the last two years as the Brazilian Government was ready to approve the first commercial planting of Roundup Ready soybeans. Brazil has an approval process for biogenetically altered agricultural products, which resulted in the approval of Roundup Ready soybeans in 1998. However, the Brazilian government subsequently suspended its approval in response to a court ruling, citing the need for environmental impact studies on the product. As of October 2001, the Brazilian government has still not reapproved Roundup Ready soybeans for use on the Brazilian market, while the issue remains in the courts. Also, during the past year, the United States lost several opportunities to sell corn to Brazil because of the lack of government approval for imports of biotech products and the ensuing court battles against imports of biotech products. Brazilian policy on biotech remains inconsistent and lacks transparency.

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. Service trade opportunities in some sectors have been affected by limitations on foreign capital participation. A telecommunications law that allows for the limitation of foreign ownership of carriers is of concern, except that it has not been used or implemented to date. In general, because of the need for foreign direct investment, some restrictions have eased. On September 4, President Cardoso signed a provisional measure creating a national film agency. The taxes envisaged in the measure appear to disproportionately affect foreign audiovisual content.

Some service trade possibilities 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.

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. Privatization of the monopoly Brazil Reinsurance Institute is stalled by legal challenges. U.S. and other foreign reinsurers have expressed concern with proposed regulations regarding the reinsurance market following the sale.

The United States 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. Naval authorities attempted to collect lighthouse dues in 2000 from flag ships of countries, such as the United States, with bilateral maritime agreements, even though these dues were in violation of these agreements.

Investment Barriers: Various prohibitions restrict foreign investment in internal transportation, public utilities, media, shipping, and other "strategic industries." In the auto sector, local content and incentive-based export performance requirements were introduced in 1995, but expired in December 1999 consistent with a bilateral autos agreement between the United States and Brazil.

Foreign ownership of land in rural areas and adjacent to national borders remains prohibited under law number 6634.

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 2000.

There is no Bilateral Investment Treaty (BIT) between the United States and Brazil. Brazil has signed some 16 BITs with other countries, none of which has been ratified. The principal point of contention seems to be objection by the legislative branch over dispute settlement language.

Government Procurement: Brazil is not a signatory to the WTO Agreement on Government Procurement, and transparency in the procurement process could be improved. Remaining limitations on foreign capital participation in procurement bids can reportedly impair access for potential service providers, including in the energy and construction sectors. Brazilian federal, state and municipal governments, as well as related agencies and companies, follow a "buy national" policy, and rules permit the government to provide preferential treatment in government procurement decisions to foreign companies with production facilities in Brazil. However, Brazil permits foreign companies to compete in any procurementrelated multilateral development bank loans and opens selected procurements to international tenders. To the extent that the privatization program in Brazil continues and nondiscriminatory policies are adopted, U.S. firms will have greater opportunities in Brazil.

Law 8666 of 1993, covering most government procurement other than informatics and telecommunications, requires nondiscriminatory treatment for all bidders, regardless of the nationality or origin of product or service. However, the law's implementing regulations allow consideration of nonprice factors, give preferences to certain goods produced in Brazil and stipulate local content requirements for eligibility for fiscal benefits. Decree 1070 of March 1994, which regulates the procurement of informatics and telecommunications goods and services, requires federal agencies and parastatal entities to give preference to locally produced computer products based on a complicated and nontransparent price/technology matrix.

Customs Procedures: Customs clearance in Brazil can be time consuming and frustrating. In a report issued by the ICEX (the Institute for the Study of Foreign Trade Operations) in 1999 the average customs clearance time in Brazil was the slowest in the Hemisphere (150 hours). Products can get "caught up" in customs because of minor errors in paperwork. The Brazilians recognize that many of its ports, loading and unloading as well as customs clearance need increased efficiency. To this end, they have been working on a "green line" expedited method of clearance.

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. 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 and to directly finance production of tradeable goods. In 2000, $931 million was budgeted for PROEX with $492 million slated for equalization and $439 million for direct financing. $471 million was actually spent on equalization, and $415 million went to financing. In earlier years, 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, 70 percent in 1999, and approximately 95 percent in 2000. In 1999, a WTO panel found PROEX interest equilization payments on regional aircraft to be a prohibited subsidy. The WTO Appellate Body upheld this finding. The Government of Brazil states that it has modified PROEX to bring it into conformity with WTO subsidy rules.

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. Brazil has not yet ratified the WIPO Treaties on Copyright and Performances and Phonograms. In 2001, the U.S. Trade Representative placed Brazil on the "Special 301" Watch List primarily as a result of serious concerns regarding copyright enforcement. In June and December 2000, the United States government held WTO consultations on the "local working" provision in Brazil's patent law that appears to be TRIPs inconsistent, and in January 2001 requested the formation of a WTO panel. In June 2001, the United States agreed to terminate the WTO proceeding, without prejudice, based on Brazil's commitment to hold talks with the United States should it deem it necessary to grant a compulsory license. Brazil does not have a history of issuing compulsory licenses. Although Brazil has made progress toward improved protection for intellectual property rights, copyright piracy and lax copyright enforcement remain a serious problem.

In the past four years, Brazil has passed revised copyright, software, patent, and trademark legislation. Brazil's new Industrial Property Law took effect in May 1997, bringing most aspects of Brazil's patent and trademark regime up to the standards specified in the WTO TRIPs Agreement. However, the new law also includes a local working provision that appears to be TRIPs-inconsistent, as noted above.

Patents: The 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 is being processed. In December 1999, the Brazilian Government issued a provisional measure, which has subsequently become law that includes a requirement for Health Ministry approval prior to the issuance of a drug patent. This could conflict with Article 27 of the TRIPS agreement, and U.S. officials have raised this concern with their Brazilian counterparts. In April 1997, a Plant Variety Law was passed that provides protection to producers of new varieties of seeds.

Trade Secrets: The 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 Industrial Property Law improves Brazil's trademark laws, providing better protection for internationally known trademarks, but contains a long list of categories of marks that are not registrable. U.S. industry has expressed concern with the continued high level of counterfeiting in Brazil, although some foreign firms have been successful in court actions against trademark infringement.

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 serious problem. The generally inefficient nature of Brazil's courts and judicial system, combined with resource constraints, and other law enforcement priorities have complicated the enforcement of intellectual property rights. The Brazilian government is working on a project to broaden criminal penalties and streamline the judicial process. In May 2001, the government created an inter-ministerial committee to address copyright piracy. As of October 2001, the committee has made little concrete progress. The U.S. private sector estimates that trade losses from piracy of videocassettes, sound recordings and musical compositions, books and computer software were over $800 million in 2000. Problems have been particularly acute with regard to sound recordings and video cassettes.

Semiconductor Chip Layout Design: In April 1996, a bill to protect layout designs of integrated circuits was introduced. The draft law was still under discussion in 2001, but the bill has languished.

8. Worker Rights

a. *The Right of Association:* Brazilian law provides for the representation of all workers, except members of the military, the uniformed police, and firefighters. The only significant limitation on freedom of association is "unicidade" (literally "one per city"), which restricts representation for any professional category to one union in a given geographical area. Although the major labor centrals oppose this restriction, there is insufficient support in the Congress to pass a proposed constitutional amendment which would end unicidade. The labor movement is largely independent of the government and of political parties.

b. *The Right to Organize and Bargain Collectively:* The Constitution guarantees the right to organize and to engage in collective bargaining. Approximately 16 percent of the work force is unionized, but nearly twice this share is covered by collective bargaining agreements. The government, businesses, and unions are working to expand and improve mechanisms of collective bargaining, but many issues normally resolved in negotiations still come under the purview of Brazil's labor courts, which have the power to intervene in wage bargaining and impose settlements. The government generally respects the right of workers to strike, provided that a number of conditions are met, such as prior notification and maintenance of essential services.

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 Ministry of Labor and the Catholic Church's Pastoral Land Commission (CPT) have documented cases of forced labor in a variety of rural activities including forest clearing, logging, charcoal production, livestock raising, and agriculture. The federal government coordinates a task force, comprising seven different ministries, to combat forced labor, and the Ministry of Labor has augmented the task force with mobile inspection teams. Although the mobile inspection teams have been effective, the hidden nature of forced labor and the lack of effective prosecution of those who recruit and contract forced laborers allow perpetrators to operate with relative impunity.

d. *Minimum Age for Employment of Children:* The Brazilian Constitution prohibits work by children under the age of 16. The incidence of child labor has fallen impressively in recent years, but more than 3.8 million children under 16 years of age continue to work. Common activities include fishing, street peddling, shoe shining, raising livestock, and harvesting sugarcane, manioc, tobacco, cotton, coffee, citrus fruits, and a variety of other crops. The government is committed to reducing child labor, and it coordinates a number of effective programs to remove children from work and keep them in school. Civil society and international organizations have also contributed significantly to curbing child labor in Brazil.

e. *Acceptable Conditions of Work:* Brazil has a minimum wage of approximately 70 dollars (180 reais) a month, subject to an annual increase each April. Many workers, particularly those outside the regulated economy, 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 law requires work in excess of 44 hours a week to be compensated at a rate equal to time and a half, 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. Union representatives report that the Ministry of Labor, which is 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—2000

[In Millions of U.S. Dollars]

Category		Amount
Petroleum		1,102
Total Manufacturing		18,940
Food & Kindred Products	2,450	
Chemicals & Allied Products	3,473	
Primary & Fabricated Metals	1,458	
Industrial Machinery and Equipment	1,867	
Electric & Electronic Equipment	1,794	
Transportation Equipment	2,198	
Other Manufacturing	5,698	
Wholesale Trade		792
Banking		2,139
Finance/Insurance/Real Estate		6,240
Services		925
Other Industries		5,424
Total All Industries		35,560

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

CANADA

Key Economic Indicators

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

	1999	2000	[1]2001
Income, Production, and Employment:			
Nominal GDP	656.4	711.0	727.5
Real Growth Rate (pct)	5.1	4.4	1.4
GDP by Sector (pct):			
Agriculture	2	2	2
Manufacturing	33	33	30
Services	67	67	69
Government	20	20	24
Per Capita GDP (US$)	21,140	22,755	22,948
Total Labor Force (000s)	15,721	15,999	16,214
Unemployment Rate (pct)	7.6	6.8	7.1
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)[2]	3.6	5.5	4.0
Consumer Price Inflation	1.7	2.7	2.9
Exchange Rate: (C$/US$—annual average)[3]	1.4858	1.4852	1.5382
Balance of Payments and Trade:			
Total Exports (Goods only)	245.8	284.5	278.6
Exports to United States	208.9	244.7	239.6
Total Imports (Goods only)	219.9	244.6	237.9
Imports from United States	167.8	180.2	171.3
Trade Balance (Goods only)	25.8	39.9	40.7
Balance with United States	34.7	50.4	60.0
Current Account Balance/GDP (pct)	0.2	2.5	2.4
Net External Public Debt[4]	379.9	368.6	365.0
Net External Public Debt/GDP (pct)[4]	58.9	51.8	51.0
Fiscal Balance/GDP (pct)	1.3	1.4	1.0
Gold and Foreign Exchange Reserves[2]	28.6	32.4	34.2
Aid from United States	0	0	0
Aid from All Other Sources	0	0	0

*Conversion from C$ to US$ distorts levels, growth rates and ratios.
[1]2001 data is private sector projection.
[2]Actual as of September 30, 2001.
[3]January to September 2001 average.
[4]Canadian government data.

1. General Policy Framework

Canada has an affluent, high-tech industrial economy that closely resembles the United States in its per capita output, market-oriented economic system and pattern of production. The close proximity and integrated manufacturing sectors of Canada and the United States have resulted in the largest bilateral merchandise trade relationship in the world. In addition, the United States and Canada share one of the world's largest bilateral direct investment relationships. In 2000, the stock of Canadian foreign direct investment in the United States, including investments from Canadian holding companies in the Netherlands, was $103.7 billion. At the same time, U.S. foreign direct investment in Canada was $126.4 billion.

In 2000, total two-way trade in goods and services between the United States and Canada was over $470 billion, or $1.3 billion each day. When investment income was included, the daily average was $1.4 billion. This is more than U.S. trade with the rest of the Western Hemisphere, and almost equal to total U.S. trade with the entire 15-country European Union. Indeed, in merchandise alone, Canada exports 86 percent of its goods to the United States, and 72 percent of the goods it imports come from the United States. Consequently, trends evident in the United States economy are mirrored in Canada. For example, in 2000, while the U.S. economy grew by 4.1 percent, Canada's economy expanded by 4.4 percent. By the second quarter of 2001, the U.S. and Canadian economies slowed significantly, growing at annualized rates of 0.2 percent and 0.4 percent, respectively, and indications for an actual decline in growth in both countries in the third quarter were evident in August. The terrorist attacks on September 11, 2001, will exacerbate the negative impact of the current "bust" cycle not just in the United States, but also in Canada.

Corporate profits were projected to be weak in Canada and the United States prior to events on September 11 due primarily to the drop in North American stock markets late last year and the slump in the North American auto industry. In the wake of the September 11 attacks, a number of companies are expected to go bankrupt and assets will be sold off. While there will be some increase arising from rebuilding efforts in New York, analysts believe this will not be enough to offset the general weakness across the United States and therefore, Canada. In addition, several sectors will incur serious layoffs, which will put upward pressure on the unemployment rates in both countries.

Public Sector (government) spending should be relatively strong in Canada in the aftermath of September 11. Transportation infrastructure and enhanced border/airport security will require updated equipment and improvements to existing structures. Military, law enforcement, and intelligence agencies may see increased expenditures. Most of this spending will occur at the federal level, although there is also a need for the provinces and municipal governments to boost spending on infrastructure, including security precautions at power plants, water treatment plants, reservoirs, and transportation. Increased government spending could result in a temporary return to public sector deficits.

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, but does not practice a policy of intervening to pursue exchange rate targets.

3. Structural Policies

Prices for most goods and services are established by the market. The most important exceptions are government services, services provided by regulated public service monopolies, most medical services, and supply-managed agricultural products (eggs, poultry, and dairy products). The principal sources of federal tax revenue are corporate and personal income taxes and the goods and services tax (GST), a 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 recorded a C$15 billion budgetary surplus in FY2000–2001 (April 1-March 31), which was used to reduce the national debt. The paydown reflected the federal government's commitment to ongoing debt reduction and cut Canada's debt-to-GDP ratio to 51.8 percent from a peak of 71.2 percent five years earlier. Currently, the Canadian government projects the ratio to drop to 40 percent within the next four years, although increased expenditures on security could slow debt reduction for the next few years.

5. Significant Barriers to U.S. Exports

The 1989 U.S.-Canada Free Trade Agreement and the 1994 North American Free Trade Agreement have eliminated most tariff and many nontariff trade barriers between the two countries. However, nontariff barriers at both the federal and provincial levels continue to impede access of U.S. goods and services to Canada or retard potential export growth in some cases. Canada maintains some restrictions on foreign investment and content in the "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.

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. Under an agreement negotiated with the U.S. government, smaller circulation foreign-based publishers are exempt from the Act, as are foreign-controlled publications that contain 15 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 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 Telecommunications Act allows the federal regulator, the Canadian Radio-Television and Telecommunications Commission, to for-bear 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.

U.S. lumber producers have argued for years that Canadian provinces' forest management practices (e.g., log export restrictions and low "stumpage" fees for harvesting timber on Crown land) constitute subsidies to Canadian lumber exports. The United States and Canada signed a five-year Softwood Lumber Agreement (SLA) in the spring of 1996. Upon the expiry of the agreement at the end of March 2001, several U.S. lumber firms petitioned the U.S. Department of Commerce Import Administration to initiate countervailing duty (CVD) and antidumping (AD) investigations.

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 in recent years now allow foreign banks to opt out of the federal insurance plan, and foreign banks can now set up two types of branches, full-service and lending. Full-service branches are authorized to take non-retail deposits of not less than C$150,000 (est. $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 and reinsurance 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 premia.

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 applies various restrictions to imports of supply-managed products (dairy and poultry), as well as fresh fruit and vegetables, potatoes, and processed horticultural products. The United States continues to pursue these issues bilaterally.

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 antidumping and countervailing duties. Canada operates a partially bifurcated trade remedies system under SIMA. The Deputy Minister of 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 a constraint on U.S. trade. In addition, customs reclassification of prepared food products to bring them under supply-managed categories is looming as a potential new problem area.

Transboundary environmental issues continue to be a major priority of U.S. citizens from Maine to Alaska. Cooperation dates back to the 1909 Boundary Waters Treaty, and has grown to include collaboration on transboundary watersheds, flooding, air pollution, water use, 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 NAFTA Commission on Environmental Cooperation. Several other provisions of the NAFTA also touch upon environmental regulation, including Chapter 7 on agriculture and sanitary and phytosanitary measures, and Chapter 11, which covers investment.

Section 301 Investigation of Canadian Wheat Board: The United States Trade Representative has initiated an investigation of certain trade practices of the Canadian Wheat Board (CWB) under section 301 of the Trade Act of 1974. This decision is in response to a petition filed by the North Dakota Wheat Commission alleging that the CWB engages in unreasonable trade practices that have resulted in economic harm to U.S. wheat growers. The allegations raise questions about how the CWB markets wheat in the United States and third country markets. North Dakota has requested a delay in the final determination of this case.

6. Export Subsidies Policies

With regard to Canada's policies on milk, the United States maintains that in light of the fact that there are now separate provincial export programs, Canada continues to provide export subsidies on dairy products due to ongoing price differentials between domestic and export milk prices. The United States will continue to press Canada to adhere to its export subsidy reductions as outlined in the WTO Agreement on Agriculture.

7. Protection of U.S. Intellectual Property

Canada belongs to the World Trade Organization (WTO) and the World Intellectual Property Organization (WIPO). Canada is a signatory to the Paris Convention, Berne Convention, Rome Convention, Patent Cooperation Treaty, Strasbourg Agreement, Budapest Treaty, and the Universal Copyright Treaty. The Canadian government has signed the WIPO Copyright Treaty and (WCT) the WIPO Performances and Phonograms Treaty (WPPT), but has not ratified either of them because of intense lobbying by Canadian broadcasters and Provincial Ministers of Education. The United States has ratified the two treaties, which are expected to set the standard for intellectual property protection in future international trade treaties.

The Canadian government is currently reviewing its copyright laws as they pertain to digital copyright issues and compulsory licensing with respect to the Internet. Over 600 submissions have been received, including input from the U.S. National Association of Broadcasters (NAB) and AOL/Time Warner. Once the comment period has concluded and the Government of Canada has studied all submissions, it is scheduled to produce a list of policy options in early 2002. The United States hopes that Canada will ratify both the WCT and the WPPT, and that it will join the other G-7 countries and explicitly exclude Internet retransmission from compulsory licensing.

U.S. recording artists are discriminated against in Canada because the country adheres to the principles of reciprocity, as opposed to a NAFTA obligation of national treatment, regarding royalty payments by radio stations, and the distribution of a private copying levy, to recording artists. Royalty payments by radio stations ("neighboring rights") are distributed solely to domestic artists and artists from countries that are signatories of the Rome Convention, which the United States has not signed. Canada's private copying regime calls for the distribution of a levy on recordable, blank audio media, payable by manufacturers and importers of blank tapes and compact discs, to domestic artists and to artists from countries that have exactly the same levy in place. The United States has a levy for cds but not blank tapes, therefore, U.S. artists do not benefit from Canada's regime. For the past three years, the Office of the United States Trade Representative (USTR) has kept Canada on its "Special 301" Watch List because Canada is applying the principles of reciprocity in its "neighboring rights" and private copying regimes, as opposed to its NAFTA obligation of national treatment. The Government of Canada has broad authority to grant the benefits of these two regimes to other countries, although it has yet to announce a determination regarding the United States.

8. Worker Rights

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. Workers in both the public and private sectors exercise their rights to organize and bargain collectively, although some essential public sector employees have limited collective bargaining rights that vary from province to province. Union membership in mid-2000 was 3.7

million people, representing 30.4 percent of Canada's workforce. There is no forced or compulsory labor practiced in Canada.

Generally, workers must be 17 years of age to work in an industry under federal jurisdiction, e.g. railways, airlines and shipping. 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. Federal and provincial labor codes establish labor standards governing maximum hours, minimum wages and safety standards and those standards are respected in practice. Labor laws, rights and regulations of a particular jurisdiction apply universally to all employees and employers operating in that jurisdiction, no distinction is made between domestic Canadian and foreign-based employers and investors.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—2000

[In Millions of U.S. Dollars]

Category		Amount
Petroleum		18,018
Total Manufacturing		50,425
Food & Kindred Products	4,445	
Chemicals & Allied Products	8,929	
Primary & Fabricated Metals	3,630	
Industrial Machinery and Equipment	3,447	
Electric & Electronic Equipment	3,271	
Transportation Equipment	12,707	
Other Manufacturing	13,996	
Wholesale Trade		9,834
Banking		1,999
Finance/Insurance/Real Estate		29,125
Services		8,297
Other Industries		8,724
Total All Industries		126,421

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

CHILE

Key Economic Indicators

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

	1999	2000	[1]2001
Income, Production and Employment:			
Nominal GDP[2]	67.7	71.3	63.6
Real GDP Growth (pct)[2]	–1.1	5.4	3.5
GDP Growth by Sector (pct):[2]			
Fishing	1.7	12.1	2.7
Agriculture	–1.3	5.5	3.8
Mining	16.2	4.4	2.8
Manufacturing	–0.7	5.0	5.0
Construction	–10.0	–0.3	6.2
Services	–1.0	4.5	6.2
Government	1.4	2.1	3.0
Per Capita GDP (US$)[2]	4505	4603	4873
Labor Force (000s)[4]	5,934	5,870	5,863
Unemployment Rate (pct)[2]	9.7	9.2	9.4
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)[2]	9.1	7.2	9.4
Consumer Price Inflation (pct)[2]	2.3	4.5	3.1
Exchange Rate (Peso/US$—annual average)[2]	509	540	715

Key Economic Indicators—Continued

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

	1999	2000	[1] 2001
Balance of Payments and Trade:			
Total Exports FOB [2]	15.6	18.2	18.0
Exports to United States [3]	3.0	3.5	3.7
Total Imports CIF [2]	14.0	16.7	16.9
Imports from United States [3]	3.1	3.3	3.3
Trade Balance [2]	1.6	1.5	1.1
Balance with United States [3]	–0.2	0.2	0.4
Total External Debt [2]	34.2	36.8	36.9
Private Debt	28.3	31.3	31.8
Public Debt	5.8	5.6	5.2
Fiscal Balance/GDP (pct) [2]	–1.5	0.1	+1.0
Debt Service Payments/Exports (pct) [2]	27.7	25.4	30.8
Gold and Foreign Exchange Reserves (US$ billions) [2]	14.7	14.7	14.1
Aid from United States (US$ millions)	0.3	0.3	0.3
Aid from All Other Sources	N/A	N/A	N/A

[1] 2001 figures are projections.
[2] 2001 dollar value of GDP has declined because of this year's peso depreciation. The 2001 figure is a recent Santander estimate. Other data is Central Bank of Chile.
[3] U.S. Department of Commerce, International Trade Administration Statistics.
[4] National Institute of Statistics, Chile.

1. General Policy Framework

Chile has maintained market-oriented economic policies for nearly three decades. It was the first country in Latin America to implement fully a market-based economic model, including large-scale privatizations of state enterprises, liberalizing wages and prices, instituting fiscal responsibility, lowering barriers to foreign trade significantly and removing barriers to foreign investment. These policies, along with Chile's commitment to an export-oriented growth strategy, have created a modern, competitive economy that has enjoyed exceptionally high rates of growth over the last 15 years. Chile has also succeeded in improving living standards and reducing poverty during that time.

In the late 1990's, Chile's economy fell victim to global fallout from a series of financial crises in various emerging market countries. Economic growth declined significantly along with foreign investment in Chile and demand for the country's leading exports. In 1999, the Central Bank abandoned the exchange band and adopted a policy of targeting inflation using short-term interest rate policy and limited intervention in currency markets. Inflation has remained below five percent since this policy has been in place, and the country's independent Central Bank is expected to keep the price level stable.

While Chile's economy returned to strong growth (five percent) in 2000, it fell victim in 2001 to the worldwide slump and concerns in financial markets over a possible default in Argentina. Unemployment, meanwhile, has remained persistently high for the last two years, and is currently hovering near ten percent, despite large-scale government jobs programs. World prices for copper, which continues to represent approximately 40 percent of Chile's exports, have declined by 28 percent since late 2000. The value of the peso has also declined by over 25 percent in the same time period, but slack domestic demand has so far prevented businesses from passing price hikes on to consumers. Most government and private sector experts expect GDP growth in the range of three to four percent in both 2001 and 2002. Chile's economy continues to attract foreign investment; FDI during the first six months of the year totaled over three billion dollars, surpassing the figure for all of 2000.

The government of President Ricardo Lagos, which assumed power in March 2000, has maintained Chile's longstanding commitment to a disciplined fiscal policy. Over the long term, the Chilean government aims to maintain what it calls a "structural" surplus, basing its planned expenditures on projections of the price of copper and an underlying capacity for economic growth of approximately five percent. The policy is directed at maintaining a limited capacity for counter-cyclical government spending. Chile's level of public foreign debt remains low (less than one percent of GDP), and the country's sovereign bonds are considered investment grade. Chile maintains reserves of over $14 billion dollars, or the equivalent of 10 months of imports. The country's current account deficit in 2001 is expected to equal roughly 2.2 percent of GDP.

In the past year, the Chilean government has enacted several new pieces of legislation that will have an impact on the country's economic climate. Labor reform measures have increased protections of basic worker's rights while seeking to facilitate the hiring of new entrants into the workforce. A new law on taxes has lowered rates for most individuals and increased them slightly on businesses. Meanwhile, the Chilean government has continued its efforts to negotiate free trade agreements (FTAs) with its leading commercial partners. FTA talks with the United States were nearing conclusion at the end of 2001, and Chilean negotiators hope to wrap up similar negotiations with the European Union in mid-2002. Similar discussions are also underway with South Korea and Singapore.

2. Exchange Rate Policies

The Central Bank moved to a freely floating exchange-rate system from an exchange-rate band in September 1999. This represented a significant change from previous policy, which sought to keep the peso/dollar rate within pre-set parameters. The Central Bank now targets inflation via short-term interest rate policy and limited intervention in currency markets to reduce exchange rate volatility. The Bank's target range for inflation is 2–4 percent. In June 2001, the Central Bank cut the main inter-bank interest rate to 3.5 percent, the lowest level in 15 years. The Bank expected to maintain low rates until an eventual economic recovery increases inflationary pressures. Over the last several years, the Central Bank has gradually reduced restrictions on foreign-exchange outflows other than reporting requirements. A legal parallel market operates with rates almost identical to the inter-bank exchange rate.

During 2001, the peso has lost over 25 percent of its value against the dollar. This decline has resulted from the Argentinean economic crisis and from a decline in international demand for Chilean exports and financial instruments. The Central Bank has intervened in exchange markets several times in recent months in order to defend the peso. By mid-October, the central bank had spent approximately $700 million defending the currency. The President of the Central Bank has indicated that The Central Bank is willing to spend an additional $1.3 billion from now until the end of the year to reduce exchange rate volatility.

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. Most 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 to both the Government of Chile's practice of making import decisions based on competitiveness, as well as the Government of Chile's policy of not setting prices.

Tax policies: Forty percent of total tax revenues are generated by an 18 percent Value-Added Tax (VAT), which applies to all sales transactions. There is an eight 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 seven percent in 2002, and to six percent in 2003. Six percent will then become the new base tariff rate. Computers enter Chile duty-free as a result of the WTO Information Technology Agreement.

In August 2001, the Chilean Congress passed a tax reform bill. The new law cuts personal income tax rates across the board with the top marginal rate being cut from 45 percent to 40 percent for income over about $75,000 per year. Persons earning less than approximately $7,000 per year are exempt from income taxes. In order to compensate for the anticipated $150 million in lost revenue, the new tax law raised the corporate tax rate from 15 percent to 17 percent for retained earnings. There is also a 35 percent tax on distributed profits. There are tax incentives in the tax code to promote Foreign Direct Investment, regional development, specific industries, and capital contribution and donations to educational and cultural institutions. All individuals domiciled or resident in Chile are subject to personal income tax on their worldwide income. Nonresidents are taxed on their Chilean-source income only. Individuals working in Chile for periods not exceeding six months in a year are considered non-residents. A Chilean resident corporation is subject to corporate income tax on its worldwide income. A corporation is considered resident if it is incorporated in Chile. A branch of a foreign corporation is taxed on its own worldwide income. However, income derived from certain regions of Chile located in the extreme north and south is exempt from corporate tax. Many smaller enterprises underreport income, but tax evasion is a minor problem.

Regulatory policies: The most heavily regulated areas of the Chilean economy are utilities, the banking sector, securities markets, and pension funds. Other regulations tend to be focussed in labor, environment, and health standards. While no government regulations explicitly discriminate against U.S. exports to Chile, certain health regulations on processed foods have effectively excluded U.S. products, including breakfast cereals and snack foods. Chile's sanitary regulations have also limited U.S. meat exports to Chile. Other government programs, like the price-band system for some agricultural commodities described below, discourage 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, and most major infrastructure projects have been developed in this way. 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, with the major ports already privatized. Concession projects for 2001 include highways, prisons, and airport improvements.

4. Debt Management Policies

Due to Chile's vigorous economic growth, fiscal responsibility and careful debt management over the last decade, the magnitude of foreign debt no longer constitutes a major structural problem. As of August 2001, Chile's public and private foreign debt was $36.9 billion, or 50 percent of GDP (in 1985, the debt-to-GDP ratio was 125 percent). Public-sector debt has remained low the past five years, fluctuating between $5 and $6 billion and representing 7.3 percent of GDP in 2000.

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. The uniform eight percent import tariff 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 2000s with Canada, Mexico, Venezuela, Colombia, Ecuador, Peru, Bolivia, El Salvador, Nicaragua, Honduras, Guatemala, Belize, and Mercosur. Chile is also an active participant in negotiations for the Free Trade Area of the Americas (FTAA), and currently is negotiating a free trade agreement with the United States. Negotiations are supposed to be concluded early in 2002. Tariffs also are lower than eight 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 eight percent import duty. Duties may be waived 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 below). There is an additional luxury tax of 85 percent on the CIF value of automobiles in excess of $15,000. This tax discourages sales of larger and more expensive vehicles, including many U.S.-made automobiles. Auto sales on the whole have been declining since the 1998 recession. Sales in 2001 are 23.5 percent below those of 2000 and less than 50 percent of auto sales in 1997. General Motors has the greatest market share with 19.8 percent of the market.

Another tax that has had the effect of discouraging U.S. exports was a prejudicial excise tax on distilled liquors that compete with domestically produced liquors. In late 1997 the legislature passed a law to modify gradually, but not eliminate, the discriminatory taxation faced by imported liquors. The European Union won a WTO panel appeal over Chile's discriminatory liquor taxation. The United States was a third party observer to the panels. New WTO compliant laws regarding the taxation of distilled spirits have been passed by the Chilean congress. The United States was a third party observer to the panels.

Import licenses: 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 (DL) 600, sets the standard of treatment of foreign investors to be the same as that of Chilean investors. DL 600 investment is generally direct investment. 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. DL 600 limits foreign loan leveraging to a 1:1 ratio. Associated external loan financing in excess of the value of a direct foreign investment cannot enter under the provisions of DL 600 (i.e., free of deposit requirements).

Outside DL 600 Foreign Investment can enter Chile under Chapter 14 of the Central Bank Regulations. Few firms have used this means of investment, as it lacks the guarantees provided by the contract with the Foreign Investment Committee. The Central Bank has the authority to require that investors deposit a percentage of the value of short-term capital inflows in a non-interest-bearing Central Bank account for as long as two years. This deposit (known as encaje) was required by the Bank through mid-1998 and was set at that time at 30 percent for one year. Since 1998, the Bank has not required such deposits and has set the requirement at zero percent. The Bank does, however, retain the right to reinstate the encaje in the future.

There is not a 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.

There are some deviations, both positive and negative, from the nondiscrimination standard. On the positive side 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. Examples of less than national treatment include the following:

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.

- 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.

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 non-tariff barrier is the import price-band system for wheat, wheat flour, and sugar. When import prices are below a set threshold, surtaxes are levied on top of the across-the-board eight percent tariff to bring import prices up to an average of international prices over previous years. Domestic flour millers and beverage manufacturers continue to complain bitterly about the high duties on wheat and sugar. Imports of U.S. wheat are expected to be down in 2001.

Sanitary and phytosanitary requirements: Chile has improved its recognition of pest-free areas in the United States, but delays on approval for many U.S. fruits and vegetables continue to hamper increased sales to Chile. On a positive note, Chile is in the process of granting market access for Oregon and Idaho apples and pears, and California and Arizona citrus. Chile has begun to publish its regulations and, in some cases, allows a public comment period on proposed rules. Most import permits for processed foods 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 effectively preclude imports of U.S. beef. Chile's livestock products law requires first-hand Chilean inspection of every U.S. establishment wishing to export to Chile. Products affected include red meat, dairy and pet food. Chile does not recognize the U.S. livestock products inspection system. Chile is, however, in the process of recognizing the U.S. salmon egg inspection system.

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-entities companies are made among competing imports. Requests for public and private bids are 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.

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 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. Legislation intended to bring Chile into compliance with its WTO TRIPS commitments is pending in the Chilean Congress.

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 50 percent, believed to be the lowest rate in Latin America. The decline is in part the result of a campaign by the United States and international industry, with the cooperation of Chile's courts and government, to suppress the use of pirated software. 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

Patents: Patents are valid for a nonrenewable term of 15 years. Under Articles 37 and 38 of Law 9,039, the direct uses of natural resources or energy, regardless of whether such uses are newly discovered may not be patented. Chile's patent office processes pharmaceutical patents extremely slowly, and many patent holders have seen their rights degraded by the issuance of marketing approval to unauthorized copies. Protection for confidential data provided to patent and health authorities is inadequate.

Industrial Designs: Industrial designs may be registered for a non-renewable term of 10 years. Packaging may be included in the goods protected as industrial designs if the requirements for new development and originality are met. Industrial designs may not protect clothing designs. Registration for an industrial design is valid for a nonrenewable term of 10 years.

Utility Models: Utility models protect inventions of a lesser inventive degree than patents. Registration of a utility model is valid for a nonrenewable term of 10 years.

Internet Domain Name Registry: Registration of domain names using ".cl" requires a local presence in Chile. Foreign applicants must provide the name and taxpayer number of an administrative contact with a Chilean address. Applications to register domain names containing ".cl" are subject to an initial fee of about $50, which is valid for the first two years of the domain's operation. A maintenance fee of approximately $20 must be paid every two years thereafter.

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 10 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. On September 11, 2001, the Chilean Congress passed a broad reform of the nation's labor code. Several amendments to the code were designed to strengthen worker protections, especially regarding the ability to organize unions. The new code also sets forth enhanced penalties for anti-union activities.

b. *The Right to Organize and Bargain Collectively:* During the last decade, the climate for collective bargaining has improved, though unions still face difficulties. Sector-wide collective bargaining is allowed but not mandatory. The process for negotiating a formal labor contract is heavily regulated, a vestige of the statist labor policies of the 1960s. The law also permits worker-management discussions to reach collective agreements without direct union involvement. These agreements are still subject to some government regulations, and have the same force as a collective bargaining agreement.

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 15 to 18 may be legally employed with permission of parents or guardians and in restricted types of labor. Some children under 15 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. The majority of these were males from single-parent households headed by women.

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, although this will be reduced to 45 hours in January 2005. The minimum wage, currently around $150 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. After rising steadily over the proceeding ten years, minimum wage and wages as a whole have essentially been flat over the past two years. Poverty rates have declined steadily from 46 percent of the population in 1987 to 20.6 percent in 2001.

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—2000

[In Millions of U.S. Dollars]

Category		Amount
Petroleum		73
Total Manufacturing		1,363
Food & Kindred Products	151	
Chemicals & Allied Products	230	
Primary & Fabricated Metals	(D)	
Industrial Machinery and Equipment	17	
Electric & Electronic Equipment	[1]	
Transportation Equipment	[1]	
Other Manufacturing	186	
Wholesale Trade		374
Banking		700
Finance/Insurance/Real Estate		3,557
Services		210
Other Industries		4,569
Total All Industries		10,846

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

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

COLOMBIA

Key Economic Indicators

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

	1999	2000	[1]2001
Income, Production and Employment: [2]			
Nominal GDP	85.3	87.9	88.2
Real GDP Growth (pct)	–4.3	2.8	2.0
GDP by Sector:			
Agriculture	12.5	12.9	13.3
Manufacturing	11.1	11.9	12.3
Services (includes financial)	34.2	34.8	33.3
Commerce	9.7	10.2	10.6
Government [3]	25.7	25.4	27.2
Per Capita GDP (US$)	2,097	2,118	2,087
Labor Force (000s) [4]	17,521	17,836	18,157
Unemployment Rate (pct)	18.1	19.5	18.7
Money and Prices (annual percentage growth): [5]			
Money Supply Growth (M2)	10.5	4.7	2.8
Consumer Price Inflation	9.2	8.7	8.2
Exchange Rate (Peso/US$ annual average)			
Official	1,756.8	2,080.0	2,298.2
Balance of Payments and Trade: [6]			
Total Exports FOB	11.5	13.0	14.5
Exports to United States	5.6	6.5	7.5
Total Imports CIF	10.6	11.5	12.7
Imports from United States	3.9	3.8	4.3
Trade Balance	0.9	1.5	1.8
Balance with United States	1.8	2.7	3.2
Current Account Deficit/GDP (pct)	–2.4	–2.0	–2.6
External Public Debt	19.7	20.2	22.0
Debt Service Payments/GDP (pct)	3.2	3.9	2.8
Fiscal Deficit/GDP (pct)	–5.8	–3.6	–3.0
Gold and Foreign Exchange Reserves	8.1	9.0	9.7
Aid from the United States (US$ millions) [7]	18.8	129.1	119.5
Aid from All Other Sources	N/A	N/A	N/A

[1] 2001 figures are estimates based on available monthly data in October.
[2] Percentage changes calculated in local currency. Sources for all figures in section except government spending are National Department of Statistics (DANE). For government spending: Ministry of Finance.
[3] Approved national budget. Source: Ministry of Finance.
[4] Economically active population for the whole country.
[5] Source: Banco de la Republica (BDR).
[6] Source: Ministry of Foreign Trade.
[7] Aid reflects U.S. AID program only.

1. General Policy Framework

Colombia's economic liberalization, which consisted of tariff reductions, financial deregulation, privatization of state-owned enterprises, and adoption of a more liberal foreign exchange regime, was initiated by the administration of President Cesar Gaviria (1990–94). 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.

By the mid-1990's, fiscal and current account deficits were increasing. Government spending surged during the Samper administration (1994–98), while the fiscal deficit and public sector debt increased dramatically. The financing of larger deficits had contractionary effects on the private sector by pushing interest rates higher. Economic growth slowed beginning in 1996, until the first recession since 1931 began in late 1998. Colombia's economy picked up again after the 1998–99 recession, the worst in seventy years in a country accustomed to more than forty years of steady growth. Colombia faced negative growth of 4.3 percent in 1999, caused by a contraction of aggregate demand due to a generalized and significant fall in prices and a crisis in the financial system. The construction industry, one of the largest employment sectors in Colombia, was particularly hard-hit by tight credit conditions. As a result, unemployment increased dramatically reaching over 18 percent by year-end in 1999.

The drop in economic activity was less dramatic in the third quarter of 1999, while economic indicators began to show positive trends during 2000. Economic growth was 2.8 percent in 2000. However, unemployment rose to over 19.5 percent by year-end in 2000, and stood at 18.6 as of September 2001. It is worth noting that what appears to be a decrease of unemployment is actually the result of changes in the way unemployment rate is calculated. Colombia's National Department of Statistics (DANE) recently decided that instead of using data for the main seven cities, it would use data for the 13 largest cities to calculate the national unemployment rate. In any event, continued very high unemployment remains Colombia's greatest economic problem.

The Pastrana administration (1998–2002) has sought to promote trade and investment, reduce the fiscal deficit, and achieve peace with the guerrilla insurgency. Measures taken by the Colombian government to lower inflation and interest rates and increase the real exchange rate aided a modest economic improvement. Tough budget cuts and the successful flotation of the peso helped, along with an agreement with the International Monetary Fund for a US$ 2.7 billion Extended Funds Facility. The IMF accord entailed commitments to achieve specific macro-economic targets and to seek structural reform legislation, including a reform of departmental and municipal pensions, a broader pension reform, a revenue-enhancing tax reform, and an amendment capping transfer payments to departmental and municipal governments currently mandated under the 1991 Constitution. Thus far, the government has been able to pass legislation in all these areas except the broad pension reform which is still pending. The peso has stabilized, and needed macro-economic reforms have been executed relatively smoothly.

The National Planning Department (DNP) has estimated growth for 2001 at 2.4 percent, slightly lower than the 2.8 registered in 2000. This is mainly due to lower world economic expectations and to the behavior of domestic demand, which has not recovered in the face of continued high unemployment. As of October 2001, DNP estimates growth for 2002 at four percent. Private analysts such as ANIF, Fedesarrollo, and others suggest the government's expected growth rates for 2001–02 are overestimated. Guerrilla attacks on a major oil pipeline led to an interruption in oil exports, very low international coffee prices have affected over 400,000 families, credit conditions are still tight, and a constant capital outflow and emigration are all direct threats to a strong economic recovery.

Colombia's current fiscal crisis began in the mid 1990's and attained its critical point in 1999, when the consolidated fiscal accounts had a cash deficit of 4.3 percent of the GDP. If other accrued basis operations are added, this cash flow deficit added up to 6.3 percent of GDP in 1999. Although the central government has faced serious obstacles to successful fiscal adjustment, because of the narrow margins of its expenditure policy and the modest revenue increases gathered from several tax reforms, the fiscal deficit is scheduled to decline to 2.8 percent of GDP in 2001 and 1.8 percent of GDP in 2002 under the IMF program. Although the government has said it will meet its obligations with the IMF, as of October 2001, many analysts remain skeptical that the target can be met. Instead they estimate a 3.1 percent of GDP deficit aided by a projected further deterioration in the finances of the public pension systems. The structural reform agenda for 2002 calls for considerable action to strengthen the control over expenditure at all levels of the public sector; an improvement in the finances of the Social Security Institute's (ISS) health services and the passing by Congress of a second-generation pension reform.

Colombia has major commercial and investment links to the United States. Colombia's largest trading partner in 2000 was the United States, which received 49.8 percent of Colombia's exports (up from 48.5 percent in 1999) and provided 40 percent of Colombia's imports (down from 42.1 percent in 1999). The rise in exports was largely due to improved international prices for oil, a strong performance of non-traditional exports, and a weaker peso, which led to improved competitiveness for non-traditional goods. Approximately 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). Other important export products are gold, emeralds, chemical products, plastic products, machinery, textiles and apparel. The United States also holds the largest country share of foreign direct investment: $5.3 billion, or 26.6 percent of the estimated total direct foreign investment of $19.9 billion.

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 50 percent government-owned share of the Carbocol coal mining company was privatized in October 2000. The Pastrana administration's plans to privatize the remaining profitable public enterprises, including the Bogota Telephone Company (ETB), the electricity transmission company (ISA), and the electricity generating company (ISAGEN), plus 14 electric distributors, have been postponed repeatedly. Over the past two years, the Constitutional Court suspended the privatization of ISAGEN several times, and there were no bidders at the auction of ETB.

The government has made clear that eventually it will privatize a number of assets in various sectors, except for Banco Agrario, the state owned bank oriented at rural Colombia. The government still maintains participation in US$ 2.1 billion.

Colombia has one of the highest taxation levels in Latin America. Colombia's general tax structure is mainly composed of four internal and two external taxes. The internal taxes are made up of an income tax, a Value-Added Tax (VAT), a stamp tax on written contracts, and a tax on gasoline. A withholding mechanism is applied to the first three, which has the effect of speeding up collection. The external taxes are tariffs and a value-added tax on imports.

As mentioned above, rising fiscal deficits forced the authorities to adopt several tax reforms over the last years. Between 1990 and 2000 there were at least eight tax reforms, which were not based on a single set of guiding principles, such as the opening of the economy, the social security system, or fiscal decentralization. Some of these reforms were directly associated with structural reforms implemented in other economic fields. Others were simply designed to help bridge the increasing gap between the government's expenditures and revenues. In December 1998, the Colombian Congress passed a major tax reform law (Law 488), which lowered the VAT from 16 to 15 percent, while widening coverage; increased the stamp tax from 1 percent to 1.5 percent of the contract's total value; and established a Unified Tax Regime (UTR) for small taxpayers, which aimed to facilitate tax collection from entrepreneurs and small businesses. On December 29, 2000, a new tax reform (Law 633) was decreed. This reform aimed to improve tax collection in order to contribute to the elimination of the fiscal deficit. The reform consisted basically of an increase in the 0.2 percent tax on all transactions in the financial system, which the government had implemented back in December 1998 through an economic emergency decree. This tax, previously limited in duration, was made permanent and was increased from 0.2 percent to 0.3 percent. As well, the VAT was increased back from 15 percent to 16 percent, and measures were taken to benefit taxpayers who voluntarily repatriate capital from abroad and to control tax evasion and contraband. A requirement that all corporations invest 0.6 percent of their liquid assets in seven-year term "peace bonds," terminated last May 2001 with a final issuance by the government.

Colombia's political Constitution of 1991 established an autonomous Central Bank responsible for maintaining the currency's purchasing power (Law 31 of 1992). To meet this objective, the Central Bank's board of directors makes and implements the country's monetary, exchange rate, and financial policies. 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 it had been actively intervening in the foreign exchange market to maintain the foreign exchange rate within a band system, until September 1999, when the exchange band was removed. Colombia enjoyed single digit inflation in 1999, inflation dropped from 26.8 percent in 1991 to 8.7 percent in 2000, though this in large measure was a result of the low level of economic activity. As of September 2001, inflation had already reached 7.9 percent, making it difficult to meet the official target for 2001 of 8 percent.

2. Exchange Rate Policy

After the passage of the 1991 Constitution, the Central Bank no longer kept the monopoly on trade in foreign currency. Market forces were left to determine the exchange rate as well as the allocation of foreign trade resources. Exchange control mechanisms were modified and the financial institutions became more involved in foreign currency trading. Law 9 of 1991 revoked Law 444 of 1967, which had been enforced for the last 25 years. With these reforms anybody could hold foreign currency or assets. Between 1991 and 1994 there was a transition period towards a system of exchange rate bands, which was finally established in February of 1994. Throughout these years, the exchange authorities continued to announce "official exchange rates" on a daily basis according to the crawling peg system. However, in September 1999, Colombia abandoned its crawling band exchange regime and adopted measures that permitted the peso to float freely against the dollar and other currencies. Before the elimination of the band, the Central Bank intervened in the market by buying or selling dollars to keep the dollar's price in pesos within the band in response to exchange market pressure. The exchange rate stabilized soon after abolition of the band, subsequently responding to economic and political developments. The peso's depreciation, along with a low inflation, has had a positive impact on Colombia's foreign sector competitiveness. Depreciation over the last years 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 produced a dramatic turnaround in Colombia's overall trade balance, as well as its bilateral balance with the United States. Between 1998 and 2000, Colombia's overall trade balance swung from a $3.8 billion deficit to a $1.5 billion surplus, while the U.S.-Colombia trade balance swung from a $627 million U.S. surplus to a $1 billion deficit. As of July 2001, the U.S.-Colombia trade balance had registered a $1 billion deficit. However, there may be signs that this trend is beginning to change. As of October 2001, the peso had depreciated only 4 percent from the beginning of the year, and depreciation expectations for the year-end vary between 7 percent and 8.3 percent, equal or slightly lower than expected inflation, which could actually result in the peso's revaluation in real terms.

3. Structural Policies

As a 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 variable tariffs of agricultural imports. Tariff rates for agricultural products subject to the price-band system vary between 27 and 107 percent. Thirteen basic agricultural commodities including wheat, sorghum, corn, rice, barley, milk, and chicken parts, and an additional 150 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.

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 to provide Most Favored Nation (MFN) treatment equally to all WTO members.

All foreign investment in petroleum exploration and development in Colombia must be carried out under an association contract between the investor and the state petroleum company, "Ecopetrol." The terms of the standard association contract were modified in 1994, 1995, 1997, 1998, and again in 1999. The Pastrana administration has acknowledged Colombia's need for new oil reserve discoveries and implemented a new hydrocarbon policy designed to attract foreign investment. The 1999 reform included royalty relief, accelerated environmental licensing, and a reduction in Ecopetrol's participation requirement from 50 percent to 30 percent. The new policy represents one of the most comprehensive reforms of the last 30 years, and has the long-term goal of producing 1.5 million barrels per day by the year 2010. In positive reaction to these changes, a record 32 contracts for exploration or incremental production were awarded in 2000. Government officials hope to award another 30 contracts by year-end in 2001. These changes will hopefully enhance the attractiveness of Colombia's oil investment climate. Continuing security problems however, are a drag on increased petroleum investment.

Colombia adopted a harmonized automotive policy with Venezuela and Ecuador, which went into effect in January 1994. Automotive parts and accessories, and motor vehicles imported from any of the three signatory countries have a zero import duty, while those imported from third countries are covered with CET rates varying between 3 and 35 percent depending on the type of vehicle and automotive part. A new Andean auto regime was adopted in November 1999, in which common external tariff rates remained unchanged, but regional content requirements were gradually increased from the current average of 23 percent to a maximum of 34 percent by the year 2009.

The Pastrana administration has taken concrete steps to promote trade and investment. An agreement with the U.S. government establishing periodic Trade and Investment Council meetings with the Andean Community was signed in October 1998. Efforts have also been made to improve oversight of the television sector and reduce cable and satellite signal piracy. A Presidential Directive was issued in early 1999, requiring all Colombian public entities to respect international copyrights. The Pastrana administration amended an article in the 1991 Constitution, repealing the previously allowed expropriation of foreign investment without compensation.

4. Debt Management Policies

Colombia's foreign debt has increased significantly over the last years. The foreign debt of the non-financial public sector (including the central government) climbed from representing 14.2 percent of GDP in 1995 to 24 percent of GDP in 2000. The overall consolidated debt of the non-financial public sector (foreign and domestic) went from representing 24.9 percent of GDP in 1995 to 46.2 percent of GDP in 2000. The central government's indebtedness accounted for 80 percent of such an increase in the total debt. Thus, the central government has followed a strategy consisting of replacing foreign debt with domestic debt. The so-called TES's (treasury bills) have been the main instruments in this strategy. By year-end of 2000, these leading governmental securities represented 88 percent of Colombia's total internal debt. Currently, the central government counts with other instruments, yet the TES's continue to be paramount. As of July 2001, the government had drawn sufficient demand from investors to complete bond deals for $2 billion. In 1999, international financial institutions supported the Colombian government's fiscal adjustment and development programs through 2002: a $2.7 billion guarantee (Extended Funds Facility) from the International Monetary Fund, and loans at concessionary rates in the amount of $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. Additional multilateral loans amount to the totality of the government's $3.5 billion financial needs for 2001. The Finance Minister has already approved additional issuances for $2.2 billion in capital markets to ensure in advance needed resources for 2002. As of September 2001, Colombia's total (public and private) foreign debt amounted to $35.7 billion.

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, such rating companies (namely Standard & Poors, Moody's, and Duff & Phelps) downgraded Colombia's debt to "speculative grade," 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. In May 2000, Standard & Poors downgraded Colombia's short-term perspectives to "negative" citing uncertainty in the peace process and insufficient progress in needed structural reforms. Foreign perspectives deteriorated even more after financial crises unfolded in Turkey and Argentina in early 2001. In contrast to the treatment given to those countries, in April 2001, Moody's maintained Colombia's short-term perspectives at "stable," citing increased stability in Colombia's foreign accounts and the country's efforts to balancing its fiscal accounts. However, the major rating companies reiterated that Colombia would not improve its credit rating until it deepened its structural reforms, thus permitting a reduction of its local and foreign debt indicators.

5. Significant Barriers to U.S. Exports

Import Licenses: Colombia requires import licenses for less than two percent of all products, which include 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 chicken parts and other preserved chicken and turkey products. In addition, since the promulgation of Decree 2439 in November 1994, Ministry of Agriculture approval has been required for 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, malt barley, corn, rice, sorghum, and wheat flour. Prior to its termination in the first quarter of 2000, the Colombian Institute of Foreign Trade (INCOMEX) excluded powdered milk from the licensing regime, which had previously restricted milk imports during Colombia's high milk production season. The majority of used goodscars, manufactured auto parts, tires, and clothing—are prohibited from import, and those that are allowed, such as machinery, are subject to licensing.

Services Barriers: The "apertura" policy implemented during the 1990's promoted and facilitated the importation of most services. Sector liberalization has progressed farthest in financial services, telecommunications, accounting/auditing, energy, and tourism. It has occurred to a lesser extent in audiovisual services, legal services, insurance, distribution services, advertising, and data processing. Colombian television broadcast laws (Law 182/95 and Law 375/96) impose several restrictions on foreign investment. For example, foreign investors must be actively engaged in television operation in their home country and their investments must involve an implicit transfer of technology. At least 50 percent of programmed advertising broadcast on television must have local content. Foreign talent may be used in locally produced programming, but limits are set by the National Television Commission. Until October 2000, foreign investment in television was limited to 15 percent of the total capital of local television production companies. However, Decree 2080 of October 18, 2000, abolished the limits on foreign investment in the Colombian motion picture industry. As a result, foreign investment in local television production companies is now unlimited. 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. Colombia permits 100 percent foreign ownership of insurance firm subsidiaries. It does not, however, allow foreign insurance companies to establish local branch offices. Insurance companies must maintain a commercial presence in order to sell policies other than those for international travel or reinsurance. Colombia denies market access to foreign maritime insurers. A commercial presence is required to provide information processing services. All tourism service providers must be registered with the Ministry of Economic Development and must be licensed by the Government's National Tourism Corporation. Health service providers must be registered with the various supervisory entities (the Ministry of Health, the National Council of Social Security and Health, and the Superintendency of Health) which impose strict parameters pertaining to cost accounting structures and the quality of the service provided. Foreign educational institutions must have resident status in Colombia in order to receive operational authority from the Ministry of Education.

Investment Barriers: Colombian foreign investment statutes provide for national treatment for foreign investment. 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. On June 1, 2000, the Council for Social and Economic Policy (CONPES) approved modifications to the rules governing foreign portfolio investment. Additionally, the Colombian government issued Decree 2080 of October 18, 2000, by which it simplified paperwork requirements on foreign investment funds (electronic submission of required documents to Colombian authorities is now permitted) and lifted restrictions to foreign investment in publicly traded companies. The new decree provided for the elimination of limits on acquisitions of shares with voting rights by foreign investment funds. Likewise, automatic authorization for these funds was established. Prohibitions on foreign investment in real estate companies were abolished by Decree 241 of February 8, 1999. 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. 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. The government retains the right to identify other sectors in which to limit or forbid foreign investment.

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 grants 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 instituted a requirement that companies without local headquarters must certify government procurement reciprocity in the home country. A local agent or legal representative is required for all government contracts. Although Law 80 has given more dynamism to the government contracting system, Colombia is still not a signatory of the WTO government procurement code, and there have been complaints of non-transparency in the awarding of major 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.

During 2000, the Colombian government submitted to Congress a bill reforming Law 80. The bill would prohibit donors to political campaigns from participating in contracts or bidding processes offered by their beneficiaries. It would also eliminate non-bid contracts providing equal treatment to foreign and domestic bidders, and would create a virtual system for public tenders where local and foreign bidders may participate through an official website. If enacted, this measure could reduce corruption and lack of transparency in procurement contracts.

Customs Procedures: In 1996, Colombia incorporated the GATT's customs valuation code into its legislation. Additionally, all importers of goods with a value of $5,000 and above must present the "Andean Customs Valuation Declaration" in which the importer states the real value of the merchandise. In December 1999, the Ministries of Finance and Foreign Trade abolished a pre-shipment certification requirement for exports to Colombia. Thus, the pre-shipment inspection certificate is no longer required to clear goods through Colombian customs. A new Customs Code—Decree 2685—was approved on December 28, 1999, simplified export procedures. The new code entered into force on July 1, 2000.

6. Export Subsidies Policies

Although Colombia has made commitments to abide by the provisions of the GATT Subsidies Code, by phasing-out any export subsidies inconsistent with that code, it still maintains certain export subsidies. Colombia's tax rebate certificate program (CERT) contains a subsidy component, which the Government of Colombia has stated it will replace with an equitable drawback system, although it has not yet done so. 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 "special machinery import-export system" also constitutes an export subsidy through the mechanism of tax exemptions on imported machinery. Other than the above, Colombia's subsidy practices are generally compatible with WTO standards.

7. Protection of U.S. Intellectual Property

Colombia remains on the Special 301 "Watch List" for not providing effective protection of intellectual property rights (IPR). It has been on the "Watch List" every year since 1991. Colombia is a member of the World Intellectual Property Organization (WIPO) and has negotiated to join the Paris Convention for the Protection of Industrial Property, the Patent Cooperation Treaty, and the Union for the Protection of Plant Varieties. 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). 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. USTR has noted that piracy has worsened in Colombia since 1998, with counterfeit CD's, videos, software, and books flooding the local market.

In 2000, the Colombian government reformed the Criminal Code (Law 599 of 2000) to further criminalize intellectual property piracy. The new code became effective in July 2001. Colombia has also created a Special Investigative Unit within the Prosecutor General's Office dedicated to intellectual property rights issues. This unit began functioning in November 1999, and is currently working on more than 4,000 cases, a large proportion of which are against pirate TV operators and against several telecommunications companies accused of offering illegal "callback" services.

A major intellectual property rights issue has been the need for the Colombian Government to license legitimate pay television operators and to pursue pirate operators. Colombia's Television Broadcast Law increased legal protection for all copyrighted programming by regulating satellite dishes, and enforcement has begun through a licensing process. In 1999, the Colombian National Television Commission (CNTV) made efforts to reduce the widespread piracy by legitimizing non-royalty paying service providers. As of October 2001, the CNTV had completed licensing for 117 cable television operators on municipalities with less than 100,000 inhabitants, and 46 cable TV operators on municipalities with more than 100,000 inhabitants, covering 86 municipalities all over the country. CNTV also made efforts to pursue pirate operators by initiating investigations of 282 suspected pirate operators, eight of which have so far incurred sanctions. In spite of such efforts, industry concerns remain very intense. The U.S. Motion Picture Association (MPA) estimates that at least 90 percent of the video market is pirate or systematically involved in unauthorized transmissions of MPA member company products. Annual losses due to audiovisual piracy are estimated to be $40 million in 2000.

Patent and Trademarks: Colombian trademark protection requires registration and use of a trademark in Colombia. Trademark registration has a 10-year duration and may be renewed for successive 10-year periods. Thus, the Colombian law provides 20-year protection for patents and reversal of burden of proof in cases of alleged patent infringement. The provisions of decisions covering protection of trade secrets and new plant varieties are generally consistent with world-class standards for protecting intellectual property rights, and provide protection for a similar period of time. In December 2000, Andean Community Decision 486 became into effect replacing Decision 344. This new patent and trademark regime provides for improved protection to patents, trademarks, and industrial inventions, rules of origin, and unlawful competition related to industrial property. Decision 486 eliminates previous restrictions on biotechnology inventions, increases protection on industrial designs from eight to ten years, protects traditional knowledge of indigenous, Afro-American, or local communities, protects integrated circuit (microchip) designs, and provides improved protection to industrial secrets in accordance with the TRIPS agreement. This decision, however, still contains deficiencies in the areas of working requirements, transitional "pipeline" protection, protection from parallel imports, denial of pharmaceutical patent protection for products with multiple or dual use "active principal," and protection of confidential data submitted for non-patented pharmaceuticals and agro-chemicals.

In spite of such legislative improvement, U.S. pharmaceutical firms continue to press for a range of legislative and administrative reforms. According to U.S. industry, Colombia maintains a policy which lacks clarity regarding protection of industrial secrecy, and promotes unbranded pharmaceuticals at the expense of the brands typically produced by multinational companies. Social security Law 100 specifies that under a basic health plan, pharmaceutical products be supplied based on a list of 307 generic substances, thereby threatening the brand-name pharmaceutical market in Colombia. Enforcement of trademark legislation in Colombia also needs to show progress in the fight against contraband and counterfeiting. Colombia is a member of the Inter-American Convention for Trademark and Commercial Protection. The Superintendency of Industry and Commerce acts as the local patent and trademark office in Colombia. This agency suffers greatly from inadequate financing and a large backlog of trademark and patent applications.

Copyrights: In November 2000, Colombia ratified the WIPO Copyright Treaty and the WIPO Performances and Phonograms Treaty. However, contraband and counterfeiting remain widespread. Although In 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, reports on the effectiveness of this decision are mixed. According to the Colombian Ministry of Foreign Trade (MFT), enforcement authorities saw a drop of 26 percent in business software piracy in 1999, and a greater drop of 30 percent in 2000. However, the U.S. Motion Picture Association (MPA) reports very disappointing results in terms of deterrent sentences, civil judgments, or actual reductions in the levels of piracy, to show for these efforts. The most recent available data from the International Intellectual Property Alliance (IIPA) suggests that U.S. industries continue to lose substantial revenue from piracy—$193 million in 2000. 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 in Colombia videocassette piracy increased to 90 percent of the video market in 2000; sound recording piracy represents 60 percent of the market; business software piracy 55 percent of the market; while entertainment software piracy increased to 85 percent of the market.

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.

8. Worker Rights

a. *The Right of Association:* Colombian law recognizes the right 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. In 1999, President Pastrana approved Law 584, which limits government interference in a union's right to free association.

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 recent estimates by the Ministry of Labor, and the National Labor School (a labor-oriented NGO), approximately six percent of the Colombian work force (1,054,400 workers) is organized into 5,470 registered unions, 70 percent of which are affiliated with one of three confederations (CTC, CGTD, and CUT). High unemployment (18.5 percent as of September 2001), traditional antiunion attitudes, union disorganization and weak leadership limit workers' bargaining power in all sectors.

In May 1998, the International Labor Organization (ILO) expressed serious concern at allegations of murders, forced disappearances, death threats, and other acts of violence against trade union officials and members. The ILO documented more than 300 murders of trade union members during 1995–98. In June 2000, the ILO governing body adopted the conclusions of a November 1999 Direct Contact Mission, which recommended an urgent inquiry into the participation of public officials in the creation of paramilitary groups, an increase in government budgetary allocations to protect trade union officials, and an increase in efforts to combat impunity. After its 89th annual session in June 2001, the ILO appointed a Technical Commission to continue to monitor status of union members' rights in Colombia. This Commission is expected to produce a report by the end of 2001.

Labor leaders throughout the country continue to be targeted by paramilitaries, guerrillas, narcotics traffickers, and their own union rivals. Labor leaders and NGO's reported that 105 union members were killed during 2000 and 47 union members were killed during the first eight months of 2001. According to the National Labor School, more than 2,200 union members have been murdered since 1986.

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 in the formal sector. However, women are trafficked for the purpose of forced prostitution, paramilitary forces and guerrilla groups forcibly conscript indigenous people, and thousands of children are forced to serve as paramilitary or guerrilla combatants, prostitutes, or coca pickers.

d. *Minimum Age for Employment of Children:* The constitution bans the employment of children under the age of 14 in most jobs. The Minors Code, established in 1989 under Decree 2737, prohibits the employment of children under the age of 12 and stipulates exceptional authorization by Labor Ministry inspectors for the employment of children between the ages of 12 and 17. These provisions are respected in large enterprises and in major cities. Nevertheless, Colombia's extensive and expanding informal economy remains effectively outside government control. In Colombia there are 10 million children between ages 7 and 17, or nearly a quarter of the population. A Roman Catholic Church study conducted in May 1999 found that approximately 2.7 million children work, including approximately 700,000 who labor as coca pickers. According to Ministry of Labor estimates for 2000, 2.5 million children work, although this figure excludes both children in the informal sector and child soldiers. The same source estimated that working children ages 7 to 15 earn between 13 and 47 percent of the minimum wage. An estimated 30 percent of working children have regular access to health care, and the health services of the social security system cover only 12 percent of child laborers. Approximately 28 percent of children are employed in potentially dangerous activities. Child labor in urban centers typically involves very young children selling sweets on the streets or simply begging. Child prostitution is also a problem. In rural areas, children also work often in substandard conditions in agriculture, leather tanning, and small family-operated mines.

e. *Acceptable Conditions of Work:* The government sets a uniform minimum wage for workers each January to serve as a benchmark for wage bargaining. The minimum wage for 2001 is approximately $125 (286,000 pesos) per month. Although the annual increase in the minimum wage is based on the government's target inflation rate, the minimum wage has not kept up with inflation. According to government estimates, the cost of the monthly low-income family shopping basket is 2.4 times the monthly minimum wage. For middle-income families, the price of the shopping basket is 6.1 times the minimum wage. Seventy-seven percent of Colombian workers earn less than twice the minimum wage. The law provides for a standard 8-hour workday and 48-hour workweek, but does not specifically require a weekly rest period of at least 24 hours. Legislation provides comprehensive protection for workers' occupational safety and health, but these standards are difficult to enforce, in part due to a 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. Working conditions in those sectors tend to be superior to those prevailing elsewhere in the economy, due 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—2000

[In Millions of U.S. Dollars]

Category		Amount
Petroleum		772
Total Manufacturing		1,373
Food & Kindred Products	348	
Chemicals & Allied Products	425	
Primary & Fabricated Metals	104	
Industrial Machinery and Equipment	(1)	
Electric & Electronic Equipment	(1)	
Transportation Equipment	(1)	
Other Manufacturing	443	
Wholesale Trade		96
Banking		(1)
Finance/Insurance/Real Estate		758
Services		48
Other Industries		(1)
Total All Industries		4,423

[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]

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

	1999	2000	2001
Income, Production and Employment:			
Nominal GDP [2]	15,732	15,884	16,303
Real GDP Growth (pct) [3]	8.3	1.7	0.5
GDP by Sector (pct):			
Agriculture	8.8	8.8	7.0
Industry	24.3	21.0	20.0
Services	39.9	40.2	43.5
General Government	7.5	7.6	7.4
Per Capita GDP (US$)	3,856	3,950	3,800
Labor Force (000s)	1,383	1,391	1,400
Unemployment Rate (pct)	6.0	5.2	6.2
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	16.4	20.0	18.0
Consumer Price Index	10.1	11.0	12.0
Exchange Rate (Colones/US$ annual average):			
Parallel	282.0	308.7	336.5

Key Economic Indicators[1]—Continued

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

	1999	2000	2001
Balance of Payments and Trade:			
Total Exports FOB	6,641.0	5,880.0	5,132.0
Exports to United States	3,452.0	3,083.0	2,670.0
Total Imports CIF	6,350.7	6,380.0	6,400.0
Imports from United States[4]	3,581.0	3,388.0	3,390.0
Trade Balance	290.3	500.0	1,268.0
Balance with United States	–129.0	–305.0	–720.0
External Public Debt[5]	3,057.0	3,150.6	3,171.0
Fiscal Deficit of Public Sector/GDP (pct)	3.2	3.8	4.0
Current Account Deficit/GDP (pct)	0.7	1.0	1.9
Foreign Debt Service Payments/GDP (pct)	0.5	0.6	0.8
Gold and Foreign Exchange Reserves (December 31)	1,471.4	1,300.0	1,200.0
Aid from United States[6]	10.2	1.3	2.8
Aid from All Other Sources	N/A	N/A	N/A

[1] 2001 figures are all estimates based on available monthly data in October.
[2] GDP at factor cost.
[3] Percentage changes calculated in local currency.
[4] U.S. government trade data figures are significantly lower for U.S. exports to Costa Rica ($2,381 million in 1999 and $2,445 million in 2000) compared to Costa Rica's data for imports from the U.S. This difference is largely due to country of origin accounting for INTEL trade.
[5] June 2001 estimate by the Central Bank of Costa Rica.
[6] The United States provides some financial assistance to the Costa Rican Coast Guard and civilian police programs that cooperate with U.S. law enforcement agencies engaged in combating narcotics trafficking. This aid totaled approximately $3 million in 2001.

1. General Policy Framework

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 refining and distribution, and insurance. Costa Rica's gross domestic product (GDP) in 2000 grew only 1.7 percent after strong growth of 8.3 percent in 1999. The Central Bank projects a GDP growth rate of 0.5 percent in 2001, though this figure may be revised downward following the negative economic impact of the September 11 terrorist attacks. Economic growth in recent years has been led by foreign investments in the free trade zones and a fast-growing tourism industry. While foreign direct investment has not reached the levels achieved during 1998–1999 resulting from the major investment by INTEL, FDI remains an important element for Costa Rica's economy, totaling an estimated US$ 457 million in 2001. Traditional agricultural activities such as banana, coffee, beef, and dairy production have fared less well in an atmosphere of increased global competition and low world agricultural commodity prices. Some non-traditional exports, such as ornamental plants and cut flowers, are also expected to suffer as a result of declining world demand and the rising cost of air transportation.

Costa Rica's most pressing economic problem is the fiscal deficits of the central government and the combined public sector. The fiscal deficit of the combined public sector grew from 3.2 percent of GDP in 1999 to 3.8 percent of GDP in 2000. Servicing the interest expense on the accumulated public sector debt accounts for over 30 percent of the government budget. The majority of the debt is financed in domestic capital markets, placing upward pressure on interest rates. The growing costs of Costa Rica's extensive social services, coupled with poor performance in collecting taxes, limits the government's ability to address needed infrastructure improvements and to contain the fiscal deficit.

The Rodriguez Administration, inaugurated in May 1998, has been unable to achieve a political consensus on an appropriate mechanism to allow private sector participation 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 Bechtel signed a contract on October 18, 2000, to manage the Juan Santamaria International Airport in San Jose. Additional concessions are being considered to operate prisons, the country's principal Pacific seaport, and the railroads. The Costa Rican government is either reviewing or will soon review the bids for these three concessions.

Costa Rica has reduced most tariff rates for imported goods to 15 percent or lower in unison with its Central American neighbors. Costa Rica has signed Free Trade

Agreements with Canada, Mexico, the Central American Common Market, the Dominican Republic, and Chile. The agreement with Canada remains to be ratified by both countries. The agreement with the Dominican Republic has not entered into force because of Dominican concerns about the quotas contained in the agreement for chicken and powdered milk. Similar trade agreements are being negotiated with Panama and Trinidad and Tobago. There are also Bilateral Investment Treaties (BIT) that provide some trade preferences to Canada, Venezuela, Paraguay, Chile, Argentina, Great Britain, the Netherlands, Germany, Switzerland, Taiwan, and the Czech Republic. BITs with Korea and Switzerland require ratification by the Legislative Assembly. Costa Rica joined the Cairns Group of agricultural free traders at the beginning of 2000. These market-opening initiatives are consistent with the global economic outlook of the Rodriguez administration which has viewed the attraction of foreign investment in export-oriented, high-technology industries and services as an important source for the country's future economic growth. Costa Rica's exports per capita are now among the highest in Latin America and the Caribbean. However, elements of the traditional agricultural sector are resisting further market opening and are seeking to slow the pace of reform within the Legislative Assembly.

2. Exchange Rate Policy

Costa Rica's exchange rate has followed a "crawling peg" of small daily changes since 1983. 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 public and private business is transacted at the same exchange rate. Commercial banks are free to negotiate foreign exchange rates but must liquidate their foreign exchange positions daily with the Central Bank. There are no controls on holding or remitting foreign exchange.

The colon-to-dollar exchange rate rose 6.7 percent during 2000, while the consumer price index (CPI) changed 10.3 percent. The exchange rate rose 3.2 percent during the first semester of 2001, while the Consumer Price Index increased 6.6 percent. The Central Bank's policy of not devaluing the colon at the rate of inflation may negatively impact Costa Rica's trade competitiveness.

3. Structural Policies

Prices are set by the market, except in sectors controlled by the state (e.g., gasoline, electricity, telecommunications, and insurance). Government procurement is generally by open public tender in which foreign suppliers are free to compete. Antitrust legislation and rules protect consumers against product misrepresentation and price fixing.

Tax revenue is largely derived from sales and value-added taxes, with lesser amounts obtained from customs and income taxes. Companies in free trade zones benefit from income tax holidays and duty exoneration on imported inputs that are subsequently re-exported. Costa Rica must phase-out its tax incentives for companies operating in the free trade zones by January 1, 2003, to be in compliance with its commitments under the WTO Agreement on Subsidies and Countervailing Measures. The Costa Rican government is considering various alternative tax proposals, such as a flat tax of 15 percent or less for all companies operating in Costa Rica, but no decision has yet been made. There have been no recent tax modifications that affect the import of U.S. goods and services. There are no export taxes.

Regulatory policies do not discriminate against U.S. exports.

4. Debt Management Policies

Costa Rica's foreign official debt totaled $3,150 million on December 31, 2000. This was equivalent to 20.3 percent of GDP. In addition, there was an outstanding domestic debt equivalent to USD 5,508 million, equivalent to 35.4 percent of GDP, on December 31, 2000. The Ministry of Finance has been retiring domestic debt, which is denominated in higher interest local currency, and replacing it with lower interest U.S. dollar denominated foreign debt, in an attempt to reduce the public sector deficit which was equivalent to 3.8 percent of GDP on December 31, 2000.

Costa Rica does not have IMF or World Bank adjustment programs. Costa Rica agreed to IMF Standby Programs in 1993 and 1995 but made no withdrawals. Costa Rica last went to the Paris Club for debt rescheduling in 1993.

5. Significant Barriers to U.S. Exports

Costa Rica replaced all import licenses and permits when it joined the WTO in 1994. The Central Bank now monitors imports for statistical purposes only. The current tariff on most goods is between 1 and 15 percent of the CIF price, with a few items such as poultry, milk and automobiles taxed at higher levels. 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 real estate and equity in Costa Rican companies, including companies engaged in most service businesses. Individuals or firms seeking concessions for beach front land, which by law are public and administered by local governments, must be Costa Rican or meet certain residency requirements. Foreigners may establish businesses once they are legal residents of Costa Rica. Several activities are reserved for the state, including telecommunications, the transmission and distribution of electricity, hydrocarbon and radioactive mineral extraction and refining, insurance underwriting, and 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 are difficult to meet 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 unless they are also registered in Costa Rica. The three state-owned commercial banks account for well over two-thirds of the country's demand deposits. Private banks are required to place 17 percent of their demand deposits with state-owned banks which pay minimal interest rates.

Documentation and labeling of U.S. exports to Costa Rica must use the metric system and contain specific information in Spanish. All used cars imported into Costa Rica must have emission control certificates issued by the country from where the vehicle is exported (not the country of manufacture, if different). This requirement has proven difficult to meet by importers because such certificates are not always available. Car bumpers are subject to strength requirements. Phytosanitary and zoosanitary restrictions and high tariffs significantly constrain imports of some agricultural products. These restrictions have been used to limit the importation of U.S. chicken products in 2001. The Ministry of Health must approve imports of pharmaceuticals, veterinary drugs, herbicides and pesticides, and the same items must be legally available in the exporting country.

National treatment is granted for most investments. Exceptions include power generation for sale to the national grid, where 35 percent Costa Rican equity is required, and radio and television broadcasting, where Costa Rican majority ownership is required. Costa Rican laws have encouraged the development of tourism and nontraditional exports, but incentive programs have been eliminated or scaled back in recent years. Export performance requirements are limited to free trade zones, where companies must be engaged in export industries to qualify for an income tax holiday. Income tax holidays are scheduled to end in 2003 due to Costa Rica's WTO TRIMS commitments. There are no local content requirements. The Labor Code ordinarily limits the percentage of foreign workers that can work in an enterprise to 10 percent of the total work force. Foreigners may be paid 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 tenders. 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 with the required procedures. Appeals of contract awards are common, lengthy, and costly. No special requirements apply to foreign suppliers, and U.S. companies regularly win public contracts. However, foreign suppliers without a legal representative in Costa Rica are disadvantaged in dealing with the government procurement process.

Past government expropriation policies have 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 was often not provided and was rarely prompt. Some unpaid expropriation claims date back to the early-1970s. New legislation in 1995 improved the situation by requiring compensation as a prior condition for effecting an expropriation. Resolution of investment disputes remains difficult, however. The courts take an average of eight years to resolve civil suits. Recourse to international arbitration is possible through the International Center for the Settlement of Investment Disputes (ICSID) as of 1993. Several domestic arbitration bodies also have been established, but in practice there has been little recourse to arbitration by parties to investment disputes. 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 oceanfront 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 of Costa Rica removed hundreds of squatters that seized property belonging to a large U.S. agricultural company in 2001, although the threat of a new "invasion" on this land remains.

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.

6. Export Subsidies Policies

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 that are to be phased out in 2003 as called for by the WTO. The Active Processing Regime of 1997 offers similar duty-free entry for imported inputs but does not provide tax holidays.

7. Protection of U.S. Intellectual Property

Costa Rica belongs to the 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 and the 1996 WIPO copyright and phonograms treaties. Costa Rica was raised from the Special 301 Watch List to the Priority Watch List in 2001 due to widespread copyright and trademark piracy.

Significant weaknesses continue to exist in copyright and trademark enforcement. The Legislative Assembly passed eight new laws in 2000 to bring domestic legislation into compliance with WTO TRIPS commitments, including the law on enforcement passed in October 2000. Representatives of industries affected by copyright piracy have expressed concern that penalties and enforcement procedures in the new legislation are inadequate. The Government of Costa Rica has responded in the second half of 2001 with an increase in enforcement actions and raids against those violating intellectual property rights.

Patents: The new legislation passed in 2000 provides for 20-year patents, replacing shorter periods in the previous legislation. There is some concern that the transition from one-year patents for pharmaceuticals and agricultural chemicals to twenty-year patents will leave some products, in use before the new law was published but not registered with Costa Rica's patent office, vulnerable to piracy. No patent protection has been available for plant or animal varieties or for any biological or microbiological process or products. However, 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.

Trademarks: Trademarks, service marks, trade names and slogans can be registered in Costa Rica. Registration is renewable for 10-year periods. Counterfeit goods, particularly designer jeans and sportswear, are widely available. Enforcement has been difficult due to the lack of adequate legislation specifying the nature of a trademark violation and the penalties associated with the violation. Affected companies believe the new enforcement legislation will make effective criminal prosecution of violators possible, but the law has yet to be tested. Some enforcement actions have been taken in 2001 against companies importing or producing counterfeit jeans.

Copyright: Costa Rica's copyright laws are generally adequate, though some industries believe that there is insufficient protection against parallel imports of copyrighted goods into markets with exclusive distribution rights. Software, audio and other industries vulnerable to copyright violations are also concerned that the new enforcement legislation is inadequate because it: 1) requires the party whose copyright is violated to file a complaint before a case can be prosecuted criminally; and 2) provides lesser penalties against violators than copyright owners requested.

Costa Rica enacted new legislation in 2000 providing protection to integrated circuit designs. Satellite signal piracy exists, particularly in rural areas, but major metropolitan cable television operators carry programming that is, in most part, legally acquired.

The International Intellectual Property Association estimates losses of about $20 million in 2000 due to illegal copying of business software, motion pictures and sound recordings. Estimates of losses are not available for the illegal copying of entertainment software or counterfeit sportswear, which are known problems in Costa Rica.

8. 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. 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, low-interest loans, health clinics, recreation centers, and other benefits. Both solidarity associations and labor unions coexist at some workplaces, primarily in the public sector. Business groups claim that solidarity associations provide for better working conditions and labor relations than in firms where workers are represented by unions and there are no solidarity associations. However, labor unions allege that private businesses use solidarity associations to prevent union organization in contravention of International Labor Organization rules.

b. *The Right to Organize and Bargain Collectively:* The constitution protects the right to organize. The Labor Code enacted in 1993 provides protection from dismissal for union organizers and members and requires employers found guilty of discrimination to reinstate workers fired for union activities. Costa Rica approved a law in June 2001 permitting public employees to participate in collective bargaining, except in circumstances that would violate existing bylaws or when an employee occupies a managerial position.

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 and establish age limitations. The government enforces this prohibition.

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 Constitution provides special employment protection for women and youth. Adolescents between the ages of 15 and 18 can work a maximum of 6 hours daily and 36 hours weekly with special permission from the Government. Children under age 15 cannot work legally. 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 and rural economies because of poverty and insufficient resources for the state to enforce compliance.

e. *Acceptable Conditions of Work:* The Constitution provides for a minimum wage, and a National Wage Council sets minimum wage and salary levels 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 free trade zones. Companies in sectors with significant U.S. investment generally respect worker rights, especially at plants under U.S. ownership and management. Abuses have occurred 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—2000

[In Millions of U.S. Dollars]

Category		Amount
Petroleum		31
Total Manufacturing		764
Food & Kindred Products	116	
Chemicals & Allied Products	166	
Primary & Fabricated Metals	28	
Industrial Machinery and Equipment	301	
Electric & Electronic Equipment	96	
Transportation Equipment	0	

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—2000—Continued

[In Millions of U.S. Dollars]

Category		Amount
Other Manufacturing	56	
Wholesale Trade		1,147
Banking		0
Finance/Insurance/Real Estate		2
Services		–2
Other Industries		41
Total All Industries		1,983

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

DOMINICAN REPUBLIC

Key Economic Indicators

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

	1999	2000	[1] 2001
Income, Production and Employment:			
Nominal GDP [2]	17.3	19.7	21.6
Real GDP Growth (pct) [3]	8.0	7.8	3.0
GDP by Sector:			
Agriculture	6.7	5.0	N/A
Manufacturing	6.4	9.0	N/A
Services	7.7	10.3	N/A
Government	3.1	4.3	N/A
Per Capita GDP (US$)	2,076	2,304	2,486
Labor Force (000s)	3,457	3,528	N/A
Unemployment Rate (pct)	13.8	13.9	N/A
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	24.0	14.1	N/A
Consumer Price Inflation	5.10	9.02	8.00
Exchange Rate (DR Peso/US$ annual average):.			
Official	15.83	16.18	N/A
Parallel	16.03	16.42	16.67
Balance of Payments and Trade:			
Total Exports FOB [4]	5.21	5.73	6.18
Exports to United States [4]	4.29	4.38	4.43
Total Imports CIF [4]	8.04	9.48	9.00
Imports from United States [4]	4.10	4.44	4.80
Trade Balance (US$ millions) [4]	–2.83	–3.75	–2.82
Trade Balance with United States [4]	0.19	–0.06	–0.37
External Public Debt	3.66	3.68	N/A
Fiscal Deficit/GDP (pct)	0.8	0.1	N/A
Current Account Deficit/GDP (pct)	2.5	5.2	N/A
Debt Service Payments/GDP (pct)	2.2	2.5	N/A
Gold and Foreign Exchange Reserves	0.88	0.82	0.80
Aid from United States (US$ millions) [5]	46.25	13.86	19.37
Aid from All Other Sources	151.4	102.6	N/A

[1] 2001 figures are all estimates based on available monthly data through June 2001.
[2] GDP at factor cost.
[3] Percentage changes calculated in local currency.
[4] Merchandise Trade; exports FAS, imports customs basis.
[5] Military aid equaled $870,000 in 1999, $850,00 in 2000, and $1,099,000 in 2001.

Source: Economic Studies Department, Central Bank of the Dominican Republic.

1. General Policy Framework

President Hipolito Mejia took office on August 16, 2000, pledging to maintain the macroeconomic stability that has helped the Dominican Republic achieve high levels of growth over the past five years. At the same time, he made clear his intention to share the benefits of that growth more broadly through increased government attention to education, housing, agriculture, and health. His plans for new initiatives in these areas were initially hampered by the impact on government finances of high world oil prices and election year spending in the waning months of the Fernandez Administration. These caused a drain on foreign exchange reserves and left a large fiscal deficit. In early November 2000, the new Mejia government proposed a series of tax measures, passed by Congress the following month, in order to close the government's fiscal deficit and to provide funds for new government programs. These included an increase in the Value Added Tax (VAT) from 8 to 12 percent; a new minimum income tax equal to one and one-half percent of gross revenues; increases in selective consumption taxes on automobiles, alcoholic beverages, and tobacco products; and an across-the-board reduction in tariff levels.

A reduction in demand for Dominican exports, especially from the United States, and the new tax measures combined to halt growth entirely in the first half of 2001. The terrorist attacks in the United States in September 2001 resulted in a sharp decline in hotel reservations. Thus despite signs that economic activity had begun to pick up in the third quarter, growth for the year is likely to be minimal. The Caribbean Basin Trade Partnership Act (CBTPA) went into effect in October 2000 and provides tariff benefits for Dominican apparel and other products. Effects of CBTPA should be felt more strongly in 2002. Inflation, which began to edge up toward the end of 2000, has moderated in 2001, and will likely end the year well below 10 percent.

The exchange rate of the Dominican peso against the U.S. dollar has remained stable through most of 2001. Because of the Dominican Republic's high propensity to import, changes in the exchange rate are politically significant. The need to keep the peso stable forces the Central Bank to maintain a high interest rate structure to retain short-term capital. Foreign exchange operations also play a role in meeting money supply targets since the Central Bank's purchase of pesos for dollars tends to reduce the money in circulation within the country.

The Central Bank regulates the money supply by issuance of new money through the banking system, by the purchase or issuance of debt instruments of the Central Bank itself, and at times by direct limits on bank sector net assets. 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.

The government has continued timely payments of foreign private bank debt and payments on renegotiated Paris Club debt. The government has also, however, accumulated large arrears to domestic suppliers and contractors, although some efforts have been made to pay this down. For example, in September 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 government also began in 2000 to issue bonds under new legislation that authorized liquidation of around $300 million in internal debt. In September 2001, the Dominican government issued $500 million of sovereign bonds the proceeds of which will be used to finance several infrastructure projects. 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.

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. Since then, it has continued to devalue slowly with the most recent official rate (October 2001) set at 16.66 pesos/dollar. The unofficial rate has also devalued and is currently in the range of 16.83 pesos to the dollar. An October 1999 increase in the fee for purchasing foreign currency to 5 percent (up from 1.75 percent) 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

Market forces determine most domestic prices, although distortionary government policies sometimes limit the operation of these forces. High tariff and nontariff barriers have also increased the cost of doing business in the Dominican Republic. Following the negotiation of free trade pacts with Central America and with Caribbean Community (CARICOM), however, the Mejia administration submitted, and Congress approved, a new proposal to decrease tariff levels to Central American/CARICOM levels (i.e. a top tariff of 20 percent).

The Dominican Republic has ratified the GATT 94 and participates in World Trade Organization (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.

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, hinder economic growth and innovation. The difficulties of protecting intellectual property rights have slowed the use of modern medicines. A chaotic land tenure system and the unwillingness of large landowners to modernize impede investment in modern agricultural techniques.

4. Debt Management Policies

A significant portion of the Dominican Republic's 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 buyback schemes and U.S. Treasurybacked rescheduling. Payment to foreign private and public creditors in the financial sector has generally been current since then. A September 1999 Dominican request to defer Paris Club debt payments due in the first half of 2000 was denied. Government payments to foreign nonfinancial institutions are notoriously slow. Some debts are over ten years old.

5. Significant Barriers to U.S. Exports

Trade Barriers: In 2000, the Dominican government lowered tariff rates on imports in order to comply with the terms of new Free Trade Agreements with CARICOM and five Central American countries. Most Dominican tariffs now range from 3 to 20 percent. Virtually all tariffs are bound in the World Trade Organization (WTO) at 40 percent. In addition, the government imposes a 15 to 60 percent selective consumption tax on "nonessential" imports such as home appliances, alcohol, perfumes, jewelry, and automobiles. In early 2000, the government 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. Importers are still concerned, however, because the selective consumption tax on whisky (much of which is imported) is 45 percent, while that on rum (nearly all of which is domestically produced) is only 35 percent.

The Dominican Republic requires a consular invoice and "legalization" of documents, which must be performed by a Dominican Consulate in the United States. Fees for this service vary by consulate but can be quite substantial. Some importers now pay the consular invoice fee in Santo Domingo directly to customs. Moreover, importers are frequently required to obtain licenses from the Dominican Customs Service.

Customs Procedures: Bringing goods through Dominican Customs can often be a slow and arduous process. Customs Department interpretation of exonerated materials being brought into the country often provokes complaints by businesspersons. 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. The Dominican government implemented the WTO Customs Valuation Code in July 2001, but has been granted a waiver to permit use of minimum prices on several categories of goods.

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. Some U.S. bidders on government contracts have complained that the provisions of the U.S. Foreign Corrupt Practices

Act often puts them at a serious disadvantage in what are sometimes non-transparent bidding procedures.

Investment Barriers: Legislation designed to improve the investment climate passed in November 1995. 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. Foreign employees may not exceed 20 percent of a firm's work force. This does not include foreign employees who perform managerial or administrative functions only.

The electricity sector is a weak link in the Dominican economy with long blackouts, especially in the hot summer months, a regular occurrence. The state electricity company's distribution units and thermal generation facilities were capitalized in 1999, and are now under the control of private sector operators. This, together with new investments underway in both power generation and transmission, should improve the electricity situation over the next few years.

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 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.

6. Export Subsidies Policies

The Dominican Republic has two sets of legislation for export promotion: the Free Trade Zone Law (Law no. 890, passed in 1990) and the Export Incentive Law (Law no. 69–79, passed in 1979). There is no preferential financing for local exporters nor is there a government fund for export promotion.

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 (FTZs). 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. Investors operating in the Dominican Republic's FTZs experience far fewer problems in dealing with the government than do investors working outside the zones. For example, materials coming into or being shipped out of the zones are reported to move quickly, without the kinds of bureaucratic difficulties mentioned above.

The Export Incentive Law provides for tax and duty free treatment of inputs from overseas that are to be processed and reexported as final products. The Dominican Export Promotion Center and the Customs Service manage this legislation. In practice, use of the export incentive law to import raw materials for process and reexport is cumbersome and delays in clearing customs can take anywhere from 20 to 60 days. This customs clearance process has made completion of production contracts with specific deadlines difficult. As a result, nonfree 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.

7. Protection of U.S. Intellectual Property

The Dominican government has taken several steps to improve protection of intellectual property rights, but piracy remains a serious problem. The Dominican Republic belongs to the WTO, and is a signatory to the Paris Convention, Berne Convention, Madrid Agreement, and the Rome Convention. Since 1998, the Dominican Republic has appeared on the U.S. Trade Representative's "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.

Patents: Patents are difficult to receive and enforce against a determined intellectual property thief. In 1999, however, the Supreme Court upheld the rights of a foreign patent holder against a local laboratory. New patent legislation passed in 2000 does not appear to be wholly in compliance with the Dominican Republic's obligations under the WTO Agreement on Trade Related Aspects of Intellectual Property

Rights (TRIPS). The Mejia government has pledged, however, in connection with its bid for eligibility for CBTPA benefits, to bring IPR protection up to TRIPS standards. In 2001, the Pharmaceutical Research and Manufacturers Association filed a petition requesting a review of the Dominican Republic's eligibility for benefits under the Generalized System of Preferences due to continued patent violations.

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 a new, TRIPS-compliant copyright law passed in 2000 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 re-broadcasting signals without compensating either the original broadcaster or the originator of the recording. The Motion Picture Association of America (MPAA) estimates that losses in the Dominican Republic due to theft of satellite-carried programming are one million dollars per year.

8. Worker Rights

a. *The Right of Association:* The Constitution provides for the freedom of workers in all sectors, except the military and police, to organize labor unions and for the right of workers to strike. It also provides for private sector employers to lock out workers. Workers in all sectors exercise these rights. Organized labor represents approximately 10 percent of the work force and is divided among three major confederations and a number of independent unions. The government generally respects association rights and places no obstacles to union registration, affiliation or the ability to engage in legal strikes.

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. In practice, however, workers are sometimes fired because of their union activities.

c. *Prohibition of Forced or Compulsory Labor:* Although the law prohibits all forms of forced or compulsory labor, such practices still exist to a limited extent. There have been several reports of coerced overtime in factories and of workers being fired for refusing to work overtime. Union officials state that newly hired workers are not informed that overtime is optional.

d. *Minimum Age for Employment of Children:* The Labor Code prohibits employment of children under 14 years of age and places restrictions on the employment of children under the age of 16. These restrictions include limiting the daily number of working hours to six, prohibiting employment in dangerous occupations or in establishments serving alcohol, and limiting nighttime work. Dominican law requires eight years of formal education. The high level of unemployment and lack of a social safety net create pressures on families to allow or encourage children to earn supplemental income. Tens of thousands of children begin working before the age of 14, primarily in the informal economy, small businesses, clandestine factories, and prostitution. The Ministry of Labor, in collaboration with the International Labor Organization's Program on the Eradication of Child Labor and the U.S. Department of Labor, has implemented programs to combat child labor.

e. *Acceptable Conditions of Work:* The constitution empowers the Executive Branch to set minimum wage levels, and the Labor Code assigns this task to a national salary committee. Congress also may 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. In practice, a typical workweek is Monday through Friday plus a half day on Saturday. The Code grants workers a 35 percent differential for work totaling between 44 and 68 hours per week, and double time for any hours above 68 per week. The Dominican Social Security Institute (IDSS) sets workplace safety and health conditions. The existing social security system is seriously underfunded and applies to only about nine percent of the population. Conditions for agricultural workers, especially in the sugar industry, are generally much worse than in other sectors.

f. *Rights in Sectors with U.S. Investments:* The Labor Code applies in the more than 40 established FTZs. The FTZ companies, over sixty percent of which are U.S.owned or associated, employ approximately 200,000 workers, mostly women. Some FTZ companies have been accused of discharging workers who attempt to organize unions, but these allegations have primarily been made against non-U.S.

companies. Some companies in the FTZs adhere to significantly higher worker safety and health standards than do nonFTZ 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—2000

[In Millions of U.S. Dollars]

Category		Amount
Petroleum		(1)
Total Manufacturing		590
Food & Kindred Products	31	
Chemicals & Allied Products	31	
Primary & Fabricated Metals	0	
Industrial Machinery and Equipment	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	529	
Wholesale Trade		49
Banking		90
Finance/Insurance/Real Estate		(2)
Services		19
Other Industries		(1)
Total All Industries		1,126

[1] Suppressed to avoid disclosing data of individual companies.
[2] Less than $500,000 (+/–).

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

ECUADOR

Key Economic Indicators

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

	1999	2000	2001
Income, Production and Employment:			
Nominal GDP [1]	13.8	13.6	17.8
Real GDP Growth (pct) [2]	–7.3	2.3	4.6
GDP by Sector:			
Agriculture, Fishing	–1.3	–5.3	3.8
Petroleum, Mining	0.3	4.8	8.1
Manufacturing	–7.2	5.2	5.1
Commerce, Hotels	–12.1	4.7	3.1
Finance, Business Services	1.4	1.6	1.7
Government, Other Services	–15.0	–1.0	1.9
Per Capita GDP (US$)	1,109	1,079	1,383
Urban Labor Force (estimate—000s) [3]	3,441	3,880	3,900
Urban Unemployment (pct)	15.1	10.3	10.4
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	43.0	N/A	N/A
Consumer Price Inflation	52.2	96.1	29.2
Exchange Rate (Sucres/US$—annual average):			
Central Bank	11.165	N/A	N/A
Market	11,182	N/A	N/A
Balance of Payments and Trade:			
Total Exports FOB [4]	4.5	4.9	2.7
Exports to United States	1.7	1.9	N/A
Total Imports CIF [4]	3.0	3.7	2.9
Imports from United States	.9	.9	N/A
Trade Balance	1.5	1.2	–0.2
Balance with United States [4]	0.8	1.0	N/A
External Public Debt	13.0	13.4	10.9

Key Economic Indicators—Continued

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

	1999	2000	2001
Fiscal Balance (NFPS)/GDP (pct)	–4.7	–0.4	1.8
Debt Service Payments/GDP (pct)[5]	7.6	15.4	4.8
Current Account Deficit/GDP (pct)[6]	6.9	9.0	0
Gold and Foreign Exchange Reserves[7]	872	1,179	1,184
Aid from United States (FY-US$ millions)	17.0	17.8	27.0
Aid from Other Sources (US$ millions)	N/A	N/A	N/A

[1] 2001 GDP figures are Central Bank of Ecuador estimates as of August 2001.
[2] The Central Bank's 2000 GDP figure is not compatible with its listed rate of growth. The Central Bank has been unable to resolve the discrepancy.
[3] Economically active urban population figure provided by INEC.
[4] 2001trade figures are estimates as of July.
[5] Ratio calculated based on Central Bank figures for debt service payments actually made (principal and interest). Does not include transactions to reschedule or forgive debt.
[6] 2001 figure is estimate through Q2.
[7] Freely disposable international reserves.

Source: Central Bank of Ecuador and IMF 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. Deteriorating economic performance in 1997–1998 culminated in a severe economic and financial crisis in 1999. The crisis was precipitated by a number of external shocks, including the El Nino weather phenomenon in 1997, a sharp drop in global oil prices in 1997–1998, and international emerging market instability in 1997–1998. These factors highlighted the Government of Ecuador's unsustainable economic policy mix of large fiscal deficits and expansionary monetary policy and resulted in an 7.3 percent contraction of GDP, annual year-on-year inflation of 52 percent and a 65 percent devaluation of the national currency in 1999.

On January 9, 2000, the Administration of President Jamil Mahuad announced its intention to adopt the U.S. dollar as the official currency of Ecuador to address the ongoing economic crisis. Subsequent protest led to the removal of Mahuad from office and the elevation of Vice President Gustavo Noboa to the Presidency.

The Noboa government confirmed its commitment to dollarize as the centerpiece of its economic recovery strategy. The government also entered into negotiations with the International Monetary Fund (IMF), culminating in a 12-month Standby Agreement with the Fund, which has been extended through the end of 2001. Additional policy initiatives include efforts to: reduce the government's fiscal deficit, implement structural reforms to strengthen the banking system, and restructure Ecuador's external debt.

The government has introduced measures that have resulted in a sharp shift in its fiscal balance from a deficit of 1.2 percent of GDP in 1998 to a primary surplus of 4 percent in 1999. However, the overall deficit remained at six percent of GDP in 1999, due mainly to the rising cost of debt service following the devaluation of the sucre and bond issues to fund financial sector recapitalization. Fiscal performance in 2000 was better than expected, due largely to increasing oil prices and improved revenue collections. The overall deficit for 2001 was 0.1 percent of GDP. Budget performance in 2001 to date has also been strong, with the Government registering a small overall surplus in its fiscal accounts through July, the most recent month for which figures are available.

2. Exchange Rate Policy

Up until February of 1999, the Central Bank maintained a crawling peg exchange rate system. At that time, continued pressure on the currency led the Central Bank to abandon its crawling peg and float the sucre. Continued expansionary monetary policy resulted in year-on-year devaluation of 65 percent in 1999.

In March 1999, the Ecuadorian Congress codified dollarization with the approval of the "Law of Economic Transformation." Among other things, the law declared the U.S. dollar as the legal tender of Ecuador and directed the central bank to cease issuing sucres except for coins in denominations not exceeding one dollar. The law mandates that all currency in circulation, bankers' deposits at the central bank, and sucre-denominated central bank stabilization bonds be fully backed by freely disposable international reserves.

The legislation envisaged a six-month window for holders of sucres to exchange their liabilities into dollars at the rate of 1 dollar to 25,000 sucres. Despite a few bumps along the way, the transition to dollarization proceeded relatively smoothly and on September 10, 2000, the sucre ceased to be legal tender in Ecuador. Initially, inflation rates were high as the residual affects of dollarization worked their way through the system and Ecuador ended 2000 with annual inflation of 96.1 percent. However, the rate of inflation has slowed sharply throughout 2001. As of August, the most recent month for which figures are available, annual inflation was 29.2 percent in 2001.

3. Structural Policies

The Government of Ecuador has introduced reforms to increase fiscal transparency into the budget process, permit increased investment (including by private firms) in the oil sector, and to raise private sector participation in the electricity and telecommunication sectors. Other structural reform measures focus on the need to reduce fuel subsidies and better target poverty assistance to the most needy. There are reform efforts underway to increase the efficiency of the tax and customs services to raise budget revenues and reduce inefficiency and corruption. However, progress on structural reforms has proceeded very slowly.

4. Debt Management Policies

In August 1999, the Government of Ecuador announced that it could no longer afford to service its debt and that it would not meet a payment on its Discount Brady Bonds, making Ecuador the first country to default on Brady Bonds. In October 1999, Ecuador also failed to meet a coupon payment on its Eurobonds. By end-1999, external payment arrears were $925 million, of which 75 percent was owed to Paris Club creditors. The total stock of debt at end-1999 stood at $16.1 billion (120 percent of GDP).

Ecuador negotiated a reorganization of its Brady Bonds and euro obligations in August 2000. The agreement involved the swap of $3.49 billion in euro and Brady Bond obligations for $3.95 billion in new debt, issued in two tranches maturing in 2012 and 2030.

In September 2000, Ecuador finalized a debt restructuring agreement with the Paris Club on debts due through April 30, 2001. The deal allowed Ecuador to consolidate $880 million in arrears, with a view toward further rescheduling on debts coming due after April 30, 2001. The deal was concluded on so-called "Houston terms", with debts being subject to repayment over periods ranging from 18 to 20 years, with grace periods ranging from 3 to 10 years, depending on the type of debt.

However, implementation of Ecuador's Paris Club agreement was stalled for the first half of 2001 pending successful conclusion of the second review under Ecuador's Standby Agreement with the IMF. The second review was eventually concluded on May 25, 2001. Ecuador has yet to sign bilateral implementing agreements with many of its debtors, including the United States, that would bring the Paris Club agreement into force with individual debtor countries. The government recently began to negotiate debt swaps for social development programs with some of its Paris Club debtors but has concluded few agreements to date.

5. Significant Barriers to U.S. Exports

Ecuadorian trade policy was substantially liberalized during the early 1990s, resulting in a reduction in tariffs, elimination of many nontariff surcharges, and enactment of an in-bond processing industry (maquila) law. Ecuador joined the Andean Pact in 1995 and the World Trade Organization (WTO) in 1996.

Upon accession to the WTO, Ecuador set most of its tariff rates at 30 percent or less. The current average applied tariff rate is around 13 percent ad valorem. Ecuador subscribes to the Andean Community's common external tariff (CET), which has a four-tiered structure: 5 percent for most raw materials and capital goods; 10–15 percent for most intermediate goods, and 20 percent for most consumer goods. Through Tariff Rate Quotas (TRQs), Ecuador agreed to provide market access at non-restrictive tariff rates, while providing a measure of protection for politically sensitive commodities.

As an emergency fiscal measure, the Government of Ecuador imposed a temporary import surcharge of two to five percent in March 1998. The surcharge was raised to 2 to 10 percent in February 1999, in response to the government's worsening budget situation. The surcharge was eventually phased out in February 2001.

Customs procedures can be difficult but are not generally used to discriminate against U.S. products. The government has failed to implement its commitment not to use sanitary and phytosanitary restrictions to block the entry of certain imports. 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.

Ecuador continues to impose certain formal and informal trade restrictions. All importers must obtain a prior license from the Central Bank, primarily for statistical purposes. Licenses are obtainable through private banks and are usually made available. Imports of psychotropic medicines and certain precursor chemicals used in narcotics processing require prior authorization from the National Drug Council (CONSEP).

Recent legislation effectively discriminates against branded medicines, many of which are U.S. products. The "Law on Generic Drugs", passed in 2000, forbids Government entities from buying branded pharmaceutical products. The same law lowered drugstore gross profit margins for branded pharmaceuticals to 20 percent, while maintaining the margins for generic drugs at 25 percent and requiring drugstores to devote a certain percentage of shelf space to generic medicines.

Although a discriminatory 1976 law regarding the termination of exclusive distributorship arrangements was repealed in 1997, the U.S. government remains concerned that the 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. While legal efforts by local distributors to obtain benefits under the repealed law have met with little success, cases continue to be filed, resulting in considerable legal expenses for U.S. firms who previously worked with local distributors in Ecuador.

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.

Government procurement practices are not sufficiently transparent. Bidding for government contracts can be cumbersome and time-consuming. Bids for public contracts are often delayed or cancelled. 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 is a member of 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 upgraded 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. In 2001, Ecuador was removed from the list entirely, the only country in the Andean region that is not currently listed.

Ecuador's protection of intellectual property is based primarily on the 1998 Intellectual Property Law, which protects patents, trademarks, copyrights and plant varieties. The law generally meets the standards specified in the WTO TRIPs Agreement. Although a 1996 Andean Pact court decision overturned Ecuadorian regulations that provided transitional or "pipeline" protection for previously unpatentable products, the government approved 12 "pipeline" patents in 1998. In 1999, the Andean Community imposed sanctions on Ecuador on the grounds that Ecuador had violated the Community's patent regime.

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 designs, and trade secrets. Although the Ecuadorian Congress has not ratified the IPRA, it enacted legislation in 1998 that generally harmonizes local law with the Agreement's provisions (with the notable exception of "pipeline" protection).

Enforcement of intellectual property rights has improved in Ecuador, but copyright infringement still occurs, and there is widespread local trade in pirated audio and video recordings, as well as computer software. Local registration of unauthorized copies of well-known trademarks has been a problem in the past, but monitoring and control of such registrations have improved. Companies willing to pursue pirates have often been successful in obtaining relief from the courts. Some local pharmaceutical companies produce or import patented drugs without licenses.

In September 2000, the Andean Community trade ministers approved Decision 486, which entered into force on December 1, 2000, replacing Decision 344 as the Andean Community's Common Industrial Property Regime. Decision 486 is a notable improvement over Decision 344 in bringing the region's IPR regime into conformance with WTO standards. However, Decision 486 appears to have shortcomings with respect to protection of data confidentiality and protection for second-use patents. Efforts to challenge problematic provisions on second-use patents have not been successful in the Andean Tribunal to date.

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 allowed to form trade unions. Less than 12 percent of the labor force, mostly skilled workers in parastatal and medium-to-large-sized industries, is unionized. 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, such as a long-running strike by public health workers in June through August 2001.

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 the 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.

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 work week, two weeks of annual vacation, a minimum wage and other variable, employer-provided benefits such as uniforms and training activities. The minimum wage is set by the Ministry of Labor every six months and can be adjusted by Congress. Minimum monthly compensation is approximately $100. 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 agricultural and informal mining sectors.

f. *Worker Rights in Sectors with U.S. Investment:* Economic sectors with U.S. investment include petroleum, telecommunications, chemicals and related products, and food and related products. U.S. investors in these sectors are primarily large multinational companies that abide by the Ecuadorian Labor Code. U.S. workers 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—2000

[In Millions of U.S. Dollars]

Category	Amount	
Petroleum		461
Total Manufacturing		175
Food & Kindred Products	–10	
Chemicals & Allied Products	109	
Primary & Fabricated Metals	(1)	
Industrial Machinery and Equipment	0	
Electric & Electronic Equipment	0	
Transportation Equipment	(2)	
Other Manufacturing	(2)	
Wholesale Trade		53
Banking		(2)
Finance/Insurance/Real Estate		124
Services		5
Other Industries		(2)

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—2000—Continued

[In Millions of U.S. Dollars]

Category	Amount
Total All Industries	838

[1] Less than $500,000 (+/–).
[2] Suppressed to avoid disclosing data of individual companies.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

EL SALVADOR

Key Economic Indicators

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

	1999	2000	[1] 2001
Income, Production and Employment:			
Nominal GDP	12,470.0	13,213.0	13,957.0
Real GDP Growth (pct)	3.4	2.0	2.0
GDP by Sector:			
Agriculture	1,297.0	1,271.0	1,290.9
Manufacturing	2,872.0	3,169.2	3,408.0
Services	7,439.0	7,460.4	7,872.8
Government	38.0	995.4	1,020.4
Per Capita GDP (US$)	2,026	2,105	2,183
Labor Force (000s) [2]	2,350.0	2,395.0	2,660.0
Unemployment Rate (pct) [3]	7.3	6.9	7.0
Money and Prices (Annual Percentage Growth):			
Money Supply Growth (M2)	9.0	8.0	9.1
Consumer Price Inflation	–1.0	4.3	3.5
Exchange Rate (Fixed Colon/US$)	8.75	8.75	8.75
Balance of Payments and Trade:			
Total Exports (FOB)	2,510.0	2,950.0	1,967.0
Exports to United States	1,576.0	1,927.0	1,271.9
Total Imports CIF	4,094.0	4,948.0	3,421.7
Imports from United States	2,109.0	2,450.0	1,661.2
Trade Balance	–1,584.0	–1,998.0	–1,454.7
Balance with United States	–533.0	–523.0	–389.3
External Public Debt	2,831.0	2,832.0	2,980.5
Fiscal Deficit/GDP (pct)	2.5	3.0	3.6
Debt Service Payments/GDP (pct)	3.0	2.5	3.5
Gold and Foreign Exchange Reserves [4]	1,969.0	1,890.0	1,805.0
Aid from United States [5]	46.8	58.0	103.2
Aid From All Other Sources [6]	223.6	189.0	313.5

[1] Annualized 2001 figures are Central Bank estimates. Trade figures are for January-August, 2001
[2] Estimate, Economically Active Population, i.e. all those over age 15.
[3] Figures do not include underemployment; 2001 rate is estimate.
[4] As of September 2001.
[5] Figures do not include military aid.
[6] Grants; including NGO assistance but not bilateral loan programs.

1. General Policy Framework

The Salvadoran government's two principal policies for financial stability and economic growth are the adoption of the U.S. dollar as legal tender and the pursuit of free trade agreements (FTAs). These polices are being implemented on the foundation of measures put in place during the last decade that mandated fiscal conservatism, monetary discipline, privatization, and rapid market and trade liberalization. The Monetary Integration Law, effective on January 1, 2001, made the U.S. dollar the principal legal currency and fixed its exchange rate with the Salvadoran colon at 8.75 to a dollar, the same rate that has been in place for seven years. Dollars are replacing colons, which are no longer being printed. All financial transactions, public and private, can now be done in dollars. President Francisco Flores has also aggressively sought new FTAs with the United States and other countries. In 2001, FTAs that El Salvador, along with other Central American countries, had reached with Mexico and with the Dominican Republic went into effect. The Salvadoran assembly also voted to approve an El Salvador-Chile FTA. Negotiations for FTAs with Canada and with Panama were initiated.

Economy's Performance in 2001

El Salvador's Central Reserve Bank is predicting an economic expansion of two percent in 2001, despite successive economic shocks, the most severe being the two devastating earthquakes early in the year that killed and injured thousands and left 1.5 million homeless. Additional economic shocks include: the slowdown in the United States, El Salvador's largest export market; a sharp drop in the price of coffee, the main agriculture export and an important source of rural employment; and a drought in the eastern part of the country. The largest source of foreign earnings in 2001 has been remittances from Salvadorans working outside the country, mostly in the United States, followed by exports by the so-called "maquila" assembly plants.

The Salvadoran economic expansion has been slowing for the last four years and has dropped precipitously from the six and seven percent annual growth rates achieved following the 1992 peace accords, which ended El Salvador's 12-year-long civil war. In the first quarter of 2001, the Salvadoran economy grew by 1.7 percent, followed by a 1.5 percent expansion in the second. During the first half of the year, the traditional agricultural sector contracted, while manufacturing grew by more than five percent. Construction also grew substantially, particularly in the second quarter.

When coffee is excluded, exports have increased by 7.4 percent for the period January-August 2001, according to the central bank. Of the total exports of $1.97 billion for the eight month period, the maquilas account for $1.1 billion. This represents a 5.3 percent growth over 2000, despite the slowing economy in the United States, where most of the Salvadoran maquila products are shipped. The Salvadoran Office of Investment Promotion reported that 14 companies had made commitments in 2001 to set up new operations in El Salvador, mostly maquila plants.

Exports of other nontraditional exports, excluding the maquilas, also increased in 2001, rising to $672 million, a 6.8 percent increase over the previous year. The value of traditional agricultural exports, on the other hand, decreased more than 40 percent, dragged down by the world price of coffee that has fallen to its lowest levels in 26 years. Coffee export earnings for January-August 2001 totaled $102 million, about $163 million less than for the same period in 2000.

Salvadoran imports also rose in 2001, increasing by 7.8 percent to total $3.4 billion for January-August 2001. Imports of intermediate goods rose the most, rising 15.8 percent. The trade deficit at the end of August was $1.45 billion. The central bank attributed the higher deficit to the slowdown in the United States and increased imports for earthquake reconstruction. Remittances from Salvadorans abroad, mostly in the United States, continued to rise in 2001, totaling $1.25 billion by the end of August, an 11.1 percent increase over the same period in 2000. The remittances have become an important source of funds for reconstruction and cover about 85 percent of the trade deficit, according to the central bank.

Domestic interest rates have declined, a development that is directly tied to dollarization since dollar lending rates have always been lower than colon rates. Energy prices have also moderated in 2001. Consumer price inflation is around 3 to 3.5 percent.

Fiscal Developments

The confidence that Salvadoran economic policy during the last decade has engendered among investors was seen in July when just months after the devastating earthquakes the government was able to sell $353.5 million in bonds in New York. The funds obtained from the sales of the 10-year, 8.6-percent interest rate bonds will be used to fund the government's budget and earthquake reconstruction.

Privatization continues to be a major part of Salvadoran fiscal policy. Since 1998, the government has privatized the state telephone company, the electricity distribution companies, the thermal power plants, and pension funds.

The 2001 $2.2 billion central government budget continued to shift spending toward social investments, with about one third of the funds dedicated to social development including health, education, and public works. The fiscal deficit is now about 3.6 percent of GDP. To help deal with the deficit, the Ministry of Finance plans to seek better tax collection, completion of privatization, and the implementation of measures to make the government more efficient. The 13 percent Value-Added Tax (VAT), which is applied to all goods and services both domestic and imported, accounts for about 55 percent of tax collections.

2. Exchange Rate Policy

On January 1, 2001, the Government of El Salvador enacted the Monetary Integration Law that made the U.S. dollar the nation's legal currency. The law mandated that for a transition period the dollar will circulate alongside the Salvadoran colon and fixed the exchange rate at 8.75 colons to the dollar. Within a period of no more than two years, the dollar is expected to completely replace the colon, which is no longer being printed. This law also required banks to convert depositors' colon-denominated accounts to dollar-denominated accounts and made the dollar the financial system's accounting unit. Businesses are free to sign contracts denominated in dollars, colons, and other major currencies.

3. Structural Policies

The United States is El Salvador's main trade partner. Imports from the United States have increased an average of 16 percent per year since 1993 and account for 50 to 65 percent of all Salvadoran imports. Key to this trend is the multi-year program, concluded in July 1999, to drastically lower tariffs. Under this program, tariffs for most capital goods and raw materials have been reduced to zero or one percent, and tariffs on intermediate and finished goods have been reduced to a maximum rate of 15 percent. Close to 80 percent of all Salvadoran imports consist of capital and intermediate products. El Salvador's 1998 environmental law is providing new opportunities for the sales of U.S. clean technology products.

The fastest growing trade/investment category has been the apparel and clothing maquila industry, in which companies from the United States and other countries ship cut cloth to plants in El Salvador where they are sewed into finished garments for reexport, principally to the United States. President Clinton signed into law in 2000 the Caribbean Basin Trade Partnership Act (CBTPA), which expanded the access to the U.S. market granted to El Salvador and other countries participating in the Caribbean Basin Initiative.

The government has substantially simplified customs procedures in recent years. A new system implemented in 1998, called "Teledespacho," allows importers and exporters to send their commercial invoices, bills of lading, and airway bills through an electronic link to the Salvadoran customs officer for processing. This system allows merchandise to clear customs seven days a week. The Salvadoran government also has an "Autoliquidation" process that allows assessment and payment of duties directly by the importer, without physical inspection in most cases.

El Salvador has a liberal privatization regime under which it has privatized the state owned telephone company (ANTEL), four electricity distribution and two thermal generating companies, and pension funds. All represent good opportunities for U.S. companies.

Prices are unregulated, with the exception of bus fares and utilities. These too are being deregulated. While fuel prices are not regulated, commercial margins on gasoline and diesel fuel are set by regulation at the import level and by the terms of an agreement between the government and the oil industry at the wholesale level. A commission to monitor the telecommunications and electric sectors (SIGET) has been established.

4. Debt Management Policies

El Salvador has traditionally pursued a conservative debt policy. External debt stood at $2.98 billion in August 2001. Almost 70 percent of this debt has been contracted with international financial institutions. The debt service in 2000 amounted to $341 million. 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. In August 2001, Moody's rated El Salvador's foreign currency government bonds as Baa3 and its domestic currency bonds as Baa2, ratings that put the Salvadoran issues ahead of most of the rest of Latin America. Standard and Poor's, which rated fewer countries, gave El Salvador a BB+/Stable/B rating on January 22, 2001, a week after the first earthquake. This rating is ahead of many other Latin American countries.

In recent years, El Salvador has succeeded in obtaining diverse financing for various purposes from different international sources. These include the sales of bonds, Inter-American Development Bank and World Bank loans, bilateral development assistance, and grants and donations. In addition to the $353 million bond sale in July 2001, in August 1999 El Salvador successfully placed $150 million in Euro-Bonds. The Finance Minister has announced plans to consolidate and refinance outstanding government debt. Responding to the January and February 2001 earthquakes, donors gathered in Madrid in May where they pledged $1.3 billion for earthquake reconstruction and recovery. About $150 million of that amount was short-term.

5. Significant Barriers to U.S. Exports

El Salvador is a World Trade Organization (WTO) member and has implemented most of its Uruguay Round commitments on schedule. There are no legal barriers to U.S. exports of manufactured goods or bulk, non-agricultural products to El Salvador. Most U.S. goods face tariffs from zero to 15 percent. The range by category is zero to one percent for capital goods and raw materials, 5 to 10 percent for intermediate products, and generally 15 percent for finished goods. Higher tariffs of 15 to 30 percent are applied to automobiles, agricultural products, textiles and some luxury items.

In April 2000, the Salvadoran government announced high protective tariffs on certain grain and food imports to encourage domestic production. Under this new scheme, white and yellow corn are charged 20 percent ad valorem duties; paddy and milled rice, 40 percent; fluid milk and dairy products, 40 percent; sorghum, 40 percent; and pork, 40 percent. Otherwise, the government policy on basic grain tariffs (applied to imports from countries outside the Central American Common Market) is set by seasonal supply and demand conditions in the local market.

Generally, standards have not been a barrier for the importation of U.S. food products. Poultry is the notable exception. Since 1992, the government has imposed a zero tolerance requirement for several common avian diseases such as aviana denovirus, chicken anemia, and salmonella, effectively blocking all imports of U.S. poultry. The Ministry of Agriculture requires a salmonella-free certificate showing that the product has been approved by U.S. health authorities for public sale. These standards are applied in a discriminatory manner, since domestic producers are not subject to the same requirements. U.S. officials have met with Salvadoran authorities to discuss this issue, but to date there has been no success in getting the regulations changed.

The Salvadoran government also requires that rice shipments be accompanied with a U.S. Department of Agriculture certificate stating that the rice is free of Tilletia barclayana, although there is no practical treatment against T. barclayana. El Salvador failed to inform the WTO, under the Agreement on the Application of Sanitary and Phyto-Sanitary Measures, about these restrictions.

All fresh food, agricultural commodities, and live animals must be accompanied by a sanitary certificate. Basic grains and dairy products also must have import licenses. Authorities have not enforced the Spanish language labeling requirement.

The government is an active participant in the Free Trade Area of the Americas process. The country is a member of the Central American Common Market.

El Salvador officially promotes foreign investment in virtually all sectors of the economy. Foreign investment laws allow unlimited remittance of net profits, except for some services (hotels, restaurants, etc.) where the law allows 50 percent. No restrictions exist on establishing foreign banks or branches of foreign banks in El Salvador. The 2000 government procurement law applies to the central government, autonomous agencies, and municipalities. El Salvador is not a signatory to the WTO Agreement on Government Procurement.

6. Export Subsidies Policies

El Salvador offers a six percent rebate to exporters of non-traditional goods based on the FOB value of the export. Coffee and sugar can qualify for this rebate if they are shipped as a processed product. Products from the maquila assembly plants qualify if they meet the criteria of 30 percent national value added in the production progress. Firms operating in the free trade zones are not eligible for the rebate but enjoy a 10-year exemption from income tax as well as duty-free import privileges.

7. Protection of U.S. Intellectual Property

El Salvador has accepted the disciplines of the WTO's Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) and is a member of the World Intellectual Property Organization (WIPO). The current Intellectual Property Protection Law has been in effect since 1993. To help enforce the law the Office of the Attorney General in 1996 established a special unit for handling complaints about violations of intellectual property rights. The unit has conducted raids and made seizures of items such as pirated shoes, clothing, books, music recordings, videos, pharmaceuticals, and software.

El Salvador was removed from the Special 301 Watch List in July 1996. A September 2000 "out-of-cycle" U.S. Trade Representative's Watch List review of El Salvador determined that the country should not be put on the list again, but requested continued progress on bringing existing laws into compliance with the TRIPS agreement and called attention to the need for further action against software piracy.

In the 1993 law, patent terms were extended to 20 years from the filing date and the definition of what could be patented was broadened. Computer software is protected, as are trade secrets. Salvadoran authorities have drafted legal changes to make the IPR laws more TRIPS compliant. Legislation to make these legal changes may be taken up by the Legislative Assembly in 2001.

Copyrights are also protected by the 1993 law and the Salvadoran penal code was amended that same year to provide for criminal penalties for copyright violations. El Salvador has adhered to the Berne Convention. Despite certain positive developments, there are still many complaints about copyright piracy. Groups such as the International Intellectual Property Alliance say that software piracy continues to be a serious problem in El Salvador and that there are serious defects in the enforcement of civil and criminal laws intended to protect copyrights.

Trademarks are regulated by the Central American Convention for the Protection of Industrial Property. 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. In trademark cases, there have been problems in getting enforcement of rulings ordering violators to cease using well known marks. El Salvador is signatory of the Geneva Phonograms, Paris Industrial Property and the Berne Artistic and Library Works Conventions.

8. Worker Rights

a. *The Right of Association:* The Salvadoran Constitution provides for the rights of workers and employers to form unions or associations, and the government generally has respected these rights. Some workers, however, have complained that the government impeded them from exercising their right of association. Union leaders asserted that the government and judges used excessive formalities to deny applications for legal standing to labor organizations. 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. Unions and strikes are legal only in the private sector. Employees of autonomous public agencies may form unions but not strike.

b. *The Right to Organize and Bargain Collectively:* 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. Workers and the International Labor Organization report instances of employers using illegal pressure to discourage organizing, including the dismissal of labor activists and the maintenance of lists of workers who would not be hired because they had belonged to unions.

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.

d. *Minimum Age for Employment of Children:* The constitution prohibits the employment of children under the age of 14. Minors 14 or older may receive special Labor Ministry permission to work, but only where such employment is indispensable to the sustenance of the minor and his family. Child labor is not found in the industrial sector. Legal workers under the age of 18 have special additional rules governing conditions of work.

e. *Acceptable Conditions of Work:* The minimum wage is $4.80 (42 colones) per day for commercial, industrial, construction, and service employees. For general agricultural workers, it is $2.47 per day. Workers hired for harvests have a minimum wage of $2.70 day. Minimum wage for seasonal agriculture industry workers is $3.57. The law limits the workday to six hours for youths between 14 and 18 years of age and eight 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 maquilas (assembly or processing plants) in Free Trade Zones (FTZ). Most FTZ companies have accepted codes of conduct from their parent corporations or U.S. purchasers. These codes include worker rights protection clauses. There were credible reports of factories dismissing union organizers.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—2000

[In Millions of U.S. Dollars]

Category		Amount
Petroleum		(1)
Total Manufacturing		152
Food & Kindred Products	12	
Chemicals & Allied Products	42	
Primary & Fabricated Metals	(1)	
Industrial Machinery and Equipment	0	
Electric & Electronic Equipment	(1)	
Transportation Equipment	0	
Other Manufacturing	(1)	
Wholesale Trade		28
Banking		(1)
Finance/Insurance/Real Estate		251
Services		10
Other Industries		99
Total All Industries		745

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

GUATEMALA

Key Economic Indicators

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

	1999	2000	[1] 2001
Income, Production and Employment:			
Nominal GDP [2]	18,072	18,415	18,860
Real GDP Growth (pct)	3.5	3.2	2.4
GDP by Sector (pct):			
Agriculture	23	23	22
Manufacturing	21	21	22
Services	47	47	47
Government	8	8	8
Per Capita GDP (US$)	1,635	1,636	1,630
Labor Force (000s) [3]	4,208	4,317	4,481
Unemployment Rate (pct) [4]	N/A	N/A	N/A
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	10.0	14.0	13.0
Consumer Price Inflation	5.2	5.1	10.0
Exchange Rate (Quetzal/US$ annual average):			
Financial Market Rate (2001 data is unofficial Embassy estimate)	7.40	7.77	8.1
Balance of Payments and Trade:			
Total Exports FOB [5]	2,493	2,708	2,440
Exports to United States	838	971	870
Total Imports CIF [5]	4,560	4,885	5,280
Imports from United States	1,851	1,957	2,110
Trade Balance [5]	–2,067	–2,177	–3,170
Balance with United States [5]	–1,013	–986	–1,240
External Public Debt [6]	2,600	2,600	2,700
Fiscal Deficit/GDP (pct) [6]	2.8	1.8	2.8
Current Account Deficit/GDP (pct) [6]	5.5	4.8	5.5
Debt Service Payments/GDP (pct) [6]	2.0	3.1	2.9
Gold and Foreign Exchange Reserves (Millions Net) [6]	1,100	1,800	1,900
Aid from United States	102	60.6	53.2
Aid from All Other Sources	N/A	N/A	N/A

[1] 2001 figures are all estimates based on available data in October.

[2] GDP expressed in millions of U.S. dollars.
[3] 1999 Labor Force Data: Secretariat for Economic Integration in Central America.
[4] Does not reflect estimated 40 to 50 percent underemployment.
[5] 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. U.S. government data for U.S. imports from Guatemala were $2,265 million in 1999 and $2,072 million in 1998.
[6] Data from the Guatemalan government's preliminary 2001 budget projection and Guatemala's Central Bank.

1. General Policy Framework

Following the signing of the 1996 Peace Accords, which ended a 36-year armed internal conflict, Guatemala experienced a resurgence of civic participation culminating in the creation of a Fiscal Pact in 2000. The Fiscal Pact was designed to bring together various sectors to develop tax and other proposals that would help the government increase revenues from 8 percent of GDP to 12 percent, and therefore, to ensure implementation of social reforms promised in the Peace Accords. The Portillo administration did not accept some of the recommendations of the Fiscal Pact, and specifically rejected a proposed increase in the Value-Added Tax (VAT). However, in a July 2001 fiscal reform package, the government reversed its earlier position and increased the VAT from 10 percent to 12 percent.

Inconsistent policy messages and political infighting in the ruling party have created an uncertain investment climate. Increased polarization has characterized the relationship between the government and the private sector. A perception of official corruption and violent crime are two additional problems plaguing the current administration.

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 equal footing. Real GDP growth has averaged above 3 percent and population growth about 2.9 percent annually for the last three years. Security concerns, as well as 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 the operation of the railroad and the postal service. Actions taken by the government during 2000 to investigate the legality of contracts signed by the previous administration cast a shadow over the investment climate, but the Government of Guatemala seems to have moved away from this policy. Guatemala has been a member of the WTO since 1995.

Agriculture and commerce are the dominant economic activities. Agriculture accounts for two thirds of exports and about 40 percent of 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. Dramatic declines in world prices for coffee have adversely affected the economy during 2000 and 2001. Nontraditional agricultural exports, e.g., specialty vegetables and fruits, berries, shrimp, and ornamental plants and flowers, account for an increasing share of export revenues. Other nontraditional industries that have experienced recent growth and have favorable prospects are apparel assembly for export and tourism. The textile sector expected significant increases in its exports to the United States as a result of enhanced benefits it receives under the Caribbean Basin Initiative since October 2000, but concerns that Guatemala would be disqualified over concerns for its respect for internationally recognized workers rights, along with a worldwide shakeout in the apparel industry due to slower world growth, has slowed foreign investment. Remittances from abroad 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 2002 in order to fund social and economic development projects as set forth in the Peace Accords. However, tax revenues in 2001 are expected to be around 9.7 percent of GDP and the budget for 2002 estimates tax revenues of 11 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 indexed issues placed on the international market at lower rates of interest than offered on local currency denominated bonds.

In 1999, the Guatemalan currency experienced strong downward pressure in the foreign exchange market, leading the central bank to issue short-term notes to absorb excess liquidity and reduce consumption demand. Though the central bank achieved macroeconomic stability in 2000 and the first half of 2001, having curtailed capital flight and controlled inflation, its outstanding debt increased over 300 percent and has contributed to high domestic interest rates. High commercial bank lending rates continue to discourage productive investment and retard growth. Furthermore, the high volume of open market operations implies a large future cost to the central bank and has raised the question of whether the central bank can continue to maintain a relatively permissive monetary policy in the face of continued fiscal debt. Several placements of dollar-denominated government securities were issued in 1999 to finance part of the budget deficit, but the deficit remains problematic. Despite increased reliance upon dollar-denominated instruments that carry lower coupon rates than notes denominated in local currency, debt service costs will increase in 2001 as a result of both higher debt and the depreciation of the local currency.

2. Exchange Rate Policy

Guatemala pursues a "dirty float" exchange rate regime. Guatemala's trade deficit and capital flight in 1999 put pressure on the foreign exchange market. Though Guatemala sold an additional $400 million in foreign reserves in 1999, the local currency depreciated by approximately 13 percent. By issuing short-term notes to absorb the excess liquidity, the Central Bank stabilized the exchange rate in 2000, while simultaneously managing to raise foreign reserves to approximately $1.8 billion. Access to foreign exchange is unrestricted and there are no reports of foreign exchange shortages. The exchange rate has been mostly stable in 2001 with the Central Bank only rarely intervening in the market.

In December 2000, Congress approved the Law of Free Negotiation of Currencies, which since May 2001 permits Guatemalan banks to offer different types of dollar-denominated accounts. In fact, accounts can be held in any currency, but in practice, the dollar is the only foreign currency used with any significance. The same bill legalized the dollar and other currencies for most real transactions. In June 2001, Guatemala also officially approved usage of non-Guatemalan currencies, and the dollar has quickly assumed an important, though, not dominant, role throughout the banking sector.

3. Structural Policies

The government is committed by the Peace Accords to increasing spending on social welfare programs, infrastructure expansion, and economic development programs. Much of the financing for this additional spending will come from grants and loans provided by the international donor community, but Guatemala is under pressure to generate significant internal resources to complement foreign grants and lending to fund these expenditures. The Fiscal Pact sought to address Guatemala's need for higher internal income by designing a new tax system. Among numerous other changes, the Fiscal Pact included a proposal to raise the nation's VAT from 10 to 12 percent, which was finally passed by Congress in July 2001. Together with the increase in the VAT, Congress also approved an increase on the Agricultural and Mercantile Industries Tax and a new Fiscal Stamp on Cigarettes, Sodas, and Alcoholic Beverages. The later three taxes were expected to yield an additional US$300 million, but the Constitutional Court is hearing a challenge to the Stamp Tax, and its future is in doubt. Measures to constrain public expenditures are still being considered, but have not been implemented. Fiscal reform will be addressed in a stand-by agreement under negotiation with the International Monetary Fund (IMF) and will likely be central to future World Bank and Inter-American Development Bank programs.

The Superintendency of Tax Administration, created in 1999 to improve compliance, reported revenue increases of 3.2 percent in the first seven months of 2001, as compared to the same period in 2000. Ninety percent of the government's current income is from taxes. Indirect taxes, primarily the VAT and duties, account for 80 percent of all tax revenues. Personal income taxes account for less than two percent of all tax revenues.

4. Debt Management Policies

The projected deficit for the FY 2001 budget was originally of 1.7 percent of GDP. A combination of lower tax revenues during the first seven months of 2001 have forced the government to increase that estimate to 2.8 percent of GDP. The FY 2002 budget, though not yet approved, projects a deficit of US$457 million, about two percent of GDP. In the absence of firm policies designed to increase revenues and political commitments to fund the peace accords, many experts expect higher fiscal deficits than those forecast by the government. 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 2000 was approximately $3.7 billion, of which $1 billion is internally held and $2.7 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 2001 budget calls for appropriation of $452 million for debt service. Guatemala is current in its payments on both U.S. and other foreign debt.

5. Significant Barriers to U.S. Exports

Guatemala applies the common external tariff schedule of the Central American Common Market, which ranges from zero to fifteen percent for most agricultural and industrial goods. Exceptions include agricultural commodity imports in excess of the Tariff Rate Quotas (TRQ).

The TRQ for beef is suspended for 2001 and there is no quota assignment this year nor is there an import license required. All imported beef pays a 15 percent tariff, and the importation is open without limit. However, the Government of Guatemala reserves the right to implement the TRQ if the need arises.

This year, the importation of three products, poultry, wheat and wheat flour, was liberalized, and quota assignments are no longer needed. Furthermore, tariffs were reduced for these products. The poultry tariff was completely eliminated. Wheat and wheat flour tariffs were lowered to 2 percent and 4 percent respectively. Guatemala's current import tariff rates for agricultural products are below WTO tariff binding rates, and the changes that occurred earlier this year have simplified entry.

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 the association's registrations. Processed foods must be labeled in Spanish, however a stick-on label is permitted. While, enforcement of this requirement has been lax, compliance is increasing. Importers should be aware that the Ministry of Health requires a Free Sale Certificate for imports of all processed food products.

Phytosanitary and Zoosanitary licenses are required for all imports of plant and animal origin. 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, and trade disruption limited.

Imports are not generally subject to non-tariff trade barriers, though excessive bureaucracy occasionally creates delays and complicates the import process.

Some restrictions remain on foreign investment, but foreign investors generally receive national treatment. However, recent attempts by the government to renegotiate existing investment terms have negatively affected some foreign investments. 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.

6. Export Subsidies Policies

Guatemala offers duty drawback and deferral programs based on Decree 65–89, Law of Free Trade Zones (FTZs), and Decree 29–89, Law of Promotion and Development of Export Activities and Drawback (Maquila). According to Ministry of Economy statistics, at the end of 2000, a total of 866 companies had qualified for maquila status and 294 that had been qualified since lost their license for various reasons, leaving 572 operating maquilas. 16 areas have qualified as Free Trade Zones and 80 companies are operating in the FTZs. Together, Maquilas and FTZs employ 148,437 workers.

7. Protection of U.S. Intellectual Property

Guatemala belongs to the World Trade Organization (WTO) and the World Intellectual Property Organization (WIPO). It is also a signatory to the Paris Convention, Berne Convention, Rome Convention, Phonograms Convention, and the Nairobi Treaty.

In August 2000, the Guatemalan Congress passed legislation that should increase the protection afforded to the holders of intellectual property rights. Effective November 1, 2000, IPR violations became criminal, as opposed to civil, offenses. In July 2001, the government named a special prosecutor for IPR. In recognition of this progress, the U.S. Trade Representative removed Guatemala from the "Special 301" Priority Watch List and placed it on the Watch List.

8. Worker Rights

The Guatemalan Constitution and the country's labor code guarantee a progressive range of internationally recognized worker rights. Exercise of these rights, however, is not effectively secured by the institutions charged with doing so. Guatemalan labor activists persistently complain that, when their labor and civil rights are violated, at times egregiously, the justice system fails to redress the injury and the perpetrators benefit from impunity. Labor Code reforms were approved by Congress in April and May 2001, implementing Guatemala's commitments to the ILO and under the 1996 Peace Accords. Guatemala's beneficiary status under the Caribbean Basin Trade Preference Act (CBTPA) and the General System of Preferences (GSP) were reviewed with a focus on labor rights in April. Guatemala was found to be eligible under both programs in May.

a. *The Right of Association* and b. *The Right to Organize and Bargain Collectively:* The Guatemalan Constitution guarantees the right of association. The constitution also specifically guarantees workers the right to unionize. Furthermore, the constitution stipulates that "what is established in treaties and conventions to which the state is party is to be considered part of the basic rights enjoyed by Guatemalan workers." Guatemala is one of only 27 countries to have ratified all of the ILO's "core" conventions, including Convention 87 (Freedom of Association and Protection of Right to Organize), Convention 98 (Right to Organize and Collective Bargaining), and, in September, Convention 182 (Worst Forms of Child Labor). Labor Code reforms approved by Congress in May implemented Guatemalan commitments under several of these conventions.

In practice, workers who exercise the right of association and try to organize unions are often fired for doing so. The law fully protects workers from retribution for forming and participating in trade union activities, but effective enforcement of these provisions is the exception rather than the rule. Less than 3 percent of the country's workforce of 4.3 million is organized. Most of these workers belong to private sector unions. Public sector employers are among the worst violators of the right of association, according to a September United States Verification Mission in Guatemala (MINUGUA) report. Under the Portillo administration, the Labor Ministry has attempted to improve the labor inspection function.

The Labor Code allows collective bargaining if at least 25 percent of a company's employees are union members. Many employers routinely seek to circumvent labor code provisions in order to resist union activities, which they view as disruptive and as a challenge to their full control of the workplace. An ineffective legal system and inadequate penalties for violations have hindered enforcement of the right to form unions and participate in trade union activities. Although the Labor Code provides that workers illegally fired for union activity should be reinstated within 24 hours, in practice employers often file a series of appeals, or simply defy judicial orders of reinstatement. Penalties for defying such orders were increased somewhat in the 1992 labor code reform and again in June 1998. Labor Code reforms enacted in May increased Labor Ministry discretion to levy fines on employers for noncompliance, and increased existing fines substantially. However, fines can be appealed in the courts, causing long delays in the administration of justice.

c. *Prohibition of Forced or Compulsory Labor:* The constitution bars forced or compulsory labor.

d. *Minimum Age for Employment of Children:* The constitution bars employment of minors under the age of 14 except as authorized by law. In addition, the constitution prohibits "employing minors in work that is incompatible with their physical ability or that puts at risk their moral development." Employment of minors requires written permission from the Ministry of Labor. There are fewer than 5,000 such permits in effect, the majority of them for work in the in-bond processing for export, or maquila, sector. The Ministry of Labor is engaged actively in reducing the number of these permits and issued less than 1,500 in 1999. However, many children under the age of 14 are employed without legal permission. They generally receive no social benefits, social insurance, vacations, or severance pay, and earn below-minimum salaries. The Labor Ministry has a program to educate minors, their parents, and employers on the rights of minors in the labor market. In 1992 the government formed the Child Worker Protection Unit within the Ministry of Labor. The Labor Ministry administers a "National Program for the Prevention and Eradication of Child Labor and Protection of Adolescent Workers" and cooperates with NGO programs to combat child labor.

e. *Acceptable Conditions of Work:* The constitution provides for a 44-hour normal workweek 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:* With few exceptions, international corporations adhere to the labor code and respect worker rights. There have been some credible complaints about failure to respect the right of association in the construction phase of power generating plants and in the maquila sector. U.S. companies are among the leaders in requiring that maquilas that produce garments for them adhere to codes of conduct with respect to working conditions and worker rights. Many coffee plantations also violate labor rights, particularly by often failing to pay workers the national minimum wage.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—2000

[In Millions of U.S. Dollars]

Category		Amount
Petroleum		474
Total Manufacturing		230
Food & Kindred Products	103	
Chemicals & Allied Products	61	
Primary & Fabricated Metals	2	
Industrial Machinery and Equipment	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	64	
Wholesale Trade		34
Banking		(1)
Finance/Insurance/Real Estate		123
Services		3
Other Industries		(1)
Total All Industries		904

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

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

HAITI

Key Economic Indicators

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

	1999	2000	[1] 2001
Income, Production and Employment:			
GDP [2]	4,115.4	4,164.8	4,206.4
Real GDP Growth (pct) [3]	2.34	1.2	1
GDP by Sector:			
Agriculture	2.5	N/A	N/A
Manufacturing	1.2	N/A	N/A
Services	2.4	N/A	N/A
Government	9.0	11.1	11.2
Per Capita GDP (US$)	506	528	528
Labor Force (000s)	4,380	N/A	N/A
Unemployment Rate (pct)	65	52	55
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	17.7	30.9	N/A
Consumer Price Inflation	8.1	11.4	16.7
Exchange Rate (Gourde/US$—annual average):			
Market (end of period)	16.10	19.62	23.83
Balance of Payments and Trade: [4]			
Total Exports FOB [5]	349	327	305
Exports to United States [6]	301	297	267
Total Imports FOB [5]	743	1003	1028
Imports from United States [6]	614	577	588
Trade Balance [5]	–394	–676	–723

Key Economic Indicators—Continued

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

	1999	2000	[1]2001
Balance with United States [6]	N/A	N/A	N/A
Current Account Deficit/GDP (pct)	7.3	7.1	N/A
External Public Debt	1,100	1,170	1200
Fiscal Deficit/GDP (pct)	1.7	2.2	2.2
Debt Service Payments/GDP (pct)	0.62	N/A	N/A
Gold and Foreign Exchange Reserves (net)	207	189	144
Aid from United States [7]	101.8	71.7	73.9
Aid from All Other Sources	357	370	250

[1] 2001 figures are all estimates based on available monthly data in October. 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] U.S. and Haitian import/export data may vary as a result of different statistical practices. Data in Haiti is 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; 2000 figures are estimates based on data available through September. 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 used those numbers provided by USAID.

1. General Policy Framework

Haiti has a predominantly agriculture-based, market-oriented economy with a small industrialized export sector centered on textiles and garments. Historically, Haiti's economic performance has been strongly influenced by the United States, its principal trading partner and largest bilateral aid contributor. Over the last two years, the economy has been stagnant and declining, as the government has been gripped by a political crisis stemming from the disputed May 2000 parliamentary elections.

Starting in 1999, Haiti's economy began to slide after two years of positive growth as the result of a persistent political crisis. Real GDP growth fell and per capita GDP declined to about $540 in 2000. Macroeconomic stability was adversely affected by a significant increase in the fiscal deficit. The deficit, plus political uncertainty and higher world oil prices put pressure on the exchange rate and inflation. The prolonged political crisis has had a negative effect on private sector confidence and levels of investment. Foreign assistance levels declined steadily in the late 1990s and the political situation prevented donors from developing a comprehensive strategy to address pervasive structural problems in the economy. Public revenue from taxation and customs duties is low and there is little scope to increase exports or tax revenue in the short term. Haiti already is the poorest country in the Western Hemisphere. The weakening of its economy in 1999–2001 has serious implications for future economic development as well as longer-term efforts to improve living standards and alleviate poverty.

Lack of economic reform progress remains a major problem. In late 2000, a Staff Monitored Program was negotiated with the IMF but the Government of Haiti was not able to meet the agreed benchmarks within the first quarter after signature. The political crisis and the lack of an IMF agreement prevent the resumption of crucial budgetary assistance from international donors. The absence of progress on economic reform has also discouraged private foreign and domestic investors from establishing new ventures in Haiti. The new Aristide government will have to address these and other fundamental issues if Haiti's economy is to break its historic cycle of economic oppression and poverty.

The public sector deficit, historically a chronic problem, increased in 2000–2001 due to higher government spending, cutbacks in foreign aid, reduced economic activity, and widespread tax evasion. After the inauguration of President Aristide in February of 2001, the government pledged to increase tax revenues and, to a lesser extent, control expenditures. Historically, the Government of Haiti was heavily dependent on international assistance to finance its deficits resulting from a bloated public sector, central government support for inefficient state-owned enterprises, and significant unbudgeted expenses. Deficit spending in 2000–2001 and the end of multilateral and bilateral budgetary assistance from the donor community due to the political crisis led to an almost 30 percent depreciation of the gourde during the same period. The Government of Haiti was able to stabilize the value of the gourde through a combination of increased bank reserve requirements and the drawdown of foreign exchange reserves but may not be able to do so indefinitely.

Structural reforms in 1986–87 greatly reduced government's role in Haiti's import-based economy. Additional reforms implemented in 1995 further liberalized trade and the authorities do not restrict cross-border capital flows. In an economy dominated by small-scale traders and merchants, it is almost impossible for the government to control retail prices of food products and consumer goods. Utility prices and pump prices for fuel are probably the only exceptions to the rule.

Much of Haiti's economy is informal, neither measured nor controlled by official regulations. Although the formal unemployment rate would exceed 50 percent if it were calculable, the labor participation rate is very high, as both men and women engage in informal economic activities to boost household income. Such activities include street vending, handicraft manufacturing, and the provision of personal services. Until recently, the formal banking sector did not extend credit to the informal sector, but new micro-credit programs are beginning to reach small- and medium-sized enterprises in Port-au-Prince.

Resolution of Haiti's political crisis could unleash forces that could expand Haitian exports, revive the formal sector and improve prospects for foreign trade and investment. A period of sustained political stability is also necessary to implement a comprehensive, donor-supported program to remove the serious structural impediments to sustainable economic growth and poverty alleviation.

2. Exchange Rate Policy

Haiti has no exchange controls or restrictions on capital movements. Dollar accounts are available at local commercial banks. The gourde, the official currency, is allowed to float freely relative to the dollar and other currencies. For decades, the gourde was tied to the U.S. dollar at five to one, and it became common to quote prices in Haitian dollars as well as gourdes. The Haitian dollar, an artificial construct and not an actual unit of currency, is worth five gourdes. The exchange rate in October 2001 was about 25 gourdes to the U.S. dollar. Given the rising fiscal deficit in CY 2001 and a perceived uncertainty about the future of the economy, some observers believe the gourde may face continued depreciation in the future.

3. Structural Policies

The government's role in Haiti's market-oriented economy has been reduced since 1995. 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. Subsidized gasoline pump prices and utility rates are more effectively regulated, and are probably the only exceptions to market prices. Haitian law permits the government to adjust gasoline pump prices within a pre-determined band to reflect changes in world petroleum prices and exchange rate movements but this mechanism does not function automatically. The Haitian government raised pump prices in early September 2000 in response to high international market prices in late 1999 and 2000, but it did not permit petroleum product prices to fluctuate when the world price of oil exceeded the band several weeks later. Despite the price hike, continued increases in international prices have cut sharply into government tax revenues from the sale of fuel products.

Haiti's tax collection system is inefficient. Direct taxes on salary and wages represent only about 25 percent of receipts. Moreover, tax evasion is widespread. 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 Haitian government 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). Collection remains sporadic and inefficient, even though the tax authorities are under increasing pressure to raise tax revenues and have announced new measures to do so.

4. Debt Management Policies

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 portion 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 is about $1.1 billion. Despite a modest debt service burden, Haiti regularly falls into arrears on its payments to both bilateral lenders and International Financial Institutions.

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 have been few significant barriers to U.S. exports since 1995. 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 2001, political and economic uncertainty significantly constrain growth. The import of firearms and other weapons into Haiti is controlled for foreign policy reasons. Prospective 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 domestic and foreign investors. An improved policy environment and the political will to put it into action are required, supported by the strengthening of key legal, regulatory and judicial institutions to create an environment of respect for the rule of law.

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 exported to the United States and other countries that do not tolerate open infringement. Most manufactured goods sold here are imported. Pirated video and audiocassettes are widely available and of poor quality.

Although the legal system affords protection of intellectual property rights, weak enforcement mechanisms, inefficient courts, and poor judicial knowledge of commercial law dilute the effectiveness of this statutory protection. Moreover, injunctive relief is not available in Haiti, so the only way to force compliance, should it become necessary, is to jail the offender. Efforts to reform and improve the Haitian legal system, now being undertaken with the assistance of international advisors, may prevent more extensive abuse of intellectual property rights as Haiti's economic recovery progresses.

Haiti is signatory to the Buenos Aires Convention of 1910 and the Paris Convention of 1883 with regard to patents, and to the Madrid Agreement with regard to trademarks, and is a member of the World Intellectual Property Organization. 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. A draft update of the Labor Code is currently in circulation and may be considered when parliament reconvenes in 2001.

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. 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. Unions complain that employers do not allow unions access to workers, and individuals that attempt to join unions risk being fired. Collective bargaining is nearly nonexistent, especially in the private sector. Employers can generally set wages unilaterally, in compliance with minimum wage (currently set at 36 Haitian gourdes per day) and overtime standards.

Haiti has one nascent export processing zone, and the labor code does not distinguish between industries producing for the local market and those producing for export. Employees in the export-oriented assembly sector enjoy wages and benefits above the legal minimums, largely through piece-work. Wages appear to be somewhat higher in the more capital-intensive industries producing for the local market.

c. *Prohibition of Forced or Compulsory Labor:* The labor code prohibits forced or compulsory labor. However, some children continue to be subjected to unremunerated labor as domestic servants. Rural families are often too large for the adult members to support, and children are sometimes sent to work for urban families in exchange for room, board and schooling. Reports of abuse are common. In recent years, the Ministry of Social Affairs has expanded the capacity of its Institute of Social Well-being (IBESR) 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, and the ILO has begun working closely with these sectors to meet international standards. Individual firms are motivated to comply with codes of conduct adopted by some of the U.S.-based multinational corporations that import textiles and garments from Haiti. They are making efforts to bring their plants into conformity with such codes. The Ministry of Social Affairs does not 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 a few 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—2000

[In 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		0
Banking		(1)
Finance/Insurance/Real Estate		(1)
Services		0
Other Industries		0

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—2000—Continued

[In Millions of U.S. Dollars]

Category	Amount
Total All Industries	50

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

HONDURAS

Key Economic Indicators

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

	1999	2000	[1] 2001
Income, Production and Employment:			
Nominal GDP (US$) [2]	5,346.0	5,704.0	5,903.6
Real GDP Growth (pct)	–1.9	4.7	3.5–4.0
GDP by Sector:			
Agriculture	1,482.0	1,587.0	1,621.0
Manufacturing	992.0	1,025.0	1,116.8
Services	491.0	508.0	694.6
Government	305.0	318.0	319.8
Per Capita GDP (US$/population)	891	920	922
Labor Force (000s)	2,128.5	2,220.5	2,334.6
Official Unemployment Rate (pct)	3.7	3.3	4.2
Money and Prices (annual percentage growth):			
Money Supply (M2)	20.6	17.0	13.8
Consumer Price Inflation	10.9	10.1	9–10
Exchange Rate (LP/US$ annual average):			
Official	14.56	15.19	15.63
Parallel	14.42	14.97	15.52
Balance of Payments and Trade:			
Total Exports FOB	1,303.9	1,539.0	1,408.7
Exports to United States [3]	457.4	526.9	321.8
Total Imports CIF	2,558.0	2,867.0	2,802.7
Imports from United States [3]	1,193.3	1,328.5	714.6
Trade Balance	–1,254.1	–1,328.0	–1393.0
Balance with United States [3]	–735.9	–828.5	–392.8
External Public Debt	4,728.0	4,664.5	4,080.0
Fiscal Deficit/GDP (pct)	3.7	3.2	4.9
Current Account Deficit/GDP (pct)	3.2	4.1	5.6
Debt Service Payments/GDP (pct)	14.1	31.1	21.5
Gold and Foreign Exchange Reserves	1,001.3	1,022.5	1,047.5
Aid from United States [4]	555.7	42.7	45.1
Aid from Other Countries	165.2	212.4	159.9

[1] 2001 figures are projections based on data available in July.
[2] GDP at factor cost.
[3] Honduran trade data does not include transactions with the large maquila (apparel assembly plants) sector, which is accounted for as a value-added service. U.S. government data for trade with Honduras is significantly higher: U.S. exports to Honduras were $2.4 billion in 1999 and $2.6 billion in 2000. U.S. imports from Honduras were $2.7 billion in 1999 and $3.1 billion in 2000.
[4] Includes USAID disaster relief and reconstruction assistance expenditures in response to Hurricane Mitch.

1. General Policy Framework

Despite recovering from the devastation of Hurricane Mitch in October 1998, Honduras is still one of the poorest countries in the hemisphere with low per capita income and education indicators. Massive international assistance, led by the United States at approximately $644 million for 1998–2001, provided emergency relief and is helping Honduras rebuild. Many of the homeless have received new houses in an effort led by churches, NGOs and the Honduran government. In general, the reconstruction effort has been on schedule and largely successful.

Honduras received significant debt relief in the aftermath of Hurricane Mitch, including the deferral of all bilateral debt service payments between November 1998 and December 2001 by the Paris Club. In July 2000, Honduras reached its decision point under the Highly Indebted Poor Countries (HIPC) Initiative, qualifying the country for interim debt relief. On October 5, 2001, the IMF approved a third year Poverty Reduction Growth Facility (PRGF) program which could make Honduras eligible for up to $220 million in debt relief through the end of 2002.

Honduras made progress toward macroeconomic stability. Inflation fell from 10.9 percent in 1999 to 10.1 percent in 2000 and is estimated to be 9 to 10 percent in 2001. A widening balance of payments deficit, initially worsened by the Mitch-induced recession with decreased exports (from crop damage and low world prices in coffee, bananas, and palm oil) and increased imports (for reconstruction), is being covered by international aid, reinsurance payments, and increased family remittances. Low world coffee prices during the 2000–2001 coffee harvest and a drought in June and July 2001 have further worsened Honduras' agriculture production capacity and, in addition to high international oil prices, ultimately the balance of payments deficit. In mid-2001, the Central Bank introduced dollar-denominated monetary absorption certificates as a way to stabilize inflation and the exchange rate and ordered that international reserves not drop below the 2000 level of $1.022 billion.

Since 1990, succeeding governments have embarked on economic reform programs, dismantling price controls, lowering import tariffs, removing nontariff barriers to trade, adopting a free market exchange rate regime, removing interest rate controls, and passing legislation favorable to foreign investment. In the three-year PRGF approved by the IMF in March 1999, Honduras committed to privatize management of the airports, the telephone company, and electricity distribution. Airport management was turned over to a United States-led consortium in October 2000, but the telephone company bid failed the same month and a bill authorizing privatization of electricity distribution continues to languish in Congress. In 2001, talk of opening the telecom market by bidding out the Band B cellular service has been met with resistance in the Congress. In addition, Honduras has also failed to privatize its electrical distribution sector for the past 22 months because of continued opposition within the Honduran Congress. As of November 2001, Congress has approved only 53 of 152 articles of law that would allow for privatization. Waiver requests were recently approved by the IMF, IDB, and World Bank for non-performance in this area. The sector remains highly inefficient and a drain on the Government of Honduras' budget. Congress passed laws in late 1998 to encourage foreign investment in the tourism, mining, and agriculture sectors, though their potential has yet to be realized. The biggest success story of all has been the growth of the apparel (assembly) industry, with significant U.S. investment, from virtually zero in 1989 to over 200 plants in 2000 generating almost $550 million in foreign exchange and employing over 125,000 workers by December 2000. Implementation of the Caribbean Basin Trade Partnership Act in October 2000, which provides enhanced benefits to Honduras and other countries of the region, was expected to further boost investment and employment in the sector. However, a slowdown in the U.S. economy is blamed for over 20 maquila closings in 2001 and an estimated net job loss of 10,000 workers. Overall growth in foreign investment is hampered by a politicized judiciary subject to influence, a deficient education system, insecure property titles, non-transparent bidding procedures, cumbersome bureaucratic requirements, and generally perceived lack of private sector confidence in the government and the economy.

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 U.S.-Honduras Bilateral Investment Treaty (BIT) entered into force in July 2001. The United States and Honduras are finalizing the text of a bilateral Intellectual Property Rights Agreement, a draft of which was initialed in March 1999. The Honduran Congress passed legislation in December 1999 to partially 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 accepted in a band seven percent above or seven percent below the base price established every five days. The base price moves according to relative inflation and price indices of Honduras' main commercial trading partners. During recent auctions, the Central Bank has been adjudicating an average of $8 million daily.

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 inter-bank rate of exchange. Presently, commercial banks are required to sell 100 percent of these repatriated earnings to the Central Bank (except for exporters operating in free trade zones and export processing zones as well as remittances), which in turn auctions up to 60 percent in the open market.

3. Structural Policies

Trade Policy: In an effort to maintain competitiveness with its Central American neighbors, import tariffs were lowered and now range between 1 and 17 percent for most items. However, sensitive items such as automobiles are assessed additional nontariff charges that can equal 35 percent. Honduras is a member of the Central American Common Market, which includes Costa Rica, El Salvador, Nicaragua and Guatemala. In 1995, Honduras and other Central American Common Market (CACM) members agreed to work toward the full implementation of a common external tariff (CET) ranging between zero and 15 percent for most products, but allowing each country to determine the timing of the changes. With the exception of certain items, there are no duties for products traded among CACM members; however, Nicaragua imposed a 35 percent still current tariff on Honduran imports in December 1999 as a result of an ongoing maritime boundary dispute. Tariffs on certain raw materials and inputs produced outside the Central American region and tariffs on capital goods have been reduced to one percent. Extra-regional tariffs for intermediate goods have been reduced to 10 percent, while tariffs on finished goods have been reduced to 15 percent. On August 29, 2000, Honduras, along with Nicaragua, joined the customs union formed by Guatemala and El Salvador in 1996. In order to facilitate customs' processing, El Salvador and Guatemala established Satellite Customs' Offices at the Honduran port of Puerto Cortes and the El Amatillo border crossing between Honduras and El Salvador.

After nine years of negotiations, a free trade agreement between the members of the Northern CACM Triangle (Honduras, Guatemala and El Salvador) and Mexico took effect on June 1, 2001. A free trade agreement with the Dominican Republic and an agreement strengthening trade relations with Colombia were approved by the Honduran National Congress in October 2001. Honduran trade officials are close to finishing negotiations with Chile. In addition, Honduras has showed interest in a free trade agreement with Canada and Taiwan.

Pricing Policy: Medicines are the only products under a formal price control regime. The government also reviews the price of gasoline, diesel, and liquid propane gas, as well as the rates for public transportation and public utilities. In addition, the Government of Honduras also maintains informal control over prices of cement and certain staple products, such as milk and sugar, by pressuring producers and retailers to keep prices as low as possible. Products imported into Honduras are usually priced on the CIF value, import duties, in-country transportation costs, and distribution margins.

Tax Policies: The corporate income tax rate decreased from 30 percent in 1998 to 25 percent in 1999. The sales tax was increased from 7 percent to 12 percent in 1998 for most products. Products exempted from this tax include staple foods, milk, juice, purified water, fuels, medicines, agrochemicals, household cleaning products, books, magazines and educational materials, agricultural machinery and tools, handicrafts, and capital goods such as trucks, cranes, tractors, and computers. Alcohol, cigarettes, and tobacco products are assessed a 15 percent tax. A one percent tax applied on the FOB value of all export articles was eliminated in 2000. Export taxes on bananas have been reduced in stages from 50 to 4 cents a box in 2000. Special export taxes on seafood, sugar, and live cattle were eliminated in 2000. Tourism services have been subject to a four percent tax since 1998.

4. Debt Management Policies

At the end of 2000, Honduras' total external debt stock was $4.08 billion. Honduras signed an Enhanced Structural Adjustment Facility (ESAF, now Poverty Reduction and Growth Facility [PRGF]) Agreement with the IMF in March 1999. In April 1999 the Paris Club granted a three-year rescheduling on Naples terms: 67 percent reduction of eligible debt. Combined with the debt service deferral, this reduced the originally scheduled debt service for 1999 from $396 million to $348 million. Honduras also received special assistance from bilateral donors, mainly through the Central American Emergency Trust Fund (CAETF), which reduced its debt service payments to multilateral creditors. Honduras received pledges of donor support at the May 1999 Consultative Group Meeting in Stockholm of $2.7 billion.

In July 2000, the IMF and the World Bank Boards approved Honduras' decision point under the Heavily Indebted Poor Countries (HIPC) Initiative. In October 2001, the IMF approved Honduras' third-year PRGF, and along with the World Bank, the Poverty Reduction Strategy Paper, which makes Honduras eligible for interim debt relief and qualify for $556 million in debt relief in present value terms or $900 million in nominal terms at its completion point in December 2002. Some key conditions of the new PRGF include controlling public sector wages, submitting legislation to reform the civil service, and financial legislation to limit the personal liability of bank regulators and halting the real appreciation of its currency.

5. Significant Barriers to U.S. Exporters

Import Policy: The government forbids the import of certain items that compete with domestic industries. These vary over time, but at present include cement, sugar, rice from southeastern Asia, and beef from South America. Import restrictions are also imposed on firearms and ammunitions, toxic chemicals, pornographic material, and narcotics. Other import restrictions are applied to chicken meat. Import restrictions are mainly based on phytosanitary, public health, public morals, and national security factors.

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, insurance 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, contain expiration dates, and be 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 Honduran Constitution requires that all foreign investments complement, but not substitute for, national investment. Although there is a clear preference on the part of the government for new foreign investment in export industries, there are no officially mandated requirements that foreign investors must satisfy as a condition for investing in Honduras. The 1992 Investment Law guarantees national treatment to foreign private firms in Honduras, with only a few exceptions. There are restrictions limiting the number of foreign nationals working for a company. In certain types of industries, majority Honduran ownership is required. Roasting of coffee (traditionally Honduras' second foreign exchange earner) is tightly controlled by four or five firms. Foreign companies that wish to own land based on the Agrarian Reform Law, engage in commercial fishing, local transportation, and forestry, or are representatives, agents, or distributors for foreign companies or seek to operate radio and television stations, must partner with Honduran nationals. There are also limits on the amount of land a single corporation may own. Small-scale commercial and industrial activities with an investment no greater than Lempiras 150,000 ($11,000) excluding land, buildings and vehicles are reserved exclusively for Honduran nationals.

The Honduran Constitution prohibits the foreign ownership of land within 40 kilometers of land borders and shorelines. A proposed constitutional amendment to modify the prohibition was dropped in 1999 due to opposition by ethnic 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. Embassy has worked extensively to assist these citizens, most of whose cases are being litigated in Honduran courts.

On July 12, 2001, a Bilateral Investment Treaty between the United States and Honduras went into force. The Treaty provides for equal protection under the law for U.S. investors in Honduras and permits expropriation only in accordance with international law standards and accompanied by adequate compensation. U.S. investors in Honduras also have the right to submit an investment dispute to binding international arbitration.

Government Procurement Practices: Foreign firms are legally given the same treatment as national firms for public bids. In practice, however, 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. By law, local agency firms must be at least 51 percent Honduran-owned, unless the procurement is classified as a national emergency.

Under the State Contracting Law, all public works contracts over Lempiras 200,000 ($13,000) must be offered through public competitive bidding. The government publishes tenders in Honduras' major newspapers. All contracts over Lempiras 2,250,000 ($150,000) with government ministries must be reviewed by the Office of the State's Legal Advisor. Government purchases and project acquisitions are generally exempted from import duties.

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. In February 2000, Honduras implemented the World Trade Organization Customs Valuation Agreement, which establishes rules for the determination of the customs value.

6. Export Subsidies Policies

Almost all export subsidies have been eliminated. The Temporary Import Law (RIT) allows exporters to introduce raw materials, parts, and capital equipment into Honduras exempt from surcharges and customs duties if the product is to be incorporated into a product which is 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 who export to the government are required by law to sell through an agent or distributor.

7. Protection of U.S. Intellectual Property

Honduras largely complied with the World Trade Organization's Trade Related Aspects of Intellectual Property Rights (TRIPS) Agreement's required January 1, 2000, deadline. In December 1999, the Honduran Congress passed two new laws related to intellectual property to correct deficiencies in previous legislation concerning copyrights, patents, and trademarks. The new Copyright Law adds more than 20 different criminal offenses related to copyright infringement and establishes fines and suspension of services that can be levied against offenders. The new Law of Industrial Property, which covers both trademarks and patents, includes modifications on patent protection for pharmaceuticals, extending the term from seventeen to twenty years to meet international standards. The term for cancellation of a trademark for lack of use has been extended from one year to three years. Bills protecting integrated circuits and genetic plant modifications are pending before the Honduran Congress.

To be protected under Honduran law, patents and trademarks must be registered with the Ministry of Industries and Trade. The life of a patent ranges from 10 to 20 years, depending on the importance of the invention. Trademarks are valid for up to 10 years from the registration date. Well-known trademarks are protected under the Pan American Convention (1927), to which Honduras is a party.

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 and computer software. The illegitimate registration of well-known trademarks is still a problem as well. The United States and Honduras initialed a Bilateral IPR Agreement in March 1999. Signing of this agreement is still pending.

8. 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. 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 association), 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 14 percent of the work force is unionized, so 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. Labor or civil courts can require employers to rehire employees fired for union activity. 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 the 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 family farms, as street vendors, or in workshops to supplement the family income. In September 1998, the government created the National Commission for the Gradual and Progressive Eradication of Child Labor. In June 2001, the National Congress ratified Convention 182 of the International Labor Organization prohibiting the Worst Forms of Child Labor.

e. *Acceptable Conditions of Work:* 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 $2.25 to $3.19 (35.00 to 49.50 lempiras) per day, depending on whether the employer has more than 15 employees. The highest minimum wage is $4.08 (63.30 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. In October 2000, the private sector and two of Honduras' three national labor confederations negotiated a general monthly wage increase of $23 (350 lempiras) for workers earning up to $400 (6000 lempiras) per month. This increase will take effect upon its approval by the Honduran Congress.

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. In establishing new investments in Honduras, U.S. businesses in recent years consciously have constructed their plants to meet more stringent U.S. laws and regulations. Some U.S.-owned apparel-assembly plants have implemented the Worldwide Responsible Apparel Production, an industry code of conduct.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—2000

[In Millions of U.S. Dollars]

Category		Amount
Petroleum		(1)
Total Manufacturing		192
Food & Kindred Products	208	
Chemicals & Allied Products	2	

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—2000—Continued

[In Millions of U.S. Dollars]

Category	Amount	
Primary & Fabricated Metals	–1	
Industrial Machinery and Equipment	0	
Electric & Electronic Equipment	0	
Transportation Equipment	–26	
Other Manufacturing		
Wholesale Trade		3
Banking		(1)
Finance/Insurance/Real Estate		9
Services		0
Other Industries		–119
Total All Industries		115

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

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

JAMAICA

Key Economic Indicators

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

	1999	2000	[1] 2001
Income, Production and Employment:			
Nominal GDP	6,818.2	6,894.8	6,948.0
Real GDP Growth (pct) [2]	–0.4	0.8	0.5
GDP by Sector:			
Agriculture, Forestry and Fishing	509.7	479.4	N/A
Mining and Quarrying	305.4	319.2	N/A
Manufacturing	987.0	990.4	N/A
Construction and Installation	703.5	713.9	N/A
Electricity and Water	260.5	297.2	N/A
Transportation, Storage, and Communication	735.8	731.9	N/A
Retail Trade	1,468.9	1,476.0	N/A
Real Estate Services	421.7	419.7	N/A
Government Services	865.6	838.6	N/A
Finance	554.1	567.3	N/A
Other	524.4	534.5	N/A
Less Imputed Service Charges	518.3	473.2	N/A
Per Capita GDP (US$)	2,643.0	2,652.0	2,670.0
Labor Force (000s)	1,119.1	1,105.3	N/A
Unemployment Rate (pct)	15.7	15.5	15.5
Money and Prices (annual percentage growth):			
Money Supply (M3) [3]	17.3	10.6	2.0
Consumer Price Inflation	6.8	6.1	7.0
Exchange Rate (JDOLS/US$—annual average)	39.33	43.32	45.90
Balance of Payments and Trade:			
Total Exports FOB	1,247.0	1,300.0	1,285.0
Exports to United States	461.0	496.0	400.0
Total Imports CIF	2,904.0	3,191.0	3,267.0
Imports from United States	1,437.0	1,431.0	1,468.0
Trade Balance	–1,657.0	–1,891.0	–1,982.0
Balance with United States	–976.0	–935.0	–1,068.0
External Public Debt [4]	3,024.1	3,375.2	3,970.0
Fiscal Balance/GDP (pct) [5]	–4.3	1.4	N/A
Current Account Deficit/GDP (pct)	3.7	4.1	N/A
Debt Service Payments/GDP	32.7	32.9	N/A
Net International Reserves [6]	446.3	970.0	1,600.0
Aid from United States [7]	23.1	13.6	14.4

Key Economic Indicators—Continued

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

	1999	2000	[1]2001
Aid from All Other Sources [8]	165.4	302.7	N/A

[1] 2001 figures are all estimates based on available monthly data as of September 2000.
[2] Growth rate is based on Jamaican dollars whereas nominal GDP is shown in U.S. dollars.
[3] 1999 and 2000 figures is growth from December to December. Figure for 2001 is growth from January-June.
[4] Figure as of May 2001.
[5] Jamaican fiscal year (April-March).
[6] Figure based on September 2001.
[7] Estimates include development, food, and military assistance for FY99, FY00 and FY01.
[8] Estimated disbursements for development assistance from Jamaica's cooperation partners (bilateral and multilateral).

1. General Policy Framework

Jamaica is an import-oriented economy. Imports of goods and services totaled US$ 4.08 billion or 55 percent of GDP in 2000. Of this total, raw materials amounted to US$ 1,713 million, while consumer goods and capital goods amounted to US$ 976 million and US$ 511 million respectively. Tourism (estimated at 15 percent of GDP), bauxite/alumina (9 percent of GDP), and manufacturing exports (including apparel, processing of sugar, beverages and tobacco estimated at 16 percent of GDP) are the major pillars sustaining the economy. In 2000, these three sectors accounted for about 76 percent (US$ 2.48 billion) of the country's exports of goods and services. Remittances from Jamaicans living abroad are also a significant source of income and bring in over US$ 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 1.11 million, representing 61 percent of total population 14 years and over. Women account for 44.4 percent of the total labor force. About 65 percent of Jamaica's work force is employed in the services sector, contributing about 60 percent of GDP in constant 1986 dollars. Agriculture accounts for 7.1 percent of GDP and employs 22 percent of the workforce. The primary agricultural products are sugar, bananas, coffee, and cocoa. The small size of the domestic market, relatively high production costs, and inexpensive imports have reduced the contribution of the manufacturing sector over the last several years to about 16 percent of GDP in 2000. The apparel industry began to contract in the mid-1990's. Employment in that sector is approximately 13,000, a decline of 64 percent from 1995.

The Jamaican economy grew by 0.8 percent in 2000 after four consecutive years of economic decline. Economic performance from 1995–1999 was hampered by a financial sector crisis, unfavorable international developments, high interest rates limiting economic expansion, adverse weather conditions affecting agriculture and the restructuring (downsizing/mergers and bankruptcies) of companies the result was reduced consumption and falling real investment. Economic performance in 2000 was boosted by 4.4 percent growth in service sectors (tourism, financial sector, electricity, water, transport, storage, and communications). Marginal growth in manufacturing and construction was offset by contraction in agriculture and the bauxite industry, resulting in a net 2.3 percent decline in the goods-producing sectors.

The economic recovery continued into the first half of 2001. However, the recent downturn in the U.S. economy is likely to have a negative impact on the tourist industry and some export industries. Bauxite/alumina and telecommunications are expected to show robust growth this year, while most other sectors may show modest growth. The government has maintained a stable macro economic framework and is committed to continued fiscal and monetary restraint under its IMF Staff Monitored Program (SMP). A sustained reduction in interest rates is a major objective of the 2001 economic program. Lower domestic interest rates would reduce debt-service requirements and encourage private investment.

The Government of Jamaica's five-year program to rescue the banking and insurance sector following the 1996 financial collapse is in its final stages of operation. The Financial Sector Adjustment Company (FINSAC), a government agency established in February 1997 to provide funding and to reorganize illiquid financial institutions, has completed its intervention and rehabilitation phase and is now accelerating the divestment of assets. To facilitate FINSAC's exit, the debt obligations of FINSAC have been addressed by:

- the write off of FINSAC's debt obligations to the public sector entities and to the Central Government;
- the repayment of obligations to the Bank of Jamaica;
- the pay-down of some FINSAC bonds through concessional loans from the Inter-American Development Bank (IDB), CDB and World Bank; and
- the assumption of remaining FINSAC liabilities by the Central Government through the conversion of FINSAC bonds to Local Registered Stocks (long term loans).

Since 1997, a series of amendments to the laws governing the financial sector have been passed to strengthen the regulation of the sector. The most recent is the Financial Services Commission (2000). This commission will be responsible for the efficient regulation and supervision of entities dealing in securities, collective investment funds (e.g. unit trusts and mutual funds), investment advisors, the insurance industry, and pension funds.

The Jamaican government's fiscal year (JFY) April 2001/March 2002 budget calls for JDOLS 185.5 billion in outlays. This is a 1.6 percent decline over the revised 2000/01 budget. For JFY 2001/02, recurrent expenditure is estimated at JDOLS 106.4 billion and capital expenditure at JDOLS 79.1 billion. Debt servicing is by far the largest expenditure category, accounting for 62 percent of the total budget. Other major budget expenditures include: education (10.7 percent), general government services (6.3 percent), public order and safety (5.3 percent), health services (4.2 percent), roads (1.2 percent), tourism (1 percent), and transport and communication services (1 percent).

The Government of Jamaica expects to finance about 59 percent of the JDOLS 185.5 billion in expenditures through a projected total revenue of JDOLS 108.7 billion. Recurrent revenues include: tax and non-tax receipts, capital revenue (royalties, land sales, loan repayments, and divestments), and transfers from the capital development fund (including the bauxite levy). The balance will come from debt including both external borrowing, JDOLS 32.3 billion (or 42.1 percent of the total deficit) and internal borrowing, JDOLS 44.5 billion.

The Bank of Jamaica (BOJ) continues a tight monetary policy and absorbs excess liquidity by issuing long-term securities (local registered stock) and short-term treasury bills. Open market operations is one means by which the Government of Jamaica funds its fiscal deficit. The BOJ continues to reduce excess liquidity through the reverse repurchase of treasury bills.

The BOJ lowered the cash reserve requirement for commercial banks from 25 percent in August 1998 to 10 percent in September 2001. However, commercial banks have been slow to respond by lowering their lending rates and domestic credit is under utilized.

2. Exchange Rate Policy

Jamaica eliminated exchange controls a decade ago. The principal remaining restriction is that foreign exchange transactions must be done through a licensed dealer or cambio. Any company or person required to make payments to the government by agreement or law, such as the levy and royalty due on bauxite, must make those payments directly to the Bank of Jamaica. Authorized dealers and cambios are required to sell a minimum of 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 2000, total foreign exchange inflows through commercial banks and cambios increased by 33.8 percent over 1999 to US$ 4.6 billion. From January to August 2001, foreign exchange inflows into the official market declined by 5 percent over the corresponding period in 2000 to US$ 2.4 billion. The average weighted selling rate for the JDOL remained fairly stable moving from JDOLS 45.53 to the U.S. dollar in December 2000, to JDOLS 45.80 to the U.S. dollar in the first eight months of 2001. There is a broad perception in the market that the Jamaican dollar is at least somewhat overvalued. However, the Government of Jamaica is committed to defending the exchange rate within a targeted band.

3. Structural Policies

In general, prices are freely determined. 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. The Fair Competition Act provides for an environment of free and fair competition and consumer protection.

According to JFY 01/02 estimates, tax revenues account for 90.5 percent of total recurrent and capital revenue. Major sources of tax revenue include: personal income tax (38.8 percent of total tax revenue), value added tax (28.0 percent), special consumption tax (10.9 percent), and import duties (10.4 percent). The budget continues to target inflation through a tight fiscal policy. The government proposes covering the budget deficit by a combination of revenue enhancement measures (such as user fees, drivers license fees and stamp duties), expansion of the tax net, divestment proceeds and by borrowing.

In January 1999, the Caribbean Community (CARICOM) Common External Tariff (CET) reduction was implemented by the Government of Jamaica thus reducing import or customs duty rates on non-CARICOM products to a maximum of 20 percent. Goods originating from CARICOM countries are not subject to import duties. In order to protect local producers, import duties on 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 25–63 percent) and special consumption tax (ranging from 5–39.9 percent). Further, most imported items are subject to the 15 percent General Consumption Tax (GCT).

The responsibility for the procurement of commodities under government to government agreements such as the PL. 480 program was transferred to the Trade Board in FY2000. The Embassy is unaware of any government regulatory policy that would have a significant discriminatory or adverse impact on U.S. exports.

4. Debt Management Policies

Jamaica's stock of external (foreign) debt increased by 11.6 percent to US$ 3.38 billion in 2000 following a decline of 8.5 percent in 1999. About 36 percent of the external debt is owed to bilateral donors, of which the United States is the largest, and 33 percent to multilateral institutions. Government securities, primarily bonds, account for 25.6 percent of the external debt, while five percent of the external debt is owed to commercial banks. The balance of external debt, 1.4 percent, is composed of supplier credit and other government liabilities. The British Government has agreed to grant debt relief under the UK/Jamaica Commonwealth Debt Initiative Arrangement for the period of April 1, 1999 to March 31, 2001 amounting to 5.4 million pounds sterling and for the period April 2000 to March 2003 amounting to 11.4 million pounds sterling. In addition, the Canadian government forgave CDOLS 18.1 million in bilateral debt during FY01/02. External debt is likely to show modest growth during the year 2001. 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.

In 2000, the World Bank reclassified Jamaica from "severely indebted" to "moderately indebted" country. In April 2001, Moody's and S&P upgraded the credit rating to Ba3 and the outlook for Jamaica from "stable" to "positive" respectively. Despite these positive developments, total debt service obligations continue to be of serious concern. According to JFY01/02 official budget projections, debt servicing will account for 62 percent of total expenditures. In July 2000, Jamaica reached an agreement with the Fund on a Staff-Monitored Program (SMP), under which IMF staff will work with the Government of Jamaica to monitor compliance with a mutually-agreed medium-term economic program.

The Government of Jamaica has outlined medium-term strategies to manage the debt problem that include: renegotiating and refinancing domestic debt, lowering interest rates, reducing the volume of domestic debt and accessing external capital market for additional funds.

Official external debt increased by 17.8 percent from January through May 2001, to US$ 3.97 billion. A US$ 153.5 million Eurobond issue in February and a US$ 400 million Eurobond issue in May contributed to the increase. According to the Ministry of Finance, the government borrowed on international capital markets early this year in order to take advantage of "opportunities in the capital market" and to shift the government's high-interest, Jamaican dollar denominated paper to dollar and euro denominated paper at minimum cost. Ministry of Finance officials expect no significant borrowing during the rest of the year. Total external debt is expected to fall during the second half of the year as the government continues scheduled repayments without taking on new obligations.

Jamaica's internal (domestic) debt has ballooned over the last five years, from JDOLS 77.7 billion in 1996 to JDOLS 187.5 billion in 2000. As of May 2001, internal debt stood at JDOLS 284.6 billion. This rapid increase was due largely to the conversion of FINSAC debt into Local Registered Stock (LRS—long term government securities) in order to bring obligations incurred during the financial sector clean up "on budget." Domestic debt is composed of government securities such as: T-bills (4.1 percent), Local Registered Stock (71.9 percent), bonds (22.4 percent), and loans from commercial banks and other entities (1.7 percent).

5. 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 encouraged to invest in almost every area of the economy. In September 1999, the Government of Jamaica and Cable and Wireless of Jamaica, Ltd. agreed to accelerate the end of the monopoly rights originally granted to Cable and Wireless until 2013. This agreement will phase-out Cable and Wireless' telecoms monopoly over the course of three years (i.e., by 2003). During the first phase in 1999/2000, the Government of Jamaica issued two mobile phone licenses to Digicel (an Irish company) and U.S.-based cellular company Centennial Communications Corp. Phase Two of the telecommunications sector's liberalization became effective September 1, 2001, when full facilities based competition in domestic services including Internet access using cable television networks and wireless local loop began. However, there are still certain restrictions in the communications field: under the cable television policy, preference in licensing is given to companies that are incorporated in Jamaica and in which majority ownership and controlling interest are held by Jamaican or CARICOM member-state nationals. The Embassy is not aware of any other economic or industrial strategies that have discriminatory effects on U.S. 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 stipulations, including labeling requirements. Items sold in Jamaica must conform to recognized international quality specifications. Imported goods are expected to conform to the metric system. 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. As of September 14, 2000, the Customs Department began to collect a new standards compliance fee of 0.03 percent of CIF from importers on behalf of the Bureau of Standards. The Quarantine Division of the Ministry of Agriculture inspects and determines standards in the case of live animals. The Ministry of Health inspects meat imports. No animal carcasses (meat, bones, hide, skin, hooves, etc.) can be imported without a permit issued by the Director of Veterinary Services, Jamaica, along with an official health certificate issued by an official government veterinarian.

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. Both foreign and domestic companies complain that "red tape" is an obstacle to doing business, but foreign investors are not treated differently than domestic investors, either before or after establishment.

Government procurement practices: Government procurement is generally done through open tenders. U.S. firms are eligible to bid. The National Contracts Commission is the central body responsible for awarding government contracts.

Customs procedures: An ongoing modernization program at the Customs Department includes the computerization of most customs operations. However, inadequate staffing and administrative problems at Customs still result in periodic delays.

Anti-Dumping laws: On July 1, 1999, the Government of Jamaica implemented the amended Customs Duties, Dumping and Subsidies Act. Among other things the Act establishes an Anti-Dumping and Subsidies Commission. Safeguard legislation (protecting industries from serious injuries caused by a sudden surge in imports of a particular item) has been submitted to the Cabinet for approval.

6. Export Subsidies Policies

The Export Industry Encouragement Act (EIEA) allows approved export manufacturers access to duty-free imported raw materials and capital goods and exempts those manufacturers from income and dividend taxes for a maximum of ten years. However, in accordance with the WTO Agreement on Subsidies and Countervailing Measures, the incentives offered under the EIEA will be phased out by 2003. Other incentives are available from the Jamaican government's Export-Import Bank, including access to preferential financing, lines of credit, medium term modernization fund lending (at 12 percent interest) and export credit insurance. The Jamaican Export-Import Bank (EX-IM) and the Jamaica Exporters Association (JEA) introduced a joint-venture loan program targeting small exporters in 1999. The EXIM bank provides JDOLS 40 million for the program. JEA provides technical and financial support through its Small Business Export Development Project. In addition, effective September 2000, EXIM bank will make an additional JDOLS 150 million available to exporters at 9.5 percent for short-term pre-and-post shipment working capital.

7. Protection of U.S. Intellectual Property

The Jamaican Constitution guarantees property rights, and Jamaica has enacted legislation to protect and facilitate the acquisition and disposition of all property rights, including intellectual property. Jamaica is a member of the World Intellectual Property Organization (WIPO) and a signatory of the Berne Convention (copyright protection). Jamaica and the United States signed a Bilateral Intellectual Property Rights Agreement in March 1994. In addition, the 1997 Bilateral Investment Treaty (BIT) also contains obligations to respect intellectual property.

Jamaican laws address major areas of intellectual property rights (IPR) protection. The Copyright and Trade Mark Acts were amended in 1999. Amendments to the Copyright Act protect compilation works such as databases. Amendments also protect individuals with rights in encrypted transmissions as well as in broadcasting or cable program services. In addition, the amendments grant a right of action against persons who knowingly infringe upon those rights for commercial gain. Remedies available include injunctions, damages, seizure and disposal/destruction of infringing goods. Penalties also may include fines or imprisonment.

A revised bill on patents has been drafted and submitted to the parliament for discussion. The government expects this bill to be passed before the end of 2001/early 2002.

Litigation is a viable option in protecting intellectual property. In individual lawsuits in Jamaican courts, a number of U.S. corporations have successfully defended their names and service marks against trademark infringement. Over the last three years, American companies including Kmart and Costco International have successfully sued local trading companies for trademark infringement. Jamaican companies have also successfully taken IPR infringers to court. In August 2000, Paymaster Jamaica Ltd. sued Bill Express for infringing on its exclusive rights to computer software.

8. 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.

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 of 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. Children are observed peddling goods and services, and there are scattered reports of children working in fishing villages. However, 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 nonexistent.

In September 2000 the Government signed a memorandum of understanding with the ILO in preparation to ratify ILO Convention 182 on the prohibition and elimination of the "worst forms" of child labor.

e. *Acceptable Conditions of Work:* A 40-hour week with an 8-hour day is standard. Overtime and holiday pay are given at time-and-a-half and double time, respectively, except in the tourism industry. The minimum wage is JD 1,200 for a 40-hour week or JD 30 per hour though most workers are paid more. 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. Scarce resources and a narrow legal definition of the term "factory" combine to limit inspections.

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—2000

[In Millions of U.S. Dollars]

Category		Amount
Petroleum		[1]
Total Manufacturing		239
Food & Kindred Products	[1]	
Chemicals & Allied Products	167	
Primary & Fabricated Metals	0	
Industrial Machinery and Equipment	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	[1]	
Wholesale Trade		259
Banking		[1]
Finance/Insurance/Real Estate		14
Services		53
Other Industries		1,969
Total All Industries		2,596

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

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

MEXICO

Key Economic Indicators

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

	1999	2000	2001
Income, Production and Employment:			
Nominal GDP	484	540	590
Real GDP Growth (pct)	3.7	6.9	1
GDP by Sector (Still seeking this information):			
Manufacturing	92.5	107.6	109.0
Agriculture	20.6	22.7	23.0
Services:[2].			
Commerce, Restaurants, Hotels	87.6	110.7	115
Transportation, Storage, Communications	49.0	59.7	63.4
Financial, Insurance, Real Estate, Rents	57.2	65.4	70.2
Communal, Social, Personal	104	120.1	132.1
Per Capita GDP (US$)	4,927	5,460	5,840
Labor Force (Millions)	37.5	39.7	41.1
Unemployment Rate (pct)	2.5	2.2	[1]2.4

Key Economic Indicators—Continued

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

	1999	2000	2001
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	16.8	4.9	11.5
Consumer Price Inflation	12.3	9.0	6.5
Exchange Rate (Peso/US$)	9.6	9.4	[3] 8.1
Balance of Payments and Trade:			
Total Exports FOB	136.4	166.4	[4] 80.5
Exports to United States	120.4	147.6	71.2
Total Imports FOB	142.0	174.5	84.4
Imports from United States	105.3	127.6	60.1
Trade Balance	–5.6	–8.1	–3.9
Balance with United States	16.0	20.0	20.4
External Public Debt (net)	96.8	84.6	87.7
Fiscal Deficit/GDP (Pct)	1.1	0.9	0.7
Current Account Deficit/GDP (pct)	2.9	3.1	3.5
Debt Service Payments/Exports (pct)	20.2	14.7	13.8
Gold and Foreign Exchange Reserves	70.9	74.6	89.8
Aid from United States	N/A	N/A	N/A
Aid from All Other Sources	N/A	N/A	N/A

Note: The data comes from the Mexican Bulletin of Statistical Information (INEGI) and the Secretariat of Economy (SECON).
[1] Average of first seven months of 2001.
[2] Numbers are rounded.
[3] Average of first seven months of 2001.
[4] Accumulated trade first six months of 2001.

1. General Policy Framework

Mexico has experienced uninterrupted economic growth since 1996. Growth averaged 5.2 percent during 1996–1999 and reached 6.9 percent in 2000. Due to the downturn in the U.S. economy, 2001 growth estimates are sharply down. Analysts forecast the September 11 terrorist attacks against the United States will impede any growth that had been anticipated for Mexico for the remainder of 2001 and the beginning of 2002.

Exports, led by the “maquiladora” industry, remain Mexico’s primary engine of growth. Mexico’s exports totaled $166 billion in 2000, representing nearly 31 percent of Mexico’s GDP. Almost 90 percent of Mexico’s exports went to the United States in 2000 representing over 27 percent of Mexico’s GDP. Mexico’s close ties to the U.S. market were an advantage during the long expansion in the United States but now sharply limit Mexican growth.

Mexico is trying to diversify its markets through bilateral and multilateral trade agreements, including a Free Trade Agreement (FTA) with the European Union, which was concluded in 2000. These FTAs will eventually create new markets for Mexican products, while allowing more foreign competition, although we expect that exports to the United States will continue to dominate Mexico’s trade picture.

Reflecting the peso appreciation caused by high exports and strong FDI inflows, Mexico’s imports have been rising faster than exports, and have reversed Mexico’s trade surplus of earlier years. Mexico’s trade deficit for 2000 totaled about $8 billion and may rise in 2001.

Mexico is the second-largest trading partner for the United States after Canada. The United States is overwhelmingly Mexico’s largest export market and source of imports. Two-way trade with the United States totaled $275.2 billion in 2000. During the first six months of 2001, two-way trade amounted to $131.3 billion, down somewhat from the first six months of 2000. We expect the final trade figure for 2001 to be lower than 2000 because of the economic slowdown in the United States and the decrease in border-cross trade in the aftermath of September 11. However, this would be the first decline since NAFTA was implemented in 1994. Once a recovery starts in the United States, we expect the two-way trade figures to grow again.

The Mexican government adopted tight monetary and fiscal policies in 2000 in response to rapid economic growth (at one point in 2000, the economy was growing at 7.8 percent on an annualized basis). Growth for 2001 has been revised downwards from seven percent to one percent or less, with negative growth for the last two quarters of 2001. Despite the economic outlook, the Mexican Central Bank is not likely to loosen monetary policy significantly because high wage settlements in some sectors and a weakening peso pose inflationary dangers. There is little room for a looser fiscal policy because the goal of the Fox Administration's proposed fiscal reform is to raise revenue as a percentage of GDP, not cut taxes.

2. Exchange Rate Policy

Since December 1994, the peso has been floating freely, with only infrequent interventions by the Bank of Mexico. During September and October 2001, the peso depreciated somewhat vis a vis the dollar but for most of 2000 and 2001 the peso appreciated. The central bank's tight monetary policy, strong export growth, and high FDI inflows largely explain the peso's real appreciation during the period. FDI inflows for 2001 were especially high because of Citigroup's $12.5 billion purchase of Banamex. Mexico's oil exports in 2000 took on added significance because of high international oil prices (prices are currently declining). The accumulated impact of these developments raised Mexico's perceived creditworthiness, which further bolstered the value of the peso.

3. Structural Policies

Since the NAFTA was implemented in 1994, two-way trade between the United States and Mexico has grown from $106.5 billion to $275.2 billion in 2000. The rapid growth in two-way trade has been remarkable given that Mexico's economy is about a twentieth of the size of the U.S. economy. Geographic proximity to the United States has spurred this growth, but the key factors have been NAFTA and Government of Mexico policies, which have effectively opened up the Mexican market to most types of U.S. exports and investment. In 2000, for instance, the United States supplied about 73 percent of Mexico's imports.

Mexican law acknowledges Mexico's obligations under NAFTA and other international agreements regarding government procurement obligations. American firms have in the past complained to the U.S. Embassy that, occasionally, Mexican government procurement authorities have not complied with the obligation to provide forty days notice for bid submissions, but these complaints declined in 2001.

Mexico is a lightly-taxed country by international standards. Tax collections plus revenues from the state-owned oil company, PEMEX, amount to roughly 18 percent of GDP. The Fox Administration has proposed a fiscal reform law, which would impose a uniform Value-Added Tax (VAT). The idea is to reduce Mexico's dependence on oil revenues, and generate net additional revenue for Mexico's pressing social needs. Moody's rated Mexican government bonds as investment grade last year, but Standard & Poors (S&P) is waiting to do so until passage of the fiscal reform law. The proposed law has run into stiff resistance in Congress and passage is uncertain.

4. Debt Management Policies

Mexico has successfully returned to international capital markets since the peso crisis. While Mexican bonds are still not rated investment grade by S & P, in January 2001 Mexican bonds were yielding only about 400 basis points above U.S. Treasurys. Mexico's 2001 foreign debt as a percentage of exports amounts to 93 percent, and its short-term debt as a percentage of reserves 65 percent. These are considered manageable numbers by most financial analysts.

5. Significant Barriers to U.S. Exports

There are no significant barriers to most U.S. exports in Mexico. There are, however, some products which are subject to anti-dumping and/or countervailing duties, which effectively shut out U.S. products. Products subject to these duties are listed in the March 2, 2001, edition of the Diario Oficial (Mexico's equivalent of the Federal Register) and include pork, beef, apples, High Fructose Corn Syrup (HFCS), liquid soda, hydrogen peroxide, ammoniac sulphate, gasoline additives, cristal polysterene, polycloride (PVC), bonded paper, corrugated rods, and unfinished steel tubes. American agricultural exporters are also concerned that in 2003, when import tariffs and quotas on a number of agricultural products are scheduled for elimination under the terms of the NAFTA, the Mexican government will come under pressure from local producers to place non-tariff barriers on many of these products.

Mexico is open to most types of foreign investment. The two most important exceptions are energy and telecommunications. Mexico's constitution and Foreign Investment Law of 1992 reserve oil and gas extraction and electric power transmission for the state. Only Mexican citizens may own gasoline stations. Gasoline is supplied by PEMEX, the state-owned petroleum monopoly. These gasoline stations sell only PEMEX lubricants, although other lubricants are manufactured and sold in Mexico. Mexico does allow private, including foreign, ownership and operation of electric power plants. The government also encourages private sector participation in the transportation, distribution, and storage of natural gas. However, there has been little private and foreign investment in these areas because of regulatory uncertainties.

Foreign investment in most telecommunication services is limited to a 49 percent equity position. In cellular telephony and paging services, 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.

Telmex's legal monopoly on long distance and international telephone service ended in August 1996, and competition was introduced in January 1997. There is competition in all major cities and much of the rest of Mexico. Eight firms are authorized to provide long distance service; five of these have U.S. partners. USTR cited Mexico in its April 2001 annual "1377" review for failure to meet its commitments under the WTO Basic Telecommunication Agreement. USTR's concerns include a lack of proper regulation of the dominant carrier, Telmex, and failure of the regulator to provide for cost-based interconnection at all technically feasible points on Mexico's network, including cross-border interconnection and International Simple Resale. Local, basic telephone service is technically open to competition, but practical competition in this area has not developed. The United States is concerned about the lack of competition in Mexico's telecommunications sector and may pursue more competition in this sector through WTO mechanisms.

Mexico has made a complete turnaround with respect to allowing private and foreign ownership in the banking sector. In 1982, the banks were nationalized. With this year's Citigroup acquisition of Banamex, foreigners now control about 80 percent of the banking industry. Citigroup, Banco Bilbao Vizcaya Argentarias (through its purchase of BANCOMER), and Banco Santander (through its purchase of SERFIN) hold roughly two-thirds of the nation's bank deposits. Foreign ownership over the medium-term should encourage the adoption of international standards in Mexican banking.

With increased transparency as one of its objectives, the Government of Mexico revised the Federal Law on Metrology and Standardization in May 1997. While the changes provided for privatization of the accreditation program and greater transparency, some Mexican ministries continue to consider particular regulations to be executive orders that need not be published for comment and thereby exempt from WTO and NAFTA rules concerning notification of proposals and an opportunity for comment.

U.S. exporters of certain vitamins, nutritional supplements, and herbal remedies have reported that Mexico's revised health law regulations impede their access to the Mexican market. There is a lack of clarity as to what products are now classified as medicines or pharmaceuticals, for which Mexico's Ministry of Health requires inspection and approval of the manufacturing facility in order to obtain a sanitary license. Additionally, Mexican government officials have advised U.S. industry and government officials that Mexican law does not allow them to conduct the required inspections and approvals for foreign-based facilities and are looking at ways to address these concerns consistent with WTO and NAFTA obligations. However, since the regulations' implementation in February 2000, the U.S. government has seen no progress.

Mexico's Law on Metrology and Standardization mandates that products subject to technical regulations ("Normas Oficiales Mexicanas" (NOMs)) be certified by the government agency that issued the NOM or by an authorized independent certification body. Under NAFTA, Mexico was required, starting January 1, 1998, to recognize conformity assessment bodies in the United States and Canada on terms no less favorable than those applied in Mexico. The current position of the Government of Mexico is to only recognize additional certification bodies on a "needs basis" raises serious concerns and is a strong indication that the existing product certification bodies will continue to monopolize the market.

U.S. exporters have complained that standards are enforced more strictly for imports than for domestically produced products. Imports are inspected at the border by Customs, while domestic products are inspected randomly at the retail level by the Procuraduria Federal del Consumidor (PROFECO, the Mexican federal consumer protection agency). U.S. exporters have also complained of inconsistencies among ports of entry.

Mexico has approximately 700 mandatory standards (NOMs), and the number increases weekly. Only 81 have been issued by the Secretariat of the Economy. The rest are from eight other government agencies. Each agency has its own NOM compliance certification procedures. Only Economy and the Secretariat of Agriculture (for a limited subsector of its NOMs) have published their certification procedures. On February 29, 2000, SECOFI published new procedures to certify NOM compliance. They became effective on May 1, 2000. The new procedures apply only to Economyissued NOMs, and allow foreign manufacturers from countries having trade agreements with Mexico to hold title to NOM certificates. The procedures allow expansion of the ownership of a NOM certificate to more than one importer. Prior practice required each importer to pay for a separate certificate, even if importing a product identical to that imported by another importer (this remains true for NOMs issued by government agencies other than Economy).

The new procedures were designed to reduce the cost of exports to Mexico by eliminating redundant testing and certification. However, companies complain that the product certification bodies have increased the cost of certification and are charging for expansion of ownership of a certificate. U.S. companies are thus not benefiting from the new procedures. Additionally, U.S. companies have reported the Mexican laboratories are requiring that the products tested and certified meet the rules of origin with which Mexico has a free trade agreement, basically tying rules of origin to conformity assessment.

In 1996, Mexico enacted a new Customs Law that simplified procedures. The law transferred some operations 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 maintains (and in some cases has significantly expanded) measures that can make it more expensive to bring in legitimate imports, including an industry sector registry and estimated prices. During 2001, the most serious change was a reduction in the number of port-of-entry through which some textile products can enter Mexico.

Mexico uses estimated prices for customs valuation of a wide range of products imported from the United States and other countries: including apples, milled rice, beer, distilled spirits, chemicals, wood, paper and paperboard products, textiles, apparel, toys, tools, and appliance. On October 1, 2000, the Mexican government implemented a burdensome new surety system for goods subject to these prices. Since that date, importers can no longer post a bond to guarantee the difference in duties and taxes if the declared value of an entering good is less than the official estimated price. Instead, they must deposit the difference in cash at a designated Mexican financial institution or arrange one of two alternative sureties (a trust or line of credit). The cash is not returned for six months, and then only if the Mexican government has not initiated an investigation and if the supplier in the country of exportation has provided an invoice certified by its local chamber of commerce. U.S. exporters have long complained that estimated pricing under Mexico's old surety system unfairly restricted trade, but implementation of the cash deposit requirement has created significant additional costs. Indeed, Mexican banks charge as much as $1,500 to open cash accounts and $250 for each transaction.

6. Export Subsidies Policies

The government does not have 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 Producers 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 established 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. Mexico has acceded to the WIPO Copyright Treaty and the Performances and Phonograms Treaty, which provide protection for digital works.

The United States and Mexico regularly review progress on IPR issues. The United States is principally concerned with the lack of consistent enforcement of IPR rights in Mexico. According to statistics collected by industry organizations, IPR enforcement actions during the first six months of 2001 declined significantly compared with the first six months of 2000. Music piracy increased dramatically in 2000 compared with 1999, according to industry. Total losses in 2000 amounted to $ 525.7 million. Besides combating the continuing high piracy levels in Mexico, the United States wants Mexico to improve its protection of test data held by patent holders from use by "second comer" companies seeking permission to market drugs. The United States is also concerned that the Mexican Copyright Law is not fully compliant with NAFTA and the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights and is consulting with Mexico on how to address the deficiencies.

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; about 25 percent of the work force is unionized. 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. In 1999, a 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. A 2000 Supreme Court decision invalidated "exclusion contracts," which mandated that only one trade union could represent workers.

Most labor confederations, federations, and separate national unions are still allied with the Institutional Revolutionary Party (PRI), which governed Mexico for 71 years, until December 2000. Union officers help select, run as, and campaign for PRI candidates in federal and state elections, and have supported PRI government policies at crucial moments. This generally gave the unions some influence on government policies, but limited their freedom of action. Rivalries within and between PRI-allied organizations have been strong. Although the benefits of labor's special relationship with the PRI and the government have been decreasing in recent years, the PRI's loss of the presidency in July 2000 will be the real test of the relationship. A smaller number of labor federations and independent unions are not allied with 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. As many as 90 percent of contracts registered are signed without the knowledge or approval of the workers. Independent unions have often encountered obstacles to recognition, especially by local labor boards. Industry or sectoral agreements carry the weight of law in some sectors and apply to all sector firms, unionized or not, although this practice is becoming less common. The FLL guarantees the right to strike. On the basis of interest by a few employees, or a strike notice by a union, an employer must negotiate a collective bargaining agreement or request a union recognition election. In 1995, at union insistence, annual national pacts negotiated by the government and major trade union, employer, and rural organizations ceased to limit free collective bargaining, as had been the case for the previous 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 for many years.

d. *Minimum Age for Employment of Children:* The FLL sets 14 as the minimum age for employment, and children under 16 may work only six hours a day, with prohibitions against overtime, night labor, and performing hazardous tasks. Enforcement is reasonably good at medium and large 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 (for 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 may 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 199, the commission adopted a 10 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 37.90 pesos ($4.10 in late September 2000). However, daily minimum wage earners actually are paid 43.21 pesos, due to a 14 percent supplemental fiscal subsidy (tax credit to employers). Approximately 16 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. Legally required benefits include social security, medical care and pensions, individual worker housing and retirement accounts, substantial Christmas bonuses, paid vacations, profit sharing, maternity leave, and generous severance packages. Employer costs for these benefits run from 27 percent of payroll at small enterprises to over 100 percent at major firms with strong union contracts. Eight hours is the legal workday and six days the legal workweek. 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 the overtime. For most industrial workers, especially under union contract, the true workweek is 42 hours with seven days' pay. This is why unions jealously defend the legal ban on 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 reflect 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 and state inspectors (fewer than 700 nationwide) 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—2000

[In Millions of U.S. Dollars]

Category		Amount
Petroleum		163
Total Manufacturing		20,379
Food & Kindred Products	5,969	
Chemicals & Allied Products	3,436	
Primary & Fabricated Metals	(1)	
Industrial Machinery and Equipment	1,095	
Electric & Electronic Equipment	(1)	
Transportation Equipment	5,029	
Other Manufacturing	(1)	
Wholesale Trade		1,450
Banking		1,189
Finance/Insurance/Real Estate		6,732
Services		1,200
Other Industries		4,301

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—2000—Continued

[In Millions of U.S. Dollars]

Category	Amount
Total All Industries	35,414

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

NICARAGUA

Key Economic Indicators

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

	1999	2000	[1] 2001
Income, Production and Employment:			
Nominal GDP [2]	2,267.0	2,364.5	2,435.4
Real GDP Growth (pct) [2 3 4]	7.4	4.3	3.0
GDP by Sector: [2]			
Agriculture [4]	643.0	696.8	752.5
Manufacturing	643.0	660.2	660.0
Services [5]	825.1	852.1	878.2
Government	155.9	155.4	144.5
Per Capita GDP (US$)	459.0	466.0	468.0
Labor Force (000s)	1,728.9	1,815.3	1901.7
Unemployment Rate (pct)	10.7	9.8	10.3
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	18.8	–.5	7.4
Consumer Price Inflation (pct) [1]	7.2	9.9	10.0
Exchange Rate (Cordobas/US$—annual average):			
Official	11.8	12.7	13.5
Parallel	11.9	12.8	13.6
Balance of Payments and Trade;			
Total Exports FOB [6]	545.2	645.1	640.0
Exports to United States [7]	493.0	590.0	625.0
Total Imports CIF [6]	–1,698.7	–1,647.7	–1700.0
Imports from United States [7]	–374.0	–379.0	–425.0
Trade Balance [6]	–1,153.5	–1002.6	–1,060.0
Balance with United States [7]	119.0	190.2	200.0
External Public Debt (US$ bns)	6.5	6.7	6.6
Fiscal Deficit/GDP (pct)	12.3	14.0	17.0
Current Account Deficit/GDP (pct)	48.2	36.9	36.8
Debt Service Payments/GDP (pct)	7.4	7.5	7.6
Gold and Foreign Exchange Reserves [8]	348.8	316.4	388.1
Aid from United States [9]	149.6	29.0	34.2
Aid from All Other Sources [10]	409.4	333.8	216.0

[1] Most 2001 figures are Central Bank projections based on data available in September 2001.
[2] GDP data is based on Embassy projection.
[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; 2001 figures are estimates based on trade data through July 2001.
[8] Source: Central Bank figure from September 2001.
[9] Source: Embassy estimate of assistance from AID, USDA, and U.S. military for Hurricane Mitch relief.
[10] Includes debt forgiveness.

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 reached 7 percent growth in 1999 but slowed to 4.3 percent in 2000 as the Hurricane Mitch reconstruction boom subsided and some private investment decisions were postponed to await the outcome of November 2001 elections. To foster macroeconomic stability, the Aleman administration has adhered to structural adjustment programs with the International Monetary Fund (IMF). Nicaragua, with its huge debt of $6.7 billion, continues to seek forgiveness of the vast majority of its external debt under the Heavily Indebted Poor Countries (HIPC) Initiative.

At the end of its fifth year in office, the Aleman administration faced a series of economic challenges. In the span of one year (August 2000-August 2001), the government intervened in four local banks because of poor lending policies and apparent fraud. The drop in the international price of coffee—Nicaragua's main export—exacerbated Nicaragua's economic slowdown and increased rural unemployment as many coffee producers reduced operations. Additionally, a large current account deficit and fiscal deficit continues to hamper the economy and are counterbalanced by strong inflows of foreign assistance. All of these factors have contributed to weak economic growth that, in turn, has inhibited poverty reduction. Due to poor economic performance, a significant amount of labor migration has occurred in recent years from Nicaragua to Costa Rica, raising tensions between the two countries.

Furthermore, unresolved property confiscation cases from the Sandinista era continue to hinder economic development. Nicaragua is essentially an agricultural country with a small manufacturing base. The country is dependent on imports for most manufactured, processed, and consumer items. A member of the World Trade Organization, Nicaragua has reduced tariffs sharply and eliminated most nontariff barriers. Private investment, from both domestic and foreign sources, rose vigorously in 1999 and but declined in 2000. The primary focus of private investment has been hotels, housing, and commerce. 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 Government of Nicaragua in December 1999 reduced the devaluation rate of the cordoba to six percent per annum. A legal parallel exchange market supplies foreign currency for all types of exchange transactions. The spread between the official and parallel markets was slightly under one half of one percent in 2001. 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 progressive import tax reductions through the year 2002. Nicaragua imposes regular import duties (DAI) of 15 percent on 1,257 final consumption goods and a DAI of 5 percent on intermediate goods. Some 900 items are levied with a temporary protection tariff (ATP) of 5 to 10 percent, above the DAI. The maximum rate of the combined DAI and ATP on most items is 20 percent. A luxury tax is levied through the specific consumption tax (IEC) on 609 items. The tax generally is lower than 15 percent, with a few significant exceptions. The DAI and ATP taxes are based on CIF value. The IEC tax for domestic goods is based on the manufacturer's price, and for imported goods on CIF. Alcoholic beverages and tobacco products are an exception, in that the IEC is assessed on the price charged to the retailer. Nicaragua levies a 15 percent value added tax (IGV) on most items, except agricultural inputs. Import duties on so-called "fiscal" goods (e.g., tobacco, soft drinks, and alcoholic beverages) are particularly high. Some protected agricultural commodities such as corn and rice face special import tariffs of up to 55 percent. Cars with large engines (greater than 4000 cc) face an IEC tax of 25 percent, which has a discriminatory effect on larger U.S. vehicles. Vehicles with smaller engines are charged between zero and three percent IEC tax. Importers in general face a total import tax burden of 15 to 63 percent.

The Tax Justice Act of 1999, which placed Nicaragua ahead of the rest of Central American countries in lowering tariffs and reducing exemptions, established tax exemptions for nongovernmental organizations, hospital investments, and the agricultural, small handicraft, fishing, and aquaculture sectors. The importation of crude or partially-refined petroleum, liquid gas, and other petroleum derivatives were also exempted from some taxes. In April 2000, the National Assembly modified the Tax Justice Law to further reduce nominal luxury (IEC) taxes and to extend benefits enjoyed by cooperatives and the small business, agricultural, aquaculture and fishing sectors. Citing obligations to Nicaragua's Central American free trade partners, in May 2001, the Nicaraguan government raised the DAI tariff on most finished goods to 15 percent. Taxes on chicken products, mineral water, soft drinks, alcoholic beverages, cigars, and cigarettes were also increased.

Apart from regular tax policy, in December 1999, Nicaragua instituted a 35 percent tariff on all Honduran goods. The tax was imposed as a retaliatory measure for Honduras' signing of a maritime border agreement with Colombia that delineates areas to Honduras previously claimed by Nicaragua. Nicaragua has also implemented a 35 percent tariff on all Costa Rican and Colombian goods.

4. Debt Management Policies

With a foreign debt of more than $6 billion, Nicaragua has one of the highest per capita debts in the world. In March 1998, the IMF approved a structural adjustment program for Nicaragua. As part of the IMF program, the Nicaraguan government agreed to implement an aggressive policy directed at cutting the government fiscal deficit, implementing structural reforms, and maintaining overall monetary stability. The IMF and Nicaraguan government negotiated fiscal targets through December 2001, and the next government is expected to negotiate a new three-year IMF program in 2002.

Nicaragua should receive debt service relief in 2003 through the HIPC initiative. In December 2000, Nicaragua reached the HIPC Decision Point, which outlines actions to be taken by the Nicaraguan government to obtain debt forgiveness (worth approximately $4.5 billion). Under HIPC, Nicaragua's main creditors committed themselves to provide significant debt forgiveness when Nicaragua reaches the HIPC Completion Point. Reaching that stage will depend on the ability of Nicaragua to fulfill its commitments to the multilateral lending institutions and bilateral donor countries. One key requirement is the implementation of a coherent poverty reduction strategy.

5. Significant Barriers to U.S. Exports

Import Licenses: In most cases, the issuance of import licenses is a formality. Permits are required only for the importation of sugar, firearms, and explosives. U.S. exporters of food products must meet some phytosanitary and labeling requirements.

Services Barriers: After a series of bank failures, six private banks now operate in Nicaragua. No U.S. banks have established a presence in the country. Legislation passed in 1996 opened the insurance industry to private sector participation and four private insurance companies have been formed. No U.S. company has entered the Nicaraguan insurance 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. Expropriations from the Sandinista era remain an impediment to investment, as land titling is often unclear. In 2000, the government opened new property tribunals to help address this issue.

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 had been scheduled to implement WTO customs valuation procedures in September 2000, however it continues to use reference prices to determine import tax valuations. Implementation of the WTO standards is reportedly awaiting the publication of applicable regulations in the national registry.

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 been submitted to but not yet ratified by the U.S. Senate.

6. Export Subsidy Policies

All exporters receive tax benefit certificates equivalent to 1.5 percent of the FOB value of the exported goods. Legislation passed in 2000 provides for a 37-cent tax rebate on every exported pound of trawled shrimp and 7 cent rebate on every pound of farmed shrimp exported. Foreign inputs for Nicaraguan export goods from the country's free trade zones enter duty-free and are exempt from value-added tax.

7. 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. While current levels of protection still do not meet international standards, progress has been made in recent years. Although unable to dedicate extensive resources to protecting intellectual property rights (IPR), 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, a law on the protection of satellite signals, and a law on integrated circuit design. In 2000, the Assembly passed a new law on patents, followed by passage of a modern law on trademarks in 2001.

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: Despite decreasing over the past year, pirated videos are still widely available in video rental stores nationwide, as are pirated audiocassettes and software. Increasingly fewer cable television operators intercept and retransmit U.S. satellite signals, though the practice persists despite a trend of negotiating contracts with U.S. sports and news satellite programmers. In August 1999, a new copyright law went into effect; however, criminal penalties were delayed for 6–12 months. Video and audiocassette pirates as well as small cable operators asked the National Assembly for additional extensions, but the National Assembly denied them. Since passage of the law, the U.S. government and industry have worked with the Nicaraguan government to provide training for effective enforcement. In May 2001, the first raid on vendors of pirated material was made at the largest market in Managua with several arrests and a large amount of merchandise seized.

8. 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 six 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 formal sector of the economy.

e. *Acceptable Conditions of Work:* The 1996 labor code maintains the constitutionally mandated eight hour workday. The standard legal workweek is a maximum of 48 hours, with one day of rest. The 1996 code established that severance pay be equivalent to one to five months' salary, depending on the circumstances of termination and the length of employment. 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, and increased further in August 1999, 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—2000

[In Millions of U.S. Dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		5
Food & Kindred Products	0	
Chemicals & Allied Products	(1)	
Primary & Fabricated Metals	(1)	
Industrial Machinery and Equipment	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		4
Banking		0
Finance/Insurance/Real Estate		0
Services		0
Other Industries		(1
Total All Industries		179

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

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

PANAMA

Key Economic Indicators

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

	1999	2000	[1] 2001
Income, Production and Employment:			
Nominal GDP	9,556	10,049	10,245
Real GDP (1982 prices)	7,158	7,341	7,429
Real GDP Growth (pct) [2]	3.2	2.7	1.2
Real GDP by Sector (1982 prices):			
Agriculture	461	507	495
Manufacturing	1,340	1,343	1,280
Services [3]	5,356	5,571	5,654
Real Per Capita GDP (US$)	2,529	2,571	2,547
Labor Force (000s)	1,050	1,095	1,110
Unemployment Rate (pct)	11.6	13.3	N/A
Money and Prices (annual percentage growth):			
Money Supply (M2) Growth (pct) [3]	8.5	10.0	0.4
Consumer Price Inflation	1.5	1.8	0.1
Exchange Rate (Balboa/US$ annual average) [4]	1	1	1
Balance of Payments and Trade:			
Total Exports FOB [5]	822	860	906
Exports to United States	364	378	398
Total Imports CIF [5]	3,516	3,379	3,132
Imports from United States	1,742	1,764	1,409
Trade Balance [5]	–2,724	–2,519	–2,226
Balance with United States	–1,378	–1,386	–1,011
Colon Free Zone: [6]			
Exports	5,160	5,377	5,430
Imports	4,230	4,657	4,843

Key Economic Indicators—Continued

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

	1999	2000	[1] 2001
CFZ Balance	930	720	597
External Public Debt [7]	5,411	5,332	6,278
Fiscal Deficit (–)/GDP (pct) [8]	1.6	1.3	2.5
Current Account Deficit (–)/GDP (pct)	14.4	9.1	5.9
Debt Service Ratio (pct)	8.7	10.9	8.3
Gold and Foreign Exchange Reserves [9]	823	723	1,149
Assistance from United States [10]	17.0	19.1	24.1
Assistance from All Other Sources	N/A	N/A	N/A

[1] Figures for 2001 are estimated unless otherwise indicated.
[2] Figure is based on IMF 8/2001 International Financial Statistics. M2 = Deposit Money + Quasi Money.
[3] Services total includes government spending, which accounts for roughly 14 percent of Panama's GDP.
[4] 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.
[5] Trade statistics do not include the Colon Free Zone.
[6] The Colon Free Zone (CFZ) is the largest free trading area in the hemisphere.
[7] External debt balance on June 30, 2001.
[8] Figures indicate deficit of the non-financial public sector as percent of GDP.
[9] Figure is based on IMF 8/2001 International Financial Statistics. Panama reports no gold holdings.
[10] U.S. government agencies' projections (agencies included are USAID, the Department of Agriculture's APHIS Program, and the Department of State's Narcotic Affairs Programs).

1. General Policy Framework

Panama's economy is based on a well-developed services sector that accounts for about 75 percent of GDP. Services include the Panama Canal, container port activities, shipping, ship registry, banking, insurance, wholesaling and distribution out of the Colon Free Zone, and government activities (which represents about 14 percent of GDP). The industrial sector, which accounts for 18 percent of GDP, is made up of manufacturing, mining, utilities, and construction. Agriculture, forestry and fisheries account for the remaining seven percent of GDP.

The economy grew 2.7 percent in real terms in 2000, down from 3.2 percent in 1999. The government of Panama originally estimated 2001 growth would reach 4.0 percent, but has since lowered its forecast to 1.0–1.5 percent. Some independent economists forecast even slower growth. Regardless, real per capita income has been stagnant since 1999. Economic growth has been hindered by low commodity prices for certain agricultural products, the slower than expected rebound of the Colon Free Zone, the continued effects of the departure of the U.S military, and the overall economic weakness of the region. Another debilitating factor has been the Government of Panama's incoherent economic agenda. Since its inauguration in 1999, the Moscoso Administration has also failed to address adequately matters of concern to business, such as Panama's high debt, fiscal imbalance, and costly labor law. These conditions, a protectionist retreat in some areas of trade, the loss of momentum in privatization, along with several unresolved Government of Panama investment disputes and concerns with major foreign investors, have created a feeling of uncertainty about Panama's business prospects and have slowed new investment. Slower growth and rising unemployment are likely on Panama's short- and medium-term horizon.

The main culprit for the slow rebound of the Colon Free Zone is the continued political instability and accompanying economic downturn in its principal customer countries Venezuela, Colombia, and Ecuador. Consumer spending, especially in sectors dependent on disposable income, slowed considerably during the first half of the year. The combination of relatively high costs for utilities and low productivity of labor continues to make unit production costs higher than average for the region. The construction industry has reported a serious downturn in 2001, coming off two years of solid growth. Still, the industry remains heavily engaged in the Panamanian economy due to relatively easy bank credit and sustained demand for residential property by migrants from South America.

Overall, the state has reduced its direct involvement in the Panamanian economy in recent years. Despite this favorable trend, the Panamanian government has retained market-distorting indirect taxation. It remains a large, yet passive investor in recently privatized telecommunications, ports, and energy sectors. To its credit, the current Panamanian government lowered Panama's budget deficit from 4.4 percent in 1998 to 1.3 percent in 2000. The Government of Panama's expected 2.5 percent budget deficit for 2001 falls short of its IMF commitments to have a balanced budget, as the slowing economy has raised health and other government costs and depressed revenues and tax collections. The Moscoso administration has slowed the trade liberalization of the previous government, as foreign competition has hit the agricultural sector especially hard. In its second month in office, the government dramatically raised tariffs on some agricultural goods to the top limits of Panama's binding ceilings negotiated for its WTO accession, with some levies reaching over 300 percent. Privatization of the few remaining government enterprises has been stalled, despite their persistent inefficiencies in government hands.

The government has expanded its efforts to encourage growth in the telecommunications and tourism sectors. Several tax and tariff exemptions and long leaseholds have been given to startups in these industries. The government has also moved to enhance its promotion of both these sectors to external markets and investors. It recently approved a new $10 million tourism promotion campaign and has pledged to remove some taxes on outgoing long distance calls in order to attract "call centers" to Panama.

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 nontax revenues, as well as by the government's ability to borrow. The latter may be reaching its upper limits, as Panama's overall debt is now nearly 80 percent of GDP. The new government postponed tax and spending reform in the face of a slowing economy in 2001, but has hinted it will propose new tax legislation in late 2001.

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 nontariff barriers to entry. U.S. exporters have no risk of foreign exchange losses on sales in Panama.

3. Structural Policies

The Moscoso administration came to power in 1999 on a platform that supported higher social spending to alleviate poverty and higher tariffs to ease pressure on a suffering and politically important agriculture sector hurt by the previous Government of Panama 's sudden and dramatic trade opening. During her campaign President Moscoso questioned the government's privatization campaign and pledged to keep IDAAN, Panama's government water utility, public. Her administration's initial economic objective was to find interest rate savings on sovereign debt in order to free money for social spending. The Government of Panama also raised tariffs steeply on some agricultural goods to provide relief to some farmers. The government failed to rally public support for proposals to reduce debt and redeploy funds from privatizations and sales of former U.S. military properties. It also put the brakes, at least temporarily, on its effort to reform Panama's tax system, per its IMF commitments, due to pressure from business, labor, and the political opposition, who argued that tax reform should wait until the economy improves. Other commitments to the IMF, such as the closing of two state banks, overhauling social security, administrative reform of IDAAN, and achieving a balanced budget remain unfulfilled.

Foreign investment, much of it American, flowed into Panama at a steady pace under the former Perez-Balladares Administration. American energy, transportation, telecommunications and port/cargo companies invested significant amounts in newly deregulated and/or privatized sectors and companies. Relations between some of these investors and the current government suffered early on from various causes. The Government of Panama has lately begun to address these problems more constructively. Nevertheless, FDI has dropped considerably. Various incentives for investment exist in Panamanian law, but they are neutralized in many cases by Panama's outdated and restrictive labor code and the small size of the domestic market.

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, albeit a recent agreement in the banana industry may provide a breakthrough in work rule modernization in that industry. Panama's constitution requires that the minimum wage be reviewed every two years. In 2000, the Panamanian government raised the wage 12 percent or to just over $250/month and pledged future wage raises that would amount to 40 percent by the end of Moscoso's term.

Panama is not a party to any free trade agreement. In May 2001, Panama and the Central American Common Market (CACM) agreed on a common text and format for a Free Trade Agreement. The Panamanian government is currently negotiating the list of products and services that will be covered with each participating country. The government hopes to have agreements with both Nicaragua and El Salvador by the end of 2001, with agreements with the other members of the CACM coming within 2002. After completing an agreement with the CACM, the government hopes to restart its stalled negotiations for a trade agreement with Mexico. Panama is an active participant in FTAA negotiations, and serves as the temporary site of the FTAA Secretariat until February 2002. Panama has expressed a strong interest in becoming the permanent site of the FTAA.

Panama maintains no restrictions on capital flows or capital repatriation by foreign investors, nor does it reserve large sectors of the economy for its nationals. There are no restrictions on the repatriation of profits.

4. Debt Management Policies

Panama's public external debt totaled $6.28 billion dollars at mid-2001, while domestic debt totaled just under $2.1 billion. Although Panama's sovereign debt rating remains just below investment grade, several Panamanian banks enjoy investment grade status. The Moscoso government initially stated its reluctance to take on more foreign debt, but ended up borrowing an additional $750 million in early 2001. Debt service (principal and interest) exceeded $1.7 billion (17 percent of GDP) in 2000 and will climb to 23 percent when $500 million of principal is due in February 2002. Panama's total debt has grown as a result of continuing fiscal deficits, a slowing economy, dysfunctional tax collection, and a heavy government payroll. Many expect the current Panamanian government to try once again to tap Panama's $1.3 billion Fiduciary Fund, money accrued from privatizations and the sale of former U.S. military properties, to pay down some of its debt. The government sought legislative approval for a similar measure in early 2000, but obtained only modest changes to the law governing the use of the funds. Panama's $1.35 billion Fiduciary Fund remains, for now, subject to strict investment and capital preservation guidelines. Despite the country's relatively heavy debt burden, the sovereign debt rating agencies have maintained their ratings on Panama at just below investment grade.

5. 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 most protectionist in the region. However, the Moscoso government's primary trade initiative was an abrupt increase in tariffs on various agricultural imports. Through its Ministry of Agricultural Development, Panama has too frequently adopted a de facto, arbitrary import licensing regime for goods that are subject to sanitary and phyto-sanitary permits under Panamanian law. The plant inspection and certification process required of foreign meat and poultry processing plants is time consuming, lacks transparency, and constitutes an additional barrier.

The Moscoso Administration has refused to include the Panama Canal Authority as part of it offer for accession to the WTO Government Procurement Agreement (GPA). Despite repeated efforts to engage the Government of Panama on the issue, it continues to stall the accession process.

The Panamanian judicial system presents another potential obstacle to investors and traders. There is a large backlog of criminal and civil cases that can take years to be resolved. Many investors have concerns over the potential for corruption in the judicial process.

As a WTO member, Panama has ensured that its customs valuation system now conforms to international standards. Overall, the processing of customs documents for manufactured or mineral imports is reasonably quick, efficient, and reliable. Panama has begun to implement a system for automated, electronic submission of documents, as per its FTAA "business facilitation" obligations. 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.

6. Export Subsidies Policies

Panamanian law allows any company to import raw materials or semi-processed goods at a duty of three percent for domestic consumption or processing, or duty free for export production, except for the several so called sensitive agricultural products, such as rice, dairy products, pork products, and tomato products. This was negotiated and approved under Panama's accession to the WTO. Extraordinary quotas have been authorized for rice and pork products when stocks have gone down in order to prevent scarcity of food products.

Because of its WTO obligations, Panama has revised its export subsidy policies. The Tax Credit Certificate (CAT), which was given to firms producing nontraditional exports when the exports' national content and value-added met minimum established levels, is scheduled to be phased out in 2002. But during the WTO Doha meetings in November 2001, the Government of Panama asked for and received an extension from the WTO regarding the use of CATs. As of December 2001, a final date for a CAT phase-out has yet to be announced. The government has become more strict in defining national value-added, attempting to reduce the amount claimed by exporters and to eliminate recently publicized cases of corruption it the system.

A number of industries that produce exclusively for export, such as shrimp farming and tourism, are exempted from paying certain types of taxes and import duties. The Government of Panama uses this policy to attract foreign investment. Companies that profit from these exemptions are not eligible to receive CATs for their exports.

The Tourism Law of 1994 (Law 8) allows deduction from taxable income of 50 percent of any amount invested by Panamanian citizens in tourism development.

Law 25 of 1996 provides for the development of "export processing zones" (EPZ's) as part of an effort to broaden the Panamanian manufacturing sector while promoting investment in former U.S. military bases that were transferred to Panama. Companies operating in these zones may import inputs duty-free if products assembled in the zones are to be exported. The government also provides other tax incentives to EPZ companies. Most EPZ's remain in the early stages of development, with only a few tenants. They are growing sporadically depending on location.

7. 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 Berne 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 addition, Panama was one of the first countries to ratify the WIPO Copyright Treaty and the WIPO Performances and Phonograms Treaty.

Protection of intellectual property rights (IPR) in Panama has improved significantly over the past several years. The government passed an Anti-Monopoly Law in 1996 mandating the creation of commercial courts to hear anti-trust, patent, trademark, and copyright cases exclusively. Two district courts and one superior tribunal began to operate in 1997 and have been adjudicating intellectual property disputes. IPR policy and practice in Panama is the responsibility of an Inter-institutional Committee. This committee consists of representatives of six government agencies and operates under the leadership of the Vice-Minister of Foreign Trade. It coordinates enforcement actions and develops strategies to improve compliance with the law.

Copyrights

The National Assembly in 1994 passed a comprehensive copyright bill (Law 15), 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 lead prosecutor for IPR cases in the Attorney General's Office has taken a vigorous enforcement stance, the Copyright Office remains small and ineffective.

The Copyright Office has been slow to draft and move forward further improvements to the Copyright Law to implement the new WIPO treaties (the WIPO Copyright Treaty and the WIPO Performances and Phonographs Treaty). Nevertheless, their proposal also would establish new offenses, such as for internet-based copyright violations, raise the penalties for infractions, and enhance border measures. This proposed draft legislation is moving forward with technical assistance from SIECA (the Central American Economic Integration System).

Patents

A new Industrial Property Law (Law 35) went into force in 1996 and provides 20 years of 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

Law 35 also provides trademark protection, simplifying the process of registering trademarks and making them renewable for ten-year periods. The law's most important feature is the granting of ex-officio authority to government agencies to conduct investigations and to seize materials suspected of being counterfeited. Decrees 123 of November 1996 and 79 of August 1997 specify the procedures to be followed by Customs and CFZ officials in conducting investigations and confiscating merchandise. In 1997, the Customs Directorate created a special office for IPR enforcement, followed by a similar office created by the CFZ in 1998. The Trademark Registration Office has undertaken significant modernization with a searchable computerized database of registered trademarks that is open to the public.

8. Worker Rights

a. *The Right of Association:* Private sector workers have the right to form and join unions of their choice, subject to registration by the government. The government does not control or financially support unions, but most unions are closely affiliated with 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, financial resources, and competing priorities in the face of local tolerance, particularly among indigenous peoples.

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 and families routinely evade Social Security payroll contributions. The government is responsible for occupational health and safety standards. On paper the government has the responsibility for conducting periodic inspections of particularly hazardous work sites, but in practice its ability to perform adequate safety inspections is hindered by poor funding and lack of trained personnel. The labor code permits workers to remove themselves from situations that present an immediate health or safety hazard without jeopardizing their jobs, however this practice almost never occurs. Health and safety standards generally emphasize safety rather than long-term health hazards. Although training and workplace enforcement of safety regulations and the use of safety equipment has been lax, Panama has recently inaugurated new programs in cooperation with the U.S. Department of Labor to raise public awareness of worker safety issues and improve local safety standards. Complaints of health and safety problems continue in the construction, banana, cement, and milling industries, among others.

f. *Rights in Sectors with U.S. Investment:* Worker rights in sectors with U.S. investment generally mirror those in other sectors. Banana workers continue to complain of health hazards largely due to alleged exposure to pesticides.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—2000

[In Millions of U.S. Dollars]

Category		Amount
Petroleum		273
Total Manufacturing		152
Food & Kindred Products	40	
Chemicals & Allied Products	([1])	
Primary & Fabricated Metals	30	
Industrial Machinery and Equipment	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	([1])	
Wholesale Trade		446
Banking		16
Finance/Insurance/Real Estate		34,388
Services		182
Other Industries		–50
Total All Industries		35,407

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

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

PARAGUAY

Key Economic Indicators

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

	1999	2000	[1] 2001
Income, Production, and Employment:			
Nominal GDP [2]	7,741	7,501	7,398
Real GDP Growth (pct)	–0.5	–0.4	–0.5
GDP by Sector (pct):			
Agriculture	27	27	27
Manufacturing	14	12	12
Services	37	36	36
Government	22	25	25
Per Capita GDP (1982 US$)	1,576	1,514	1,344
Labor Force (000s)	N/A	N/A	N/A
Unemployment Rate (pct)	12	17	20
Underemployment Rate (pct)	22	26	28
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	10.7	2.2	2.0
Consumer Price Inflation (pct)	7.0	11.0	14.0
Exchange Rate (GS/US$ Year End)	3,310	3,550	4,500
Official	N/A	N/A	N/A
Parallel	N/A	N/A	N/A
Balance of Payments and Trade:			
Total Exports FOB [3]	2,673	2,251	2,050
Exports to United States [3]	48	66	48
Total Imports CIF [3]	3,042	2,837	2,450
Imports from United States [3]	515	360	340
Trade Balance [3]	–349	–586	–400
Balance with U.S. [3]	–467	–294	–292
External Public Debt	2,108	2,354	2,180
Fiscal Deficit/GDP (pct)	–3.6	–3.9	–0.5
Current Account Deficit/GDP (pct)	–0.9	–2.2	–2.0
Debt Service Payments/GDP (pct)	3.8	4.0	4.0
Gold and Foreign Exchange Reserves	988	720	680
Aid from United States	3.0	3.0	3.0
Aid from All Other Sources	44	45	45

[1] 2001 figures are central bank preliminary data.

[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.

The economy in Paraguay has been falling for the past three years, while population growth has continued unabated. According to the Paraguayan Central Bank, the GDP fell by 0.5 percent in 1999 and 0.4 percent in 2000. It is expected to fall by 0.5 percent in 2001. Until the mid-1990s, Paraguay largely avoided deficit spending and kept foreign debt at manageable levels. 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 9.5 percent between May 1999 and September 2000. However, the regional crisis started in Argentina and the fall in the value of the Brazilian real have forced the Central Bank to bring short-term rates back up to 28 percent. A series of banking failures and political instability over the last several years has led investors to move to dollar-based deposits and loans. The Paraguayan government is heavily dependent on tariff revenue, which will continue to shrink in the near future as Mercosur adjusts downward its common external tariff rate.

Paraguay's membership in Mercosur offers some opportunities. Efforts to improve weak infrastructure, especially in power transmission and distribution; telecommunications; road, river, and civil aviation systems; postal system; potable water; and sewage treatment provide potential markets for United States' goods and services. Privatization of state monopolies is moving forward, with the first privatization of the fixed-line telecom company expected to be completed by the end of 2001. With its partners in Mercosur, Paraguay has renewed discussions with the U.S. on promoting economic integration and business facilitation under a 4+1 formula.

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. With the recent fluctuations in the value of the Brazilian real, these interventions have become more frequent. Over the past 9 months, the guarani has depreciated by 29 percent against the dollar. On October 11, the market rate stood at 4,440 guaranies to the dollar. It is legal to hold savings accounts in foreign currency, and in October 1994 a decree was promulgated that legalized contractual obligations in foreign currencies. With 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. Two-thirds of all funds in Paraguayan savings accounts are in dollar-based accounts as of October 2001.

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, the corporate income tax rate is 30 percent. 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 investment approved for fiscal incentives under law 60/90. The Ministry of Finance, at the urging of the IMF, is currently studying the elimination of a variety of tax breaks, including Law 60/90, to help balance the budget. Implemented in 1992, the value-added tax (IVA) stands at ten percent. 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 over 25 percent of GDP, but contributes less than one percent of government revenue. Even though land taxes are low, chaotic land title records make 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 stood at $680 million at the end of August 2001. The government's debt at the end of July 2001 totaled $2.160 billion. Nearly all of this is bilateral or multilateral debt with minimal outstanding loans to private sector banks. Although the World Bank had initially announced that it would close its office in Paraguay at the end of 2000, the office has remained open, though staffed only part-time. A recent IMF survey showed that Paraguay was generally on target with the IMF plan, though the pace of state reform was still deemed to be too slow. Paraguay continues to meet its obligations to foreign creditors in a timely fashion.

5. 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 guns and ammunition. However, the United States prohibits the export of U.S. guns and ammunition to Paraguay. U.S. companies have fared poorly in non-transparent government procurement tenders. Paraguayan regulations require country of origin designation on domestic and imported products. Expiration dates must be printed on medical products and some consumer goods. 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. 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. A case currently before the Supreme Court challenges the constitutionality of this law.

Decree 7084/00 prohibits the importation of used clothing. This follows years of virtual prohibition under a system in which importers were required to obtain a permit to import used clothing from the Ministry of Industry and Commerce. However, the Ministry of Industry and Commerce never issued any permits.

Decree 235/98, later modified by Decrees 2698/99 and 8366/00, created a multiplier increasing the base value on imported 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.

6. 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. The government provides small-scale farmers with subsidized inputs, such as seed and pest control products.

7. Protection of U.S. Intellectual Property

Paraguay belongs to the World Trade Organization (WTO) and the World Intellectual Property Organization (WIPO). It is also a signatory to the Paris Convention, Berne Convention, Rome Convention, and the Phonograms Convention. In August 2000, Paraguay ratified the WIPO Copyright Treaty (LAW 1582) and the WIPO Performances and Phonograms Treaty (LAW 1583). 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 legislation, its status as a distribution center for counterfeit merchandise, and the large illicit re-export trade to other MERCOSUR countries.

On November 17, 1998, 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 antipiracy 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. On September 20, 2000, the United States and Paraguay signed a Memorandum of Agreement under which the U.S. government agrees to jointly develop and fund a program to improve Paraguay's IPR protection regime. Since then, progress has been made in the enforcement of intellectual property rights, though much still remains to be done.

Patents: The Senate is currently considering the final version of comprehensive patent legislation. Domestic industry has successfully lobbied to weaken the law. 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 nontransparent. 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: A new Copyright Law was signed on October 15, 1998, 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.

8. 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—2000

[In Millions of U.S. Dollars]

Category		Amount
Petroleum		18
Total Manufacturing		18
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	18	
Wholesale Trade		(1)
Banking		(1)
Finance/Insurance/Real Estate		0
Services		0
Other Industries		(1)
Total All Industries		432

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

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

PERU

Key Economic Indicators

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

	1999	2000	[1] 2001
Income, Production, and Employment:			
Nominal GDP [2]	51,627	53,512	54,765
Real GDP Growth (pct) [3]	0.9	3.1	0.5
GDP Growth by Sector:			
Agriculture	11.7	6.2	0.3
Manufacturing	–0.5	6.7	0.0
Services	1.4	2.7	3.0
Government [included in "Services"]	3.6	1.8	1.5
Per Capita GDP (nominal US$) [2]	2,046	2,085	2,099
Labor Force (000s)	10,072	10,387	10,691
Unemployment Rate (pct) [4]	8.0	7.4	9.5
Underemployment Rate (pct) [4]	43.5	43.0	45.0
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	16.4	5.1	6.4
Consumer Price Inflation [5]	3.7	3.7	2.8
Average Exchange Rate (Sol/US$):			
Inter-bank	3.38	3.49	3.52
Parallel	3.38	3.49	3.51
Balance of Payments and Trade:			
Total Exports FOB	6,119	7,028	7,400
Exports to the United States [6]	1,765	1,881	1,990
Total Imports FOB	6,749	7,349	7,400
Imports from United States [6]	2,102	2,153	2,170
Trade Balance	–631	–321	0
Balance with United States	–338	–272	–180
External Public Debt	20,099	19,588	19,300
Fiscal Deficit/GDP	–3.1	–3.2	–2.6

Key Economic Indicators—Continued

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

	1999	2000	[1]2001
Current Account Deficit/GDP	–3.7	–3.0	–2.6
Debt Service Payments/GDP	3.9	4.1	3.7
Net International Reserves	8,404	8,180	8,270
Aid from United States	123	111	110
Total Aid	349	323	—

[1] 2001 figures are year-end estimates based on data available as of October.
[2] GDP data calculated using nominal soles figures at average exchange rates.
[3] Percentage changes calculated from GDP data in local currency at 1994 prices.
[4] Urban, at the Third Quarter. 2001 figure incorporates Lima metropolitan area data only
[5] Inflation at year-end.
[6] Estimates based on annualized official data for September 2001.

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 has a free market economy which provides significant trade and investment opportunities for U.S. companies. Over the past ten years, the government has implemented a wideranging 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: Peru is facing its fourth straight year of sluggish growth, after first suffering from severe climatic conditions and global financial turmoil, and then political instability which led to the resignation of President Fujimori in November 2000. After posting a modest GDP growth of 3.1 percent in 2000, real GDP growth for 2001 is now estimated to be 0.5 percent, the result of the slowdown in the United States and other industrialized countries and of the September 11 terrorist attacks in the United States, which led to a drop in tourism and other travel to Peru. The post-Fujimori transition government led by Valentin Paniagua paid close attention to fiscal responsibility and handed a structurally sound economy to the country's democratically-elected Alejandro Toledo administration in July 2001, which is pursuing policies intended to attract foreign investment. The current account deficit is expected to contract in 2001 to about 2.6 percent of GDP. Inflation remains very low by Peru's historical standards and is expected to hit 2.8 percent for the year. The government's overall budget deficit will be larger than originally expected for 2001 as a result of election-related expenses, a sharp drop in revenues, and economic recovery measures. Peru's macroeconomic stability has brought about a substantial reduction of the high underemployment rate, from 74 percent during the late 1980's and early 1990's to 43 percent in 2000. Poverty has also gone down since 1991, but unofficial sources estimate that 50 percent of the population still lives in poverty and 15 percent lives in extreme poverty.

Trade Policy: Peru's economy is largely open to imports. As Peru's largest trading partner, the United States was expected to export about $2.2 billion to Peru in 2001, a slight increase over the 2000 level. Peru's average tariff rate has dropped consistently from 80 percent in 1990 to the current level of about 12 percent. Some countries (not including the United States) 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; although ongoing negotiations to define some aspects of the agreement have delayed implementation. Peru is a member of the World Trade Organization (WTO) and APEC, and is an active participant in negotiations toward the Free Trade Area of the Americas.

Monetary Policy: The central bank manages the money supply and interest and exchange rates through openmarket operations, rediscounts and reserve requirements on dollar and sol deposits. United States dollars account for at least three quarters of total liquidity (the legacy of hyperinflation), which complicates the government's efforts to manage monetary policy. Net foreign reserves stand at about $8.2 billion, down from over $10 billion four years ago but still well above accepted norms. 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 has a liberal economy largely dominated by the private sector and market forces. The government has reduced its role in the economy since it began a privatization program in 1992. Since that time, most major stateowned businesses, including the telephone company, railroads, 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 has kept the remaining parts of the petroleum company (Petro Peru), some electrical utilities, and the Lima water company. The Toledo government announced in August 2001 that it would begin a new phase of the privatization program by selling off most remaining state-owned utilities and offering concessions to build and/or operate a range of public facilities. After several years of delay, the giant Camisea natural gas field concession was granted in February 2000 and the transportation and distribution contract was awarded in October 2000. Operation, modernization and expansion of Lima's Jorge Chavez International Airport was granted in a 1.2 billion dollar, thirty-year concession to a private consortium in February 2001. The Bayovar phosphate mine, regional airports, highways, and a number of regional maritime ports are among concessions expected to be auctioned shortly. 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 almost 15 percent by 2000. 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 ValueAdded Tax (VAT). There are also several high excise taxes on certain items, such as automobiles, fuels, and beer.

4. Debt Management

Peru's long and medium-term public external debt at the end of September 2001 totaled $19.3 billion, about 35 percent of GDP. Total service payments due on the debt for 2001 are estimated at $2 billion. Peru has reduced its burden of the external public debt steadily since 1993. The ratio of debt service to exports of goods and services stood at 31 percent in 2000. Although this debt burden appears high when compared with similar countries, the Peruvian government has a limited amount of domestic debt and, in recent years, has maintained a high level of international reserves. Moreover, 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 199395. 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. In 2000, after pursuing a claim in U.S. courts for several years, a private firm that had bought $11 million in private commercial debt not included in the Brady deal succeeded in achieving a $58 million settlement, including interest and fees, with the government of Peru. There is approximately $100 million in similar non-Brady debt on secondary markets.

5. Significant Barriers to U.S. Exports

Almost all nontariff barriers to U.S. exports and most obstacles to direct investment have been eliminated over the past ten years.

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, cars over five years old, and trucks over eight years old.

Tariffs apply to virtually all goods exported from the United States to Peru, although rates have been lowered over the past few years. The tariff structure that went into effect in April 1997, for example, lowered the average tariff rate from 16 to 13 percent. Selective tariff reductions in 2001 on some intermediate goods lowered the average tariff to just under 12 percent. The government does maintain some "temporary" tariff surcharges on agricultural goods, in a move to try to promote domestic investment in the sector. Under the current system, a 12 percent tariff applies to more than 65 percent (by value) of the products imported into Peru; a 4 percent tariff applies to about twenty percent of goods, and 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. Imports are also assessed an 18 percent Value-Added Tax on top of any tariffs; domestically-produced goods pay the same tax as well. Some non-U.S. exporters have preferential access to the Peruvian market because of Peru's bilateral and multilateral tariff reduction agreements.

There are virtually no barriers to investing in Peru, and national treatment for investors is guaranteed in the 1993 constitution. However, 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 VAT on their inputs. In June 1995, the government approved a simplified drawback scheme for small exporters, allowing them to claim a flat five 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, Berne Convention, Rome Convention, Phonograms Convention, Satellites Convention, Universal Copyright Convention, and the Film Register Treaty. In April 2001, the U.S. Trade Representative removed Peru from the "Special 301" Priority Watch List and placed the country on the Watch List due to increased efforts to improve IPR protection. Nevertheless, concerns remain about the adequacy of IPR law enforcement, particularly with respect to the relatively weak penalties that have been imposed on IPR violators.

The government is generally proactive in promoting and protecting intellectual property rights for domestic and foreign interests. Although enforcement efforts have increased, piracy remains widespread. Industry data show that piracy in the software and motion picture industries has declined sharply since the mid-1990s. The Business Software Alliance (BSA) estimates that software piracy fell from 86 percent in 1994 to 63 percent in 1999, though some estimates now put the figure back at 70 percent in 2001. The International Intellectual Property Alliance (IIPA) estimates that 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 same 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 were an improvement, they contained several deficiencies. The government believes that the Andean Community's September 2000 adoption of Decision 486 brings its laws into conformity with the WTO TRIPS Agreement. Nonetheless, there is some question within the Andean Community about whether national law or the Community Decisions on IPR would prevail in the case of conflict between them. Although it had been previously thought that the higher standard would prevail, the Andean Community Secretariat issued rulings in 2000 which determined that Peru violated Decision 344 by issuing "second use" patents. These rulings (Andean Community resolutions 358 and 406) threaten to undermine the ability of member states to implement national laws that are stronger than Andean Community norms. U.S. pharmaceutical companies are particularly concerned that, in light of resolutions 358 and 406, ambiguities in the new Decision 486 regarding the patentability of "second use" innovations could undermine the Peruvian government's ability to enforce second use patents. After Peru appealed the decision, the Court determined in October 2001 that the government could not issue second use patents, and the Peruvian government was exploring next steps. U.S. companies are also concerned that Decision 486 is not sufficiently explicit regarding the confidentiality of data included with patent applications, thereby opening the way to the possible erosion of protections for such information.

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.

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. Peru signed the World Intellectual Property Organization's treaty on Copyrights in July 2001, but has yet to ratify the associated Phonograph and Performances Treaty. The two treaties will together strengthen Peru's IPR laws and provide protection to domestic and foreign companies alike.

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 shortterm contracts are eligible for union membership, but cannot join the same unions as permanent employees. Union leaders complain that increasing numbers of employers are hiring workers under temporary personal service contracts to complicate 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 nonmembership 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 profitmaking 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 preexisting 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 nonunion) 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 antiunion 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. Nevertheless, there were two reports of such labor in informal gold mines in a remote area of Peru during 1999. However, information received during the year indicates Peruvian authorities are addressing the practice. 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.

d. *Minimum Age of 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 schoolaged 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 eighthour work day, a 48hour 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—2000

[In Millions of U.S. Dollars]

Category		Amount
Petroleum		358
Total Manufacturing		196
Food & Kindred Products	66	

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—2000—Continued

[In Millions of U.S. Dollars]

Category	Amount	
Chemicals & Allied Products	89	
Primary & Fabricated Metals	([1])	
Industrial Machinery and Equipment	([1])	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	45	
Wholesale Trade		56
Banking		([1])
Finance/Insurance/Real Estate		841
Services		55
Other Industries		(D)
Total All Industries		3,317

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

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

TRINIDAD AND TOBAGO

Key Economic Indicators

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

	1999	2000	[1] 2001
Income, Production and Employment:			
Nominal GDP	6,792	8,024	8,945
Real GDP Growth (pct)	7.1	6.9	4.4
GDP by Sector:			
Agriculture	132	133	129
Manufacturing	557	617	666
Services	3,944	4,535	5,218
Petroleum	1,533	2,079	2,203
Government	622	593	698
Per Capita GDP (US$)	4,785	6,162	6,900
Labor Force (000s)	564	564	584
Unemployment Rate (pct)	13.1	12.8	12.1
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	–0.34	2.93	5.4
Consumer Price Inflation	3.4	3.5	4.4
Exchange Rate (TT$/US$)	6.30	6.28	6.24
Balance of Payments and Trade:			
Total Exports FOB	2,803	4,287	4,338
Exports to United States	1,285	2,179	3,078
Total Imports CIF	2,743	3,319	5,387
Imports from United States	756	1,072	984
Trade Balance	62	968	–1,049
Balance with United States [2]	529	1107	2094
External Public Debt	1,474	1,704	1,804
Fiscal Deficit/GDP (pct)	–0.95	–0.45	–0.4
Current Account Deficit/GDP (pct)	0.7	0.2	3.7
Debt Service Payments/GDP (pct)	4.6	5.7	N/A
Gold and Foreign Exchange Reserves	1,073	1,410	1,845
Aid from United States [3]	3.5	3.7	4.6
Aid from All Other Sources	N/A	N/A	N/A

[1] 2001 figures are all estimates based on six months of data, except as noted. 1999 and 2000 figures have been revised based on Ministry of Finance and Central Bank revisions.

[2] 2001 U.S. trade with Trinidad and Tobago are estimates based on 7 months of data.

[3] Represents primarily security assistance and counter-narcotics program funding, training, equipment transfers, and in-kind contributions. Includes USIA and USDA exchanges. In addition, the Department of Defense provides US$250,000 per year in Foreign Military Finance grants (FMF), and US$125,000 in International Military Education and Training (IMET) funding.

Source: All statistics compiled by the Central Statistical Office (CSO), except BOP figures which are compiled by the central bank.

1. General Policy Framework

The twoisland nation of Trinidad and Tobago has enjoyed seven straight years of real GDP growth as a result of economic reforms, supplemented by tight monetary policy and fiscal responsibility, and high oil prices. The collapse of oil prices in the mid-1980s and concurrent decrease in Trinidadian oil production caused a severe recession from which Trinidad and Tobago only recovered in 1994. Over the last three years growth in GDP averaged 6.1 percent annually, with a 4.4 percent growth rate in 2000. Despite minor slowdowns in the economy, the Central Bank estimates a similar growth rate for 2001. 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. The Liquefied Natural Gas (LNG) sector has seen substantial growth in the past four years and has made Trinidad & Tobago the single largest supplier of LNG to the U.S. market (provides 52 percent of LNG to U.S.)

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 from 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. Due to increasing revenue from the energy sector and lower consumer demand, the rate has strengthened during the past year, recently reaching a rate of TT$6.18. 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 nonoil 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

1995 from a maximum of 45 percent to 38 percent, and again in 1996 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 TT$50,000 of chargeable income and 35 percent thereafter. The taxpayer is entitled to an allowance of TT$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 government 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. 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.

The government actively encourages foreign direct investment, 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 a permit is not granted to an official of a company competing with a local firm, or the authorities threaten to not 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 Automated System for Customs Data (ASYCUDA), a trade facilitation system, was adopted on January 1, 1995. Customs clearance is complex and can be time consuming because of procedural delays.

6. Export Subsidies Policies

The government does not directly subsidize exports. The state-run Trinidad and Tobago Export Credit Insurance Company insures up to 85 percent of export financing at competitive rates. The government also offers incentives to manufacturers operating in free zones (export processing zones) to encourage foreign and domestic investors. Free zone manufacturers are exempt from customs duties on capital goods, spare parts and raw materials, and all corporate taxes on profits from manufacturing and international sales.

7. Protection of U.S. Intellectual Property

Trinidad and Tobago signed an Intellectual Property Rights Agreement with the United States in 1994 that, 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 also 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 United States. 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 channels 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.

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.

8. Worker Rights

a. *The Right of Association:* The 1972 Industrial Relations Act provides that all workers, including those in state-owned enterprises, may form or join unions of their own choosing without prior authorization. Union membership has declined, with an estimated 20 to 28 percent of the work force organized in 14 active unions. Most unions are independent of the Government or political party control, although the Prime Minister was formerly president of the Sugar Workers Union. The act prohibits antiunion activities before a union is legally registered, and the Labor Relations Act prohibits retribution against strikers. Both laws contain grievance procedures.

b. *The Right to Organize and Bargain Collectively:* The right of workers to bargain collectively is established in the Industrial Relations Act of 1972. Antiunion discrimination is prohibited by law. The same laws apply in the export processing zones.

c. *Prohibition of Forced or Compulsory Labor:* Forced or compulsory labor is not explicitly prohibited by law, but there have been no reports of its practice.

d. *Minimum Age for Employment of Children:* The minimum legal age for workers is 12 years. Children from 12 to 14 years of age may only work in family businesses. Children under the age of 18 may legally work only during daylight hours, with the exception of 16 to 18 year olds, who may work at night in sugar factories. The probation service in the Ministry of Social Development and Family Services is responsible for enforcing child labor provisions, but enforcement is lax. There is no organized exploitation of child labor, but children are often seen begging or working as street vendors.

e. *Acceptable Conditions of Work:* In June 1998, the government passed the Minimum Wages Act which established a minimum wage of TT$7 (US$1.10) per hour, a 40 hour work week, time and a half pay for the first four hours of overtime on a workday, double pay for the next four hours, and triple pay thereafter. For Sundays, holidays, and off days the Act also provides for double pay for the first eight hours and triple pay thereafter. The 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—2000

[In Millions of U.S. Dollars]

Category		Amount
Petroleum		1,063
Total Manufacturing		62
Food & Kindred Products	([1])	
Chemicals & Allied Products	17	
Primary & Fabricated Metals	([2])	
Industrial Machinery and Equipment	4	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	([2])	
Wholesale Trade		([2])
Banking		([2])
Finance/Insurance/Real Estate		([2])
Services		1
Other Industries		118
Total All Industrie		1,331

[1] Less than $500,000 (+/–).
[2] Suppressed to avoid disclosing data of individual companies.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

URUGUAY

Key Economic Indicators

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

	1999	2000	[2]2001
Income, Production and Employment:			
Nominal GDP[3]	20.9	20.0	19.6
Real GDP Growth (pct)[4]	–2.8	–1.3	–1.5
GDP Growth by Sector (pct):			
Agriculture	–7.2	–2.7	–3.0
Manufacturing	–8.4	–2.4	–3.5
Services	1.3	2.0	1.0
Government	N/A	N/A	N/A
Per Capita GDP (US$)	6,331	6,033	5,900
Labor Force (000s)	1,500	1,526	1,550
Unemployment Rate (pct)	11.3	13.0	15.5

Key Economic Indicators—Continued

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

	1999	2000	[2]2001
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	8.9	5.5	–4.0
Consumer Price Inflation	4.2	5.7	5.5
Exchange Rate (U peso/US$—annual average)	11.3	13.6	13.3
Balance of Payments and Trade:			
Total Exports FOB	2.2	2.3	2.1
Exports to United States (US$ millions)	141	180	170
Total Imports CIF	3.4	3.5	3.3
Imports from United States (US$ millions)	375	336	290
Trade Balance (FOB-CIF)	–1.2	–1.2	–1.2
Balance with United States (US$ millions)	–234	–156	–120
External Public Debt (Gross)	5.9	6.2	6.8
Fiscal Deficit/GDP (pct)	0.9	3.7	3.6
Current Account Deficit/GDP (pct)	2.9	2.9	3.0
Debt Service Payments/GDP (pct)	N/A	N/A	N/A
Gold and Foreign Exchange Reserves (net)	2.4	2.6	2.7
Aid from United States (US$ millions)[6]	4.7	1.4	1.7
Military Aid (US$ millions)[6]	3.6	1.4	1.1
Aid from All Other Sources (US$ millions)	N/A	N/A	N/A

[1] Data in Uruguayan pesos was converted into U.S. dollars at the average interbanking selling rate for each year.
[2] 2001 figures are all U.S. Embassy Montevideo estimates based on available data as of October 2001.
[3] At producer prices.
[4] Calculated based on GDP in constant 1983 pesos.
[5] U.S. Embassy Montevideo

Sources: Uruguayan Central Bank and Uruguayan National Institute of Statistics (INE).

1. General Policy Framework

Uruguay is a market-oriented economy. The current administration, which took office in March 2000, has declared its intent to intensify the economic liberalization process that began over a decade ago. As in the past three administrations, the ruling coalition's principal goals are regional integration (MERCOSUR and FTAA), reduced deficit spending, government downsizing, and lower inflation.

Social indicators place Uruguay among the most advanced countries in Latin America. Uruguay has the highest literacy rate, the most equitable income distribution and the lowest urban poverty in Latin America. The country's per capita gross domestic product (GDP) of $6,000 puts it in the World Bank's uppermiddle income grouping. Uruguay is also in the United Nation Development Program's category of countries with high human development.

In 1997, Uruguay's risk rating for long-term debt issued in foreign currency was upgraded to BBB minus by Standard & Poor's, Duff & Phelps, and Europe's IBCA and to Baa3 by Moody's. Although all risk rating firms continued to grant Uruguay "Investment Grade" status in 2001, FitchIbca-Duff&Phelps lowered its outlook for Uruguay to "negative".

Since 1999, Uruguay has been undergoing its worst recession in fifteen years. GDP plunged 2.8 percent in 1999 and 1.3 percent in 2000; it is expected to drop one to two percent in 2001. Key factors which negatively impacted the economy in 2000 include higher international interest rates, a tight credit policy, higher oil prices, a decline in prices for locally-produced commodities, a severe drought, low demand from neighboring Argentina and Brazil, and the depreciation of the euro against the U.S. dollar. Increased Argentine economic instability, an historically weak Brazilian currency, and the dissemination of foot-and-mouth disease hampered the Uruguayan economy in 2001. Future economic recovery will largely depend on the economic situation in Argentina and Brazil.

Uruguay is a founding member of MERCOSUR, the Southern Cone Common Market, created in 1991 and composed of Argentina, Brazil, Paraguay and Uruguay, with Chile and Bolivia as associate members. Montevideo is the administrative capital of MERCOSUR, and Uruguay is the geographical center of MERCOSUR's most populated and richest area. Uruguay's trade with its MERCOSUR partners accounts for over 45 percent of its overall trade. MERCOSUR has been facing serious growing pains for the last three years, which seriously increased trade and political disputes amongst its partners. Problems include lack of an effective common external tariff, absence of macroeconomic and exchange rate coordination, political problems in

Paraguay and Argentina, the imposition of trade-restrictive measures in all four countries, and a war of incentives between Argentina and Brazil to attract foreign investment. MERCOSUR is holding simultaneous market access negotiations with the United States and the European Union.

The United States is Uruguay's fourth largest trading partner after Argentina, Brazil and the European Union. The U.S. share of Uruguay's imports has remained stable over the last decade at about 10 percent. The new government has made increased trade with the United States, Mexico, and Canada a high priority. According to a 1999 Uruguayan government study, the United States is the largest foreign investor in Uruguay, with 32 percent of overall foreign direct investment (FDI).

Uruguay's monetary policy seeks to keep inflation under control, and the nominal exchange rate is its main instrument. The current exchange rate system limits the Central Bank's monetary policy to the issuance of short-term paper. A large part of the economy is dollarized.

The Government of Uruguay significantly reduced public expenditures in 2000 and 2001, but the continuing reduction in tax revenue has prevented a decline in the budget deficit, which remains at 3.9 percent of GDP. Uruguay—s tax burden is over thirty percent of GDP. The tax system is highly dependent on a Value Added Tax (VAT) that accounts for over half of overall tax revenues. As of October 2001, the Executive Branch was working on a bill to lower the VAT rate and eliminate some of its exemptions. There is no personal income tax, and the corporate income tax rate is 30 percent. The Government of Uruguay has established certain tax benefits to favor local and foreign investment.

2. Exchange Rate Policy

The Uruguayan government allows the peso to float against the dollar within a specified range, six percent, and the Central Bank may buy and sell dollars to keep the peso's value within the band. This system has been in effect since 1991 and the band's width and rate of growth have been modified on several occasions. In June 2001, the Government of Uruguay increased the rate of depreciation of the peso/dollar exchange rate and widened the band in which the exchange rate may move, from three to six percent, in order to counter the declining competitiveness of Uruguayan exports. The band currently rises by 15.3 percent per year. Devaluation outpaced inflation by 2.6 percent in 2001. The Central Bank's net foreign exchange reserves stood at $2.7 billion as of August 2001, equivalent to almost three times the money in circulation. These reserves offer a strong backup for the exchange rate. There are no restrictions on the purchase of foreign currency or remittance of profits abroad, and foreign exchange can be freely obtained.

3. Structural Policies

Uruguay switched from an import-substitution model that depressed growth in the sixties to an export-led model in the early seventies, when it launched a tax reform, liberalized foreign trade and the financial sector, and opened the economy to foreign investment. The eighties were a "lost decade" for Uruguay like many other Latin American countries. The need to finance high public deficits and to maintain the exchange rate, along with the existence of easily available international funds, induced the government to borrow heavily from abroad. In November 1982, the crawling-peg exchange rate system was abandoned, and the peso was devalued from 14 to 28 pesos per dollar. GDP plunged 9.4 percent in 1982 and further declined by 5 and 1 percent in 1983 and 1984, respectively. Economic growth recovered in 1985, and averaged 3.5 percent between 1985 and 1999.

Uruguay implemented tight monetary and fiscal policies in the nineties, including a reduction in the size and scope of the public sector, reduced inflation and a transformation of the pension system that aimed to lower a structural government deficit in the long run. Prior to the reform, the social security deficit amounted to six percent of GDP).

The Government of Uruguay has announced that it intends to foster economic efficiency through demonopolization and the reduction of bureaucratic red tape. A budget law approved in February 2001 provides for demonopolization of telecommunications and insurance, except for worker's compensation insurance, but basic telephony remains a monopoly. It also created regulatory agencies for telecommunications and electricity, and equalized tax treatment of public and private firms. The Government of Uruguay has announced that it may demonopolize oil refining. However, despite a commitment to the IMF, as of October 2001 it is still unclear whether Uruguay will also demonopolize oil imports. Previous administrations have given the private sector access to areas formerly reserved for the state, including insurance and mortgages, road construction and repair, piped-gas distribution, water sanitation and distribution, cellular telephony and airline transportation. A

1997 law allows for the private generation of energy, but transmission and distribution rights, wheeling rights, remain a state monopoly. According to a recent study by a well-known think tank, utility demonopolization would create 45,000 new jobs. In 2001, the Government of Uruguay transferred operation of the country's sole container terminal to the private sector on a 30-year build, operate and transfer system (BOT) basis and announced its intent to transfer other public works.

A government decree establishes that local products or services of equal quality, and no more than ten percent more expensive than foreign goods or services, shall be given preference in government tenders.

4. Debt Management Policies

Uruguay has never defaulted on its debts. Net external debt decreased steadily as a percentage of GDP from 1988 to 1998, but the need to finance higher budget deficits has driven it upward since 1999. The vast majority of the external debt is public and dollar-denominated. While all private sector debt is short-term, one year or less, public sector debt has a longer maturity (i.e. half of the total debt matures after the year 2005). The current administration has made lowering the budget deficit and the public debt in the mid-term a priority.

The Inter-American Development Bank is the single most important lender, with half of all external loans. It is followed by the World Bank, which has one-fourth. A US$193 million IMF stand-by credit is in place until March 2002. Uruguay does not usually draw funds from IMF credits, but keeps them in reserve as a precaution.

5. Significant Barriers to U.S. Exports

Certain imports require special licenses or customs' documents. Among these are pharmaceuticals, some types of medical equipment and chemicals, firearms, radioactive materials, fertilizers, vegetable products, frozen embryos, livestock, bull semen, anabolics, sugar, seeds, hormones, meat, and vehicles. To protect Uruguay's important livestock industry, imports of bull semen and embryos also face certain numerical limitations and must comply with animal health requirements, a process that can take a long time. Bureaucratic delays also add to the cost of imports, although importers report that a "de-bureaucratization" commission has improved matters.

Few significant restrictions exist in services. U.S. banks continue to be very active. 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. 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 a big market share 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, basic telephony, and the press. Uruguay has long owned and operated state monopolies in petroleum, railways, 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. Water and sewage services are almost entirely provided by the state-run company, OSE. Both private consortia and the state-owned phone company (ANTEL) operate cellular telecommunications. Legislation to privatize ANTEL was overturned by referendum in 1992. A budget law approved in February 2001 provides for private transportation over state-owned railways and demonopolization of telecommunications, except basic telephony, which remains a monopoly. Several state-owned firms and even city municipalities 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.

Reference prices were eliminated in 1994, but minimum export prices are still applied on a few items, textiles and clothing, to neutralize unfair trade practices that threaten to damage national production activity or delay the development of such activities. These are fixed in relation to international levels and in line with commitments assumed under the WTO.

6. Export Subsidies Policies

The WTO agreement on Subsidies and Countervailing Measures has been adopted by law but no regulations implementing the agreement have been issued.

The government provides a nine-percent subsidy to wool fabric and apparel producers using funds from taxes on certain wool exports.

Enterprises that export vehicles or motor parts wholly or partly constructed in Uruguay may benefit from a customs concession, applicable to the importation of motor vehicles assembled abroad.

7. Protection of U.S. Intellectual Property

Uruguay is a member of the World Intellectual Property Organization (WIPO) and a party to the Berne Convention, the Universal Copyright Convention (UCC), and the Paris Convention for the Protection of Industrial Property. Although Uruguay is a WTO member, its IP regime does not yet meet international TRIPs standards. In 2001, USTR downgraded Uruguay from the Special 301 Watch List to the Priority Watch List because it considered that Uruguay's copyright law does not provide adequate IPR protection. In 2000 and 2001, the International Intellectual Property Rights Alliance (IIPA) petitioned USTR to review Uruguay's Generalized System of Preferences (GSP) benefits as a result of Uruguay's continued failure to meet its TRIPS obligations.

The most serious lack of IPR protection is the lack of a modern copyright law. Uruguay's copyright law dates to 1937 and the three past administrations (15 years) have pushed for a new law. Uruguay affords copyright protection to artistic works, including movies, books, records, videos, and software. Despite legal protection, enforcement of copyrights for software is still weak. IIPA estimates pirating of business application software and entertainment software of 70 percent in 1999. It also estimated losses due to software piracy of $23 million in 1999. IIPA estimated trade losses of over $8 million for 1999 from piracy of videotapes (65 percent), records and music (35 percent) and books (31 percent). In 2000, Parliament split the copyright bill into two parts, one to regulate software and the other to regulate other copyright-related issues. The lower House of Parliament passed both bills in late 2000. They are currently being considered in the Senate as of October 2001.

The government passed a patent law in 1999 that provides that invention patents have a 20-year term of protection from the date of filing. Patents of utility models and industrial designs have a 10-year term protection from the date of filing that may be extended once for five more years. The law provides a lax definition of compulsory licensing and a vague determination of the "adequate remuneration" to be paid to the patent holder. U.S. pharmaceutical industry representatives are unhappy with the law, believing that its compulsory licensing requirements are not TRIPS consistent.

The government also approved a trademark law in 1998 that upgrades trademark legislation to TRIPS standards. Foreign trademarks may be registered in Uruguay and receive the same protection as domestic trademarks. The law provides that the registration of a trademark will last ten years and that it can be renewed as many times as desired. It also provides for prison sentences ranging from six months to three years for violations. Registering a foreign trademark without proving a legal commercial connection with the trademark is not possible and enforcement of trademark rights is good.

8. Worker Rights

a. *The Right of Association:* The constitution guarantees the right of workers to organize freely and encourages the formation of unions. Labor unions are independent of government 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 special work permit. Children under the age of 15 may not perform industrial jobs. 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 monthly wage, US$78 as of October 2001. The minimum wage functions, however, more as an index for calculating wage rates than as a true measure of minimum subsistence levels, and it would not provide a decent standard of living for a worker and family.

This wage is not binding for the vast majority of the economic sectors that pay significantly higher salaries. The industrial and commercial standard workweeks are 48 hours and 44 hours, respectively with overtime compensation. Workers are protected by health and safety standards, which appear to be adhered to in practice. There are tax incentives for companies that hire young people.

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—2000

[In Millions of U.S. Dollars]

Category		Amount
Petroleum		(1)
Total Manufacturing		192
Food & Kindred Products	58	
Chemicals & Allied Products	40	
Primary & Fabricated Metals	0	
Industrial Machinery and Equipment	(1)	
Electric & Electronic Equipment	0	
Transportation Equipment	6	
Other Manufacturing	(1)	
Wholesale Trade		88
Banking		257
Finance/Insurance/Real Estate		112
Services		(1)
Other Industries		25
Total All Industries		693

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

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

VENEZUELA

Key Economic Indicators

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

	1999	2000	[1] 2001
Income, Production and Employment:			
Nominal GDP [2]	103.3	120.5	125.0
Real GDP Growth (pct) [3]	–6.1	3.2	3.0
GDP by Sector:			
Agriculture	–2.1	2.2	2.2
Manufacturing	–9.2	3.6	3.2
Services	–4.0	3.4	3.0
Government	1.2	3.1	2.9
Per Capita GDP (US$)	4,357	4,985	5,080
Labor Force (000s)	10,225	10,327	10,430
Unemployment Rate (pct)	14.5	13.2	13.0
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	20.0	27.8	15.0
Consumer Price Inflation	20.0	13.4	13.0
Exchange Rate (BS/US$ annual average).			
Official	605.70	679.93	725.00
Parallel	605.70	679.93	725.00
Balance of Payments and Trade:			
Total Exports FOB [4]	20.8	34.0	28.8
Exports to United States [5]	11.3	18.6	15.8
Total Imports CIF [4]	13.2	16.1	16.8
Imports from United States [5]	5.4	5.6	5.8
Trade Balance [4]	7.6	17.9	12.0

Key Economic Indicators—Continued

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

	1999	2000	[1]2001
Balance with United States [5]	5.9	13.0	10.0
External Public Debt	21.1	20.2	19.8
Fiscal Surplus (Deficit)/GDP (pct)	–2.6	–2.1	–3.5
Current Account Surplus (Deficit)/GDP (pct)	3.6	11.1	6.0
Debt Service Payments/GDP (pct)	6.1	5.9	5.4
Gold and Foreign Exchange Reserves	15.4	20.5	17.4
Aid from United States [6]	N/A	N/A	0.047
Aid from All Other Sources	N/A	N/A	N/A

[1] 2001 figures are all estimates based on extrapolated data available as of October.
[2] GDP at market value.
[3] Percentage changes calculated in local currency.
[4] Merchandise trade.
[5] Source: U.S. Department of Commerce.
[6] $486,000 in Military IMET funding, and $4,208,683 in Narcotics Affairs assistance.

1. General Policy Framework

The Government of Venezuela (GOV) officially maintains a policy that promotes foreign investment. Following a serious recession in 1999, the climate for foreign investment improved in 2000 as the economy recovered with a growth rate of 3.2 percent under the influence of a strong recovery in global oil prices. Many investors, however, have been cautious in their plans due to long-term economic and political uncertainty. President Chavez has often expressed a desire for a "multipolar" political and economic world, and has expressed serious reservations over the proposed Free Trade of the Americas Agreement (FTAA). Despite the uncertainty, several sectors continue to attract significant foreign investment, particularly telecommunications, electrical power generation and distribution, and oil and gas.

Foreign investors have expressed its concern over a comprehensive new hydrocarbon law, which may make foreign investment in this critical sector more difficult. The law, enacted in November 2001, will increase royalty payments owed by investors and will require that the state control at least 51 percent of each joint venture.

Real GDP increased by 3.2 percent in 2000, and is expected to continue its growth in 2001 with most public and private estimates of GDP growth in the two to three percent range. Inflation for 2000 was 13.4 percent and is expected to be 12–14 percent in 2001. Much of the stabilization in the inflation rate is due to the continuation of a foreign exchange rate policy that maintains a gradual depreciation of the Bolivar at an annual rate of approximately seven percent.

President Chavez has consistently called for increases in foreign investment, and has opened several economic sectors previously closed to foreign participation, notably the telecommunications and natural gas sectors. A Bilateral Investment Treaty between the two countries is under discussion following a two-year hiatus. If enacted, this treaty would provide greater protection to foreign investors in Venezuela.

Over the past year, Venezuela's money supply (M2) expanded gradually in keeping with moderate GDP growth of approximately 3.4 percent over the first semester. In early September, however, the Central Bank of Venezuela significantly reduced monetary liquidity to counter pressure on the local currency. Through a combination of additional debt issues and increases in the reserve requirements of commercial banks, the Central Bank reduced M2 by more than two percent in four weeks. It is anticipated that money supply will be tightly controlled to dampen inflationary pressures and support the Bolivar. The negative side of this policy is a marked increase in lending interest rates and consequently lower economic growth for the rest of 2001. The Director of the Central Bank has stated clearly that the Bank's primary responsibility is to control inflation. Therefore, one can expect continued aggressive use of monetary policy as a macroeconomic tool.

Overall, uncertainty emanating from a polarized domestic political situation and President Chavez's criticism of globalization have combined to dampen a previously encouraging climate for U.S. exports. While much of President Chavez's legislation is positive, his frequent verbal attacks on U.S. "economic hegemony" and the worrisome hydrocarbon law may worsen the domestic economic situation and cause some hesitation in foreign companies looking to invest in Venezuela.

2. Exchange Rate Policy

The Central Bank of Venezuela (BCV) has maintained the bolivar within a band of 7.5 percent centered on a gradually depreciating target exchange rate compared with the U.S. dollar. The target rate had been allowed to depreciate at a rate of 0.5 percent per month. Over the past two years, depreciation of the bolivar has not kept up with the rate of inflation, but convergence is occurring as the core inflation rate gradually dissipates. The appreciation of the Bolivar has a strongly negative impact on non-oil exports, but the government is expected to keep the band system for the near future. Central bank foreign reserves are sizable, and are more than adequate to support the gradually devaluing currency.

3. Structural policies

Pricing Policies: Price controls on basic goods and services do not exist. Only gasoline, and those pharmaceuticals with fewer than four competitive products remain subject to price controls. Foreign investors in capital markets and foreign direct investment projects are guaranteed the right to repatriate dividends and capital under the Constitution. However, the Law Governing the Foreign Exchange System (Extraordinary Official Gazette No. 4,897 dated May 17, 1995) permits the executive branch to intervene in the foreign exchange market "when national interests so dictate." The government exercised this option during the 1994–95 financial crisis and placed restrictions on foreign exchange conversion or repatriation for investors. These restrictions were eliminated with the end of foreign exchange controls on April 22, 1996.

Tax Policies: The U.S.-Venezuelan Bilateral Tax Treaty, which went into effect in November 1999, eliminates double tax withholding and standardizes information sharing between the tax authorities of the two countries.

The maximum income tax rate in Venezuela for individuals and corporations is 34 percent. Venezuelan law does not differentiate between foreign and Venezuelan-owned companies, except in the petroleum and mining sectors. 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.

The Chavez Government is currently working on a new hydrocarbon law, expected to be one of the last pieces of legislation to be passed under the current Enabling Law. Industry representatives have expressed their concerns on several issues including a minimum of 51 percent PDVSA participation in projects, an increase of royalty to 30 percent, and the grandfathering of previously awarded contracts.

Regulatory Policies: There are no official discriminatory regulatory policies which affect specific U.S. products or services. As detailed in Section 5 below, Venezuela has used import certificate requirements for certain agricultural products to unofficially restrict importation of these products.

4. Debt Management Policies

Venezuela's public sector's external debt was $20.2 billion at the end of 2000 and is expected to fall slightly to $19.8 billion by the end of 2001. External debt will be equal to approximately 16 percent of GDP by the end of 2001. Venezuela's external debt service totaled 5.9 percent of GDP in 2000. This figure is expected to drop to 5.4 percent this year. The government's proposed budget indicates a decision to expand social and infrastructure spending in 2001–02 in an effort to meet numerous pressing social demands in education, health and social welfare. To pay for the high government expenditures in 2002, the government is planning to borrow $10.9 billion ($6.9 billion after amortization) and stop payments to its Macroeconomic Investment and Stabilization Fund, which accrues excess oil revenues.

The Government of Venezuela will finish 2001 with a fiscal deficit close to four percent of GDP due to falling oil revenues and an expansive spending program designed to revitalize the economy. Adherence to OPEC-mandated cuts in oil production and a rapidly falling average oil price in the face of reduced global energy demand were the principal components in this deficit. The announced federal budget for 2002 will produce an even greater fiscal deficit, on the order of five percent of GDP, unless the oil sector turns around or substantial reductions in spending occur. Even with Venezuelan oil in the USD $18.50 range, the budget planning office projects financing needs of approximately USD $10 billion. The sources for this amount will be international capital markets, domestic debt, increased dividends from PDVSA, or the Macroeconomic Stabilization Fund. Excessive reliance on any of these options will create long-term fiscal pressures. Expenditures will be difficult to reduce due to political considerations.

5. Significant Barriers to U.S. Exports

Venezuela began to liberalize its trade regime with its accession to the General Agreement on Tariffs and Trade (GATT) in 1990, and the World Trade Organization in 1995. 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 zero, 5, 10, 15, and 20 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.

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, and processed poultry was added in 2001. 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. Venezuela publishes these prices each April.

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. Specifically, licenses are required for milk, cheese, oilseeds, and yellow corn. The government has been known to use this requirement to restrict agricultural and food 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 revalidate their qualifications at a Venezuelan university and pass the Associated Professional Exam. Exceptions may be granted to foreign service companies and their professional staff for limited periods of time and for specific projects or contracts. Foreign journalists who intend to work in the domestic Spanish language media must meet 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 had trouble in complying with the documentary requirements for the issuance of COVENIN certificates

Investment Barriers: Foreign investment is restricted in the petroleum sector, with the exploration, production, refining, transportation, storage, and foreign and domestic sale of hydrocarbons reserved to the government and its entities. However, private companies may engage in hydrocarbons-related activities through operating contracts or through equity joint ventures with state owned PDVSA. The new hydrocarbon law will change the parameters for these contracts, and is expected to make hydrocarbon investment more costly and difficult for U.S. corporations.

The exploitation of iron ore and hydropower generation in the Caroni river basin remain reserved for the state. However, one area that is rapidly changing is telecommunications. Under the new Telecommunications Law, the fixed-line telephone monopoly was deregulated in mid-2001. Extensive participation by U.S. firms in both the supply and operations sectors of the industry is starting to take shape.

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. In the media sector, 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 limits foreign equity participation (except that from other Andean Community countries) to 19.9 percent in companies engaged in television and radio broadcasting, in the Spanish-language press, and in professional services subject to national licensing legislation.

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 are 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. Article 28 allows temporary exceptions to Article 27 and outlines the requirements to hire technical experts when equivalent Venezuelan personnel are not available. Article 19 requires that all orders and instructions to workers are given in Spanish.

Government Procurement Practices: Venezuela's Government Procurement Law stipulates that there will be no discrimination in the award of government contracts. However, the law leaves the Executive Branch significant discretionary power in granting contracts. For example, the President may promote domestic production or offset unfavorable conditions for domestic industry and may set criteria for preferences to Venezuelan nationals.

Customs Procedures: In response to widespread complaints regarding the extent of corruption in Venezuela's Customs Service, President Chavez has embarked on a public campaign to modernize and restore confidence in the service. Although the government passed a customs law in 1998 that made private customs agents criminally responsible for illegal or undervalued shipments that enter the country, the problem remains significant and its resolution will require a concerted effort by the government.

6. 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 14.5 percent wholesale tax levied on imported inputs. Both foreign and domestic companies are eligible for these rebates. However, the government has traditionally delayed making these duty drawback payments. 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.

7. Protection of U.S. Intellectual Property

Venezuela has recently made progress in the protection of Intellectual Property Rights (IPR). However, comprehensive legislation remains to be enacted and enforcement of IPR laws remains lax. The Venezuelan Industrial Property Office (SAPI) was successful in improving its service to the business community, but had less success in pushing for increased resources for the anti-piracy brigade (COMANPI) and for the special IPR prosecutor's office. The Venezuelan government is also working to get a new Industrial Property Law approved by the National Assembly (Congress), as well as promoting the ratification of the WIPO treaties. Unfortunately, pirated optical media remains readily available. Venezuela remained on USTR's Special 301 "Watch List" following the annual review in April 2001.

Venezuela is an active member of the World Intellectual Property Organization (WIPO). It is also a signatory to the Berne Convention for the Protection of Literary and Artistic Works, the Geneva Phonograms Convention, the Universal Copyright Convention, and the Paris Convention for the Protection of Industrial Property. Through Andean Community Decision 486, Venezuela has ratified the provisions of the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS).

Patents and Trademarks: Venezuela provides the legal framework for patent and trademark protection by the newly enacted Andean Community Decision 486, which substitutes for Decision 344, and the 1955 National Industrial Property Law. Andean Community Decision 486 takes major steps towards bringing Venezuela into WTO TRIPS compliance, but without corresponding local laws Venezuela is not completely TRIPS compliant. Andean Community Decision 345 covers patent protection for plant varieties.

While the government introduced legislation in early 1996 to update the 1955 Industrial Property Law to bring Venezuela into compliance with TRIPS, the draft legislation was sidelined by President Chavez's constitutional reform process. However, the National Assembly is debating a new Industrial Property Law, which should address many of the outstanding TRIPS issues. A new customs law, which includes provisions for TRIPS-consistent border controls to impede the importation of pirated goods, became law in November 1998, and a revision to this law is pending.

A significant patent issue continues to be the patentability of "second uses." While Venezuela continues to stand behind its decision to issue second-use patents, Andean community Decision 486, like the previous Decision 344, is still ambiguous on second-use patents. It left intact the murky language from the old Decision 344 which has been interpreted by the Andean Community Secretary General as not allowing second use patents. The Andean Community has brought actions (still pending) in the Andean Community Supreme Court to disallow the second use patents issued to Pfizer in Venezuela, Peru, and Ecuador. Because of the Secretary General's interpretation on Decision 344, it is widely believed that the Andean Community Supreme Court will eventually disallow a second use patents in the Andean Community. Thus, while Venezuela has been one of the Andean Community countries advocating in support of second use patents, their position may be overturned by the decision of the Andean Community Supreme Court.

Copyrights: The Venezuelan copyright and trademark enforcement branch of the police (COMANPI) continues to be understaffed with only nine permanent investigators to cover the entire country. The lack of personnel, coupled with a very limited budget and inadequate storage facilities for seized goods, has limited COMANPI's effectiveness.

The legal framework for the protection of copyrights is provided by Andean Pact Decision 351 and Venezuela's 1993 Copyright Law. The 1993 Copyright Law is modern and comprehensive and extends copyright protection to all creative works, including computer software. A National Copyright Office was established in October 1995 and given responsibility for registering copyrights, as well as for controlling, overseeing and ensuring compliance with the rights of authors and other copyright holders. The government formed COMANPI in July 1996 to act as an enforcement arm of the National Copyright Office. This police unit has the power to seize goods, make arrests and close establishments for violations of the law. However, it can only act based on a complaint by a copyright holder; it cannot carry out an arrest or seizure on its own initiative. COMANPI works closely with private sector representatives of the U.S. copyright industry, who provide the unit with intelligence information, financial backing and training.

8. Worker Rights

a. *The Right of Association:* Both the 1999 Constitution and local labor law recognize and encourage the right of unions to organize. The comprehensive 1990 Labor Code extends to all private and public sector employees, except members of the armed forces, the right to form and join unions. One major union umbrella organization, the Venezuelan Confederation of Workers (CTV), three smaller confederations, and a number of independent unions all operate freely. It is estimated that 30 percent of the formal labor force belongs to unions.

b. *The Right to Organize and Bargain Collectively:* The labor code protects and encourages collective bargaining, which is actively practiced in the Venezuelan economy, even in critical economic sectors such as oil production. Employers must negotiate a collective contract with the union that represents the majority of their workers. The labor code states that wages may be raised by administrative decree, if the National Assembly approves the decree. The law prohibits employers from interfering with the formation of unions or their activities. Employers may not stipulate as a condition of employment that new workers refrain from union activity.

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 only require 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 6 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 2001, the monthly minimum wage for urban workers is $213 (BS 158,400 and $192 (BS 142,560) for rural workers. The law excludes only domestic workers 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 reduces the standard workweek to a maximum of 40 hours and requires "two complete days of rest each week." The code 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.

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 usually better than those found in wholly owned domestic enterprises.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—2000

[In Millions of U.S. Dollars]

Category		Amount
Petroleum		2,803
Total Manufacturing		1,366
Food & Kindred Products	347	
Chemicals & Allied Products	272	

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—2000—Continued

[In Millions of U.S. Dollars]

Category		Amount
Primary & Fabricated Metals	97	
Industrial Machinery and Equipment	35	
Electric & Electronic Equipment	49	
Transportation Equipment	145	
Other Manufacturing	421	
Wholesale Trade		176
Banking		51
Finance/Insurance/Real Estate		727
Services		811
Other Industries		2,489
Total All Industries		8,423

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

NEAR EAST AND NORTH AFRICA

ALGERIA

Key Economic Indicators

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

	1999	2000	[1]2001
Income, Production and Employment:			
Nominal GDP [2]	51,400	53,483	50,703
Real GDP Growth [3]	4.0	2.6	2.8
GDP by Sector: [2]			
Agriculture	6,171	4,320	4,292
Manufacturing	5,129	3,890	3,887
Construction	5,028	4,650	4,776
Hydrocarbons	12,042	21,802	18,602
Services	12,707	10,020	10,061
Government	10,323	8,801	9,085
Real Per Capita GDP (US$)	1,620	1,747	1, 625
Labor Force (millions)	8.3	8.55	8.85
Unemployment Rate (pct)	29.0	30.1	30.2
Money and Prices (annual percentage growth):			
Money Supply (M2)	14.5	15.5	17.5
Consumer Price Index	2.46	0.34	4.2
Exchange rate (dinar/ US$, annual average)			
Official [4]	66.64	75	77
Parallel [5]	71	88	89
Balance of Payments and Trade:			
Total Exports FOB	12,522	22,031	19,602
Oil/Gas	12,084	21,419	18,725
Exports to United States	1,861	3,428	3, 081
Total Imports CIF	9,164	9,173	10,065
Imports from United States	770	1, 046	915
Trade Balance	3,358	12,858	9,537
Balance with United States	1,046	2,382	2,166
Current Account Deficit/GDP (pct)	4.17	16.76	14.25
External Public Debt	28.96	25.2	22.5
Fiscal Deficit (–) or Surplus /GDP (pct)	–0.5	10	5.1
Debt Service Payments/GDP (pct)	9.96	8.41	7.69
Gold and Foreign Exchange Reserves	6.51	13,40	19.7
Aid from United States [6]	N/A	N/A	0.8
Aid from All Sources	N/A	N/A	N/A

[1] 2001 data based on: (a) Data for less than full year from Algeria's Central Bank, Algerian Customs (b) Embassy estimates.
[2] GDP at current market price.
[3] Percentage changes calculated in local currency.
[4] Bank of Algeria and embassy estimates.
[5] Embassy estimates.
[6] Does not include TDA grants.

1. General Policy Framework

Algeria offers significant opportunities to U.S. firms with a long-term perspective looking to export, to invest, or to form joint ventures. The country is the largest in North Africa and the most populated (31 million people in 2001). Algeria has large proven oil reserves with 9.2 billion barrels of oil equivalent but with an aggressive exploration program already underway, this number is expected to rise substantially. It is one of the world's largest producers of natural gas with reserves of 4.52 trillion cubic meters. The country's hydrocarbon revenues for 2000 reached US$ 22 billion, the highest level ever. In 2001, their value should decrease to US$ 19 billion owing to lower oil prices (to a large extent gas prices are pegged to oil prices). U.S. technology and expertise are prized as a means to explore and exploit these resources. In addition, as Algeria currently negotiates both an association agreement with the EU and entry into WTO, it must urgently modernize its industry. Eager to lower its reliance on traditional suppliers, e.g. France, Algeria is actively seeking U.S. firms as suppliers of equipment, engineering expertise, technology, and capital.

Balance of trade between the United States and Algeria

Total Algerian imports in 2001 are expected to reach US$ 10 billion. In 2001, U.S. exports to Algeria decreased by 12 percent from 2000, mostly because of a drop in grain exports (see next paragraph). However, the United States still remains the third largest exporter to Algeria. The United States is the second largest importer of Algerian goods (mostly hydrocarbons). In 2001, Algerian exports to the U.S. (US$ 3 billion) decreased by ten percent from 2000, mostly because of lower oil and gas prices. The balance of trade between the two countries remains very much lopsided in favor of Algeria: the value of its exports to the United States was greater than the value of its imports from the United States by US$ 2 billion in 2001.

Largest current and potential markets for U.S. exports

The hydrocarbon sector is the largest market for U.S. exports (mostly oil/gas exploration and recovery equipment). Because Air Algérie, the national airline, has chosen Boeing planes to modernize its fleet, aerospace was the second largest market for U.S. exports in 2000. As a result of the planned modernization of Algerian industry, there is now a strong potential demand for U.S. goods and services in other sectors, including: engineering, sensors and process control, instrumentation and high technology (in particular telecommunications). Algeria imported some $2.4 billion in foodstuffs in the year 2000 and is the world's fifth largest importer of wheat. While there are, therefore, significant opportunities for U.S. agricultural importers, there are also considerable challenges. Historical ties, common language, and proximity (in addition, sometimes, to export subsidies) have long afforded Western Europe a competitive advantage. Eastern Europe has also become a major competitor in the region, especially in grains. Because purchasing U.S. grain requires large shipments, long shipping times, and therefore a higher financial risk, Algerian traders often prefer to purchase smaller shipments from Europe, which can arrive in a short time and involve less risk. U.S. wheat exports to Algeria dramatically decreased in the first half of 2001, partly as a result of commercial and inspection problems with several wheat shipments in the fall of 2000. There may be new opportunities for U.S. cereals exporters in the future, as the new reorientation of Algerian agriculture will result in more production of traditional crops such as olives and grapes, at the expense of cereal production. This reorientation should result in an important need for equipment for processing and packaging agricultural products, creating export opportunities for U.S. manufacturers of such equipment.

A stabilized economic environment

In 1994, the Algerian government, with support from the IMF, adopted a three-year structural adjustment program of prudent fiscal and monetary policy geared towards macroeconomic stability. The results of this policy have been significant: Inflation was 20.3 percent in 1996; it was around 4 percent in 2001. 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 2001, the central bank discount rate stood at six percent and commercial bank lending rates ranged between eight and ten percent.

Financial services and telecommunications: The two main bottlenecks

The lack of a modern financial services sector restricts the growth of the economy. Most of the banking sector is still owned by the government and, according to the government, is inefficient (for instance, interbank clearing is still done manually) and overstaffed. Reform efforts in the sector have progressed slowly. However, a few years ago the government made it possible for private banks to operate freely and they are doing well. Several private banks now operate in Algeria. The most prominent are: a U.S. group (Citibank), an Algerian group (Khalifa), two French banks (Natexis/Banques Populaires and Societé Générale) and one Arab group (ABC). BNP Paribas is set to start operations in 2002. Citibank is growing fast, has opened a branch in Hassi Messaoud in the heart of the oil and gas fields, and will be moving soon to a new office building of its own. The Khalifa group has been taking market share away from Algeria's state-owned banks. Started just a few years ago, it now has 45 branches throughout the country. It recently entered into an agreement with Western Union, under which Western Union services (International Money transfers) will be available at Khalifa's branches.

Obsolete telecommunications systems are also an impediment to banking reform and more generally to economic growth. However, aware of the need for reform, the government decided, two years ago, to end the Ministry of Post and Telecommunications monopoly. Two state-owned firms will be created to take over the services activities of the Ministry; each will compete with private sector firms. The Ministry will mostly retain a regulatory role. Algeria Telecom, one of the state-owned firms being created, will provide telecom services. It will have a GSM license. On July 31, 2001, a second GSM license was awarded to Orascom, an Egyptian firm that expects to start providing services in February 2002. The second state-owned firm to be created will be an ISP provider and will compete with other providers. U.S. firms, large and small, have bid or are bidding on equipment RFPs issued by the Ministry of Post and Telecommunications.

2. Exchange Rate Policy

Since January 1996, an interbank foreign exchange market has set the exchange rate of the Algerian currency (the dinar).

In 2001, the average exchange rate was about 77 dinars to a dollar, up from 75 in 2000. The dinar's depreciation reflects the rise of the U.S. dollar against most currencies in 2001.

The dinar is convertible for all current account transactions. Private and public importers may buy foreign exchange from 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, they are no longer required to surrender to the Bank of Algeria the foreign exchange they acquire and may trade these resources among themselves. Thanks to hydrocarbon export, total foreign exchange reserves are expected to reach US$ 19 billion by the end of 2001.

3. Structural Policy

While reaffirming its commitment to the continuation of fiscal and monetary discipline, the government launched in 2000 a program of major structural changes. The objective of this program is to radically transform and modernize the Algerian economy to solve problems that have been plaguing the country for years.

The most pressing problem is unemployment. It now stands at 30 percent overall and as high as 70 percent for those under 25 (the majority of the population).

Starting in 1996, the government had taken steps to replace what used to be a socialist, centrally planned and managed economy with a more decentralized and flexible one. In 2000, the cost and the failure of the measures adopted hitherto to modernize the economy convinced the government to disengage itself completely from the ownership and from the running of firms. In order to transform the Algerian economy into one based upon free market principles, the government announced in 2000 a four-pronged program:

- With the exception of the energy sector, most firms now owned by the government (the quasi totality of industrial firms) will be privatized. They will be sold to their employees, to private Algerian businessmen, to foreign firms or to partnerships of any or all of the three.
- All public service sectors currently served by a monopolistic government owned utility will be deregulated and competition will be encouraged. The first sectors to be so reformed will be telecommunications and the production and distribution of gas and electricity.
- The energy sector will be reformed through competition and by opening the capital of government-owned firms to private interests (Algerian or foreign).
- The banking sector will be entirely restructured through competition and foreign participation in order to improve services and reduce costs.

This program is very ambitious. Given the outcome of past programs, this program will require the cooperation of key stakeholders (the unions, the workers, and the bureaucracy) with diverging interests for it to succeed.

In August 2001, the Algerian Council of Ministers approved draft laws and administrative changes that will facilitate the privatization of the country's state-owned firms. The Cabinet decided that, with a handful of exceptions, all of the country's 937 state-owned firms will eventually be sold. Only a few strategic firms, such as Sonatrach (oil and gas firm), will remain state-owned.

Bilateral and Multilateral Agreements

Algeria applied for GATT contracting party status in its own right in 1987. Negotiations, however, never commenced. In January of 1995, Algeria's GATT Accession

Working Party was automatically converted to WTO. Algeria activated the negotiations by circulating a description of its trade regime to WTO Members in July of 1996, and providing additional information on its trade regime, on agriculture, and on services, in January 1998. Algeria's Working Party met in April 1998 to conduct an initial review of the trade regime, and Algeria responded to additional questions from WTO Members, including the United States, in December 1998. After that, however, the negotiations lapsed. Recently, however, Algeria has renewed efforts to resume negotiations.

The United States and Algeria signed a Trade and Investment Framework Agreement (TIFA) in July 2001. The TIFA provides for regular, high-level bilateral consultations on trade and investment relations. The first TIFA meeting is expected to be held in early 2002.

Algeria has resumed negotiations with the European Union to conclude an Euro-Med Association Agreement and hopes to finalize these negotiations in early 2002. Such a treaty would eliminate tariffs on most industrial goods between Algeria and the European Union over a twelve-year period.

4. Debt Management Policies

The reduction of its external debt burden has been one of Algeria's key priorities. Algeria has been successful in its efforts to reduce debt by devoting much of the windfall resulting from high oil prices to debt repayment. Total medium and long-term debt stood at US$ 30.26 billion in 1998. It decreased to US$ 25.2 billion in 2000 and to US$ 22.5 billion in 2001. As a result, the amounts devoted to debt service went from US$ 5.12 billion in 1999 to US$ 4.5 billion in 2000.

The debt/GDP ratio was 59.1 percent in 1999, 52.1 percent in 2000 and should decrease to 45.5 percent in 2001. By the same token, the share of export earnings spent on debt service payment, 39.6 percent in 1999, should drop to 28.6 percent in 2001.

Thanks to the oil windfall and to prudent fiscal policy, Algeria had a budget surplus of 10 percent of GDP in 2000. This surplus should shrink to five percent of GDP in 2001 because of the decrease in the price of oil and because in April 2001 Algeria launched a very ambitious program of public spending on infrastructure to stimulate the economy.

5. Significant Barriers to U.S. Exports

There are no barriers specifically erected to stem U.S. exports. However, for many years tariffs on imports were high in Algeria. Many still are. Consistent with its decision to finalize an association treaty with the EU and to become a member of WTO, Algeria is committed to lowering tariffs. The modernization of Algerian customs, a key priority, is under way. Algeria's customs administration has simplified import clearance procedures, but the process remains time-consuming and the source of many complaints. Finally, much of Algeria's purchasing overseas is done though international RFPs and tenders. Streamlining these and, making them more transparent, is a stated objective of the Algerian government and much headway was made in 2001. In particular, Sonatrach (the state-owned oil and gas firm) used to take over two years to award exploration contracts. Now only three months separate the issuance of the RFP and the opening of the bids. (Exploration licenses are awarded to the highest bidder).

Non tariff barriers

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 specific testing, labeling, or certification requirements being met, however. Algeria is increasingly adopting, and requiring compliance with, European Union quality standards (e.g. ISO). In December 2000, Algeria prohibited the importation, distribution, or sale of genetically modified organisms (GMOs).

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.

Export of services

The government plans to deregulate and to allow private competition in most service sectors. Insurance, banking, air transportation (five private airlines have been operating in Algeria since 1998), and air courier services have already been deregulated and foreign firms are actively encouraged to participate. (DHL now offers service in several Algerian cities). In the power sector, a state-owned firm, Sonelgaz, currently enjoys a monopoly for production, transport and distribution. The year 2002 should see the end of this monopoly. In early 2001, Sonelgaz launched a 2000 MW (megawatt) Independent Power Producer (IPP) project. 40 percent of the power produced will be reserved for domestic distribution, with the remaining 60 percent being exported (to Spain, Morocco or Tunisia). One U.S. group and three European groups bid on the 2000 MW project.

Foreign Investment into Algeria

The Algerian government seeks to disengage itself from the ownership of firms. In addition, modernization of Algerian industry has become a top priority. For these reasons, foreign investment especially by U.S. corporations is actively sought. In 2001, a new agency, ANDI, was created to facilitate investment into Algeria. ANDI coordinates all registration formalities for investors; it also puts together packages of incentives available under the investment code such as tax relief, lower customs duties, and exceptions to labor laws.

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 97 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 or 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. The body of Algerian legislation devoted to the protection of intellectual property is significant. For instance, there are both civil and criminal penalties for infringement of copyrights. However, enforcement of this legislation is often lacking. Improving the enforcement of its intellectual property legislation has become a priority of the Algerian government. U.S. firms with a high stake in preventing infringement of their intellectual property are currently working closely with the Algerian authorities to improve the situation.

Patents and trademarks are administered by the Institut Algérien de Normalisation et de Propriété Industrielle (INAPI); copyrights are administered by ONDA. (Office National des Droits d'Auteurs). Patents are protected by the law of December 7, 1993; 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.

A 1973 law provides broad 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.

8. Worker Rights

Workers in Algeria enjoy considerable rights and do not hesitate to strike when they perceive that these rights are threatened. The current privatization respects workers rights and encourages workers to become owners of the firms they work for.

a. *The Right of Association:* In theory, workers may form and be represented by trade unions of their choice. In fact there is essentially one union in Algeria, UGTA (Union Générale des Travailleurs Algériens). It serves as an umbrella organization with local chapters in individual firms and sector chapters. In theory, unions may not affiliate with political parties or receive funds from abroad. In fact UGTA, from its inception, has been closely aligned with FLN, the only party in Algeria from 1962 to 1989 and the dominant party until 1997.

b. *The Right to Organize and Bargain Collectively:* A quarter of all Algerian workers are members of UGTA. Union-led strikes have been frequent in the past five years as industry was being reorganized. Such strikes are likely to be at least as frequent in the future as government owned firms are being privatized. Because of the overstaffing of Algerian State owned enterprises, privatization is likely to result in the elimination of numerous redundancies and workers are worried. While the law prohibits discrimination by employers against union members and organizers, there have been instances of retaliation against strike organizers. A 1990 law permits all unions to engage in collective bargaining. This right has been freely practiced.

c. *Prohibition of Forced or Compulsory Labor:* Forced or compulsory labor has not been practiced in Algeria and is proscribed by 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, in family farms 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 workweek. Employers pay an amount equal to 26 percent of salaries to the government for their workers' social security, workmen's compensation and unemployment disability insurance. The government has set a guaranteed monthly minimum wage. It is currently set at 8000 Algerian Dinars (US$104). 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—2000

[In Millions of U.S. Dollars]

Category		Amount
Petroleum		3,349
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		(2)
Finance/Insurance/Real Estate		0
Services		28
Other Industries		(2)
Total All Industries		3,639

[1] Less than $500,000 (+/–).
[2] Suppressed to avoid disclosing data of individual companies.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

BAHRAIN

Key Economic Indicators [1]

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

	1999	2000	2001
Income, Production and Employment:			
Nominal GDP	6,597	7,942	8,299
Real GDP Growth (pct)	4.2	5.1	4.5
GDP by Sector:			
Agriculture and Fisheries	60	63	66
Manufacturing	805	825	845
Financial and Insurance	1,143	1,310	1,375
Government	736	745	760
Per Capita GDP (US$)	9,829	9,986	10,100
Labor Force (000s)	306	318	322
Unemployment Rate (government figure—pct)	2	3	7.8

Key Economic Indicators [1]—Continued

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

	1999	2000	2001
Money and Prices (annual percentage growth):			
Money Supply Growth (M2) (pct)	4.2	10.2	10
Consumer Price Inflation	–1.3	–.7	2.5
Exchange Rate (BD/US$—annual average)	.376	.376	.376
Balance of Payments and Trade:			
Total Exports FOB	4,126	5,680	4,770
Exports to United States	225	338	370
Total Imports CIF	3,684	4,595	3,975
Imports from United States	348	449	494
Trade Balance	441	1,085	795
Balance with United States	–123	–111	–124
External Public Debt	N/A	N/A	N/A
Fiscal Deficit/GDP (pct)	–2.5	0	0
Current Account Deficit/GDP (pct)	0	0	0
Debt Service Payments/GDP (pct)	N/A	N/A	N/A
Gold and Foreign Exchange Reserves	1,039	1,233	1,249
Aid From United States	0	0	0
Aid From All Other Sources	125	125	125

[1] Figures for 2001 are estimated.

Sources: Bahrain Monetary Authority, Quarterly Statistical Bulletin, June 2001; Ministry of Finance and National Economy, National Accounts 2000; Ministry of Labor and Social Affairs. U.S. trade figures: Department of Commerce, Treasury, and International Trade Commission.

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, private companies set the prices of goods, and undertake the importation and distribution of foreign commodities and manufactured products. In January 2000, the Government of Bahrain abolished import duties on 43 food items and reduced duties on consumer goods from 10 percent to 7.5 percent. By contrast, the tobacco import duty increased from 70 to 100 percent. Tariffs on cars and boats (20 percent) and alcoholic drinks (125 percent) remain in effect. Bahrain remains committed to further tariff cuts in accordance with a planned Gulf Cooperation Council (GCC) customs union for 2003. In principle, there is no tax or duty on imports of raw materials or semi-manufactured goods for manufacture, on imports required for development projects, on transshipments, or on goods for re-export.

Over the past three decades, the government has encouraged economic diversification in order to reduce the country's dependence on oil and to create employment opportunities for its growing population. In addition to investing heavily in such basic industries as aluminum smelting, petrochemicals, and ship repair, it has labored to create a respected regulatory framework for its significant financial sector. The Amir is currently pushing for greater private sector investment, particularly in IT, telecommunications, and tourism. Oil and gas continue to play a dominant role in Bahrain's economy, providing two-thirds of total exports. Bahrain produces around 37,000 barrels per day from its onshore oil field and receives the entire output of 140,000 b/d from an offshore field shared with Saudi Arabia. Bahrain also imports another 200,000 b/d of Saudi crude for refining. Bahrain's natural gas production is about 1.11 billion cubic feet per day. New possibilities for oil and gas exploration have recently come to the fore with the long-awaited settlement of the Hawar island dispute with Qatar by the International Court of Justice in February 2000.

The government budget is prepared on a biennial basis. For the 2001–2002 budget, revenue is forecast at approximately $1.8 billion annually, up 17 percent from the year 2000. Expenditure is projected at nearly $2.2 billion in 2001 and just over that in 2002, up 12.4 percent. Intake from oil revenues constitutes nearly 55 percent of total projected revenues. The government planned to cover the resulting deficit (of about $408 to $424 million) with internal borrowing and soft loans from Arab funds and the Jeddah-based Islamic Development Bank. Sustained high global oil prices since mid-1999, however, tripled government oil revenues in 2000 (the most recent biennial budget was based upon a conservative oil price estimate of $15 per barrel). Hence, the government registered an (unplanned) budget surplus in 2000 and, if oil prices remain higher than $15 per barrel, might generate a surplus again in 2001.

2. Exchange Rate Policies

The Bahraini Dinar is freely convertible and has been pegged against the U.S. dollar since 1980 at one dollar equals 0.377 BD. Bahrain enjoys a fully open exchange system with no restrictions on capital repatriation or transfers. Bahrain has no black market or parallel exchange rate.

3. Structural Policies

Pricing: With the exception of a few basic foodstuffs and petroleum product prices, the government does not control prices on the local market. Because most manufactured products sold in Bahrain are imported, prices depend on competition, the source of supply, shipping costs, and agent markups. Agent commissions are capped at five percent and will 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 unable to maintain excessive margins, forcing more competitive pricing. U.S. products and services compete on an equal footing with those of other non-GCC foreign suppliers. The government makes major purchasing decisions through the tendering process. For major projects, the ministry concerned extends invitations to select pre-qualified firms. Smaller contracts are sometimes handled by departments within ministries, and are not necessarily subject to pre-qualification. Bahrain still officially participates in the primary Arab league economic boycott against Israel, but does not observe secondary and tertiary boycott polices against third country firms having economic relationships with Israel.

Taxation: Bahrain is essentially tax-free. There is no individual income tax, nor does the country have any Value-Added Tax, property tax, production tax, or withholding tax. The only exception would be for companies engaged in petroleum extraction and refining. Bahrain collects 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 50 plus employees must pay a training levy at a rate of three percent of the payroll for expatriate employees and one percent for Bahrainis. The government charges a fee for the issuance of expatriate work permits, an attempt by the Government of Bahrain to encourage employment of Bahraini citizens.

Regulation: The Gulf Cooperation Council (GCC) has made economic integration among its member states (Kuwait, Oman, Qatar, Saudi Arabia, the United Arab Emirates, and Bahrain) a top priority. In an October 2001 meeting in Manama, the date for a customs union was moved up from 2005 to 2003. In addition to 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. An important GCC goal under discussion is the development of a unified Gulf currency.

4. Debt Management Policies

The government strictly limits its indebtedness to foreign financial institutions. To date it has been able to finance its budget deficits through local banks. The BMA (Bahrain Monetary Agency—Bahrain's central bank) issued its first government bonds in 1977 and its first treasury bills in 1986. The Government of Bahrain occasionally uses the bonds to finance large infrastructure projects. The current outstanding official debt is $840 million of which four bonds (13, 14, 15, and 17) have a maturity of five years. Issues 16a and 16b were issued in 1999 and 2000 at $265 million each in value with a maturity of 30 years. Treasury bills are offered with three different maturity periods, three months, six months, and one year. The current outstanding amount is $504 million in total.

5. Significant Barriers to U.S. Exports

Licenses: Import licenses for items to be sold in Bahrain are issued only to locally established companies that are at least 51 percent Bahrain-owned. Foreign companies established prior to 1975 may be exempt from this rule under special circumstances. All imported beef and poultry products require a health certificate from the country of origin and a Halal slaughter certificate issued by an approved Islamic center in the country of origin.

Services: Bahrain's two biggest service sectors, the banking and tourism/hospitality industries, are generally open. For local employment purposes, all banking institutions must have a majority Bahraini staff—a requirement that appears to be easily met. The Government of Bahrain moved quickly to open up the life insurance business to foreign competition, although general insurance companies still require 51 percent Bahraini ownership. Another major sector in Bahrain, telecommunications, is not yet open for foreign investors. Batelco (Bahrain Telecommunications Company) is a majority state-owned firm and is the monopoly service provider for local, long distance and Internet communications. The government indicated in 2001 that it is considering a partial opening of the telecom market in the future.

Standards: Bahrain strictly enforces shelf-life standards on 58 of 75 food products listed in Gulf Standard 150/1993. Shelf-life standards for the remaining 17 items are less stringently applied. This GCC-adopted standard is in violation of the WTO SPS agreement as scientific studies backing the regulations have yet to be produced. The manufacturer must also print production and expiration dates on the label or container. Suppliers should work closely with their local importers to ensure compliance with local shelf-life requirements. Pharmaceutical products must be imported directly from a manufacturer that has a research department and must be licensed in a least two other GCC countries, one of which must be Saudi Arabia.

Investment: The government actively seeks foreign investment, establishing in spring 2001 an Economic Development Board to facilitate investment. New regulations permit 100 percent foreign ownership of new industrial establishments and the establishment of representative offices or branches of foreign companies without local sponsors. All commercial investments remain subject to government approval, and most must be made in partnership with at least 51 percent Bahraini equity. As of January 2001, non-Bahraini firms and GCC nationals may own land. Non-GCC nationals may now own high-rise commercial and residential properties, as well as property in tourism, banking, financial and health projects and training centers, in specific geographic areas. The Prime Minister issued an edict in February 2001 stipulating that land bought by foreigners must continue to be used for its designated purpose. Bahrain signed a Bilateral Investment Treaty (BIT) with the United States in September 1999, the first GCC state to do so. The agreement came into force in May 2001.

Government procurement practices: Foreign firms in Bahrain are required to have a local agent or a local partner before bidding on a government contract. The government makes major purchasing decisions through the tendering process with invitation being issued to selected pre-qualified firms. Firms do not need to pre-qualify for smaller contacts. Bahrain tends to give preference in government tenders to Bahraini and GCC bidders up to a price differential of 10 percent, provided that specifications of kind and quality are met, although this provision is not always enforced. Government tendering procedures for large projects are not always transparent, and U.S. companies have sometimes reported operating at a disadvantage compared with other international firms. Contracts are not always decided on a basis of price and technical merit. Bahrain is not a signatory to the WTO Agreement on Government Procurement.

Customs procedures: As a member of the Arab League, Bahrain is officially committed to enforcing the primary aspect of the Arab League boycott of Israel, but enforcement is lax. Occasionally outdated tender documents reference the secondary and tertiary aspects of the AL boycott (not enforced since 1996), but such instances are usually quickly remedied. Bahrain customs protects against the import of pirated goods and enforces the Commercial Agencies Law. Goods may be imported by a registered agent, or, if by a third party, upon payment of a commission to the agent. With the abolishment of the sole-agency law, this arrangement will be phased out by 2005.

6. Export Subsidies Policies

Bahrain has phased out most industrial subsidies for export industries, but permits the duty-free importation of raw material, equipment, and/or machinery for newly established export industries. All industries in Bahrain, including export and foreign owned firms, benefit from subsidized utilities.

7. Protection of Intellectual Property

Bahrain was removed from the U.S. “Special 301” Watch List in 1999 and remained off in 2000 and 2001. This action was in recognition of the government’s efforts to fight copyright piracy. Patent and trademark protection has always been strong. Watchdog organizations report that piracy in audio and videotape sales has been virtually eliminated. Software piracy remain problematic. Bahrain is in the process of becoming fully TRIPS-compliant. In 1996 the government acceded to The Berne Convention for the Protection of Literary and Artistic Works and the Paris Convention for the Protection of Industrial Property.

8. Workers 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. In 2001, the Government of Bahrain began entertaining the idea of allowing the formation of trade unions. The Ministry of Labor and Social Affairs is now working with the ILO on a draft law. Article 27 of Bahrain's Constitution provides conditional "Freedom to form associations and trade unions." To curb past episodes of labor unrest, the government passed a series of labor regulations that allowed the formation of elected workers' committees in large Bahraini companies. Today, worker representation in Bahrain is based on a system entitled Joint Labor-Management (JLC). There are currently 18 JLCs in Bahrain.

b. *The Right to Organize and Bargain Collectively:* Bahrain's labor law neither nor denies workers the right to organize and bargain collectively. While JLCs are empowered to discuss labor disputes, organize workers' services, discuss wages, working conditions, and productivity, workers have no independent recognized vehicle for representing their interests.

c. *Prohibition of Forced or Compulsory Labor:* Bahrain's laws do not prevent exploitation of expatriate workers (especially Asian domestics and sex workers). The Government of Bahrain is currently examining a number of measures pertaining to labor problems and housemaid's disputes in order to overcome such sensitive issues. It has already taken positive steps to regularize labor in Bahrain, as is the case of the free visa laborers. According to Ministry of Labor and Social Affairs officials, the ministry is currently working on an updated labor law to replace the 1976 one and is expected to raise it to the Cabinet for approval shortly.

d. *Minimum Age for Employment of Children:* The minimum age for employment is 14, and juveniles between the ages of 14 and 16 many not be employed in hazardous conditions or on night shifts. Their working hours should not exceed six hours per day or on a piecework basis. Labor Ministry inspectors effectively enforce child labor laws. Child labor is not considered a problem in Bahrain and takes place within family-operated businesses. The Government of Bahrain is currently studying a law that would make education compulsory to eliminate all forms of child labor. The Government acceded in February to ILO Convention No. 182 on the Worst Forms of Child Labor.

e. *Acceptable Conditions of Work:* Minimum wage scales, set by governmental decree, exist for government employees. Wages in the private sector are determined on a contract basis. Foreign workers receive benefits such as annual passage home, housing, education bonuses, and medical insurance that are considered by employers as part of the salary. Bahrain's labor law mandates acceptable working conditions for all adult workers, including adequate standards regarding working hours (maximum 48 hours per week), and occupational safety. The Ministry has been holding symposiums to raise awareness among major companies and employers in general, regarding the occupational safety and security in the place of work. Complaints brought before the Labor Ministry that cannot be settled through arbitration must, by law, are 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 laws 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—2000

[In Millions of U.S. Dollars]

Category		Amount
Petroleum		–83
Total Manufacturing		[1]
Food & Kindred Products	[1]	
Chemicals & Allied Products	0	
Primary & Fabricated Metals	0	
Industrial Machinery and Equipment	7	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	[1]	
Wholesale Trade		0

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—2000—Continued

[In Millions of U.S. Dollars]

Category	Amount
Banking	(1)
Finance/Insurance/Real Estate	–5
Services	(2)
Other Industries	(2)
Total All Industries	–125

[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

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

	1998/99	1999/00	[1] 2000/01
Income, Production and Employment:			
Nominal GDP (Current Prices)	89.7	97.4	98.6
Real GDP Growth (pct) [2]	6.1	5.1	4.9
GDP by Sector:			
Agriculture	14.7	15.2	15.1
Manufacturing	26.6	31.1	32.3
Services	36.4	38.2	38.5
Government [3]	6.7	6.9	6.88
Per Capita GDP (US$)	1,406	1,421	1,430
Labor Force (millions)	18.0	18.2	18.6
Unemployment Rate (pct)	8.3	7.9	7.6
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	9.8	11.0	12.0
Consumer Price Inflation (period average)	3.8	2.5	2.4
Exchange Rate (LE/US$ annual average):			
Market Rate	3.36	3.46	3.70
Balance of Payments and Trade:			
Total Exports FOB [4]	4.445	6.388	7.078
Exports to United States [4]	0.660	0.888	[6] 0.512
Total Imports FOB [4]	17.008	17.860	16.432
Imports from United States [4]	3.000	3.333	[6] 1.629
Trade Balance [4]	–12.5	–11.5	–9.4
Balance with United States	–2.360	–2.445	[6] –1.117
External Public Debt	28.2	27.8	26.1
Fiscal Balance/GDP (pct)	–1.3	–4.2	–4.7
Current Account Balance/GDP (pct)	–1.9	–1.2	–0.03
Debt Service Payments Ratio [5]	11.0	7.2	8.3
Foreign Exchange Reserves	18.0	15.1	14.27
Aid from United States [7]	2.075	2.035	1.995
Aid from All Other Sources [8]	0.322	0.197	0.074

[1] Statistics are based on Egypt's fiscal year starting July 1 and ending June 30.
[2] Percentage changes calculated in local currency.
[3] Government expenditures only; does not include state-owned enterprises.
[4] Merchandise trade; U.S. figures for calendar year.
[5] Ratio of external debt service to current account receipts.
[6] Estimates from January to June 2001.
[7] Includes military aid in amount of: $1.3 bn (1999), $1.3 bn (2000), $1.3 bn (2001).
[8] Ministry of Economy estimates of official transfers. Military aid not available.

1. General Policy Framework

Since 1991, Egypt has followed a course of macroeconomic stabilization and discipline. The government's program has yielded positive growth rates (averaging 4 to 5 percent in recent years, with officially reported growth of 5.1 percent in the fiscal year ending June 2000 and projection of 4.9 percent growth for FY 2000/01 ending July 2001), low inflation (officially 2.5 percent for FY 1999/2000), and substantial foreign currency reserves (officially reserves stood at $14.27 billion, or about 9 months of imports, in April 2001). Foreign debt has fallen steadily, from a high of $33 billion in 1995 to $26.1 billion in March 2001. Debt service as a percentage of current account receipts has fallen steadily over the past decade. It was approximately 8.3 percent in 2000/01 and Government of Egypt policy is to maintain it in this range.

The positive external situation is coupled with a more problematic domestic economic situation. Many private businessmen continue to describe the current economy in terms of recession. Steady growth in government expenditures (28 to 29 percent of GDP), tourism, and the oil/gas sector has been coupled with little or no growth for most of the private sector. Lack of private business access to credit, weak consumer demand, foreign exchange shortages, and excessive government bureaucracy are frequently cited problems. The business and investment communities look to the Egyptian authorities to revive economic growth through a comprehensive integrated government strategy to address key policy areas and reinvigorate the country's program of structural reform.

Services account for almost half of Egypt's GDP (including government services), unusually high for a country at its level of development. Tourism, the Suez Canal, trade, and banking are the largest service sub-sectors. Tourism is Egypt's largest foreign exchange earner, as well as a key engine of growth. Although it officially accounts for only about 5 percent of GDP, a recent report by the Egyptian Center for Economic Studies implies its real impact on GDP is over 10 percent. The post-September 11 worldwide slowdown in tourism will impact Egypt greatly, particularly affecting government revenue, unemployment, and new investment. Egypt is an exporter of petroleum, light manufactures (including textiles), and agricultural products. It is developing an export capacity for substantial reserves of natural gas, to be in place by 2005. It imports machinery, refined oil products, and food products. The United States is Egypt's largest trading partner; in 2000, Egypt's exports to the United States totaled $888 million (9 percent of total) and its imports from the United States were $3.3 billion (16 percent of total). As a bloc, however, the European Union (EU) accounts for some 35 to 40 percent of Egypt's imports and exports. Egypt's economy is relatively closed; exports as a percentage of GDP are in the 5–7 percent range, and the total of exports and imports as a percentage of GDP is about 25 percent.

Egypt has reduced its average Most Favored Nation duties from a high of 42 percent in 1991 to 27 percent at the start of 2000. Egypt will extend additional tariff concessions to EU member states in a four stage, 15 year phased implementation process as a result of the Association Agreement it signed with the EU on June 25. A significantly larger volume of trade likely will result. The People's Assembly (parliament) passed in principle a new Intellectual Property Rights (IPR) law in June 2001, and it will debate passage of the law during the session beginning in November 2001. Final passage is expected in early 2002. In 2000, the Egyptian government approved an application for exclusive marketing rights under a prime ministerial decree of March 2000, for Eli Lilly's schizophrenia drug olanzapine, trade name Zyprexa. The government passed a mortgage law in June 2001 that grants banks the right to engage in mortgage financing, establishes a secondary market for trading in mortgage backed securities, and creates new legal and judicial processes for resolving disputes.

2. Exchange Rate Policy

As of June 2001, Central Bank foreign exchange reserves stood at $14.7 billion. The Central Bank actively monitors the exchange rate in order to assure the Egyptian pound's stability. The exchange rate began the year at about LE 4 per dollar at commercial banks and exchange bureaus following a slide from its May 2000 rate of LE 3.4 per dollar.

At the end of January 2001, the government announced a new exchange rate regime with a central rate of LE 3.85/$1, around which banks and exchange bureaus were permitted to buy and sell within a trading band of 1 percent. However, in the absence of a clear government statement on its monetary policy or willingness of the Central Bank to draw further on reserves to supply the banking system, the depreciation did not have the intended effect of drawing more dollars into the banking system. Most people waited, anticipating a clearer policy and further depreciation/devaluation. In June and early July, the Central Bank made some changes, moving the central rate to LE 3.90/$ and increasing the trading band to 1.5 percent for dollars and two percent for other currencies. Most recently, in August 2001, the Central Bank shifted the central rate to LE 4.24 per dollar with a band of three percent.

This latest move finally appeared to have a positive impact, and banking observers say that foreign exchange is readily available for the first time in nearly two years.

3. Structural Policies

In general, prices for most products are market based, although the Egyptian government provides direct and indirect subsidies on key consumer goods to benefit Egypt's poor, including subsidized prices for bread and cooking oil. The Ministry of Health sets pharmaceutical prices.

Under its trade liberalization program and in accordance with its WTO obligations, Egypt has made progress in reducing tariffs. In keeping with its WTO commitments, in 1998 Egypt reduced the maximum tariff rate for most imports from a high of 50 percent to 40 percent. Many cases of high tariffs persist, however, such as those affecting the import of automobiles, automobile spare parts, alcoholic beverages, and poultry products. A ban on fabric imports was lifted in 1998, and tariff rates on many categories of textile imports are being reduced in accord with WTO commitments, although tariffs for some areas of textiles remain at high levels. Egypt began implementing the WTO customs valuation system in July 2001; full implementation likely will take years. Although the government recognizes the need to eliminate non-tariff barriers to trade, red tape, cumbersome bureaucracy, and rigorous enforcement of Egyptian standards remain significant problems.

The government of Egypt is proceeding with plans to convert its general sales tax to a full-fledged Value-Added Tax (VAT). It began implementing phases two and three of General Sales Tax Law 11 of 1991 on July 1, 2001, extending the VAT to the wholesale and retail levels. The government collects sales tax from merchants either monthly or quarterly, depending upon turnover. The only industries exempted from full immediate implementation are the gold, woodworking, and spinning & weaving industries. The tax on these industries, which were also treated separately under the previous tax regime, will be phased in over 6–12 months.

4. Debt Management Policies

In the early 1990's, official creditors in the Paris Club agreed to reduce by 50 percent the net present value of Egypt's official debt 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. The United States also forgave $6.8 billion of high-interest military debt. As a result, Egypt's total outstanding foreign debt declined significantly from a high of $33 billion to $26.1 billion in 2001. The majority of Egypt's foreign debt is official, concessional, and medium- and long-term. The debt service ratio in 2000/01 is estimated at 8.3 percent (ratio of external debt service to current account receipts).

In 1996, Egypt and the IMF agreed to an ambitious package of structural reform measures through 1998. The IMF approved a $291 million precautionary stand-by agreement for Egypt. This agreement paved the way for the release of the final $4.2 billion tranche of Paris club relief, reducing Egypt's annual debt servicing burden by $350 million. In September 1998, Egypt declared that it would not sign a third program with the IMF. The relationship with the Fund and the Egyptian government has since assumed a consultative aspect only.

Egypt launched its first Eurobond issuance in June 2001. The five-year bond issuance totaled $500 million with a 7.625 percent coupon priced at 275 basis points over U.S. treasury bills. The ten-year bond issuance totaled $1 billion with a coupon of 8.75 percent and a spread of 335 basis points over U.S. treasury bills. International financial institutions considered the offerings to be successful.

5. Significant Barriers to U.S. Exports

Egypt became a member of the World Trade Organization (WTO) in June 1995. Trade should be facilitated by increased transparency and improved notification to the WTO and major trading partners of changes the Egyptian government makes to bring Egypt's trade regime into WTO compliance. Egypt is not a signatory to WTO plurilateral agreements on Government Procurement or Civil Aircraft.

Services Barriers: The Egyptian government controls many service industries. Recent government policies allow private sector involvement in ports, maritime activities, and airports, an opening that has led to significant interest and activity in the private sector. Private firms dominate advertising services. Egypt has modified its laws and regulations in accordance with its WTO financial services commitments.

Banking: Foreign bank branches, including those from a number of U.S. banks, have been permitted to conduct full service retail banking operations since 1993. In 1996, 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 1998. It provided the constitutional basis needed for privatization of the four largest public sector banks. These four largest state-owned banks still control over 50 percent of total banking sector assets. There is no clear timeline for the government's oft-postponed plans to privatize a public sector bank, but in 2001 the government announced a plan to divest state-owned shares of joint venture banks before proceeding with the privatization of a public bank.

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. Equity for the sale of state-owned enterprises is raised partly through the Egyptian stock exchange.

Insurance: The passage of a new insurance law in 1998 marked a potentially significant milestone for the sector. The law permits foreign insurance companies to own up to 100 percent of Egyptian insurance firms. In 1999, the Egyptian government approved the first application by a U.S. firm for majority ownership. Previously, foreign ownership was restricted to a minority stake. There are eleven private sector insurance companies, three of which are joint ventures with U.S. firms. The Egyptian government has pressed foreign firms seeking to enter Egypt's non-life insurance markets to do so by purchasing an existing Egyptian insurance firm. The four largest state-owned insurance and re-insurance companies still control an overwhelming majority of the market. Official valuations of the four large state-owned insurance companies as a first step to privatization were completed in mid-2001.

Telecommunications: In October 1999, a new Ministry of Communications and Information Technology was created to manage telecom and IT policy. Telecom Egypt is the nation's fixed-line monopoly. There are many private sector operators in Internet and pay telephone systems. In recent years, Egypt's telecommunication infrastructure has undergone extensive modernization with the addition of five million lines. Government plans to sell up to 20 percent of Telecom Egypt have been delayed by unfavorable market conditions. The mobile system has expanded significantly in the last four years as the result of increased GSM capacity. In 1996, the government-owned telecom firm was granted a license for a GSM system with a capacity of 90,000 lines. The establishment of two private sector companies in 1998 (MobiNil and Click) has boosted the GSM system to one million lines. The government is pursuing plans to seek a strategic investor for its plan to establish a third mobile phone service provider by the end of 2001. The Egyptian government submitted an offer on the World Trade Organization Basic Telecommunications Agreement, and is working to address concerns raised by members party to the Agreement. It has not taken any action yet on the Information Technology 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-operate basis. Under the new business environment created by Law 22, the private sector is becoming increasingly involved in container handling. In addition, Egypt Air's monopoly on carrying passengers has been curtailed, and several privately owned airlines now operate regularly scheduled domestic flights and international charter services, although the national carrier remains, by far, the dominant player in the sector. Private firms have also become active in airport upgrades and BOT airports in remote areas.

Standards, Testing, Labeling, and Certification: While Egypt has decreased tariffs and bans on the importation of many products, other non-tariff barriers have increased. Many 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 United States 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. Decree 242 issued by the Ministry of Economy and Foreign Trade in September 2000 imposed a duty of 45 percent on imported milk powder for a period of 200 days. A staged phase-out has been announced by the Ministry. In April 2001, the duty was reduced to 15 percent (current duty). In April 2002, it will be reduced to seven percent and in April 2003, it will reach three percent.

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. In addition, according to a 1998 Ministerial Decree, imports of automobiles are restricted to the current model year in any given year. Many of these standards are at odds with WTO agreements prohibiting technical barriers to trade. Only bona fide health and safety standards based on scientific evidence are permitted by the WTO.

Investment Barriers: The General Authority for Free Zones and Investment (GAFI) has responsibility for regulating foreign investment. The Egyptian government implemented Law 8 of 1997 to facilitate foreign investment by creating a unified and clear package of guarantees and incentives. Egypt and the United States have signed a Bilateral Investment Treaty and an Investment Incentive Agreement which extends political risk insurance (via the Overseas Private Investment Corporation) for American private investment. In addition, the Egyptian government is a signatory to the International Convention for the Settlement of Investment Disputes.

Government Procurement: The Egyptian government passed a government procurement law in 1998 which is intended to increase transparency, assure equal opportunity among bidders, and protect contractor rights. The law mandates that 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: On July 1, 2001, the Egyptian Customs Authority began implementing the WTO agreement on customs valuation, which bases customs duties upon the invoice for the importer's goods rather than the previous reference-based system. It will take some time for the invoice-based system to be fully implemented, and in the meantime importers face a confusing mix of the new and old systems. Egypt originally was to have implemented the WTO system in July 2000, but it received a one-year extension. Computerization of customs operations should improve efficiency and reduce the time required to clear goods. In 1994, Egypt adopted the Harmonized System of customs classification.

6. 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. It has also reduced indirect subsidization of exports by removing many of the privileges previously enjoyed by public sector enterprises (e.g., subsidized inputs, credit facilities, and preferential energy prices and customs rates).

7. Protection of U.S. Intellectual Property

IPR Law: In June 2001, the People's Assembly (PA) approved in principle a new intellectual property law. The PA is scheduled to begin a detailed debate of the law when the next parliamentary session begins in mid-November 2001, and the law may be passed in early 2002. An Egyptian delegation presented the draft law to the WTO Trade Related Aspects of Intellectual Property Rights (TRIPS) Council in June 2001, and member delegations subsequently forwarded questions about the draft law to the Egyptian government. The law addresses IPR issues in such areas as patents, trademarks (including industrial designs), and copyrights (with enhanced protection to sound and motion picture recordings and computer software). The law stipulates higher fines and prison sentences for convicted violators. It remains to be seen whether the law is TRIPS consistent.

According to the timetable laid out in the TRIPS agreement, two patent-related protections, Exclusive Marketing Rights and Data Exclusivity, were to have entered into force on January 1, 2000. Prime Ministerial decrees on these provisions were issued in March 2000 for Exclusive Marketing Rights and in November 2000 for Data Exclusivity. A local pharmaceutical firm filed a court case in October 2001 charging that the Ministry of Health and the Academy of Scientific Research acted illegally in granting Eli Lilly exclusive marketing rights in August 2001 for its schizophrenia drug.

Watch List Designation: Due primarily to exclusion of pharmaceutical products from adequate patent protections, the United States Trade Representative placed Egypt on the "Priority Watch List" in 1997. Egypt has remained on the Priority Watch List each year since, including 2001.

8. Worker Rights

a. *The Right of Association:* Egyptian workers may join trade unions but are not required to do so. A union local or worker's committee can be formed if 50 employees express a desire to organize. Most union 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:* A proposed new labor law provides statutory authorization for collective bargaining and the right to strike, rights which are not now adequately guaranteed. Under the current law, unions may negotiate work contracts with public sector enterprises if the latter agree to such negotiations, but unions otherwise lack collective bargaining power in the state sector. Under current circumstances, collective bargaining does not exist in any meaningful sense because the government sets wages, benefits, and job classifications by law, leaving few issues open to negotiation. Only larger firms in the private sector generally adhere to government-mandated standards.

c. *Prohibition of Forced or Compulsory Labor:* Forced or compulsory labor is illegal and there is no evidence this exists in Egypt.

d. *Minimum Age for Employment of Children:* In 1996, 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 years. Child workers are also required to obtain medical certificates and work permits before they are employed. Nongovernmental organizations estimate that some 1.5 million children below the age of 15 work in Egypt, most in seasonal agricultural activities. Partially in response to a January 2001 Human Rights Watch report on child labor in cotton cultivation, the Minister of Agriculture issued a decree in April 2001 prohibiting children under the age of 14 from working in cotton fields. The Egyptian government has not conducted a comprehensive survey of child labor since the late 1980s. Egypt is a signatory to International Labor Organization (ILO) Convention 138 addressing child labor and is expected to ratify ILO Convention 182 in 2002.

e. *Acceptable Conditions of Work:* The government and public sector minimum wage is approximately $33 per month for a six-day, 36-hour work week. Some ministries have instituted a five-day, 36-hour work week. Base pay is supplemented by a complex system of fringe benefits and bonuses that may double or triple a worker's take-home pay. The minimum wage is also legally binding on the private sector, and larger private companies generally observe the requirement and pay bonuses as well. The Ministry of Manpower sets worker health and safety standards, which also apply in the free trade zones, but enforcement and inspection are uneven.

f. *Rights in Sectors with U.S. Investments:* The five worker rights above are applied in goods-producing sectors in which U.S. capital is invested in the same manner as in other sectors.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—2000

[In Millions of U.S. Dollars]

Category		Amount
Petroleum		2,053
Total Manufacturing		581
Food & Kindred Products	(1)	
Chemicals & Allied Products	29	
Primary & Fabricated Metals	(1)	
Industrial Machinery and Equipment	21	
Electric & Electronic Equipment	–3	
Transportation Equipment	(1)	
Other Manufacturing	1	
Wholesale Trade		(1)
Banking		(1)
Finance/Insurance/Real Estate		0
Services		–138
Other Industries		4

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—2000—Continued

[In Millions of U.S. Dollars]

Category	Amount
Total All Industries	2,735

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

ISRAEL

Key Economic Indicators

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

	1999	2000	[1] 2001
Income, Production and Employment:			
Nominal GDP	102	112	112
Real GDP Growth (pct)	2.3	6.0	0.5
GDP by Sector (estimated):			
Agriculture	1.9	1.9	1.7
Manufacturing	20.3	23.0	21.0
Construction	6.2	6.0	5.0
Services	44.1	49.5	51.0
Government	29.5	31.6	34.1
Per Capita GDP (US$)	16,500	17,700	17,200
Labor Force (000s) [2]	2,345	2,436	2,500
Unemployment Rate (pct) [2]	8.9	8.8	9.0
Money and Prices (annual percentage growth):			
Money Growth (M2) [3]	24.3	20.7	16.0
Consumer Inflation [3]	1.3	0.0	3.0
Exchange Rate (NIS/US$) [2]	4.14	4.08	4.24
Balance of Payments and Trade:			
Total Exports FOB	22.8	28.3	26.8
Exports to United States [4]	10.0	13.0	12.0
Total Imports CIF [5]	30.6	35.2	34.8
Imports from United States [4]	7.7	7.8	8.4
Trade Balance [5]	–7.8	–6.9	–8.0
Balance with United States [4]	2.3	5.2	3.6
External Public Debt (gross)	27.4	27.9	27.7
Fiscal Deficit/GDP (pct)	2.2	0.6	3.6
Current Account Deficit/GDP (pct)	2.6	1.3	2.3
Debt Service Payments/GDP (pct)	4.1	3.9	3.9
Gold and Foreign Exchange Reserves [6]	22.4	23.2	23.1
Aid from United States	2.9	2.8	2.7
Aid from All Other Sources	0	0	0

[1] 2000 indicators estimated using partial-year data.
[2] Annual average.
[3] December to December.
[4] U.S. Department of Commerce figures.
[5] Excludes defense imports.
[6] At end of year.

1. General Policy Framework

Israel is an open economy, with world class firms in such sectors as telecommunications, software, pharmaceuticals, and biomedical equipment. The global high-technology downturn, however, combined with lower exports to the U.S. market and the continuing violence in the region, led to an economic slowdown in 2001. Real growth is expected to be well under one percent and per capita GDP will decline.

The inflation-adjusted central government budget deficit for 2001 will be substantially higher than the target of 1.75 percent of GDP, due to lower than expected GDP growth. The government increased its deficit target for 2002 to 2.4 percent of GDP because of continued weak economic growth prospects and the need to increase spending to stimulate the economy. The outbreak of violence in the West Bank, Gaza and parts of Israel that began in late 2000 has led to substantially increased security costs. Those costs were absorbed within the 2001 budget by cutting spending in most non-security areas. The 2002 budget includes a substantial increase in defense spending, a break with recent trends, which has seen the defense share of the budget steadily decrease in the last decade.

The Bank of Israel has brought interest rates down very cautiously and gradually over the past two years from over 11 percent at the end of 1999 to 6.3 percent by September 2001. Inflation has remained low throughout this period. The inflation rate in 2001 is expected to fall at or below three percent. The inflation rate in 2000 was precisely zero, the lowest level of inflation in the history of the State of Israel. Israel's official inflation target for 2002 is two to three percent. The Israeli shekel, which remained relatively stable throughout 2000 and 2001, weakened somewhat in late 2001, due to concern about the security situation and a lower flow of foreign investments into the country.

2. Exchange Rate Policy

The shekel floats within a predefined target zone against a basket of currencies: the 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. Israel has ended almost all of its remaining capital controls, except for limits on Israeli institutions' foreign investments.

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, Mexico, and other countries. The Government of Israel is planning to privatize the Bezeq telephone company in 2002, and also plans to privatize the state shipping company, Zim. The government continues efforts to increase competition in the telecommunications sector. Competition already exists in international long distance services, and is expanding to include wireless broadband and internet services. In 2001, the Israel revised its law to permit cable television companies to provide telecommunications and internet services.

The discovery of commercial quantities of natural gas in Israeli waters and an Egyptian agreement to sell natural gas to Israel are causing changes in Israeli energy and regulatory policies. The government must address production, transportation, and pricing issues, as well as the security and political implications of the agreement with Egypt. The state power company, Israel Electric (IEC), dominates electricity generation and distribution. There has been little progress toward opening the electricity market to competition.

Taxes in Israel remain high, with marginal tax rates (including payments for social security insurance) reaching 60 percent. The government tried, but failed, to push through a far-reaching income tax reform package in 2000 that would have eliminated most exemptions and lowered marginal rates. Instead, the government has focused on some targeted changes in tax policy. In mid-2000, purchase taxes were eliminated or reduced on more than 600 items, including imported products like color televisions, refrigerators, VCRs, dishwashers and cosmetics. In September 2001 the government decided to exempt foreigners investing in Israeli venture capital firms from taxes for at least the next two years. This policy is scheduled to be reviewed in January 2004.

4. Debt Management Policies

Israel's total gross foreign debt (including both public and private debt) was $66 billion in mid-2001. After netting out foreign assets of $61.2 billion, the country's net external debt was $4.8 billion in mid 2001.

5. Significant Barriers to U.S. Exports

With the exception of some categories of agricultural products and processed foods, by 1995 all duties on products from the United States were eliminated under the 1985 United States-Israel Free Trade Area Agreement (FTAA). In 1996, the United States and Israel agreed on a five-year program of agricultural market liberalization, which provided for increased access during each year of the agreement via tariff rate quotas (TRQ) and tariff reductions. In renegotiating this agreement in 2001, the U.S. government seeks improvements that would permit more efficient access to Israeli markets for U.S. products.

Despite some reductions, Israel still charges a purchase tax on many goods, both imported and domestically produced. The tax applies to automobiles, many automobile parts and accessories, fuel, alcoholic spirits, cosmetics, and other products.

The Israeli government decided in August 1999 that official Israeli standards could incorporate, in their entirety, more than one foreign standard. The Government of Israel has been slow to implement this policy, however, which has caused difficulties for some U.S. manufacturers. Enforcement of mandatory standards on domestic producers can be spotty. Israel has agreed to notify the United States of proposed new mandatory standards to be recorded under the WTO.

Israel 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. In September 2001, the Ministry of Finance announced that foreign investors in Israeli venture capital firms would be exempt from capital gains taxes. This is a temporary measure scheduled to be reviewed in 2004. 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. 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 Eilat. Enterprises in these areas may qualify for special tax benefits and are exempt from indirect taxation.

Israel is a member of the WTO and strongly supports the rules-based, multilateral trading system. In addition to its other WTO obligations, Israel is one of only 28 signatories to the WTO Government Procurement Agreement (GPA), one of the two "plurilateral" agreements developed by the WTO. (Israel is not a part to the plurilateral agreement on Trade in Civil Aircraft.) The GPA is intended to provide for more transparent and predictable international tendering procedures for a wide range of government entities. In signing the GPA, Israel retained the right to require offsets of up to 35 percent through 2000 with a reduction to 20 percent by the year 2004. The use of offsets will be subject to further negotiation with GPA member countries after the level has reached 20 percent. The offsets are subcontracts to Israeli firms that are specified in an industrial cooperation agreement between a contracting company and a government entity. They may involve investment, co-development, co-production, subcontracting, or purchases from Israeli industry.

Some Israeli government entities notify the U.S. government of tenders valued at over $50,000 but many do not, and the notices that are received frequently carry short deadlines and are often only in Hebrew. Complex technical specifications and kosher certification requirements discourage foreign participation in government tenders for food.

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.

6. Export Subsidy Policies

Israel has eliminated virtually all of its export subsidy programs. It retains a mechanism to extend long-term export credits, but the volumes involved are small, roughly $250 million. Israel has been a member of the WTO/GATT Subsidies Code since 1985.

7. Protection of U.S. Intellectual Property

Israel's legal system provides for protection of IPR, but enforcement of IPR laws is not adequate. The U.S. Trade Representative placed Israel on the "Special 301" Priority Watch List again in 2001 because of continuing illegal copying and sale of pirated music and software CDs. USTR noted that Israel has demonstrated that it is serious about addressing piracy, but it needs to increase resources and personnel to bring about adequate prosecution and prosecution of IPR crimes. USTR also expressed concern that Israel permits generic pharmaceutical manufacturers to obtain marketing approval for generic products based on confidential test data submitted by innovator pharmaceutical firms, which may be a violation of Israel's commitments under the WTO Trade Related Aspects of Intellectual Property (TRIPS) agreement.

On the positive side, Israeli Customs has increased its seizures of counterfeit goods entering Israel. The Israeli government is working on revisions to its copyright law that would make it easier for Israeli prosecutors to bring charges against copyright violators.

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.

8. Worker Rights

a. *The Right of Association:* Israeli workers may freely join established organizations of their choosing. Most unions belong to the General Federation of Labor (Histadrut) and are independent of the government. Histadrut's membership dropped sharply in the mid-nineties 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 often. 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 age 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, mainly 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—2000

[In Millions of U.S. Dollars]

Category	Amount	
Petroleum		4
Total Manufacturing		2,326
Food & Kindred Products	79	
Chemicals & Allied Products	5	
Primary & Fabricated Metals	–2	
Industrial Machinery and Equipment	95	
Electric & Electronic Equipment	1,827	

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—2000—Continued

[In Millions of U.S. Dollars]

Category		Amount
Transportation Equipment	7	
Other Manufacturing	315	
Wholesale Trade		74
Banking		0
Finance/Insurance/Real Estate		236
Services		558
Other Industries		197
Total All Industries		3,426

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

JORDAN

Key Economic Indicators [1]

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

	1999	2000	2001
Income, Production and Employment:			
Nominal GDP [2]	8,070	8,337	8,729
Real GDP Growth (pct) [3]	3.1	3.9	3.5–4.0
GDP by Sector:			
Agriculture	164	162	N/A
Manufacturing	1,058	1,122	N/A
Services	1,615	1,712	N/A
Government	1,374	1,481	N/A
Per Capita Nominal GDP (US$) [4]	1,646	1,654	1,685
Labor Force (000s) [5]	1,260	1,305	1,350
Unemployment Rate (pct) [5]	14.2	13.7	13.2
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	12.0	10.2	8.4
Consumer Price Inflation [6]	0.6	0.7	1.4
Exchange Rate:			
Official (JD/US$ annual average)	0.709	0.709	0.709
Balance of Payments and Trade:			
Total Exports FOB [7]	1,832	1,899	2,072
Exports to United States [8]	13.1	63.2	200
Total Imports CIF [7]	3,699	4,577	4,714
Imports from United States [8]	365	454	372
Trade Balance [7]	–1,867	–2,678	–2,642
Balance with United States [8]	–352	–391	–172
Current Account Deficit/GDP (pct) [9]	–5.0	–0.7	2.7
External Debt Outstanding [10]	7,313	6,760	6,664
Fiscal Deficit/GDP (excluding grants) (pct)	–7.4	–7.5	–6.3
Fiscal Deficit/GDP (including grants) (pct)	–3.9	–3.4	–2.5
Debt Service Payments/GDP (pct) [11] (Commitment Basis)	9.6	8.8	9.3
Debt Service Payments/GDP (pct) [11] (Cash Basis)	6.2	6.4	N/A
Gold and Foreign Currency Reserves [12]	2,748	3,429	3,230
Official Foreign Currency Reserves [12]	1,991	2,763	2,662
Aid from United States [13]	313	479	256
Aid from All Other Sources [14]	230	288	291

[1] Sources: Central Bank of Jordan's (CBJ) Monthly Bulletin, September 2001; Ministry of Finance's (MOF) Government Finance Bulletin, August 2001; and Ministry of Labor's Annual Reports. Statistics for 1999 and 2000 have been revised and differ from last year's report due to improvements in the methodology. FY 2000 figures are preliminary as per their sources. FY 2001 estimates are based on CBJ and MOF projections, and embassy estimates.

[2] FY 2001, based on Nominal GDP growth projection of 4.7 percent.

[3] Percentage changes calculated in local currency for real GDP at factor cost. Note that data for 1999–2000 has been revised.
[4] FY 2001 estimates of 5.18 million inhabitants and nominal GDP growth rate of 4.7 percent.
[5] Labor Force: Ministry of Labor reports and official government estimates; Unemployment for FY 2001: results of the second round of the Employment and Unemployment Survey (May 2001) conducted by the Department of Statistics.
[6] Percentage change in the Cost of Living Index.
[7] Merchandise trade—exports and imports on customs, basis.
[8] FY 2001 figures are based on embassy estimates.
[9] Including grants. Figures for 1999 and 2000 are in surplus.
[10] FY 2001, as at end of July 2001.
[11] FY 2001 debt service estimates based on embassy projections.
[12] End of Period. FY 2001 figures as at end of July.
[13] USAID statistics excluding credit guarantees and GSM grain soft loans. Includes economic and military assistance. In 2001, the U.S. provided $75 million in Foreign Military Financing (FMF) and $1.6 million in International Military Education and Training Program (IMET), and $2.6 million in other military funds. FY 1999, 2000 and 2001 include Section 416(b) donation of U.S. agricultural commodities.
[14] Foreign grants as reported in the General Government Budget (CBJ, MOF reports), including the Iraqi grant. FY 2001 are MOF estimates.

1. General Policy Framework

With a per-capita gross domestic product (GDP) of about $1,685, and a population of 5.1 million, Jordan has one of the smallest and poorest economies in the region. Since 1996, Jordan has experienced stagnant or declining per capita income, and high levels of unemployment. However, the economy began picking up in 2000 with real GDP growing by 3.9 percent, somewhat higher than the rate of population growth. Growth for 2001 is expected to be between 3.5 percent and 4 percent, despite regional instability caused by the Palestinian Intifada and terror attacks in the United States in September 2001.

Under the leadership of King Abdullah, Jordan has demonstrated its commitment to economic reform, especially in the areas of privatization and in improving the investment climate. In September 2001, President Bush signed legislation implementing a free trade agreement (FTA) between Jordan and the United States that was originally signed October 24, 2000. The FTA should enter into force by January 2002. Jordan has also signed an Association Agreement with the EU that has not yet entered into force. The government has partially privatized the national telecommunications' company and the state-owned cement firm, and is in the process of privatizing elements of the national airline.

Reforms of customs, taxation, and investment laws have improved Jordan's business climate. The United States offers unique trade benefits to Jordan through the designation of Qualifying Industrial Zones (QIZs). Investors have shown interest in the QIZs, which are industrial parks that can export products to the U.S. duty-free provided 11.7 percent of the product's content comes from Jordan, 8 percent from Israel, and 15.3 percent from either of those two countries or the West Bank/Gaza. QIZ factories have created more than 20,000 jobs and US$ 170 million in new investments since 1999, and have boosted Jordanian exports to the United States from US$ 13 million in 1999 to an estimated US$ 200 million in 2001. Ten QIZs have been designated by the U.S. government. Jordan is also developing the port of Aqaba as a Special Economic Zone (SEZ), with low taxes, minimal bureaucracy, and investor-friendly policies.

2. Exchange Rate Policy

The Central Bank of Jordan (CBJ) oversees foreign currency transactions 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.

The Jordanian dinar (JD) is 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 some deterioration of the real effective exchange rate since the early 1990s, the Jordanian government is committed to the peg to the dollar at an exchange rate of approximately $1.41 to the JD.

Moneychangers operate under CBJ supervision and are free to set their own currency exchange rates. Moneychangers, unlike banks, do not pay CBJ commission fees for exchange transactions. This gives them a competitive edge over banks, as they are able to charge lower fees to customers.

Banks do not require CBJ approval for the 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. Both residents and non-residents may open accounts in either JD or foreign currencies. There are no restrictions on 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.

The CBJ requires banks to prove nonresident status for foreign clients' accounts every three years. Foreign clients who cannot prove nonresident status will have their accounts converted to resident foreign currency accounts. Nonresident 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.

The banking system remains open to foreign investment. World bank experts are helping the CBJ draft an e-commerce law which will include e-banking. A number of banks have already started providing tele-banking and e-banking services.

3. Structural Policies

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 was reduced to 30 percent in March 2000 following Jordan's accession to the WTO. Most additional customs taxes, fees and duties on regular imports have been abolished. However, automobiles and certain luxury goods are still charged additional sales' taxes, which also were reduced in 2000. In September 2001, Jordan and the United States concluded a bilateral Free Trade Agreement, which will progressively eliminate virtually all restrictions to goods and services trade between the two countries over 10 years.

A new Income Tax Law will come into force on January 1, 2002. The new Law imposes a 35 percent maximum marginal rate. Taxes on individual incomes vary between 5 percent (for annual incomes less than $3,000) and 25 percent (for annual incomes exceeding $20,000). Corporate taxes are set at 35 percent for banks and financial institutions and 25 percent for all other corporate entities (including insurance companies, brokerage firms and moneychangers). Re-invested profits are exempt from income tax.

In early 2001, the government introduced a Value Added Tax (VAT)-like sales tax to replace the existing sales tax. The VAT, still called a general sales tax, rate was set at 13 percent across-the-board. However, it is higher on certain items, such as cigarettes, alcohol, and automobiles. The General Sales Tax law exempts exports from the sales tax and restricts the Cabinet's ability to impose additional sales taxes except if they were in accordance with WTO regulations. Almost all types of professional, business, and legal services are also subject to the 13 percent sales tax.

4. Debt Management Policies

Jordan's outstanding external official debt is approximately $6.7 billion or 77 percent of GDP (down from 97 percent at the end of 1999). Pursuant to economic programs agreed with the IMF, Jordan rescheduled $400 million in debt to Paris Club creditors in 1997, and a further $800 million in 1999, easing repayment pressure in the short term. The ratio of debt service to exports of goods and non-factor services, on a commitment basis, has been decreasing since 1993, dropping from 35.9 percent in 1993 to 20.6 percent at the end of 2000, according to the Ministry of Finance. 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. Significant Barriers to U.S. Exports

Import Licenses: The license regime has been modified in accordance with WTO requirements. Import licenses are generally not required.

Services Barriers: With Jordan's accession to the WTO in 2000, market-entry barriers will be eased or lifted completely either immediately or over a period of time. Despite a few exceptions (in health, engineering, and transportation) foreign suppliers of services will receive Normal Trade Relations or national treatment.

Standards, Testing, Labeling, and Certification: Except for pharmaceuticals, which are handled by the Ministry of Health, the Institute of Standards and Metrology 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. Jordan has reviewed all its mandatory standards' requirements and others and made them compatible with WTO requirements since early 2001. Jordanian importers are responsible for informing foreign suppliers of any applicable labeling and marking requirements.

Jordan's 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. The law provides equal treatment for foreign and Jordanian investors. Restrictions on foreign investment remain in the following sectors: construction and contracting, and trade and commercial services. These restrictions will not be affected by the FTA. The United States and Jordan signed a Treaty for the Reciprocal Protection of Investment, Bilateral Investment Treaty (BIT) in 1997.

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 or international donors. However, local tenders are not directly open to foreign suppliers. By law, foreign companies must submit bids through local 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. Jordan is negotiating accession to the WTO Government Purchases Agreement.

Customs Procedures: Cumbersome customs procedures, overlapping areas of authority and difficult and delayed clearance procedures are common and hinder the smooth conduct of business despite donor-supported reform efforts. Tariff assessment remains discretionary and the Customs Law awards customs officials who uncover invoice misreporting and impose penalties on importers.

6. 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. However, with Jordan's accession to the WTO, it has committed to phase out this facility over a period of time. 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.

7. Protection of U.S. Intellectual Property

Prior to its accession to the World Trade Organization, Jordan passed several new laws to improve protection of intellectual property rights. Patents, copyrights, trademarks, trade secrets, plant varieties and semiconductor chip designs are now protected by TRIPS-consistent laws. The law requires registration of copyrights, patents, and trademarks. Copyrights must be registered at the National Library, part of the Ministry of Culture. Patents must be registered with the Registrar of Patents and Trademarks at the Ministry of Industry and Trade. Jordan is also a member of the World Intellectual Property Organization, and is a signatory to the Paris Convention for the Protection of Industrial Property and the Berne Convention.

Jordan's pharmaceutical industry, which in the past profited greatly from the unlicensed copying of pharmaceuticals, now abides by the new TRIPS-consistent patent law that outlaws pirating. In addition, in signing the FTA Jordan committed to even stronger enforcement of IPR, particularly in the pharmaceutical sector. Jordanian firms are now seeking joint ventures and licensing agreements with multinational partners to assure their profitability under the new patent regime.

Despite the progress Jordan has made in improving its IPR legislation, however, effective enforcement mechanisms and legal procedures have not yet been fully established. As a result, the government's record on IPR protection remains mixed. In the pharmaceutical sector, the government and private sector meet or exceed international norms of IPR protection. Meanwhile, the majority of videos and software sold in the marketplace continues to be pirated. Enforcement action against audio/video and software piracy is improving, but remains spotty.

8. 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 engage in formal employment. This provision, however, does not protect those children who work in the agricultural and domestic fields or small family businesses. Although the practice of child labor is widespread, Ministry of Labor inspectors have never fined an employer for a child labor violation as prescribed by the labor law.

e. *Acceptable Conditions of Work:* Jordan's workers are protected by a comprehensive labor code, enforced by Ministry of Labor inspectors. In September 2001, Jordan and the United States concluded a bilateral Free Trade Agreement. 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—2000

[In Millions of U.S. Dollars]

Category		Amount
Petroleum		–1
Total Manufacturing		–20
Food & Kindred Products	–20	
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		25

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

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

KUWAIT

Key Economic Indicators

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

	1999	2000	[1] 2001
Income, Production and Employment:			
Nominal GDP [2]	29,813	37,777	34,150
Real GDP Growth (pct) [3]	–1.0	0.90	0.50
GDP by Sector:			
Agriculture	N/A	N/A	N/A
Manufacturing	3,637	4,609	4,166
Services	3,369	4,269	3,859
Government	7,543	9,556	8,640
Petroleum	11,120	14,091	12,738
Per Capita GDP (US$)	13,220	17,039	15,024
Labor Force (000s)	1,226	1,207	1,214
Unemployment Rate (pct)	1.7	3	3.5

Key Economic Indicators—Continued

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

	1999	2000	[1] 2001
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	0.5	7.5	5.5
Consumer Price Inflation (pct)	3.7	1.8	2.5
Exchange Rate (KD/US$ annual average):.			
Official	0.3044	0.3068	.3060
Balance of Payments and Trade:			
Total Exports FOB	12,277	19,573	17,033
Exports to United States [4]	1,439	2,781	2,654
Total Imports CIF	7,716	6,708	7,206
Imports from United States [4]	864	787	1,032
Trade Balance	5,568	12,728	9,827
Balance with United States [4]	575	1,994	1,622
External Public Debt	0	0	0
Fiscal Deficit/GDP (pct)	14	15	–2
Debt Service Payments/GDP (pct)	0	0	0
Gold and Foreign Exchange Reserves (US$ billions)	3.7	5.2	8.4
Aid from United States	0	0	0
Aid from All Other Sources	0	0	0

[1] 2001 figures are projections based on data through June 2001.
[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; 2001 Figures are estimates based on data available through July 2001.

1. General Policy Framework

Kuwait is a politically stable constitutional Emirate. 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. The government, both directly and through government owned corporations, controls a large percentage of economic activity in the country.

Kuwait faces many 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. The country's 2001/2002 budget will likely record a surplus as increased spending is offset by higher oil revenues. While the government continues to discuss plans for privatizing services and reducing subsidies, higher oil prices have significantly reduced the pressures on Kuwait's budget. IMF statistics suggest the 2000/2001 fiscal surplus reached 37 percent of GDP.

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. A new foreign investment law passed by the Kuwait Parliament in March 2001 would offer liberal tax holidays and in some case allow up to 100 percent foreign ownership. Implementing regulations have yet to be issued, however. The Kuwait Central Bank uses interest rates as its primary means to control money supply through adjustments to the discount rate and through open market operations of government securities. Kuwait's money supply (M2) in June 2001 was 7.4 percent higher than its June 2000 level.

2. Exchange Rate Policy

There are no restrictions on current or capital account transactions in Kuwait, beyond the 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. A new draft anti money laundering law will impose a reporting requirement for cross-border currency movements of more than KD 10,000.

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 represents half of the basket, the Kuwaiti dinar has closely followed the exchange rate fluctuations of the dollar over the past year.

3. Structural Policies

Kuwait's government plays a dominant role in the local economy, which should 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 Kuwaitiowned 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. A new foreign investment law does offer significant tax holidays. Individuals are not subject to income taxes.

Foreign investment is welcome in Kuwait for minority partnership in select sectors. Kuwait's Parliament in May 2000 passed the Indirect Foreign Investment Law allowing 100 percent foreign ownership of all companies listed in the Kuwait Stock Exchange, with the exception of banks, where foreign firms may own no more than 49 percent. In March 2001, the Parliament passed a new foreign investment law which will exempt investors from the requirement to operate through a local agent and will allow, in some cases, up to 100 percent foreign ownership. Other incentives such as tax holidays, duty free importation of equipment and so forth will be offered on the basis of the amount of Kuwait labor employed. Foreigners may not own land in Kuwait. Implementing regulations for the new law are expected to be issued by the end of 2001.

Government procurement policies specify local products, when available, and prescribe a 10 percent price advantage for local companies on government tenders. Current laws impose 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 ranged from $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 $65 billion, while other government-owned foreign assets are estimated at about $35 billion. The government is authorized by law to borrow up to KD 10 billion ($30.5 billion) or its equivalent in major convertible currencies. As of the end of June 2001, the total outstanding balance of public debt instruments in KD issued by the Central Bank of Kuwait was KD 2.463 billion ($8.02 billion), while Kuwait's official external debt stood at zero.

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. Under the terms of a 1999 agreement creating a Gulf Cooperation Council Customs Union, Kuwait will raise its tariffs to 5.5 percent for exempted and basic commodities and 7.5 percent for other commodities.

There are currently 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, shelflife 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.

Business with Israel is restricted by application of the direct Arab League Boycott. Although Kuwait announced in June 1993 that it would no longer apply the secondary boycott (of firms that do business with Israel) or the tertiary one (of firms that do business with firms subjected to the secondary boycott), it continues to apply the primary boycott of goods and services produced in Israel. Kuwait has taken steps to revise its commercial documentation to eliminate all direct references to the boycott of Israel. If U.S. firms receive requests for boycottrelated information from private Kuwaiti firms or Kuwaiti public officials, they are advised to inform the embassy of the request, report the request as required by law to the U.S. Department of Commerce, and take care to comply with all other requirements of the U.S. antiboycott laws. Kuwait, along with many other Middle East countries, 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. 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 doubts the declared value, they may make their own assessment.

While importers do not need a separate import license for each product or each shipment, they do 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. In addition, 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, while imports of firearms and explosives require a special import license from the Ministry of Interior.

6. Export Subsidies Policies

Kuwait does not directly subsidize any of its exports, which consist almost exclusively of crude oil, petroleum products, and fertilizer. Almost 98 percent of Kuwait's food is imported. Farmers receiving government subsidies grow small amounts of local vegetables, which 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 reexport 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 enacted a copyright law in December 1999. The law requires some further amendments to put it in compliance with its obligations under the Trade Related Aspects of Intellectual Property (TRIPS) Agreement. While the Government of Kuwait has engaged in a number of raids against copyright pirates, no convictions under the law have yet been secured. Kuwait joined the World Intellectual Property Organization (WIPO) in April 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 2001 on the "Special 301" Watch List primarily for lack of sustained and deterrent enforcement actions.

Patents: Kuwait's 1961 Patent Law was never implemented and contains 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 Britishcopyrighted material. In April 1998, Kuwait's Ministry of Planning issued a decree barring the use of pirated software on government computers. A Copyright Law was passed in late 1999 and went into effect in February 2000. The law is essentially TRIPS-consistent, but there are questions regarding its protection of sound recordings and rental rights (both TRIPS requirements). WIPO is expected to provide Kuwait with assistance on the development of amendments that will cover all TRIPS requirements. Kuwait's Ministry of Information has created a Copyrights Office to conduct investigations and to inform the public about the new law.

Video piracy, which remains a major concern, is being actively pursued by the Ministry of Information Investigations Unit. 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. The widespread use of pirated computer software in public and private enterprises must also be addressed. It is hoped that these problems will be addressed as additional government training and public awareness campaigns are implemented.

8. Worker Rights

a. *The Right of Association:* Both Kuwaiti and nonKuwaiti workers have the right to establish and join unions; latest figures indicate 53,000 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 and expatriate workers, about 80 percent of the labor force, may join unions after five years of residence, as nonvoting members. Draft legislation before the National Assembly would eliminate these restrictions. 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, government subsidies provide 90 percent of their budgets, 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. Nevertheless, unions are engaged in a wide range of activities. Unions can be dissolved by court ruling or Amiri decree, although this has never happened; if it did, union assets would revert to the Ministry of Social Affairs and Labor. Only Kuwaiti citizens who are 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 grievances 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. During 2001, this rule was suspended from June until October to allow free transfer of sponsorship at the employee's initiative. Domestic servants, not protected by Kuwait's Labor Law, remain 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. "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 parttime. 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. 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 nonKuwaitis; 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 employerprovided 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 jobrelated 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—2000

[In 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	17	
Electric & Electronic Equipment	0	
Transportation Equipment	1	
Other Manufacturing	0	
Wholesale Trade		0
Banking		0
Finance/Insurance/Real Estate		(1)
Services		27
Other Industries		1
Total All Industries		245

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

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

MOROCCO

Key Economic Indicators

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

	1999	2000	[1] 2001
Income, Production and Employment:			
Nominal GDP [2]	34,871	32,986	32,986
Real GDP Growth (pct) [3]	–0.7	0.3	6.5
GDP by Sector:			
Agriculture	5,161	4,299	N/A
Manufacturing	6,033	5,869	N/A
Services	6,520	6,425	N/A
Government	5,022	4,779	N/A
Per Capita GDP (US$)	1,235	1,149	1,157
Labor Force (urban 000s)	5,263	5,345	5,520
Urban Unemployment Rate (pct)	22.4	21.5	20.2
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	10.2	7.9	9.2
Consumer Price Inflation	0.7	1.9	2.0
Exchange Rate (DH/US$—annual average):			
Official	9.84	10.6	11.3
Parallel	N/A	N/A	N/A
Balance of Payments and Trade:			
Total Exports FOB [4]	7,346	7,421	7,273
Exports to the United States [4]	251	261	245
Total Imports CIF [4]	10,765	11,515	11,320
Imports from the United States [4]	703	693	650
Trade Balance [4]	–3,419	–4,094	–4,047
Balance with the United States [4]	–452	–432	–405

Key Economic Indicators—Continued

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

	1999	2000	[1]2001
External Public Debt (US$ billions)	17.5	16.0	15.4
Fiscal Deficit/GDP (pct)[5]	2.3	3.5	3.1
Current Account Deficit/GDP (pct)	0.8	1.5	0.1
Debt Service Payments/GDP (pct)	8.4	7.6	N/A
Gold and Foreign Exchange Reserves	6,005	5,159	7,549
Aid from the United States[5]	16.3	53.1	18.7
Aid from All Other Sources	1,545	861	807

[1] 2001 figures are based on Moroccan government and Embassy estimates.
[2] GDP at factor cost.
[3] Percentage changes calculated in local currency.
[4] Merchandise trade.
[5] Fiscal Year Basis.

1. General Policy Framework

Two years into his reign, King Mohammed VI continues to demonstrate energy and determination to reform Morocco's economy and to deepen its democratic structures. King Mohammed's extensive travel throughout the country has earned him tremendous respect among his people.

Relatively strong macroeconomic indicators coupled with stubborn structural problems characterize the Moroccan economy. Morocco's inflation levels remain manageable at approximately two percent, and foreign currency reserves provide approximately six months of import coverage. Despite these good macroeconomic figures, however, economic growth has been anemic in Morocco over the last decade, partially as a result of dependence on agriculture and the recurrence of drought. A two-year drought led the economy to shrink by 0.7 percent growth in 1999 and fostered only 0.3 percent growth in 2000. Strong growth predicted for 2001 is fueled primarily by a rebound in agricultural production as a result of adequate rains in northern Morocco during the 2000–2001 growing season. Unemployment in Morocco is high, with urban unemployment in excess of 20 percent. The 2001 budget deficit, projected to be 3.5 percent of GDP, remains worrisome. The current year budget deficit would be approximately 8 percent of GDP were it not for over $2.1 billion in privatization receipts garnered from the partial privatization of the state telecommunications operator Maroc Telecom.

The government headed by Abderrahmane Youssoufi has made progress in reforming Morocco's economy. Under Youssoufi's government, important steps have been taken to make the public tender process more transparent, to update Morocco's intellectual property rights legislation, to develop a specialized commercial court system, and to liberalize the telecommunications market. The USAID-funded Investor Roadmap has identified common barriers to foreign and domestic investment, and Morocco has embraced the reform efforts involved in the U.S.-North African Economic Partnership.

Despite the progress made by the government on economic reform, there is frequent criticism that the government is not moving quickly enough. The government bureaucracy is extensive and with 33 ministers is considered top heavy.

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, but is becoming more commonplace. 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 euro and the currencies of the European trading area. Changes in the rates of individual currencies reflect changes in cross rates. The basket gives a strong weight to the euro, resulting in higher volatility of the dollar against the dirham. This volatility increases the foreign exchange risk of importing from the United States as compared to importing from Europe. Prior to this year, the dirham peg remained unchanged since the nine percent devaluation in May 1990. However, due to a higher inflation rate than its European trading partners in the 1990's, persistent pressures from the IMF and World Bank to introduce greater flexibility into its exchange rate regime, and a desire to maintain its trading relationship with Europe, the central bank adjusted the value of the dirham by changing the weight of the currencies in the basket. This April 25, 2001, adjustment gave greater weight to the euro, and resulted in an effective devaluation of the dirham by 5.18 percent. While this adjustment signaled a commitment to a more flexible exchange rate policy, many international and domestic observers continue to believe that the dirham is overvalued.

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. A significant change occurred on July 6, 2001, with the implementation of a new competition law. The law formally forbids anti-competitive behavior, creates legal sanctions for anti-competitive practices, and establishes an authority to survey market competition.

The 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 (VAT), 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 VAT 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 below 50 percent of GDP, approximately $16 billion, by the end of 2000. Similarly, debt service payments before rescheduling, as a share of GDP, fell to 7.6 percent in 2000. 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, Spain, and Italy have authorized debt-equity swaps up to 30 percent of eligible Paris Club debt.

5. 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 40 percent, although the range of tariffs is 2.5 percent to 300 percent, with the highest tariffs applied to cereals. The government is currently considering a modest reduction of tariffs coupled with a reduced number of tariff bands. There is also a value-added tax ranging from 0 to 20 percent. As a result of the Morocco-EU Association Agreement, which went into effect on March 1, 2000, tariffs on most industrial products imported from the European Union will be gradually eliminated, with a target date of 2012 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. A draft law currently under consideration would prevent foreign or domestic companies from acquiring a stake greater than 50 percent 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. In the pharmaceutical sector, a Moroccan-registered pharmacist must hold 26 percent of the company's capital stock, in order to operate officially as a pharmaceutical company.

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 have sometimes been marked by delays. The Customs Administration has launched a successful 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.

6. Export Subsidies Policies

There are no direct export subsidies, although the 1995 investment code provides a five-year corporate income tax holiday for export industries. Morocco has a temporary admission scheme 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.

7. 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 in compliance with most of its obligations under the Trade Related Aspects of Intellectual Property (TRIPs) Agreement. Morocco is also a member of the World Intellectual Property Organization and is a party to the Berne Convention for the Protection of Literary and Artistic Works (copyright), The Universal Copyright Convention, the Paris Convention for the Protection of Industrial Property (patent and trademark), the Brussels Satellite Convention, and the Madrid Agreement Concerning the International Registration of Marks, as revised at Nice 1957.

Copyright: Piracy and counterfeiting is a problem in several Moroccan industries. Business computer resellers, and government agencies frequently install a single licensed product on multiple computers in violation of the licensing agreements. In the last two years, Microsoft, the Business Software Alliance, and the Moroccan Bureau for the Rights of the Author have participated in an antipirating campaign, which according to private studies has reduced the level of software pirating from almost 90 percent in 1995 to about 60 percent in 2000. According to the same study, financial losses in the software industry are between $6 to 6.5 million. Morocco's new commercial courts have ruled in favor of Microsoft in past cases against software pirates. The Moroccan government is more aggressive in tackling video piracy, and the local music community has also stepped up enforcement on CD and audiotape piracy in response to complaints. Recently, in June 2001 Canal+Horizon, a French cable company, announced it would leave the Moroccan market due to overwhelming competition from the informal sector. Counterfeiting of clothing, luggage, and other consumer goods is not uncommon though primarily for the domestic market, rather than for export.

Patents: Requests for patent protection should be filed with the Moroccan National Industrial Property Office in Casablanca. Several U.S. pharmaceutical companies have complained that Morocco does not provide adequate data exclusivity protection.

Trademarks: Trademarks are filed in Casablanca. Counterfeiting of clothing, luggage, and other consumer goods is illegal, but not uncommon. Counterfeiting is primarily for local sales rather than for export.

8. Worker Rights

a. *The Right of Association:* Workers are free to form and join unions throughout the country. The right is exercised widely but not universally. 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 to 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 antiunion discrimination. Employers 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 14 years of age. Special regulations cover the employment of children between the ages of 14 and 16. In practice, however, children are often apprenticed before age 12, particularly in the informal handicraft industry. The use of minors is common in this informal sector of the economy, which includes rug making, ceramics, wood working, metal 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, a figure above 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 48hour 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—2000

[In Millions of U.S. Dollars]

Category		Amount
Petroleum		(1)
Total Manufacturing		55
Food & Kindred Products	41	
Chemicals & Allied Products	11	
Primary & Fabricated Metals	1	
Industrial Machinery and Equipment	0	
Electric & Electronic Equipment	(2)	
Transportation Equipment	2	
Other Manufacturing	(2)	
Wholesale Trade		–43

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—2000—Continued

[In Millions of U.S. Dollars]

Category	Amount
Banking	([1])
Finance/Insurance/Real Estate	0
Services	0
Other Industries	0
Total All Industries	38

[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

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

	1999	[1] 2000	[2] 2001
Income, Production and Employment:			
Nominal GDP	15.6	19.7	19.3
Real GDP Growth (pct) [1]	–1.0	N/A	N/A
GDP by sector (pct):			
Agriculture and Fisheries	.4	.4	.4
Petroleum	6.1	9.7	8.7
Manufacturing	.7	1.0	1.7
Services (less public services sector) [3]	6.3	6.7	6.5
Government Services [3]	1.8	1.8	1.7
Per Capita GDP (US$)	6,714	8,221	8,034
Labor Force (000s)	608.3	653.3	657.2
Unemployment Rate (pct)	N/A	N/A	N/A
Money and Prices (annual percentage growth):			
Money Supply Growth (M2) [4]	6.4	6.0	1.4
Consumer Price Inflation [5]	0.5	–1.2	–1.1
Exchange Rate (Omani riyal/US$—annual average)	2.6	2.6	2.6
Balance of Payments and Trade: [6]			
Total Exports FOB [7]	7.2	11.3	11.5
Exports to United States [7]	219.5	257.5	357
Total Imports CIF [7]	4.7	5.0	5.2
Imports from United States [7]	188.2	199.8	152.8
Trade Balance	2.5	6.3	6.3
Balance with United States	–31.1	–57.7	–204.2
External Public Debt	N/A	N/A	N/A
Fiscal (Deficit) Surplus/GDP (pct) [8]	(7.8)	(4.8)	0.3
Current Account Deficit/GDP (pct) [9]	1.2	N/A	N/A
External Debt Service Payments/GDP (pct)	N/A	N/A	N/A
Gold & Foreign Exchange Reserves [10]	2.8	2.4	2.4
Aid from United States (U.S.$ millions) [11]	0.2	0.2	0.2
Aid from All Other Sources	N/A	N/A	N/A

[1] All 2000 GDP data is provisional. 2001 GDP data estimates are annualized based on January-March data from the September 30, 2001, issue of the Ministry of National Economy. The real GDP figure for 1999 was collected from the Central Bank of Oman 2000 Annual report. This number is not yet available from the same source for 2000.
[2] 2001 estimates are annualized based on January-August data from the September 30, 2001, Ministry of National Economy monthly statistical bulletin unless otherwise indicated.
[3] Health and Education are included in services, although most government-provided services shown are current (not capital) expenditures for public administration and defense.
[4] 2001 money supply data is based on January-July 2001. Source: Central Bank of Oman.
[5] Muscat Governorate CPI. CPI figure for 2001 is the average for the period from January through August 2001.

[6] The trade balance with the United States 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 re-exported to Oman from Dubai, United Arab Emirates, the primary entry point for most U.S. goods to the southern Arabian Peninsula.
[7] 2001 trade data is annualized using January-June 2001 figures from Omani minstry of National Economy. Figures related to Omani trade with the United States are from the U.S. Census Bureau 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.
[8] Fiscal deficit as a percentage of GDP was annualized using the August 31, 2001, figures.
[9] Current account deficit for 2000 and 2001 are not available.
[10] Data represent Central Bank foreign assets. 2001 data is August 31, 2001, balance. The State General Reserve Fund (which contains Oman's most significant reserve holdings) does not publish its holdings.
[11] Funding for International Military Education and Training (IMET) program.

Sources: Central Bank of Oman, Ministry of National Economy Publications. Bilateral trade data is from U.S. Department of Commerce.

1. General Policy Framework

The Sultanate of Oman is a nation of 2.4 million people (including as many as 624,000 expatriates) living in the arid mountains and desert plains of the southeastern Arabian Peninsula. Oman's nominal GDP in 2000 was $19.7 billion, an increase of 26.7 percent from 1999. Oman is a small oil producer and ranks 18th in the world for overall oil production. In 2000, Oman produced 350 million BBL averaging around 955 thousand barrels per day, a production level that has fallen somewhat in recent months. Oil revenue accounted for 78.4 percent of government revenues in 2000 and remained at roughly the same level during the first 8 months of 2001. Oman's estimated per capita GDP increased from $6703.3 in 1999 to $8221.3 in 2000 due to the increase in world oil prices. Preliminary figures released by the Ministry of National Economy indicate a 6.5 percent rate of GDP growth during the first quarter of 2001. Continuing high oil prices through much of 2001 have kept GDP up so far, but the sharp drop in prices since mid-September calls significant GDP growth for the year into question. Net oil revenues increased by 25.8 percent during the period January through August 2001 compared to the same period in 2000; however, this is due to a quirk in Oman's official accounting, whereby oil revenues up to a set price ($14.50 in 2000, and $18.00 in 2001) are counted as revenue, while excess revenues are quietly credited to the State General Reserve Fund. Preliminary 2001 figures also indicate an increase in total exports of about 11.6 percent, mainly due to higher oil prices, and a 6.4 percent increase in imports during the first six months of 2001. These figures indicate that Oman should end the year 2001 with a trade surplus of approximately $6.3 billion, although this figure may fall due to post September 11 developments.

A significant proportion of Oman's rural population lives near the poverty line. The annual population growth rate is estimated to be around 3.3 percent, one of the highest in the world. This presents an ever-increasing demand on infrastructure. It is estimated that 44 percent of the Omani population is under the age of 15, and 76 percent of the population is 30 or younger. 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 Sixth Five Year Plan, 2001–2006, 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, light industry, and tourism; and to educate a productive national work force for private employment. Oman was aiming at a zero deficit by the year 2000; stringent annual budgets were planned on the basis of revenue of $14.50 per barrel of petroleum. However, the sharp drop in oil prices in 1998 and early 1999 left Oman with a budget deficit of nearly $975 million in 1998, or approximately 6.9 percent of GDP. This trend continued in 1999, when Oman's budget deficit reached $1.1 billion, or approximately seven percent of GDP, even with oil prices trending higher during that year. The increase in oil prices in 2000 positively affected the fiscal deficit at the end of 2000, which dropped to nearly 1.5 percent of GDP. Through August 2001 the figures published by the ministry of National Economy reflect a surplus of $40.5 million. Annualizing this figure, we expect Oman have a fiscal surplus at the end of 2001 of around $60.75 million. However, given Omani oil revenue accounting noted above, this kind of calculation does not give an accurate picture of Oman's overall financial position.

There is no personal income tax in Oman, and with the exception of modest fees for medical visits, Omanis continue to enjoy free medical care and free education, including vocational school, and post-secondary and higher education (for a few, selected through examinations). With average oil prices over $26 a barrel in 2000, the State General Budget increased expenditures by about 7 percent compared to 2000, with expenditure increases mainly in the civil ministries affecting spending on such services as health, education, and electricity.

Preliminary figures issued by the Ministry of National Economy for the first eight months of 2000 revealed a fiscal surplus of around $40.5 million. Among major public expenditure categories in 2000 defense and security accounted for 38.7 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 10.5 percent of total public expenditures. This trend continued in 2001, as defense and security current expenditures accounted for 40 percent and PDO current and capital expenditure accounted for 11.5 percent of total public expenditures through the end of August 2001.

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 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, but not to control the money supply. The large amounts of money repatriated from Oman by foreign workers and by foreign companies in Oman help ease monetary pressures but also contribute to current account deficits. Outward workers' remittances totaled $1.4 billion in 1999, around 9 percent of GDP. In 2000, outward workers' remittances increased by 1.26 percent, reaching $1.45 billion, but decreased as a percentage of GDP to around 7.4 percent.

2. Exchange Rate Policies

The Omani riyal 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 Omani riyal.

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 $668,000, the Oman Development Bank, which was 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 August 2000 to increase its non-oil revenue and make it easier for 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 70 percent direct foreign ownership. A graduated system of taxes, with a ceiling of 30 percent, applies to Omani/foreign joint ventures if direct foreign ownership in the company exceeds 70 percent. However, the tax rate for foreign petroleum companies is set in concession agreements. Import duties are set at about five percent. There are no personal income taxes or property taxes. Employers pay seven percent of a foreign worker's basic salary to a vocational training fund for Omanis, and eight 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. The project was expanded earlier this year to reach 270 MW. In 1999, the government awarded a tender for a 200 MW power plant in Salalah to the U.S. firm PSE&G (although negotiations continued into 2001). In 2000, the government awarded the Sharqia private power project, and in early 2001 the Barka power/desalination project was awarded to the U.S. firm AES. Recently, the Omani government selected an operator for the Seeb and Salalah Airports. Though the government in Oman selected international advisors for planned privatizations in the telecommunications sector in 1999, the project missed the wave of telecoms enthusiasm, and now appears to be on hold in hope of a general economic upturn.

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. In mid-1999, Maersk purchased many of Sea-Land's overseas operations, including Sea-Land's participation in the Salalah Port project. The container port, already one of the 13 largest ports in the world in terms of container volumes, is in close proximity to major East-West shipping lanes and is expected to spur industrial growth in the Salalah area. In September 2000, the government signed a Memorandum of Understanding with Salalah Port Services to establish an Industrial Free Trade Zone at Salalah Port, under the management of Salalah Port Services and Texas-based Hillwood Strategic Services.

Oman Liquefied Natural Gas (OLNG), which completed a $2 billion LNG plant at Sur in a joint venture between the Omani Government, Royal Dutch Shell, Total, and Korea Gas, began deliveries of LNG in May 2000. The entire 6.6 million ton/year LNG output of OLNG has been sold in long term contracts to Korea 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 Indian government in June 2000 finally approved the proposed Sur fertilizer plant, a joint venture between the Omani Government and Indian State investors. However, the two governments are still negotiating the final details. 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 original joint-venture partner, BP/Amoco, withdrew from the project in 1999. In late 1999, construction began on a $250 million industrial port in Sohar, which is expected to be completed by 2003. Other initiatives aim to develop the infrastructure of Oman's interior in order to provide services and employment for Oman's growing population, estimated to be increasing at around 3.3 percent annually. Industrial parks have been set up throughout the country to provide investors with subsidized sites and services ready for light manufacturing plants. Recently, construction began on two contracts for building gas pipelines to Sohar and Salalah, which were awarded by the Omani government in 2000.

4. Debt Management Policies

Oman's sovereign debt is estimated at $3 billion. In March 2000, Standard and Poors revised Oman's credit rating back to "stable," an improvement from the negative rating that it had in 1999 due to low oil prices. 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 and the State General Reserve Fund (SGRF). The 1998 budget crunch required a draw down of $704 million from the SGRF in 1998. The government continued its policy of withdrawal from the SGRF in 1999, 2000 and 2001 in spite of higher oil prices. It withdrew $1.2 billion in 1999, $898.7 million in 2000 and $415.6 million through August 2001. However, from March 1999 the SGRF has been generously replenished, since all oil revenues in excess of $9 dollars a barrel in 1999, $14.50 in 2000 and $18 in 2001 were transferred to the SGRF.

5. Significant Barriers to U.S. Exports

A license is required for all imports. Special licenses are required to import pharmaceuticals, liquor, and defense equipment. In the past, some foreign suppliers have complained that exclusive agency agreements are difficult to break. However, in September 1996, Oman amended its agency law to allow non-exclusive representational agreements. Oman has now acceded to the WTO, after introducing 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 and Water for the Salalah power privatization project, and the Muscat Municipality on the Muscat wastewater project.

Tax policy discourages wholly foreign-owned firms, although firms with up to 70 percent foreign ownership are taxed at the same rates as Omani firms. There is a case-by-case approach towards major projects by more than 70 percent or wholly foreign-owned firms. Oman attempts to attract foreign firms and investors to participate in joint ventures with Omani ownership. 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 nearly 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 are available that meet international standards. 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, offering one possible solution.

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. Effective October 1, 2000, this visa has been extended to fifteen days. However, the 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 the 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 now successful efforts to accede to the World Trade Organization (WTO). Oman began meeting its obligations under the WTO's Trade Related Aspects of Intellectual Property (TRIPS) Agreement immediately after its 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 the government began enforcement of these bans, sales of pirated tapes and computer software have virtually disappeared. The Omani government began enforcing a ban on the use of pirated software at commercial establishments early in 2001.

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 legal 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, but apparently that has not yet occurred. It is unclear whether or how any of the expected implementing measures will affect workers' rights.

a. *The Right of Association:* Articles 33 and 34 of the Basic Law establish the right of assembly and freedom of association, consistent with legal limitations. Currently, Omanis and resident foreigners alike are free to join only a very 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. Omani 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 enforce 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 this does not cover domestic workers, farm hands, government employees, and workers in small businesses. Omani nationals tend to be well protected. Most employed Omanis work for the government, with a 35-hour workweek and generous leave of from 42 to 60 days annually plus 9 days emergency leave and Omani holidays. Omanis working in the private sector enjoy a minimum wage of $260 per month in addition to a $60 per month housing allowance, and have a 6-day, 45-hour work week. They receive 28 days annual leave in addition to 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 earn 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 (122 degrees Fahrenheit), 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—2000

[In 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		0
Banking		(1)
Finance/Insurance/Real Estate		(1)
Services		0
Other Industries		0
Total All Industries		70

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

SAUDI ARABIA

Key Economic Indicators [1]

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

	1999	2000	[2] 2001
Income, Production and Employment:			
Nominal GDP	139.2	168.8	170.5
Real GDP Growth (pct)	0.4	4.5	1.0
GDP by Sector:			
Agriculture	N/A	N/A	N/A
Manufacturing (including oil)	N/A	N/A	N/A
Services	N/A	N/A	N/A
Government	N/A	N/A	N/A
Per Capita GDP (US$)	6,505	7,743	7,564
Labor Force (millions)	7.2	7.8	7.8
Unemployment Rate (pct)	N/A	14	15
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	8.2	5.9	2.2
Consumer Price Inflation	–1.2	–1.0	0
Exchange Rate (SR/US$ annual average):			
Official	3.745	3.745	3.745
Balance of Payments and Trade:			
Total Exports FOB	50.7	79.0	N/A
Exports to United States	8.2	14.2	8.6
Total Imports FOB	25.7	27.8	N/A
Imports from United States	7.9	6.2	4.0
Trade Balance	25.0	51.1	N/A
Balance with United States	0.3	8.0	N/A
Current Account Deficit/GDP (pct)	–2.8	8.8	2.3
External Public Debt	30.4	28.9	N/A
Fiscal Deficit/GDP (pct)	–6.5	7.1	1.2
Debt Service Payments/GDP (pct)	5.1	5.0N/A	
Gold and Foreign Exchange Reserves	15.7	18.2	15.2
Aid from United States	0	0	0
Aid from All Other Sources	0	0	0

[1] Sources: IMF International Financial Statistics Yearbook 2001; Saudi-American Bank Mid-Year 2001 Update; IMF Saudi Arabia Statistical Index; Saudi Arabian Monetary Agency, Thirty-Sixth Annual Report, 2000; U.S. Department of Commerce; OECD.

[2] 2001 figures are projections. Exports and imports with United States are for the period January-July 2001.

1. General Policy Framework

Saudi Arabia's leadership is moving towards establishing a free market economy. Although parastatals still dominate economic output, there has been some movement by the Crown Prince to open up the economy to foreign investment and level the playing field for foreign investors.

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 Council of Ministers approved the country's seventh Five-Year Plan on August 28, 2000. Highlights of the new plan include achieving an average annual GDP growth of 3.1 percent (the private sector is expected to grow at an average annual rate of 5 percent), promoting further diversification of the economy away from its heavy reliance on the oil sector, and providing employment to a growing number of Saudis entering the job market.

The Saudi government is making some efforts to bring its trade regime in line with the standards required for accession to WTO. Saudi Arabia's Council of Ministers approved a new Foreign Investment Law on April 10, 2000, which should make it easier for foreign companies to establish themselves in Saudi Arabia. The law establishes a framework for future legislative and regulatory activities to improve the foreign investment climate in the country and has established minimum levels of investment for agricultural products ($US 6.6 million), industrial products ($US 1.3 million), and non-industrial products ($US 533,000). The Saudi Arabian General Investment Authority (SAGIA) has been established to manage investments under the new code and has approved more than 200 new licenses for projects valued at more than $US 8.5 billion. SAGIA developed a negative list of 22 areas in the industrial and service sectors off-limits to foreign investment.

The energy and public sectors are the primary engines of growth in the Saudi economy. Spending by parastatal enterprises, such as Saudi ARAMCO (oil) and Saudi Basic Industries Corporation (SABIC—petrochemicals), and the Saudi Electricity Company (SEC), have a major impact that reverberates throughout the economy. Although Saudi Arabia traditionally has allocated a significant portion of spending to purchase of advanced military hardware, the share of defense spending has declined over the last two years.

In 2000, oil sector revenues comprised 35 to 40 percent of GDP, and more than 75 percent of budget revenues. Other government revenues, including 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 in 1973, Saudi Arabia maintained annual budget surpluses until 1982, when the decline in oil prices led to a renewed budget deficit, a situation that continued until 1999. Oil prices rebounded in 1999 and 2000. The budget deficit was reduced to four percent of GDP in 1999 and then moved back into surplus in 2000–2001. Internal public sector debt declined from 120 percent of GDP in 1999 to 94 percent of GDP in 2000.

The Saudi government has invited the international oil majors to invest in developing local supplies of natural gas to supply power generators, water desalination facilities and petrochemical plants. Total investment in three core ventures is set to reach $25 billion over a ten-year period, with Exxonmobil serving as the leader in two of the three ventures. Although the commercial terms for the deal have yet to be finalized, investment plans are proceeding apace and are expected to have a major impact on the Saudi economy.

Privatization also received a boost in 2001 when the government announced in May 2001 its intention to permit foreign investment in the telecom sector. Telecom industry experts estimate that over $10 billion in investment will be needed over the next few years to meet market demand. When exactly the government intends to open the sector to private investment remains unclear. The government announced a new regulator for the industry, the Saudi Telecom Authority (STA), but questions still remain as to the degree of its independence. The Government owned monopoly Saudi Telecommunications Company (STC) is valued at approximately $15 billion and has annual revenues of about $4 billion.

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. In January 1999, the United Saudi bank merged with the Saudi-American Bank (SAMBA), leaving a total of ten commercial banks (including one Gulf Cooperation Council [GCC] bank). All ten banks have majority private ownership, with the exception of National Commercial Bank (NCB). NCB sold 50 percent of its shares to the government-run Public Investment Fund (PIF) as part of a change of management and ownership. The government intends to sell back the shares as the local capital markets are able to absorb them.

2. Exchange Rate Policy

The exchange rate for the Saudi Arabian Riyal is SR 3.745 = $1.00. This rate has remained unchanged since 1986. 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

Regulatory Policies: The government maintains price controls for many utilities and agricultural products. Petroleum products and feedstocks for petrochemical industries are provided at below world market pricing, presumably reflecting very low taxes and discounts for lower costs in production and transport. 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. In an ongoing attempt to increase and diversify its revenue sources, the government raised electricity rates, introduced an airport tax for departing expatriates, and doubled its visa fees in 1999.

Tax Policies: The Saudi Arabian government imposes few taxes, relying on oil revenues, customs duties, and licensing fees for most revenue. Saudi 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., 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 not zakat. Saudi Arabians are not taxed on income. The new foreign investment law does not directly address taxation issues. However, the Saudi Minister of Finance and National Economy has stated that the Saudi government will rebate 15 percent of corporate taxes imposed on foreign companies that have an annual profit of more than $26,667. This would thus reduce the maximum corporate tax rate to 30 percent. This scheme, however, will only take effect once the current tax regime is revised. In addition, the new law does not provide for tax holidays, which were featured in the provisions of the old law. Instead, the new text code will include loss carry-forward provisions without any time limits. In contrast, U.S. provisions usually have a 15-year limit on loss carry-forwards. Certain specified essential commodities (e.g., defense purchases) are not subject to custom duties. The Government reportedly is studying the introduction of personal income and value added taxes as a means to broaden revenues.

The GCC states agreed in November 1999 to form a customs union by 2005. In doing so, the GCC states agreed to harmonize the tariff rates applied to trade from non-GCC countries by that date. They agreed to rates of 0, 5.5, and 7 percent. In the summer of 2001, Saudi Arabia announced an across-the-board tariff rate reduction to 5 percent on most products, down from 12 percent. In mid-October 2001, the GCC announced that it will redraft the tariff agreement to meet the Saudi rates and will push forward the date of implementation for the customs union to 2003.

4. Debt Management Policies

Saudi Arabia is a net creditor in world financial markets. In 1999, SAMA managed foreign assets of roughly $54 billion 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. In addition to overseas assets managed by SAMA, the commercial banking system has an estimated net foreign asset position of $11.4 billion.

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, exceeded 120 percent of GDP at the end of 1999. 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 priority for the government and there are indications that additional oil revenues in 2000 were being used to help pay down this debt.

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). WTO membership will bring 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 industries. Foreign companies are no longer required to operate through a Saudi Arabian agent. Contractors for public projects must purchase equipment and most supplies through Saudi agents, though this does not apply to defense-related imports. Saudi Arabia requires licenses to import agricultural products.

Saudi Arabia's pre-shipment inspection regime, known as the International Conformity Certification Program (ICCP), is claimed to protect Saudi Arabian consumers from inferior foreign products. The ICCP has elements that are 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.

The Minister of Commerce has implemented a labeling requirement on all genetically modified (GMO) food products effective December 1, 2001, and banned the importation of GMO animal products. Therefore, if a product contains one or more genetically modified plant ingredients, the information is supposed to be clearly communicated to the consumer in the required label. The Minister also required that GMO imports be accompanied by a certificate issued by the producing country stating that the product was approved for consumption in the country of origin. These requirements are of special concern as the rationale for them is not clear, and they may unjustifiably restrict trade.

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 in public works contracts to Saudi-owned companies. 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.

Saudi labor law requires companies to employ Saudi nationals, but foreigners account for approximately 65 percent of the private sector labor force. Large companies are required to increase their percentage of Saudi employees by five percent annually. This emphasis on "Saudiization" is increasing as the number of unemployed/underemployed Saudis increases with the growth in population. Many companies view these requirements as a disincentive to operating in Saudi Arabia and some companies have moved their operations elsewhere in the Gulf.

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

Although legislation in Saudi Arabia to protect intellectual property rights (IPR) is generally sufficient, enforcement of IPR has been weak. Saudi Arabia has applied to join the WTO and is revising 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 Special 301 "Watch List," having moved from the program's "Priority Watch List" in 1996 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. Government efforts to protect intellectual property rights improved during 2001 as U.S. industries have played a more active role in working with the Ministries of Commerce, Information, and Interior on enforcement.

Patents: Saudi Arabia enacted a patent regulation in 1989 and established a patent office at the King Abdulaziz City for Science & Technology (KACST). The regulation was patterned along the lines of the U.S. patent law, but does not reproduce it. The terms of patent protection are generally adequate, but the period of protection is fifteen years, five years less than the international TRIPS standards. 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. KACST is currently implementing a three-year action plan to bring its regulation into compliance by 2002. The Patent Office lacks adequate resources to carry out is work effectively. The office has received several thousand patent applications since 1989, but has only completed thirty-four of them.

The GCC established a parallel patent office in October 1998, which is expected to become the filing center of choice for the GCC member states. The GCC Patent Office issued its first patents in spring 2001. Revisions to the GCC patent law were approved at the GCC Supreme Council Summit in Riyadh in November 1999. Amendments to the implementing by-laws were approved in April 2000 and entered into force on August 15, 2000. These changes include extension of the term of protection from 15 years to 20 years (from the date of filing of the patent application with the GCC patent office), and the extension of protection to pharmaceutical products in all GCC states, including product and process protection.

Trademarks: Trademarks are registered at the Ministry of Commerce. The registration process is relatively uncomplicated, although some companies have complained that registration and search fees are high. Legal remedies for infringement of a trademark do exist, but enforcement of trademark protection has been inconsistent. It is estimated that from 25 to upward of 50 percent of all major brand consumer goods sold in Saudi Arabia are illegal copies. The Ministry of Commerce established a Fraud Control Department in spring 2001. The office has engaged in a number of raids and shop closures in Saudi Arabia and has begun an active publicity campaign.

Copyright: Saudi Arabia has indicated that it is in the process of amending the current copyright law to comply with the provisions of the TRIPS Agreement. The current level of enforcement has been insufficient to deter piracy. The most pressing problem in Saudi Arabia is unauthorized copying and sale of computer software. In some cases, the sales of unauthorized software copies exceed 90 percent market share. The Ministry of Information recently conducted a number of well-publicized raids and destruction of seized goods. However, overall enforcement still needs to be improved. Estimates of losses to U.S. copyright-based industries due to piracy in 1999 were $86.2 million.

8. Worker Rights

a. *The Right of Association:* Saudi regulations were amended in May 2001 to allow companies that employ more than 100 Saudi nationals to establish labor "committees." Only Saudis will be allowed to sit on these committees which are intended to provide Saudi workers a voice regarding working conditions, salaries, and work hours, as well as other relevant issues. Non-Saudi workers are not eligible to join these committees.

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. In 2000, however, a number of "walk-outs" were held by foreign hospital, food processing, and construction workers to protest against non-payment of salaries. Similar actions took place in the summer 2001 in both Jeddah and Riyadh.

c. *Prohibition of Forced or Compulsory Labor:* Forced labor is prohibited. However, employers have significant control over the movements of foreign employees, which sometimes gives rise to situations that involve forced labor, especially in the case of domestic servants or in remote areas where workers are unable to leave their place or work. Domestic workers still do not have legal rights under the Saudi labor law. During the past several years, the government has expelled many workers without proper work permits.

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:* Labor laws limit the work week to 48 hours, including no more than eight hours a day and no more than five hours without a break for rest, prayer, and food. Laws require employers to provide health insurance to protect workers from job-related hazards and diseases and to pay time-and-one-half for hours (up to 12) over the 44 hours normally worked per week. Although there is no legal minimum wage, the average wage generally provides a decent standard of living for a worker and family. While expatriate laborers come to Saudi Arabia because they can earn more than they could at home, there have been many reports of workers whose employers refused to pay several months, or even years, of accumulated salary or other promised benefits.

f. *Rights in Sectors with U.S. Investment:* Worker rights in sectors with U.S. investment do not differ from those elsewhere. Conditions of work at major U.S. firms and joint-venture enterprises are generally better than elsewhere in the Saudi economy. Workers in U.S. firms normally work a five to five-and-one-half day week, i.e. 44 hours, with paid overtime. Overall compensation tends to be at levels that make employment with U.S. firms attractive.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—2000

[In Millions of U.S. Dollars]

Category		Amount
Petroleum		218
Total Manufacturing		132
Food & Kindred Products	(1)	
Chemicals & Allied Products	53	
Primary & Fabricated Metals	(1)	
Industrial Machinery and Equipment	–2	
Electric & Electronic Equipment	2	
Transportation Equipment	–21	
Other Manufacturing	74	
Wholesale Trade		109
Banking		(1)
Finance/Insurance/Real Estate		1,527
Services		297
Other Industries		(1)
Total All Industries		4,784

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

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

TUNISIA

Key Economic Indicators

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

	1999	2000	[1] 2001
Income, Production and Employment:			
Nominal GDP	20,908.0	1,9652.0	20,292.0
Real GDP Growth (pct) [2]	5.4	6.2	5.2
GDP by Sector:			
Agriculture	1,954.2	1,667.2	1,675.9
Manufacturing	2,483.3	2,247.4	2,231.6
Services	5,039.2	4,619.6	4,712.6
Government	1,748.8	1,565.3	1,538.1
Per Nominal GDP per capita (US$)	2,177.9	2,026.0	2,070.6
Labor Force (000's)	3.15	3.21	3.28
Unemployment Rate (pct)	15.8	15.6	15.6
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	19.5	13.5	N/A

Key Economic Indicators—Continued

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

	1999	2000	[1]2001
Consumer Price Inflation	2.7	2.9	2.9
Exchange Rate (TD/US$ annual average):			
Official	1.18	1.37	1.45
Parallel	N/A	N/A	N/A
Balance of Payments and Trade:			
Total Exports FOB[3]	5,904.4	5,842.9	6,800.0
Exports to United States[3]	44.3	42.0	64.0
Total Imports CIF[3]	8,534.0	8,560.0	9,800.0
Imports from United States[3]	367.5	396.8	461.0
Trade Balance[3]	–2629.6	–2,717.1	–3,000.0
Balance with United States[3]	–323.2	–354.8	–397.0
External Debt	10,761.4	10,091.2	9,927.6
Budget Deficit/GDP (pct)	3.5	2.4	2.5
Current Account Deficit/GDP (pct)	2.2	3.2	3.0
Debt Service Payment/GDP (pct)	7.5	8.9	7.5
Gold and Foreign Exchange Reserves	2,455	1,890	1,720
Aid from United States[4]	0.9	8.4	11.5
Aid from All Other Sources[5]	N/A	N/A	N/A

[1] 2001 figures are all estimates based on monthly data available in September.
[2] Percentage changes calculated in local currency.
[3] Merchandise trade; 2001 figures are extrapolated from seven months results.
[4] For 2001, $9.76 million of this is military assistance.
[5] Tunisia does not publish official aid figures.

Source: Tunisian Central Bank, National Statistics Institute and other government sources.

1. General Policy Framework

Tunisia has made significant progress toward establishing a market economy over the past decade. A major step, the European Union (EU)-Tunisia Free Trade Accord (Association Agreement), was signed in 1995 and formally came into effect on March 1, 1998. Tunisia, having started implementing significant reforms in 1996, is on schedule reforming its economy as required by the agreement. Over a 12-year period, the terms of the agreement require the Tunisian government to eliminate import tariffs on EU origin goods and open the market to business competition. The Tunisian Government is under pressure from non-EU trading partners and the WTO to further reduce tariffs on products originating from non-EU countries in an attempt to maintain market diversity. In the short term, the government has taken steps to compensate for the fiscal deficit resulting from reduced tariff income by improving domestic tax collection. In the long run, Tunisia hopes the deal with the E.U. will help attract more foreign investment and consolidate its economic priority of expanding its manufacture-for-export sector.

Initially, the Tunisian government anticipated significant economic uncertainty as state-owned firms were privatized, jobs eliminated, and companies forced to become more efficient. Social disturbances have been avoided, but unemployment remains a serious concern. The official jobless rate is around 15.6 percent but real unemployment is widely believed to be higher, with some regions registering 30 percent. These figures, however, include a considerable amount of "underemployment" and, in the absence of reliable statistics, it is hard to evaluate the real level of unemployment in the country. In September 2001, Tunisia committed itself to participate in the Special Data Dissemination Standard (SDDS) program that should establish more reliable figures for all sectors of the economy. In 2001, Tunisia also began participating in two other IMF/World Bank programs: the Financial Sector Assessment program and the Financial System Stability Assessment program.

The government's fiscal policy is socially oriented, designed to raise living standards and reduce poverty while maintaining economic and political stability. Approximately 61 percent of the government budget is allocated to social programs, providing subsidies for education, basic foodstuffs, and support for the poorest sectors of society. Under a very generous definition, the Tunisian government claims that 80 percent of the population is "middle class," based on a qualifying per capita annual income between approximately $275 and $1650. Government figures indicate that less than three percent of the population lives below the poverty line, defined as annual per capita income of $250 in urban areas and $125 in rural regions. A total of 67,000 new jobs were created in 2000, compared with 63,000 the previous year. According to a government analysis, this meets over 90 percent of the annual demand for new jobs.

Increases to the minimum wage (currently $135 per month for a 48-hour workweek) have kept pace with the official inflation rate, which was 2.9 percent in 2000. With price-regulated products accounting for only one third of the general price index, the Central Bank claims that the low inflation rate is due to a rigorous monetary policy, improved distribution networks, enhanced competition, diversified economic control, and a sound consumer behavior awareness campaign. Inflation in the first eight months of 2001 was 1.6 percent, compared with 3 percent for the same period in 2000, and the rate for the 12-month period will probably be lower than early estimates of 3 percent for the year. The government, which exercises considerable control over the Central Bank, the stock market, and other financial institutions, maintains tight control of the money supply. In 2000, year-end foreign exchange reserves were, in dinar terms, 10 percent lower than the previous year. At $1.9 billion this provides nearly three months import cover. The budget deficit in 2001 is projected to be about 2.5 percent of GDP, slightly more than last year but still significantly better than the 3.5 percent registered in 1999.

With its opening market, Tunisia's merchandise trade deficit expanded by over 20 percent in dinar terms in 2000, rising to $2.6 billion. This big increase follows a much more modest 5.4 percent the previous year and is mostly the result of implementation of the Association Agreement. In addition, the agriculture sector showed a 10.6 percent drop in exports and 15.1 percent growth in imports. Exports of nonfood manufactured products grew by over 11 percent. Overall in 2000, exports grew by 14.9 percent and imports by 16.6 percent. Trade with EU countries accounted for 79.9 percent of exports and 70.5 percent of imports. The United States is the fourth largest exporter to Tunisia but its share of the market is less than five percent, France accounts for 26.3 percent, Italy 19.1 percent, and Germany 9.6 percent. On a value basis, U.S. exports have historically been heavily influenced by aircraft sales. However, the state airline, Tunisair has recently up-dated its fleet, with Airbus Industries outpacing Boeing on aircraft sales. Tunisia is in the process of opening its market for higher education and adult education, and diplomas from accredited private institutions are now recognized.

2. Exchange Rate Policy

Government policy does not permit the Tunisian dinar to be traded on international markets, although it is convertible for most investment and trade operations; however, certain restrictions apply. For example, Central Bank authorization is needed for large-scale foreign exchange operations. The dinar is traded on an intra-bank market, established in 1994. Trading operates around a "fix" established by the Central Bank based upon a "basket" dominated by the euro, the U.S. dollar, and the Japanese Yen. All exchange rate transactions are done internally, and the Tunisian Central Bank allows the rate to float only within a narrow band fixed by the Bank. However, in the face of a weakening euro, the Central Bank did allow the dinar to depreciate slightly in real terms in 2000 and 2001. Since 1995, Tunisia permits restricted spot market trading of foreign currency.

The dollar/dinar value fluctuates on a daily basis. As of October 10, 2001, one dollar bought 1.43 dinar, as opposed to 1.47 one year ago. This marks the second year of a strong dollar's negative influence on U.S. exports to Tunisia, particularly in the clothing and oil-services sectors. There is no "parallel" or black market for currency exchanges within Tunisia, although such markets for the Tunisian dinar reportedly exist in Libya and Algeria. Government exchange controls for Tunisians traveling abroad remain strict: citizens are permitted to carry the foreign currency equivalent of up to1,000 dinar, approximately $700, out of the country per year.

3. Structural Policies

To meet the terms of the EU Association Agreement, the government is continuing the structural economic reforms initiated in 1987 with the IMF and World Bank. As customs duties are eliminated over a 12-year period for a wide range of imports, Tunisian producers must become more competitive. In conjunction with the Agreement, and in response to World Bank recommendations, the government has vowed to accelerate its privatization program, which has covered nearly 140 companies since it was launched in 1987, and brought in $950 million by the end of 2000. Nearly $660 million was in the form of Foreign Direct Investment (FDI). "Privatization" of a considerable number of state-owned companies has, in fact, only been a partial sale of state-owned shares. With the full privatization of two cement plants in 1998 and two more in 2000, the government has turned its attention to a variety of public assets, and about 40 companies have been selected for privatization in 2001.

Tunisia has begun to take steps to reform the banking sector in advance of greater competition from foreign banks. Until recently, weak lending practices and poor banking supervision have resulted in a large stock of non-performing loans. Though sector reforms and public enterprise restructuring are reversing this trend, the value of bad loans remains near 20 percent of GDP, with only half of this amount covered by loan loss provisions.

Tax and customs policies favor "offshore" Tunisian-based foreign companies which manufacture locally and export 80 percent or more of their production. Tunisia continues to be successful in attracting such investments, which enjoy 10-year tax-free status and other benefits. Foreign companies that import materials for use or sale in the Tunisian market, however, continue to see customs duties rise, where permitted by WTO rules. This has adversely affected Tunisian-based U.S. companies that depend on materials produced in the United States for their products. Also, in practice it remains very difficult for foreign companies to produce in Tunisia for the domestic market.

Tunisia has three Value Added Tax (VAT) rates (6, 18 and 29 percent) based on the category of goods sold (i.e., staple, regular, or luxury items). In 1997, in order to make up for the decline in import duties, the government raised its middle VAT rate (by far the largest group) from 17 to 18 percent, and is also making greater efforts to enforce compliance. Accordingly, income from VAT is expected to rise by eight percent this year. On top of this, the government has recently announced that income from direct taxes will rise nearly 11 percent in 2001, with indirect tax revenue rising by 6.5 percent. This reflects the effort to compensate for falling receipts from customs' duties and taxes, which were 6.6 percent lower in 2000 than the previous year, and are expected to fall even more this year.

4. Debt Management Policies

According to recent reports by the World Bank and the IMF, Tunisia has managed its external debt portfolio well. Tunisia has never requested to rescheduling its debt repayment. The budget deficit for 2000 was $462 million, including receipts from privatization. In mid-October 2001, the Finance Minister announced the deficit for 2001 would be near $500 million. Estimated nominal GDP for 2001 is $20.3 billion. Outstanding foreign debt at the end of 2000 was $10.1 billion, with debt service payments totaling $1.85 billion, a manageable burden for Tunisia.

Tunisia's timely completion of the IMF structural adjustment program, 1987–1994, and subsequent fiscal conservatism, have won it investment grade ratings from a number of international institutions, including Standard and Poors (bbb), Moody's (baa3) and Fitch (bbb). Its strong 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. This has included tapping the Global Samurai Bond markets, where Tunisia successfully raised 50 billion Japanese Yen ($463 million) in July 2000 (Tunisia's first 30-year bond issuance), and a further 55 billion Yen in March 2001. Merrill Lynch International brokered the operations. The 2000 report on Competitiveness in Africa, produced by the World Economic Forum, ranked Tunisia first among African countries.

5. Significant Barriers to U.S. Exports

The most significant barriers to trade with Tunisia are the small size of the market and the legal and practical limitations to regional trade with other North African countries. While Tunisia allows about 90 percent of goods to be imported without a license, import duties range from 10 to 230 percent. The high tariffs are often used to protect locally produced items from competition. In recent years, the Tunisian government has also used certain non-tariff barriers to block imports, particularly for non-capital items. Many imports are also liable to a consumption tax, which can be prohibitive on some luxury items i.e., large engine automobiles 295 percent and champagne 500 percent. In theory, this consumption tax is levied on luxury goods regardless of whether they are imported or produced in Tunisia.

In addition, import licenses are still required for certain categories of goods. A major category affected by this non-tariff barrier is motor vehicle imports, for which there is strong local demand for greater supply and choice. Imports of certain imported products, including weapons or security-related materials and health-care products, remain strictly controlled.

Tunisia is updating its customs regulations to bring them into line with WTO requirements. A new law on the transactional value of imported goods eliminates the authority of Customs officials to arbitrarily fix a value. The authorities can no longer overrule an evaluation made in full compliance with the requirements of the law, unless there is evidence that the operation may be fraudulent or that it could initiate an anti-dumping action.

Customs' administrative procedures are often complex and burdensome, requiring time and patience. Problems 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 processing their imports.

While foreign investment is welcomed in most sectors, 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 any foreign capital share of more than 49 percent. Statistics indicate that over 40 percent of new FDI now goes into the services' sector. In the agricultural sector, foreign investors are denied treatment on par with Tunisians. Although land may be secured on long-term leases (40 years), foreign ownership of agricultural land is prohibited. In an effort to attract greater foreign participation in the agriculture sector, Tunisia now allows foreign nationals to own up to 66 percent of the non-property assets in an agriculture enterprise.

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. Foreign companies cannot distribute products locally without a Tunisian distributor. The establishment of foreign franchise operations continues to be a complicated process and, in practice, there are few franchises in Tunisia. There is no limit on the amount of foreign currency that 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. Tunisia is hoping that the Association Agreement will increase U.S. manufacturing investment by offering duty-free exports to the EU. However, the calculation of required minimum local value-added content to qualify for such treatment remains unclear.

6. Export Subsidies Policies

The government does not provide export subsidies to Tunisian companies. However, it operates an export assistance agency, FAMEX, which helps companies finance research and development in, and access to, targeted export markets.

7. Protection of U.S. Intellectual Property

Tunisia has the legal requirements for IPR protection in place, and in 2001, Tunisia began a major campaign to improve its IPR enforcement. The motivation behind this effort is not only to comply with its international obligations, but also to promote growth of the local software industry and to help attract new foreign investment. In the local market, pirated software, music, and videos remain readily available, but these items are not exported in any notable volume.

Tunisia is a member of the World Trade Organization (WTO), the World Intellectual Property Organization (WIPO), 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).

Registration of foreign patents and trademarks with the National Institute for Standardization and Industrial policy is required. 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 companies. In 2001, a major U.S. company won damages from its Tunisian representative in a Tunisian court for illegal registration of trademarks owned by the American manufacturer.

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. The Tunisian authorities have pursued IPR protection when the foreign company has made a formal and stringent complaint.

8. Worker Rights

a. *The Right of Association:* The constitution and the Labor Code stipulate the right of workers to form unions, which is generally observed. 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 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 antiunion discrimination by employers is prohibited. Though the government does not participate in private sector negotiations, it must approve, but cannot modify, the negotiated agreements.

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:* The minimum age for employment in manufacturing is 16 years, and 18 for certain hazardous occupations. The minimum age for light work in agriculture and non-industrial sectors is 13 years, but children aged 13–15 may only work two hours per day. The government requires children to attend school until age 16 and employers must observe certain rules to ensure children obtain adequate rest and attend school. The UGTT has expressed concern that child labor continues to exist, disguised as apprenticeship.

e. *Acceptable Conditions of Work:* The Labor Code provides for a range of minimum wages, which are set by a commission of government, UGTT, and employers' representatives. Most business sectors observe a 48-hour workweek, with one 24-hour rest period. The government often has difficulty enforcing the minimum wage law, especially in non-unionized sectors of the economy. The government enforces workplace health and safety standards.

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—2000

[In Millions of U.S. Dollars]

Category		Amount
Petroleum		(1)
Total Manufacturing		(1)
Food & Kindred Products	(1)	
Chemicals & Allied Products	0	
Primary & Fabricated Metals	0	
Industrial Machinery and Equipment	0	
Electric & Electronic Equipment	0	
Transportation Equipment	–4	
Other Manufacturing	0	
Wholesale Trade		0
Banking		1
Finance/Insurance/Real Estate		0
Services		26
Other Industries		0
Total All Industries		55

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

UNITED ARAB EMIRATES

Key Economic Indicators

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

	1999	2000	[1] 2001
Income, Production and Employment:			
Nominal GDP [2]	52.0	65.9	61.3
Real GDP Growth (pct)	10.0	20.4	–7.0
GDP by Sector: [3]			
Agriculture	1.8	1.9	1.9
Manufacturing	6.5	7.9	7.0
Services	24.6	26.0	24.0
Government	5.7	6.7	6 .6
Per Capita GDP (US$)	17,700	21,200	19,200
Labor Force (000s)	1,500	1,600	1,700

Key Economic Indicators—Continued

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

	1999	2000	[1]2001
Unemployment Rate (pct)	2.6	2.6	2.6
Money and Prices (annual percentage growth):			
Money Supply (M2)	11.4	11.1	8.0
Consumer Price Inflation (pct)	1.5–2	1.5–2	1.5–2
Exchange Rate (Dirham/US$—annual average):			
Official	3.67	3.67	3.67
Balance of Payments and Trade:			
Total Exports FOB [4]	35.9	45.3	41.0
Exports to United States [5]	0.7	1.0	1.4
Total Imports CIF [4]	32.5	32.6	34.0
Imports from United States [5]	2.7	2.3	2.7
Trade Balance [4]	3.4	12.7	7.0
Balance with United States [5]	–2.0	–1.3	–1.3
Current Account Surplus/GDP (pct)	3.4	19.3	11.0
External Public Debt	0.0	0.0	0.0
Fiscal Deficit/GDP (pct)	14.8	2.9	6.0
Debt Service Payments/GDP (pct)	0.0	0.0	0.0
Gold and Foreign Exchange Reserves (end of period)	10.6	13.7	11.5
Aid from United States	0	0	0
Aid from All Other Sources	0	0	0

[1] Estimates based on available monthly data in October 2001.
[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; 2001 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 2000 for 33.9 percent of GDP and equaling roughly 50 percent of export and 90 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 rose by 20.4 percent in 2000, largely owing to much higher oil prices, 54.5 percent higher on average than in 1999. 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. The oil sector's increased share of GDP in 2000 resulted from the sharp rise in oil revenues. Data over time, however, indicates that the UAE has made significant progress in diversifying its economy away from oil. While the non-oil sector's share of GDP in 2000 fell from 75.2 percent to 66.1 percent, it nonetheless grew a healthy 5.8 percent in real terms. 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 16.6 percent, largely attributable to a 34 percent drop in oil revenues that year. Much higher oil revenues in 2000, however, allowed the government to pay down the deficit to 2.9 percent. 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 one 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 four percent per year, with UAE nationals required to comprise 40 percent of the 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 four percent. More than 75 percent of imports still enter duty free. Gulf Cooperation Council (GCC) states have formally agreed to move towards unified customs tariffs within the next five years. The UAE, with its dependence on trade and its commitment to the free flow of goods, continues to favor lower rates than its GCC neighbors and, under the agreed customs union, would actually have to raise tariffs on some items.

Market forces largely determine prices for most items. 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. U.S. citizens may obtain visas for business and tourism at the airport upon arrival. These visas do not permit employment in the UAE.

4. Debt Management Policies

The UAE Federal Government has no official or commercial foreign debt. Some individual emirates have foreign commercial debts, and there is private external debt. There are no reliable statistics on either, but the amounts involved are not large. The foreign assets of the Abu Dhabi and Dubai governments and their official agencies are believed to be significantly larger than the reserves of the central bank. It is conservatively estimated that assets of the Abu Dhabi Investment Authority 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. 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 UAE nationals own at least 51 percent of the share capital. Federal tenders are required to be accompanied by a bid bond in the form of an unconditional bank guarantee for five percent of the value of the bid.

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. Only one stock is currently open to foreign investors and is capped at 20 percent total foreign ownership, although limited participation by foreigners in a few 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), 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). In April 2001, the UAE was placed on the "Special 301" Watch List following the registration of a number of U.S. patent-protected medicines in violation of assurances from the UAE government that unlicensed copies of patent-protected medicines would no longer be registered. Discussions aimed at resolving this issue are ongoing.

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. The government has also undertaken enforcement actions against local companies selling pirated computer software. Efforts to combat computer software and video piracy in the UAE have been successful; 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. However, as of October 2001 a TRIPs-compliant patent law was not in place. The Ministry of Information is currently amending the Copyright Law to bring it up to international standards.

According to the International Intellectual Property Alliance, in 1999 the UAE had the lowest estimated rate of software and music piracy in the Middle East.

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. 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 age 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 99 pounds. The Camel Racing Association is responsible for enforcing these rules. Children under the age of 15 working as camel jockeys have still been observed. Newspaper articles have appeared in 2000 detailing instances of young children 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 "c" above). The government does not issue visas for foreign workers under the age of 16 years. Education is compulsory through the intermediate stage, approximately 13 or 14 years of age.

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 122 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 against any foreign employee who leaves his job without fulfilling the terms of his contract for a 6-month ban from the work force.

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, and complaints and compensation claims are backlogged. In 2000, the government announced that it intends to establish a new court system to speed-up labor cases.

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—2000

[In Millions of U.S. Dollars]

Category	Amount	
Petroleum		211
Total Manufacturing		([1])
Food & Kindred Products	0	
Chemicals & Allied Products	([1])	
Primary & Fabricated Metals	([1])	
Industrial Machinery and Equipment	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	([1])	
Wholesale Trade		115
Banking		([1])
Finance/Insurance/Real Estate		–1
Services		71
Other Industries		([1])
Total All Industries	573	

[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

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

	1999	2000	[1] 2001
Income, Production and Employment:			
Real GDP Growth (pct) [2]	4.9	5.5	6.0
GDP Growth by Sector:			
Agriculture	4.8	6.4	5.0
Industry	4.9	5.6	8.7
Services	5.2	5.3	5.2
Per Capita GDP (Current US$)	357	373	359
Labor Force (000s)	N/A	N/A	N/A
Unemployment Rate	N/A	N/A	N/A
Money and Prices (annual percent change):			
Money Supply Growth (M2)	12.8	19.9	15.0
Consumer Price Inflation (annual average)	9.0	4.5	2.2
Exchange Rate (Taka/US$—annual average):			
Official	47.9	49.7	54.04
Parallel	N/A	N/A	N/A
Balance of Payments and Trade:			
Total Exports FOB	5,313	5,752	5,872
Exports to United States [3]	2,273	2,417	1,401
Total Imports CIF	7,515	8,200	8,367
Imports from United States [3]	300	239	157
Trade Balance	–2,202	–2,448	–2,495
Balance with United States [3]	1,973	2,178	1,243
External Public Debt [4]	14,800	15,790	N/A
Fiscal Deficit/GDP (pct)	5.3	6.5	7.0
Current Account Balance	NA	–61	–741
Debt Service Payments/GDP (pct)	6.7	7.3	NA
Gold and Foreign Exchange Reserves	1,500	1,500	1,295
Aid from United States [5]	153	92.8	95.6
Aid from All Sources [6]	1,474	1,575	N/A

[1] Figures are for Bangladesh's fiscal year (FY), July 1 to June 30.
[2] Based on 1995/1996 base year; percent in constant prices
[3] Figures are for calendar year; 2001 up through July 2001.
[4] Medium and long-term; Based on Ministry of Finance, Foreign Assistance Accounts.
[5] Figures are for the U.S. fiscal year (October 1-September 30). Security assistance from the United States to the Bangladesh military during fiscal year 2001 totaled $503,000 for International Military Education Training (IMET). In addition to IMET, Enhanced International Peacekeeping Cooperation (EIPC) grants were provided to the Bangladesh military in the amount of $275,000 for training and $1.8 million for purchasing training equipment. These grants are to be expended over a five-year period, and roughly $51,000 was obligated in fiscal year 2001.
[6] Disbursements; year 2000 number is provisional. Total does not include security cooperation/assistance.

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 2001 (July 1, 2000 to June 30, 2001) is estimated at $359. A large proportion of its population of roughly 130 million is tied directly or indirectly to agriculture, which accounts for 26 percent of Gross Domestic Product (GDP) and about 70 percent of the labor force. Industrial output remains narrowly focused. Economic growth in fiscal year 2001 was six percent, up by one-tenth of a percent point from 2000. Bangladesh's economic growth has averaged five percent annually over the last ten years. However, economists estimate that growth rates of seven to eight percent are required to begin to alleviate the nation's extreme poverty.

Bangladesh's industrial output, heavily concentrated in garments, showed 8.7 percent growth in fiscal year 2001, an increase of more than 3 percentage points from fiscal year 2000. However, recent data show signs of a slowing down of activity over the last quarter of the fiscal year. Growth in agricultural output slowed to 5 percent in fiscal year 2001, from 6.4 percent one year earlier. Service sector output grew by 5.2 percent, roughly the same as fiscal year 2000.

GDP growth continues to be weakened by low productivity, political instability, poor infrastructure, corruption, and low domestic savings and investment. High government borrowing and the widespread inflow of smuggled goods are the latest problems putting strains on the already weak economy. Bangladeshi exports, particularly ready-made garments to the United States and Europe, grew steadily over fiscal year 2001. However, July exports of ready-made garments ($336 million) grew at a much slower pace (3 percent versus 12 percent in June, 19 percent in May and 15 percent in April) and August exports posted a decline to $306 million. The state's presence in the economy continues to be large, and money-losing state enterprises have been a chronic drain on the treasury. During the 1990's Bangladesh took steps to liberalize 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, continued the market-based policies of its predecessor, the Bangladesh Nationalist Party (BNP), and made some regulatory and policy changes toward that end. However, implementation of new policy directives by the bureaucracy has been slow and uneven among the sectors.

National elections were held on October 1 and the BNP claimed two-thirds of the total 300 seats in the Bangladesh Parliament. Early expectations are high that the new government will accelerate reforms to begin improving Bangladesh's investment climate.

The World Bank and the International Monetary Fund (IMF) provided emergency balance of payment relief of about $320 million in fiscal year 1999, and over the past two years the IMF and Bangladesh have held follow-on discussions for a new loan program, though no agreement has been reached. Bangladesh's official foreign exchange reserves continued to edge downward throughout fiscal year 2001, but stabilized under the Caretaker Government (mid-July through September). The reserve level in October 2001 stood at around $1.1 billion, roughly equivalent to 1.5 months of imports of goods and services. Loose fiscal and monetary policies have added to Bangladesh's balance of payments problems and have limited much needed credit expansion to the private sector.

Inflation has fallen from the 9 percent level reached in fiscal year 1999 following the 1998 flood to an annual rate of 2.2 percent by the end of fiscal year 2001. Inflation currently stands at 1.5 percent, and most resident economists believe that the decline will go no further. A presumed record level of smuggled goods is credited by many for keeping the prices of consumable goods down.

Responding to the overvaluation of its currency (the "taka") relative to the currencies of its main export competitors, Bangladesh devalued the taka by 3 percent in fiscal year 1999, by 2.1 percent in early fiscal 2000, by another 6 percent in mid-August 2000, and another 5.5 percent in May 2001. Although resident economists believe that the latest devaluation, along with low inflation, has helped place Bangladesh in a competitive position it has not seen since 1997, most believe that further devaluation of the taka is needed. Other factors have limited Bangladesh's export competitiveness over the past several years, including the country's expensive and unreliable ports.

The fiscal year 2002 national budget released in July 2001 projected total resources of just under $8 billion, using the current 57 taka to one dollar exchange rate. Revenue sources for the next fiscal year are projected to include $4.8 billion from tax collection, $1.7 billion from domestic financing, and $1.4 billion from foreign financing. Of the domestic financing, $390 million will come from bank borrowing and the remaining $1.4 billion will come from the sale of savings certificates. The budget projected $1.4 billion in concessionary foreign aid loans and grants, a 15 percent rise from the final fiscal year 2001 total. $956 million, or 20 percent of projected fiscal year 2002 revenue, will be used to pay off public debt interest.

The budget projected a 13 percent rise in tax collection from the previous year's $3.4 billion collected, citing improved tax administration, closer monitoring, incentives to tax collectors, and modernization of operations as ways to increase revenues. The National Bureau of Revenue (NBR) exceeded its fiscal year 2001 collection goal of $3.4 billion by about $35 million. However, resident economists are warning that new practices and procedures needed to continue growth in revenue collections are reaching their limits. Unless major overhauls within the NBR are approved by the new government, future revenue growth targets will be hard to meet. Data released by the NBR in mid-October 2001 show that the revenue collection target for the first quarter 2002 was not achieved.

The budget proposed total expenditures of over $7.8 billion for fiscal year 2002, a six percent rise from 2001 actual spending. If both tax collection and proposed spending meet their targets for fiscal year 2002, the overall budget deficit is projected to be over $3 billion, roughly a four percent rise from the 2001 planned deficit.

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) in fiscal year 2001 fell to 15 percent from over 19 percent growth in fiscal year 2000, due largely to the government's continued high recourse to central bank financing of the deficit. Although the government has enacted some liberal investment policies to foster private sector involvement (mainly in energy and telecommunications), poor infrastructure, bureaucratic inertia, corruption, labor militancy, and a generally weak financial system discourage investment. Political unrest and a deteriorating law and order situation also discourage domestic and foreign investors.

The fiscal year 2002 budget proposed a continuing expansion of liquidity (in the form of interest free bonds) to Bangladesh's nationalized commercial banks that are burdened with bad loans. Reduced interest rates for lending to priority sectors like infrastructure, information technology, oil and gas, and agriculture-based industries were proposed in the budget, but assistance to several key sectors, primarily garments and frozen seafood, fell short of the business community's expectations. The import of capital machinery by export-oriented industries was made duty-free with indemnity bonds.

Poverty alleviation programs were the largest recipients of the fiscal year 2002 budget allocations, receiving $1.9 billion, or roughly 25 percent of total projected spending. Of this amount, Bangladesh's Annual Development Program (ADP) will receive $1.2 billion.

The new government's Finance Minister was quick to express concern over the proposed 2002 national budget, and the new government's intention to review the budget and revise accordingly.

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, vis-à-vis a basket of select currencies. Annual aid receipts and remittances from overseas workers, an important source of foreign exchange earnings, have kept the exchange market somewhat stable over the past several years and going into fiscal year 2001, workers' remittances were expected to remain a bright spot for the economy. However, official receipts fell dramatically in the first quarter, never rebounded, and fell by 3.4 percent over the entire period. An estimated $1 billion in remittances entered Bangladesh outside of official channels during fiscal year 2001, and the government's delayed decisions to devalue the local currency added unnecessary strain on the market. Workers' remittances rose sharply during the first two months of fiscal year 2002, showing a 13 percent increase over the same period in fiscal year 2001.

Foreign firms are able to repatriate profits, dividends, royalty payments and technical fees without difficulty, provided appropriate documentation is presented to the Bangladesh Bank. However, U.S. investors do complain about the delays in getting the central bank's approval to repatriate profits. 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.

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 loan program; however, as the Bangladeshi economy recovered smartly from economic disruptions caused by the floods, Bangladesh's enthusiasm for a new loan program waned. Although there is little disagreement between the IMF and Bangladesh on the substance of needed economic reforms (i.e., tax reform with better 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, improvement of loan portfolios; and public sector reforms with an acceleration of privatization of state-owned enterprises), progress in negotiations has not occurred.

Bangladesh has managed to maintain a laudable measure of macro-economic stability since 1993, but its macroeconomic position 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 slow, although the government has instituted reforms of the capital market and taken some market-friendly decisions to encourage foreign investment. Vested interest groups often successfully oppose reform effort. The public sector still exercises a dominant influence on industry and the economy even though less than five percent of the labor force is employed by state-owned enterprise (SOEs). Non-financial SOEs are losing an estimated $290 million a year. 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.

The difficulties and the high cost of doing business have forced some companies to reconsider or limit their exposure in Bangladesh. Recognizing major shortcomings for private sector productivity, poor management of crucial infrastructure for power, rail lines, roads, ports, and telecommunications, in October 1996 the government formalized its private power policy, which grants tax holidays and the duty-free import of plant and equipment for independent power producers (IPP). As of fall 2001, IPPs were generating 35 percent of all the electricity to the national grid. Private investment is also allowed in the telecommunications sector for cellular communications, and in the hydrocarbons sector, where international oil companies have entered into production sharing contracts with the government to obtain gas exploration rights in block concessions. Bangladesh also witnessed a dramatic increase in the number of internet service providers following the sharp reduction in the tax on Very Small Aperture Terminals (VSATS) in early 2000.

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. The banking sector is now dominated by four large nationalized commercial banks. However, entry of foreign and domestic private banks was permitted in 1996, and now numerous new private domestic and foreign banks, including U.S. banks American Express and Citicorp have established a foothold in the market. The banking sector continues to be in need of major reform, particularly in the area or loan defaults and high interest rates for key industrial sectors.

4. Debt Management Policies

Assessed on the basis of disbursed outstanding principal, Bangladesh's external public debt was $15.8 billion in fiscal year 2001, an 11 percent rise from fiscal year 2000. Because virtually all of the debt was provided on highly concessional terms by bilateral and multilateral donors, the net present value of the total outstanding debt is significantly lower than its face value. Bangladesh maintains good relationships with the World Bank, Asian Development Bank, the International Monetary Fund, and the donor community.

5. Significant Barriers to U.S. Exports

Since 1991, the government has made significant progress in liberalizing what had been one of the most restrictive trade regimes in Asia. Even so, Bangladesh continues to raise a relatively high share of its government revenues from import-based taxes, custom duties, the Value-Added Tax (VAT), and supplementary duties on imports. Overall, tariff reform in Bangladesh is slow, but Bangladesh is continuing its efforts to shift from a tariff-based revenue system to an income-based one. The government has reduced import duty tariffs from an average of 17 percent to 13 percent over the past five years. Some of fiscal year 2002 budget changes to the tariff regime included additional tariff reductions for various types of industrial and environmental capital machinery.

On August 15, 2001, the NBR issued a statutory order to impose supplementary duties on imports of numerous nonessential consumer items, ranging from 5–15 percent. This change was not viewed in any way as a roll back of trade liberalization, but as simply the use of a temporary market instrument to slow down import growth and decline of foreign reserves. This statutory order is expected to stay in effect during fiscal year 2002.

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 allows private companies to enter the wireless communication market. Non-tariff barriers also exist in the pharmaceutical sector, where manufacturing and import controls imposed by the national drug policy and the Drugs (Control) Ordinance of 1982 discriminate against foreign drug companies. Bangladesh is not a signatory to the WTO agreements on government procurement or civil aircraft.

Government procurement generally takes place through a tendering process, which is typically not transparent, meaning U.S. businesses are not always guaranteed a level field for competing. Customs procedures are lengthy and burdensome, and sometimes complicated by corruption. Introduction of the PSI system of customs valuation has help simplify customs procedures and make valuation less arbitrary. However, the level of corruption remains a major concern.

Other drawbacks to investment in Bangladesh include low labor productivity, poor infrastructure, excessive regulations, a slow and risk-averse bureaucracy, and unpredictable 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.

On May 3, 2001, the United States Treasury announced that delegations from the United States and Bangladesh reached agreement on the text of a treaty for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income. The initialing off of the Agreement indicates the recommendation of the negotiators that the governments sign the treaty and complete the steps necessary in each country to bring the treaty into force. Both sides are now finalizing the necessary clearances and approvals and final signature is expected to take place by late October 2001.

Export processing zones (EPZs) in Dhaka, Chittagong, Khulna and Ishwardi have successfully led to increased foreign investment in Bangladesh, but the country was at risk of losing access to benefits under Generalized System of Preferences (GSP) due to the government's slow pace in providing EPZs workers their labor rights. While substitutes for some of the provisions have been implemented through EPZ regulations, which the Bangladesh Export Processing Zone Association (BEPZA) is charged with enforcing, professional and industry-based unions are prohibited in the zones. A small number of workers in the EPZs skirted prohibitions on forming unions by setting up associations. In August, BEPZA reported that workers had begun selecting representatives for workers' welfare committees and dispute resolution tribunals. Gaining experience in resolving disputes between workers and managers is an interim step designed to ease the transition to the right to freedom of association and collective bargaining by January 1, 2004, when all sections of labor law are due to apply in the EPZs. By the end of fiscal year 2001, the United States had invested $16.9 million into the Dhaka and Chittagong EPZs, far below the investments made by East Asian investors. The government has plans to establish new export processing zones in Comilla and Mongla.

Agreements between Bangladesh and U.S. companies in gas exploration and production and energy production prompted the rise in total U.S. foreign direct investment (FDI) from $25 million before 1995 to $885 million in 2001. Other opportunities for significant investment in gas exploration and production, power generation, private port construction/operation and telecommunications could further swell U.S. investment and trade, if the new government makes needed economic policy changes and gas export decisions. At present, the United States, with 84 industrial projects (worth roughly $4.5 billion in potential investment outlays) registered by the Bangladesh Board of Investment (BOI), is the top provider of direct investment to Bangladesh. Of these projects, 26 are 100 percent U.S. owned (worth $3.1 billion) and the remaining 61 projects ($1.4 billion) are joint ventures with Bangladeshi investors. According to the BOI, by the end of fiscal year 2001, 25 of these projects (worth $880 million) have been implemented, including the completion of the power generation plant in Haripur built by AES. 15 projects ($1.2 billion) are under progress, and the remaining 44 projects ($2.4 billion) are pending.

Inadequate infrastructure, especially power supplies, port and transportation, is undermining efforts to attract FDI to Bangladesh and getting projects implemented once they have been registered with the BOI. Slow bureaucratic decision-making, corruption, occasional general strikes (hartals), and a largely unskilled labor force are further hindering prospects for investing in Bangladesh.

6. 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 and lower interest rate 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. Similar subsidies are offered to selected leather products, manufactured jute products and artificial flowers. Exporters are allowed to exchange 100 percent of their foreign currency earnings through any authorized dealer.

7. 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, the country has outdated Intellectual Property Rights (IPR) laws, an unwieldy system of registering intellectual property rights, and an almost nonexistent 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. Bangladesh enacted a Copyright Law in July 2000, updating its copyright system and bringing the country into compliance with TRIPS; the Government has been urged to move quickly on getting the law implemented. Progress in getting similar laws enacted for trademarks and patents and design has been extremely slow.

8. Worker Rights

a. *The Right of Association:* The Constitution provides for the right to join unions and, with government approval, the right to form a union. Bangladesh's total work force is approximately 58 million persons, of whom about five million work in the formal sector. Of those, approximately 1.8 million belong to unions, most of which are affiliated with the various political parties. There are no reliable labor statistics for the large unreported informal sector, in which the vast majority of Bangladeshis work.

For a union to obtain and maintain its registration, 30 percent workplace participation is required. Moreover, would-be unionists technically are forbidden to engage in many activities prior to registration, and legally are not protected from employer retaliation during this period.

The right to strike is not recognized specifically in the law, but strikes are a common form of workers' protest. The Essential Services Ordinance permits the Government to bar strikes for 3 months in any sector that it declares essential.

There are no legal restrictions on political activities by labor unions, although the calling of nationwide general strikes (hartals) or transportation blockades by unions is considered a criminal rather than a political act and thus is forbidden.

There are no restrictions on affiliation with international labor organizations, and unions and federations maintain a variety of such links. Trade unionists are required to obtain government clearance to travel to ILO meetings, but there were no reports that clearances were denied during the year.

b. *The Right to Organize and Bargain Collectively:* The law permits workers to engage in collective bargaining only through representation by unions legally registered with the Registrar of Trade Unions as collective bargaining agents. Labor unions are affiliated with the various political parties; therefore, each industry generally has more than one labor union (one or more for each political party). To engage in collective bargaining, each union must nominate representatives to a Collective Bargaining Authority (CBA) committee, which the Registrar of Trade Unions must approve after reviewing the selection process. Collective bargaining occurs on occasion in large private enterprises such as pharmaceuticals, jute, or textiles but, because of high unemployment, workers may forgo collective bargaining due to concerns over job security. Collective bargaining in small private enterprises generally does not occur. The International Confederation of Free Trade Unions (ICFTU) has criticized the country for what it views as legal impediments that hamper such bargaining.

The National Pay and Wages Commission determines pay levels and other benefits for public sector workers. Their recommendations are binding and may not be disputed except on the issue of implementation.

The Registrar of Trade Unions has wide powers to interfere in internal union affairs. The Registrar has the authority to enter union premises and inspect documents; however, there were no reports during fiscal year 2001 that the Registrar of Trade Unions had abused these powers.

The country's five Export Processing Zones (EPZs), of which three are operational, are exempt from the application of the Employment of Labor (Standing Orders) Act of 1965, the Industrial Relations Ordinance of 1969, and the Factories Act of 1965. Among other provisions, these laws establish the freedom of association and the right to bargain collectively, and set forth wage and hour and occupational safety and health standards. (See Section 6.)

c. *Prohibition of Forced or Compulsory Labor:* The Constitution prohibits forced or compulsory labor, including that performed by children; however, the Government does not enforce this prohibition effectively. The Factories Act and Shops and Establishments Act, both passed in 1965, established inspection mechanisms to enforce laws against forced labor; however, these laws are not enforced rigorously, partly because resources for enforcement are scarce. There is no large-scale bonded or forced labor; however, numerous domestic servants, including many children, work in conditions that resemble servitude and many suffer physical abuse, sometimes resulting in death. Between January and August, newspapers reported "unnatural deaths" of 12 domestic servants, including one who was only 11 years old. Newspapers also reported five separate cases of children being tortured by their domestic employers; in one case a ten year old girl allegedly was beaten until she lost consciousness. In the past, the Government has brought criminal charges against employers who abuse domestic servants; however, many impoverished families settle for financial compensation.

There is extensive trafficking in both women and children, mainly for purposes of forced prostitution, although in some instances for labor servitude outside of the country (see Section 6.f.).

d. *Minimum Age for Employment of Children:* There is no law that uniformly prohibits the employment of children, and child labor is a serious problem. Some laws prohibit labor by children in certain sectors. The Factories Act of 1965 bars children under the age of 14 from working in factories. This law also stipulates that children and adolescents are allowed to work only a maximum 5-hour day and only between the hours of 7 a.m. and 7 p.m. The Shops and Establishments Act of 1965 prohibits the employment of children younger than the age of 12 in commercial workplaces. The Employment of Children Act of 1938 prohibits the employment of children under the age of 15 in the railways or in goods' handling within ports. In March, the Government ratified ILO Convention 182 on the elimination of the worst forms of child labor.

There is virtually no child labor law enforcement outside the export garment sector. Penalties issued by the Ministry of Labor for child labor violations are nominal fines ranging from $4 to $10. The Ministry of Labor has fewer than 110 inspectors to monitor 180,000 registered factories and establishments, charged with enforcing labor laws pertaining to more than one and one half million workers within its jurisdiction. Further, most child workers are employed in agriculture and other informal sectors, where no government oversight occurs.

As part of a 1995 Memorandum of Understanding (MOU) between the Bangladesh Garment Manufacturers and Exporters Association (BGMEA), the ILO, and UNICEF which aims to eliminate child labor in the garment sector, BGMEA has established its own Vigilance Team which inspects member factories. Among 3300 garment factories inspected, the team found 531 member factories employing a total of 1278 children. The BGMEA Vigilance Team fined each factory US$ 100. Also under the MOU, the ILO and UNICEF offer former child employees a small monthly stipend while attending school to help replace their lost income.

In cooperation with the Non-Formal Education Directorate of the Government and some NGO partners, UNICEF is implementing a "hard-to-reach" program to provide education to 350,000 (primarily working) children in urban slum areas around the country. Working with the Government, NGOs, and some trade unions, ILO/IPEC has 20 action programs, targeting about 6,000 children working in hazardous conditions, designed to ensure that children receive an education, rather than removing children from work.

e. *Acceptable Conditions of Work:* There is no national minimum wage. Instead the Wage Commission, which convenes every several years, sets wages and benefits industry by industry, using a range based on skill level. In most cases, private sector employers ignore this wage structure. For example, in the garment industry, many factories do not pay legal minimum wages, and it is common for workers of smaller factories to experience delays in receiving their pay, or to receive "trainee" wages well past the maximum 3 months. Wages in the EPZs are generally higher than outside the zones.

The law sets a standard 48-hour workweek with one day off mandated. A 60-hour workweek, inclusive of a maximum 12 hours of overtime, is allowed. The law is enforced poorly in industries such as hosiery and ready-made garments.

The Factories Act of 1965 nominally sets occupational health and safety standards. The law is comprehensive but largely is ignored by employers. For example, there are many fire safety violations in the garment industry. Many factories are located in structures that were not designed adequately for industrial use, nor for the easy evacuation of large work forces. In November 2000, 48 garment workers, including 10 children, were killed and over 100 persons were injured when they were unable to escape from a factory fire due to locked exits. On August 8, 2001, 18 garment workers were trampled to death because an exit gate jammed as they were fleeing a factory after a fire alarm. In addition numerous factories have insufficient toilet facilities (for example, 1 toilet for 300 employees). Workers may resort to legal action for enforcement of the law's provisions, but few cases actually are prosecuted. Enforcement by the Labor Ministry's industrial inspectors is weak, due both to the low number of labor inspectors and to endemic corruption and inefficiency among inspectors. Due to a high unemployment rate and inadequate enforcement of the laws, workers demanding correction of dangerous working conditions or refusing to participate in perceived dangerous activities risk losing their jobs.

f. *Rights in Sectors 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—2000

[In Millions of U.S. Dollars]

Category		Amount
Petroleum		181
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		(1)
Services		1
Other Industries		2
Total All Industries		215

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

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

INDIA

Key Economic Indicators

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

	[1] 1999	[1] 2000	[2] 2001
Income, Production and Employment:			
Nominal GDP [3]	448.0	478.0	498.0
Real GDP Growth (pct) [4]	6.4	5.2	5.1

Key Economic Indicators—Continued

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

	[1]1999	[1]2000	[2]2001
GDP by Sector (pct estimated):			
Agriculture	26.6	25.3	25.0
Manufacturing	24.5	26.2	23.8
Services	49.0	48.5	51.2
Government	N/A	N/A	N/A
Per Capita GDP (US$)	452.0	486.0	505.0
Labor Force (millions)	420.0	436.0	448.0
Unemployment Rate (pct)	22.5	22.5	22.5
Money and Prices (annual percentage growth):			
Money Supply Growth (M3)	14.6	16.7	14.5
Consumer Price Inflation [5]	3.4	3.8	6.0
Exchange Rate (Rupee/US$ annual average):			
Official	42.08	45.6	47.8
Parallel	43.3	46.7	48.3
Balance of Payments and Trade:			
Total Exports FOB [6]	36.8	44.4	47.5
Exports to United States [7]	8.5	9.1	8.0
Total Imports CIF [4]	49.8	49.7	52.5
Imports from United States [7]	3.6	2.8	2.0
Trade Balance [6]	–13.0	–5.3	–5.0
Balance with United States [7]	4.9	6.3	6.0
External Public Debt [8]	97.7	98.4	102.5
Central Government Fiscal Deficit/GDP (pct)	5.6	5.2	5.0–5.5
Current Account Deficit/GDP (pct)	1.0	0.5	0.8
Debt Service Payments/GDP (pct)	2.5	2.2	2.1
Gold and Foreign Exchange Reserves	32.5	38.1	45.0
Aid from United States (US$ million)	125.8	125.8	123.0
Aid from All Other Sources [9]	2,990	3,174.2	N/A

[1] 1999 and 2000 data differ from data contained in previous reports inasmuch as previous figures provided by the Government of India were provisional.
[2] Data are for the Indian Fiscal Year (IFY), April 1 to March 31, unless otherwise noted. Figures for 2001 are either Embassy or Center for Monitoring the Indian Economy (CMIE, a private research agency) estimates based on data available in September 2001.
[3] GDP at factor cost.
[4] Percentage changes calculated in local currency.
[5] Wholesale price index is benchmark for inflation.
[6] Merchandise trade.
[7] Source: Directorate General of Commercial Intelligence Service, Department of Commerce, on a fiscal year basis. Figures for 2001 are estimates based on data available through September 2001.
[8] Includes a rupee debt of $4.4 billion (provisional figures as of March 2000) to the former Soviet Union.
[9] Derived using data from USAID and the Indian Finance Ministry's Annual Report.

Sources: Government of India economic survey, Government of India budgets, Reserve Bank of India bulletins, World Bank, IMF, USAID, and private research agencies.

1. General Policy Framework

India has experienced increased rates of growth and macroeconomic stability since economic reform and trade liberalization policies were initiated in 1991. Prior to the September 11 attacks against the United States, the Center for Monitoring the Indian Economy (CMIE) projected GDP growth in Indian Fiscal Year (IFY) 2001–02, April 1 to March 31, to be 5.1 percent, while industrial growth was expected to reach 4.5 percent. In the wake of September 11, some analysts expect that growth will fall short of these targets, falling below the five percent growth achieved in IFY 1997–98 in the wake of the Asian Financial Crisis. For example, the IMF estimates GDP growth as low as 4.5 percent. India's highest rate of growth since 1991 was 1994–1997 when the economy grew at close to seven percent annually. Despite relatively stagnant U.S. trade and investment flows to India, the United States continues to be the largest investor in India and its biggest trading partner.

There are continuing concerns over inadequate infrastructure, especially with respect to roads, ports, power, and drinking water. Infrastructure investment has lagged. In IFY 2000–01, the central government's gross fiscal deficit rose to 5.1 percent of GDP with the consolidated public sector deficit, including states, rising to over 10 percent. Chronic budget deficits are also a problem and the high fiscal deficit/GDP rate continues to be a significant drag on economic growth.

Credit policies announced in April 2001 have focused on softening interest rates to the minimum extent possible while emphasizing the need to guard against emerging inflationary pressures (e.g., the possibility of a higher oil import bill that would affect foreign exchange levels and overall inflation). The average inflation rate, as measured by the Consumer Price Index, is expected to reach about 6 percent during IFY 2001–02, compared to 3.8 percent the previous year. During the first five months of IFY 2001–02, the money supply (M3) rose by an estimated 17 percent, much more than the Reserve Bank of India's (RBI) target of 14.5 percent.

2. Exchange Rate Policy

The exchange rate was unified and the rupee was made fully convertible on the trade account in 1993, and on the current account in the following year. Controls remain on capital account transactions, with the exception of those made by Non-Resident Indians (NRIs) and foreign institutional investors. The gradual removal of these controls is expected as foreign exchange reserves increase 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 defended its position by arguing that India is in no hurry to complete full convertibility, especially given the 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. From April to September 2001, the rupee depreciated substantially (3.5 percent) against the dollar and is, as of October 2001, trading in the range of 47.80–48.05 per dollar. In IFY 2000–01 the average exchange rate was rupees 45.61 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 financial markets. In addition, India's short term foreign borrowing is relatively 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 (e.g., food-grains, sugar, basic medicines, energy, fertilizers, and water), while many basic foods 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 costplus formula. However, wheat, rice, and sugar are supplied to persons living below the poverty line at subsidized rates. 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 pricecontrolled formulations from 142 in 1994 to 72 at present. The Government of India is seeking to reduce the number of drugs under the Drug Price Control Order, but has made little headway in this regard. Agricultural commodity procurement prices have risen substantially during the past nine years, while prices for nitrogenous and phosphatic fertilizers, rural electricity, and irrigation are subsidized. Acute power shortages are forcing several states to adopt market pricing for electricity, although progress in this area has been slow. The federal government has also begun to scrutinize the cost of its subsidies more carefully, especially in the power sector. The Government of India's oil price control mechanism is scheduled to be dismantled in April 2002.

Tax Policies: Public finances remain highly dependent on indirect taxes, particularly import tariffs, which account for about 67 percent of central government revenue. India's direct tax base is small: only 26 million taxpayers out of a possible 250 million households. Marginal corporate rates are high by international standards, although the corporate income tax rate for foreign companies has been lowered from 55 percent to 48 percent. Tax evasion is rampant. The government has stated that future rate cuts will depend on the success of efforts to improve tax compliance. The government worked to simplify India's complex tax code and has announced that a full-fledged Value Added Tax (VAT) will be in place by April 2002. In early 2001, the excise and custom duty structure was rationalized by reducing three tiers of excise duties to one, and five tiers of custom duties to four. In August 2001, the government adopted transfer pricing regulations which will become effective in April 2002. The government provides certain tax incentives, such as a 10year tax holiday for knowledge-based industries like pharmaceuticals and biotechnology, two sectors which are of interest to US firms.

Regulatory Policies: Indian industry remains highly regulated by a powerful bureaucracy armed with excessive rules and broad discretion. 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 extensive regulatory powers. The speed and quality of regulatory decisions governing important issues such as zoning, landuse and the environment varies dramatically from one state to another. At the federal level, the abolition of industrial licensing for many sectors, the convertibility of the rupee on trade and current account transactions, and the advent of a regulatory approach more conducive to investment and competition have produced a change in the Indian business climate. Independent regulators have been established in key areas, electricity and insurance, but are still developing their methodologies, policies, and procedures to ensure transparency and independence from the government and the government bodies they oversee. Nevertheless, Indian industry remains highly regulated by a powerful bureaucracy armed with excessive rules and broad discretion. Coalition politics and political opposition have slowed or halted important regulatory reforms in areas like labor and bankruptcy law that would enhance the efficiency and levels of domestic and foreign investment.

4. Debt Management Policies

External Debt Structure and Management: The government has slowed the addition of new debt substantially in the past year by maintaining a tight rein on foreign commercial borrowing and defenserelated debt, encouraging foreign equity investment rather than debt financing, lowering the ratio of total external debt to GDP from 39.8 percent in IFY 199293 to 21.4 percent in IFY 2000–01. India's total external debt reached $100.25 billion in March 2001 due to the accretion of $5.5 billion under the India Millennium Deposits. India has an excellent debt servicing record, and debt service payments were estimated at $4.4 billion in IFY 2000–01. Roughly twothirds of the country's foreign currency debt is composed of multilateral and bilateral debt, with much of it (approximately 38.5 percent) on highly concessional terms. As a result, India had boosted foreign exchange reserves to $42.5 billion, excluding gold and SDRs. The increase in foreign exchange reserves is attributed to higher growth in revenue from tourism, higher net inflows of FIIs, higher FDI inflows, and a contraction in India's trade deficit.

Relationship with Creditors: 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. In October 1998, Standard and Poor's (S&P) downgraded India's foreign currency rating from BB+ to BB. 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. In August 2001, S&P downgraded its outlook on both local and foreign currency from stable to negative due to unchecked fiscal deficits and rising domestic indebtedness. Moody's also lowered India's sovereign rating ceiling from positive to stable.

5. Significant Barriers to U.S. Exports

Import Licenses: U.S. exports have benefited from significant reductions in India's importlicensing requirements. Since 1992, the government has eliminated the licensing system for imports of intermediates and capital goods. India's average import tariff fell drastically during the last decade but has been static for several years and is currently 28.3 percent. U.S. exports to India increased from $2 billion in 1991 to $2.8 billion in IFY 2000–01. Historically, India maintained quantitative restrictions (QRs) on imports on balance of payments grounds. The last of these QRs was removed in April 2001 under an agreement with the WTO and the United States.

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, some pharmaceutical products, and bulk grains (wheat, rice, and maize). Under an April 1999 WTO dispute settlement ruling, India is committed to removing many of its "canalization" requirements, but no progress has been made. Import licenses are still required for pesticides and insecticides, some fruits and vegetables, breeding stock, most pharmaceuticals and chemicals, and products reserved in India for smallscale industry. This licensing requirement serves in many cases as an effective ban on importation.

Services Barriers: Government-owned companies dominate many service industries, but private sector participants are increasingly being allowed to compete in the market. Entry of foreign banks remains highly regulated. Foreign Banks entered the market in 1993, and as of September 2001, 45 foreign banks were operating approximately 200 branches in India. India does not allow foreign nationals to practice law in its courts, but some foreign law firms maintain liaison offices in India. India recently opened the general insurance and the domestic long distance telephony sectors to private and foreign investment. Foreign investors, however, are limited to a 26 percent share of insurance companies and a 49 percent stake in domestic long distance firms.

Standards, Testing, Labeling and Certification: Indian standards generally follow international norms and do not constitute a significant barrier to trade. 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. Labeling of genetically modified organisms (GMOs) is not yet an issue in India and imports of GMOs are negligible. In November 2000, the Indian government promulgated new regulations dictating that the import of 131 specified commodities (mainly food preservatives, color, dyes, steel, and cement) will be subject to compliance with specified Indian quality standards, and that exporters/manufacturers will be required to register with, and obtain a certificate from, the Bureau of Indian Standards before exporting such goods to India. The government also subjected all imports of packaged goods intended for retail sale to carry specified declarations prior to clearance through Indian Customs. The declaration shall include: name/address of the importer; generic and common name of the commodity being imported; net quantity; month and year of packaging; and the maximum retail price at which the commodity will be sold to the consumer. Many U.S. companies have pointed out that conformity to the labeling requirements before clearance of goods is "time-consuming" and creates operational problems.

Investment Barriers: Automatic approval of up to 74 percent of FDI is permitted in six sectors including mining, storage, warehousing, and transport. In addition, 100 percent of FDI is automatically approved in a few sectors: electricity generation and transmission, construction/maintenance of roads, venture capital funds, business e-commerce, hotel/tourism, pharmaceuticals, and Mass Rapid Transport Systems. Government approval of foreign infrastructure projects that are not subject to the automatic approval process are frequently held up for lengthy periods of time. The requirement for government approval for equity investments of up to 51 percent in 47 industries, including the bulk of manufacturing activities, has been entirely eliminated, although the government reserves the right to deny requests for increased equity stakes in these sectors.

Most sectors of the Indian economy are now open to foreign investors, except for a few big public sectors such as railways, atomic energy, and hydro-power. In May 2001, the government opened the defense equipment industry to private investors with an FDI limit of 26 percent. The government also raised permissible foreign equity in banking from 20 percent to 49 percent, and in Internet Service Providers (ISP) sector from 49 percent to 74 percent. The United States and India have not negotiated a Bilateral Investment Treaty, although the Overseas Private Investment Corporation (OPIC) may offer coverage. In 1994, India became a member of the Multilateral Investment Guarantee Agency, an agency of the World Bank. India is a member of the WTO. With regard to Trade-Related Investment Measures (TRIMs), the United States is challenging in WTO the local content and trade balancing measures that India applies to foreign joint ventures in the motor vehicle manufacturing sector.

Franchising Practices: The Government of India has stringent rules governing "royalty," which inhibits franchise development. The royalty amount franchisors can charge and repatriate is based on outdated and complicated rules that are often unclear as they are treated differently by various Indian government offices. Bureaucratic hurdles have caused some U.S. franchisors to withdraw from business deals after long struggles.

Government Procurement Practices: Government procurement practices are not transparent and discriminate against foreign suppliers, but are improving as a result of fiscal stringency. Recipients of preferential treatment in government procurement are now concentrated in the smallscale industrial and handicrafts sectors. However, public sector enterprises receive preferential treatment as they may undercut the lowest bid on a government contract by 10 percent. Defense procurement through agents is not permitted. When foreign financing is involved, procurement agencies generally comply with multilateral development bank requirements for international tenders. India is not a signatory of the WTO Government Procurement Agreement.

Customs Procedures: Liberalization of India's trade regime has reduced tariff and nontariff barriers, but it has not eased some of the worst aspects of customs procedures. Documentation requirements are extensive and delays are frequent. India has now introduced a harmonized system of classification of export and import items on a standardized form at a 6-digit level to simplify procedures.

6. Export Subsidies Policies

The government still maintains a web of indirect export subsidies. Export promotion measures include exemptions or concessional tariffs on raw materials and capital inputs and heavy subsidies for exports of wheat and rice. The Special Import License (SIL) requirement was eliminated on April 1, 2001, pursuant to the WTO panel report on balance of payments-based QRs. Concessional income tax provisions traditionally applied to exports (export earnings are taxexempt), although the Indian government is eliminating this provision over five years in equal stages. Commercial banks provide export financing on concessional terms.

7. Protection of U.S. Intellectual Property

Various statutes for the protection of intellectual property rights exist, especially with respect to copyrights and trademarks, although enforcement is poor and piracy is rife. Copyright enforcement, particularly with the proliferation of the Internet and cable television, is generating increased attention from the Indian judiciary. Still, there have been only four criminal convictions for piracy in India since the new copyright law went into effect in 1995. India failed to meet the January 1, 2000, deadline for the second set of TRIPS obligations requiring further amendments to its Patents Bill. A draft Patents Bill is pending with a joint parliamentary committee. The Indian government has announced its intention to take full advantage of the 2005 transition period allowed for 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. In August 1998, it became a member of the Paris Convention, and in December 1998 it became a signatory to the Patent Cooperation Treaty. Despite some improvements in its protection of patent rights, the USTR has targeted India as a Priority Foreign Country in the "Special 301" process, and included it in the 2001 "Special 301" Priority Watch List.

In April 1992, the United States 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 total affected trade to approximately $80 million. However, in August 2001 GSP benefits totaling $543 million were restored to India.

India's patent protection is weak and has especially adverse effects on US pharmaceutical and chemical firms. Estimated annual losses to the pharmaceutical industry due to piracy are about $500 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 may be patented, 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.

Trademark protection is considered good and was raised to international standards with the passage in December 1999 of a new Trademark Bill that codifies existing court decisions on the use and protection of foreign trademarks, including service marks. Enforcement of trademark owner rights has been indifferent in the past, but is steadily improving as the courts and police respond to domestic concerns about the high cost of piracy to Indian rights' holders.

India 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. Still, severely backlogged Indian courts, coupled with the excessive requirements of Indian criminal procedure, have led to infrequent and lax enforcement. The recently passed Information Technology Act provides a legal framework for the prevention of piracy and protection of intellectual property rights, to include penalties for the unauthorized copying of computer software.

The proliferation of unregulated cable television operators has led to pervasive cable piracy. A strong anti-piracy effort in the business applications software field, where India ranks third in the world with $5 billion in sales in 1999, has produced a drop in the business software piracy rate from 78 percent in 1995 to 61 percent in 1999. According to a recent industry report, trade losses due to the piracy of U.S. motion pictures, sound recordings and musical compositions, computer programs, and books totaled $310 million in 1999.

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 and 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 states' ability to enforce child labor legislation. The U.S. Department of Labor has initiated cooperative programs with the Indian government to address child labor. The Government of India recently announced its intention to introduce legislation to provide compulsory education to all children between the ages of 6 and 14. The legislation is likely to be introduced in the Winter Session of Parliament beginning November 2001.

e. *Acceptable Conditions of Work:* India has a maximum eighthour workday and 48hour 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—2000

[In Millions of U.S. Dollars]

Category		Amount
Petroleum		–430
Total Manufacturing		790
Food & Kindred Products	239	
Chemicals & Allied Products	92	
Primary & Fabricated Metals	(1)	
Industrial Machinery and Equipment	358	
Electric & Electronic Equipment	157	
Transportation Equipment	–161	
Other Manufacturing	(1)	
Wholesale Trade		124
Banking		291
Finance/Insurance/Real Estate		179
Services		68
Other Industries		236
Total All Industries		1,258

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

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

PAKISTAN

Key Economic Indicators

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

	1999	2000	[1] 2001
Income, Production and Employment:			
Nominal GDP [2]	54.0	57.09	54.74
Real GDP Growth (pct)	3.1	4.8	2.7
GDP by sector (pct):			
Agriculture	24.5	26.0	24.7
Manufacturing	18.6	16.7	17.4
Services	8.9	9.3	9.6
Government	6.1	6.3	6.4
Per Capita GDP (US$)	406	415	389
Labor Force (Millions)	38.6	40.4	41.2
Unemployment Rate (pct)	6.1	6.0	6.0
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	3.5	9.4	7.0
Consumer Price Inflation	6.1	3.6	4.4
Exchange Rate (Rupees/US$—annual average):			
Official	50.2	51.7	58.3
Parallel	54.2	54.2	61.25
Balance of Payments and Trade:			
Total Exports FOB [3]	7.7	8.56	9.14
Exports to United States	1.7	2.12	2.24
Total Imports CIF [3]	9.3	10.3	10.66
Imports from United States	0.7	0.647	0.563
Trade Balance [3]	–1.6	–1.7	–1.5
Balance with United States	1.0	1.4	1.6
External Public Debt	37.6	36.5	37.1
Fiscal Deficit/GDP (pct)	6.0	6.5	5.3
Current Account Deficit/GDP (pct)	4.1	1.9	1.8
External Debt Service Payments/GDP (pct)	5.5	4.5	4.1
Gold & Foreign Exchange Reserves	2.3	2.00	2.66
Aid from United States (U.S.$ millions)	42	49.5	2.7
Aid from All Other Sources [4]	2.3	1.4	1.6

[1] Data are for the corresponding Fiscal Years ending June 30. Rupee exchange rates used to convert to dollars are 50.2 for 1999, 51.7 for 2000, and 58.3 for 2001. Data for 2001 is provisional.
[2] GDP at factor cost.
[3] Merchandise trade.
[4] No military aid is believed to be included in these figures. Figures are for disbursed loans and grants.

Sources: Various government sources, including the State Bank of Pakistan, the Federal Bureau of Statistics and the Ministry of Finance.

1. General Policy Framework

During 2000–2001, Pakistan's economic growth slowed down from the previous year as gross domestic product (GDP) grew at the rate of 2.7 percent against 4.8 percent during 1999–2000. The slowdown in growth was attributed to an unprecedented drought that affected most parts of the country. Agriculture contracted by 2.5 percent due to a 40percent shortfall in water for irrigation. By contrast, the performance of the large-scale manufacturing sector was strong, recording growth of 8.4 percent after declining by 0.2 percent in 1999–2000. The major contributors to GDP growth were manufacturing and services. Inflation remained low at 4.4 percent during 2000–01. Both exports and imports increased during 2000–2001 and the trade deficit dropped from $1.7 to $1.5 billion. Pakistan continued to face a difficult balance-of-payment situation with foreign exchange reserves moving upward only slightly to $1.7 billion as of August 2001.

Pakistan's economic performance has been handicapped in recent years by ineffective governance and weak policy implementation. The Government of Pakistan has succeeded in achieving some macro-economic stability which, if maintained, will help the country to achieve higher growth levels. The introduction of financial sector reforms and restructuring the power sector which are now underway should help to increase economic efficiency. The biggest challenges facing American firms in Pakistan have been inconsistent and sometimes contradictory policies and security threats in some parts of the country. The Government of Pakistan must also overcome a recent record of not adhering to contracts reached with foreign investors. The military government of President Musharraf, which took over on October 12, 1999, has made economic revival its main priority. Its stated goals are restoring investor confidence through stability and consistency in economic policies, increasing domestic savings, carrying out tax reforms, restructuring and privatizing state enterprises, boosting agriculture, and reviving industry. To date this government has made significant progress on broadening the tax base and embarked on comprehensive reforms in many areas, including police and judicial reform. While significant momentum has built in the reform effort, much remains to be done, particularly in reviving foreign and domestic investor confidence.

Monetary Policy: The Government of Pakistan followed a tight monetary policy during 2000–2001 to stem the slide of the rupee, which was floated on July 20, 2000. Actual growth in money supply remained stagnant at just under 7 percent against a target of 10.5 percent in 1999–2000. Only near the end of the year did the State Bank of Pakistan (SBP) loosen its monetary policy in an effort to increase credit to the industrial sector. During 2000–2001 the SBP exercised greater policy independence and moved toward more indirect, market-based methods of monetary control. The SBP uses the discount rate, reserve requirements and open market operations with government securities to conduct its monetary policy. The government has also undertaken a program of financial reforms designed to enhance competition in the banking sector, eliminate directed credit and improve prudential regulation and supervision. Interference by past governments in state-owned bank lending practices left many of those banks with weak balance sheets. Recently a Corporate and Industrial Restructuring Corporation has been established to take over the bad loans of the banking sector and to revive sick industries, an effort aimed at improving state-owned bank balance sheets and preparing them for privatization.

A December 1999 Supreme Court decision requiring the government to establish an interest ("riba") free, Islamic banking system still stands, but the Court extended the implementation deadline one year until June 2002. The Government of Pakistan created two commissions, one at the State Bank of Pakistan and the other at the Ministry of Finance to study how to implement this decision without disrupting the country's financial markets.

Fiscal Policy: A central element of Pakistan's economic reforms has been the effort to reduce persistent deficit spending by increasing revenues and controlling expenditures. Under a Stand-by Arrangement with the International Monetary Fund, the government held to a strict deficit target, achieving a sharp reduction in the fiscal deficit from 6.5 percent of GDP in FY 1999–2000 to 5.3 percent of GDP in FY 2000–2001. This was the first time in 18 years that the fiscal deficit dropped below 6 percent. Wide ranging tax reforms, improved documentation of the economy and tighter control on expenditures were the factors contributing to this reduction. Current expenditures declined to 19 percent of GDP in FY 2000–01 from 20.2 percent the previous year. Debt repayment absorbed approximately 40 percent of the government's budget. When combined with defense outlays, this figure rises to 64 percent of total spending (75 percent of current expenditures), leaving little room for other basic government functions or for improving the long-neglected social sector. On the revenue side the government has made some limited progress is expanding the country's very narrow tax base; perhaps 1 in 100 Pakistanis pays income tax. The current government has made compliance with the tax regime, including a 15 percent general sales tax , a keystone of its economic reform program. The government financed its fiscal deficit by the sale of short-term treasury bills and long-term Pakistan Investment Bonds, as well as borrowing from foreign commercial banks and multilateral institutions.

2. Exchange Rate Policy

In July 2000, the State Bank of Pakistan (SBP) abandoned its exchange rate band of rupees 52.10–52.30 to the dollar established in May 1999 and freely floated the rupee. Under the new exchange-rate system each bank quotes its own rate depending on its short and long positions. Strong competition, however, means the exchange rates vary little among the banks. There is also an informal but legal foreign exchange market in Pakistan that generally buys and sells foreign currency at a premium. It is linked to an informal and undocumented international capital transfer system that channels approximately two-thirds of the remittances from Pakistanis working abroad. The government is seeking to unify the two foreign exchange markets by improving the flow of funds through the banking system (i.e., increasing speed and lowering cost) and improving regulation of the private money changers. The rupee has depreciated almost 22 percent against the dollar over the last year. With very limited foreign reserves the SBP has little means with which to intervene in the foreign exchange market. The SBP has used a policy of tight domestic credit to limit depreciation of the rupee.

The government has gradually taken measures to lift the capital controls it reimposed during the currency crisis of 1998 when it froze existing foreign currency accounts and denied access to official reserves. Most foreign exchange controls have now been removed and the rupee is now considered "fully convertible" for current account operations. Foreign firms investing in Pakistan (other than banks and insurance companies) are allowed to remit profits and capital without prior government approval. Corporate and individual foreign currency accounts can once again be opened in commercial banks. However, the SBP does not provide forward cover for such accounts.

3. Structural Policies

Pakistan is implementing structural reforms, in consultation with the International Financial Institutions (IMF, World Bank, Asia Development Bank), aimed at achieving sustainable growth. These include: (a) reducing the fiscal deficit by broadening the tax base and controlling expenditures, (b) reducing the current account deficit by promoting exports and following a market-based exchange rate system, (c) containing inflation by limiting government borrowing from the banking sector, and (d) deregulating and increasing the role of the private sector through privatization of major state-owned enterprises. In principle, the Government of Pakistan has been pursuing a long-term strategy of market liberalization, reducing the government's direct intervention and opening the economy to international competition. While significant progress has been made, the state remains an important player in the Pakistani economy.

Pricing and Tax Policies: Pakistani government agencies and public sector companies allow only exclusive agents to submit bids for tenders to ensure that they receive only one quotation from each supplier. In the market, pricing is complicated by a complex and confusing tax structure consisting of multiple taxes and customs duties. Currently the general sales tax, excise duties, income and corporate taxes, withholding tax and custom duties are the major taxes. While the government has moved to diversify its revenue sources, custom duties continue to provide almost 40 percent of total tax revenues. The present government is considering reducing the number of taxes at the federal level to three major taxes (sales, income and trade) within the next two years. At the provincial level, the government has already reduced the number of taxes from 29 to 8. Exemptions or relief from import duties have been allowed on imported machinery. Tax relief has also been provided for expansion and modernization of existing industries.

Regulatory Policies: As part of an integrated investment promotion strategy, Pakistan has undertaken a comprehensive program to make its economy fully market-oriented. Foreign investment in the manufacturing, infrastructure, hotel/tourism, agriculture, services, and social sectors can be fully repatriated. Key features of Pakistan's investment climate include a general policy of permitting foreign investors to participate in local projects at 100-percent equity, relaxing work permit and remittance restrictions on expatriate managers and technical personnel, eliminating government approval requirements (with a few very limited exceptions), providing statutory protection against expropriation, and allowing unrestricted local borrowing by foreign entities. During the last year the government provided additional incentives to investors by reducing bureaucratic discretion and offering tax and other incentives in the infrastructure, services and agriculture sectors. The government decided to give "priority industry" status to tourism, housing and construction sectors, approved a new list of industries qualifying for "value-added" status (entitled to the highest level of incentives), and allowed the non-manufacturing sector to remit royalties and technical and franchise fees.

4. Debt Management Policies

Pakistan remains dependent on foreign donors and creditors to finance its balance-of-payment deficit. The government signed a ten-month $596 million Stand-By Arrangement with the IMF in November 2000 which it successfully completed. Pakistan has also received this year a $350 million Structural Adjustment Credit from the World Bank and $750 million from the Asian Development Bank for projects in the areas of micro finance and judicial reforms. As a result of its work with these International Financial Institutions, Pakistan was able to concluded an agreement in January 2001 with its official creditors under the Paris Club, rescheduling $1.8 billion in debt. If Pakistan successfully negotiates a multi-year Poverty Reduction and Growth Facility with the IMF, it will seek additional debt relief within the Paris Club.

A steady increase in external liabilities and debt service payments has reduced the net inflow of foreign resources to Pakistan. Gross external public debt is over 74 percent of GDP while debt servicing has hovered above 3 percent during the 1990s. Rescheduling dropped debt service to 2.5 percent of GDP during the last three years. At the same time, debt rescheduling has resulted in the accumulation of capitalized interest on debt stock, causing long and medium term debt as a ratio of GDP to rise from around 37 percent during the second half of the 1990s to above 44 percent during 2000–01.

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 have been abolished on all goods not subject to an import ban. Pakistan maintains a "negative list" of all restricted imports. These items are restricted on religious, security and balance-of-payment grounds or to protect domestic industry. There is also a list of restricted or conditional items that may be imported only by certain parties (e.g., the government or other specified users) or by certain special arrangements (e.g., imports against credit). All importing firms in the private sector must register as importers with the Government of Pakistan's Export Promotion Bureau. U.S. pharmaceutical manufacturers have faced discriminatory application of the internal sales tax between some of the imported pharmaceutical raw materials (taxed at 15 percent) and the same domestically produced raw materials (exempt from taxation). Imported raw materials receive preferential tariff rates if the same materials are not manufactured locally.

Services Barriers: Investment policy changes in 1997 provided some access to the services sector through foreign direct investment. In the social sector, including education, technical and vocational training, human resource development and medical and diagnostic services, foreign investment with 100 percent ownership of equity is permitted, provided a minimum-equity requirement of $0.3 million is met. Other services like wholesale distribution, retail trade, transportation, technical testing facilities, and audio-visual services are also open to foreign investment with the same minimum-equity requirement. However, foreign ownership of 100 percent equity is only allowed at the onset of the investment in these sectors, and must be reduced to 60 percent within five years with the condition that the repatriation of profits is restricted to a maximum of 60 percent of total equity or profits.

Pakistan's offer in the WTO financial service negotiations in December 1997 included the right to establish banks and grandfathered acquired rights of foreign banks and foreign securities firms. The general insurance and life insurance sectors are now open to foreign investors; they are entitled to hold a 51-percent stake in companies in these sectors. Foreign investors in the insurance sector, however, must meet a minimum-equity investment requirement of $2 million in foreign exchange and raise an equal amount in equity in the domestic market. There are no restrictions on repatriation of profits, but the original capital invested in the insurance sector can not be repatriated. 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. E-mail, Internet, electronic information services, data communication network services, trunk radio services, cellular mobile telephone services, audiotex, voice mail and card-pay services, close user group for banking operations, international satellite operators for domestic data communication, paging services, vehicle tracking system and global mobile personal communication systems are now open for 100 percent foreign ownership at the onset of the investment, which has to be reduced to 60 percent within five years. However, the amount of foreign equity investment shall not be less than $0.3 million in these services. Other telecommunication services can be provided only through the network facilities of the Pakistan Telecommunication Company Limited (PTCL). 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. The government has eliminated most taxes on imported motion pictures, which are now subject to a tariff of 10 percent, along with the 15 percent general sales tax.

Standards: The Pakistan Standards and Quality Control Authority (PSQCA), formerly known as the Pakistan Standards Institute, is the national standards body. The PSQCA set standards, establishes inspection systems, collaborates with international organizations such as the International Standards Organization, and disseminates information on standards and quality control. There are currently about 4,600 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. U.S. exporters sometimes encounter difficulty 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. In the past, however, investors have faced unstable policy conditions, particularly on large infrastructure projects. The Government of Pakistan has now resolved operating contract disputes with all IPPs. Security concerns also affect investment decisions, including the choice of facility location and area of operation. Local content requirements occur in the automobile, electronics, electrical products, and engineering industries under Pakistan's "deletion program." This deletion policy was to have ended on December 31, 1999, under Pakistan's commitment to the WTO TRIMS agreement. Pakistan sought from the WTO a seven-year extension of the content-requirement waiver. The WTO granted a two-year extension ending December 31, 2001, with an additional two years possible upon submission of a local-content requirement phase-out plan. Pakistan accepted the WTO decision and has conveyed its two-year phase-out plan to the WTO.

Government Procurement: The government, along with its numerous state-owned 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. In the past, political influence on procurement decisions has been common, and decisions have not always been made on the basis of price and technical quality alone. There has been a greater degree of transparency in procurement practices since the current government took office in October 1999. International tenders are now properly advertised and the past practice of sole-source contracting by means of company-specific specifications has been eliminated. The current government has also established an office for procurement reform in an attempt to introduce and enforce better procurement practices in Pakistan.

Customs Procedures: Investors sometimes complain that the incentives advertised at the policy level are not implemented on the ground, particularly with respect to customs. The government does not maintain a pre-shipment inspection valuation system. In January 2000, the government began implementing a transactional valuation system where 99 percent of import valuation is based on invoices in accordance with the WTO's Customs Valuation Agreement. At the same time the Government of Pakistan applied for a minimum-value waiver for customs valuation for some products. Currently, about 85 percent of imports are assessed under the WTO-accepted customs valuation system.

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 holidays. These policies appear to be equally applied to both foreign and domestic firms producing goods for export. The government withdrew the subsidy on export finance as part of its trade-policy reform commitment with the IMF due to its strain on the national budget. The trade policy provides for linking the interest rates on export finance to interest rates on government treasury bills, which are determined by market forces. Pakistan has established export processing zones with benefits such as tax holidays, indefinite carry forward of losses, exemption of imported inputs from taxes and duties, and exemption from various 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 has revised its laws to become TRIPS compliant. New laws on copyright, industrial designs, layout of integrated circuits, trademarks and patents have been enacted. A new law on plant breeders' rights has yet to materialize due to federal-provincial jurisdiction problems. While Pakistan has enacted IPR laws covering most domains, enforcement remains weak. 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.

Patents: Recently the Government of Pakistan enacted a new patent law which protects both process and product patents. Patents are granted for up to 20 years from the date of application. Legal remedies such as injunctions are available in the case of patent infringement.

Trademarks: Pakistan enacted a new Trade Marks Ordinance which provides for registration and protection of trade marks and for the prevention of the use of fraudulent marks. The new ordinance replaces the Trade Marks Act 1940 which provided trade mark protection but did not meet all the requirements of the TRIPS agreement. Pakistan has done away with a requirement that pharmaceutical firms label the generic name on all products with at least equal prominence as that of the brand name, although they must still display the generic name. There also have been occasional instances of trademark infringement, including for toys and industrial machinery.

Copyrights: According to estimates made by the International Intellectual Property Alliance, in 2000 about 80 percent of computer software and 60 percent of motion pictures sold in the Pakistani market were pirated. Piracy of copyrighted textile designs is also a serious problem. Some counterfeit products made in Pakistan are reportedly 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 and stronger enforcement needs to be paired with action by the courts to prosecute and sentence violators. The new copyright law provides for much higher penalties for piracy.

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 $155.6 million in 2000.

8. Worker Rights

a. *The Right of Association:* The Industrial Relations Ordinance of 1969 (IRO) gives industrial workers the right to form trade unions but is subject to major restraints in some employment areas. 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. The Essential Services Maintenance Act of 1952 restricts union activity in sectors associated with state administration, i.e., government services and state enterprises. The government lifted a ban on union activity in the Water and Power Development Authority (employing 130,000 workers) through an executive ordinance in July 2000, but suspended all union activities in the national flag carrier, Pakistan International Airlines (PIA) in May 2001. The Labor Minister has pledged that union activities would be restored as soon as PIA regains its financial health.

b. *The 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 strikes that have 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 effective 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 agriculture sector, brick, fishing and construction industries.

d. *Minimum Age of Employment of Children:* Child labor is common and widespread. In May 2000, the government issued a comprehensive "National Policy and Plan of Action to Combat Child Labor." In August 2001 it ratified ILO Convention

No. 182 on the worst forms of child labor. Pakistan recognizes the ILO definition of the worst forms of child labor and hazardous work. The Labor Ministry is now working to frame new laws on child labor that are consistent with Pakistan's commitments under Convention 182. 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 hazardous occupations and regulates working conditions. Under this law, no child can work overtime or at night. Resources to stop child labor remain insufficient, particularly in the provision of educational opportunities. Industry specific, public-private efforts, particularly in the export sector, have achieved notable success in eliminating child labor. Enforcement also remains a serious problem, with few inspectors and low fines and penalties imposed. 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. Many observers believe this survey understates the true dimensions of the problem.

e. *Acceptable Conditions of Work:* In September 2001, the government increased the federal minimum wage for unskilled workers to approximately $41 per month. The law applies only to industrial and commercial establishments employing 50 or more workers. Federal law also 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 limited. Provinces have been ineffective in enforcing labor regulations, because of inadequate resources, corruption, and a weak regulatory structure.

f. *Rights in Sectors with U.S. Investment:* Significant investment by U.S. companies has occurred in the power, petroleum, food, and chemical 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 are more diligent in fulfilling their legal obligations, providing good benefits and working conditions, and dealing responsibly with unions. The only significant area of U.S. investment in which worker rights are legally restricted is the petroleum sector. The oil and gas industry is subject to the Essential Services Maintenance Act which bans strikes and collective bargaining, limits a worker's right to change employment, and offers 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—2000

[In Millions of U.S. Dollars]

Category	Amount	
Petroleum		221
Total Manufacturing		19
Food & Kindred Products	34	
Chemicals & Allied Products	(1)	
Primary & Fabricated Metals	(1)	
Industrial Machinery and Equipment	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		56
Banking		134
Finance/Insurance/Real Estate		60
Services		2
Other Industries		25
Total All Industries		515

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

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