EAST ASIA AND THE PACIFIC

AUSTRALIA

Key Economic Indicators

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

	1998	1999	2000[2]
Income, Production and Employment:			
Nominal GDP[3]	364.5	392.2	373.2
Real GDP Growth (pct)	5.1	4.3	4.0
GDP by Sector:[4]			
Agriculture	11.5	12.9	11.5
Manufacturing	89.5	93.5	87.7
Services	248.3	266.9	262.4
Government	14.6	14.6	13.4
Per Capita GDP (US$)	20,300	21,200	19,600
Labor Force (000s)	9,340	9,470	9,680
Unemployment Rate (pct)	8.0	7.2	6.8
Money and Prices (annual percentage growth):			
Money Supply (M3)	7.6	10.1	10.1
Consumer Price Inflation	1.6	1.8	3.0
Exchange Rate (Aust$/US$ annual average)	1.59	1.56	1.70
Balance of Payments and Trade:			
Total Exports FOB	55.9	55.7	55.2
Exports to United States	5.3	5.4	6.5
Total Imports CIF	60.8	65.1	58.7
Imports from United States	13.5	13.6	13.5
Trade Balance	–4.80	–9.3	–3.5
Balance with United States	–8.2	–8.2	–7.0
External Public Debt	30.2	18.7	13.5
Fiscal Surplus/GDP (pct)	0.2	0.7	1.2
Current Account Deficit/GDP (pct)	5.0	5.8	5.0
Debt Service Payments/GDP	1.8	1.9	1.9
Gold and Foreign Exchange Reserves	15.4	22.0	16.0

[1] Exchange rate fluctuations must be considered when analyzing data. Percentage changes calculated in Australian Dollars.
[2] 2000 figures are estimates based on available monthly data in October.
[3] Income measure of GDP.
[4] Production measure of GDP. "Manufacturing" includes manufacturing, mining, utilities, and construction.

1. General Policy Framework

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

The Australian economy has recorded annual growth of above four percent since 1997, coming through the Asian economic downturn relatively unscathed. 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. Other inflationary pressures, however (e.g., a depreciating Australian dollar, strong domestic demand, and higher oil prices), have forced the Reserve Bank of Australia (RBA)

to raise official interest rates 150 basis points since November 1999. The introduction of the Goods and Services Tax (see Section 3 below) in July 2000 has also had a one-off effect on prices, though its impact was less than expected.

The Liberal/National coalition government continued its program of fiscal consolidation and debt reduction in its budget for the 2000–2001 fiscal year, announcing a planned budget surplus of $3 billion.

2. Exchange Rate Policies

Australian dollar exchange rates are determined by international currency markets. There is no official policy to defend any particular exchange rate level, although the 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.

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, 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-2000 totaled $200 billion (43 percent of GDP). Australia's net external public debt is $16 billion, or around 4 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 also liberalized 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 station's 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 (though they are not required to actually screen the programs produced, and many licensees spend very little or nothing on production).

Labeling: Federal law requires that the country of origin be clearly indicated on the front label of some types of products sold in Australia. Various other federal and state labeling requirements are being reconsidered in light of compliance with GATT obligations, utility and effect on trade. 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, and labeling regulations have been in place since mid-1999. ANZFA was expected to release the protocol on compliance with the Council's directive in October, but has not yet done so. The requirements would become mandatory 12 months from publication.

Commodity Boards: The export of 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, with veto rights over bulk export requests retained by the grower-owned former subsidiary of the AWB, AWB (International) Ltd. A review of wheat export arrangements is currently underway. While domestic marketing of barley has been deregulated, the export monopoly administered by the Australian Barley Board has been extended until 2001. Approximately 95 percent of dairy exports are made by the private sector and about 5 percent by an arm of the Australian Dairy Corporation. Australia terminated its export support payment scheme for dairy producers in 1995, replaced by an internal support program (since terminated). The Australian government has made a structural adjustment package available to dairy producers since June 30, 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. The WTO SPS agreement requires, among other things, that Australia's restrictions undergo a risk assessment to ensure that any restrictions are science-based, rather than disguised non-tariff barriers. Concerns remain with Australia's restrictions on chicken (fresh, cooked and frozen), pork, California table grapes, Florida citrus, stone fruit, apples, and corn.

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

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

Government Procurement: Since 1991, foreign IT companies with annual sales to the GOA 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 5 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 IT products and major office machines to the Australian government must gain endorsement under the ESA. The industry development component of the new ESA requires evidence of product development, investment in capital equipment, skills development and service support, and sourcing services and product components, parts and/or input locally. In addition, applicants must demonstrate performance in either exports, research and development, development of strategic relationships with Australian or New Zealand suppliers/customers, or participation in a recognized industry development program.

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

6. Export Subsidies Policies

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

The coalition government has severely curtailed assistance schemes to Australian industry as part of its fiscal consolidation program. Under the Export Market Development Grants Scheme, the government gives grants to qualifying firms of up to A$200,000 to assist in offsetting marketing costs incurred when establishing new export markets. There are also schemes available for drawbacks of tariffs and sales and excise taxes paid on the imported components of exported products.

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 Bern 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 Australian's limitations on its protection of test data for certain chemical entities, its removal of restrictions on parallel imports, and over copyright piracy, among other issues.

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 and Copyrights: Australia provides TRIPS-compatible protection for both registered and unregistered well-known trademarks under the Trademark Act of 1995. The term of registration is ten years. Copyrights are protected under the Copyright Act of 1968 for a term of the life of the author plus 50 years. Computer programs can receive copyright protection, although the Parliament has enacted legislation to permit decompilation. In recent years, the government has passed legislation removing parallel import protection for sound recordings and for goods whose protection was based on the copyright of packaging and labeling. It is now proposing to remove restrictions on books and computer software. Steadily growing parallel importation of DVDs is of increasing concern to the motion picture industry. U.S. copyright interests have stressed concern about the digital agenda bill that the Australian government passed on August 17, 2000. The industry is worried that the law would allow for unfettered worldwide trafficking in devices and services aimed at hacking encryption, password protection and other technologies copyright owners use to manage access to and use of their works. The Australian government has not updated its laws to impose stiffer fines to discourage copyright piracy.

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

8. Worker Rights

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

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

c. *Prohibition of Forced or Compulsory Labor:* Compulsory and forced labor are prohibited by conventions 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 essentially identical in law and practice and do not differentiate between domestic and foreign ownership.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1999

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		3,344
Total Manufacturing		7,646
Food and Kindred Products	862	
Chemicals and Allied Products	2,924	
Primary and Fabricated Metals	471	
Industrial Machinery and Equipment	693	
Electric and Electronic Equipment	166	
Transportation Equipment	957	
Other Manufacturing	1,573	
Wholesale Trade		2,146
Banking		2,705
Finance/Insurance/Real Estate		8,465
Services		2,190
Other Industries		7,167
TOTAL ALL INDUSTRIES		33,662

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

CHINA

Key Economic Indicators

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

	1998	1999	2000
Income, Production and Employment [1]			
Nominal GDP [2]	960.8	986.9	1,065.7
Real GDP Growth (pct) [3]	7.8	7.1	8.0
GDP by Sector: [4]			
Agriculture	172.7	174.1	173.8
Manufacturing	472.8	486.0	539.3
Services [5]	291.0	325.7	352.1
Government	N/A	N/A	N/A
Per Capita GDP (US$)	772	787	839
Labor Force (millions)	705.0	711.6	717.8
Unemployment Rate (pct) [6]	3.1	3.1	3.1
Money and Prices (annual growth):			
Money Supply (M2)	14.8	15.3	13.0
Consumer Price Inflation (pct)	–0.8	–1.4	0.2
Exchange Rate (RMB/US$ avg.)	8.3	8.3	8.3
Balance of Payments and Trade:			
Total Exports (FOB) [7]	182.7	183.7	214.4

Key Economic Indicators—Continued

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

	1998	1999	2000
Exports to United States (customs)	71.2	81.9	92.8
Total Imports CIF	142.4	140.2	197.8
Imports from United States FAS	14.3	15.0	17.0
Trade Balance	40.3	43.5	16.6
Balance with United States	56.9	66.9	75.8
External Public Debt [8]	146.0	151.8	152.0
Fiscal Deficit/GDP (pct)	3.5	2.8	3.0
Current Account Surplus/GDP (pct)	3.1	3.0	2.3
Debt Service Payments/Export (pct)	12.6	9.6	9.0
Debt Service Payments/GDP (pct)	2.4	2.2	2.0
Gold and Forex Reserves	145.0	154.7	163.0
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 2000 are estimates based on data available in October 2000.
[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.
[6] "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.
[7] U.S. Department of Commerce for U.S.-China bilateral trade data; PRC Customs for Chinese global trade data; Embassy estimate for full-year 2000 trade.
[8] Includes loans from foreign government, loans from international financial institutions, international commercial loans, and other unspecified international liabilities.

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

1. General Policy Framework

For two decades, in the aftermath of a quarter-century of "politics in command" as the failed guiding principle of economic development, 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 market-based economy. Though state-owned industry remains dominant in key sectors, the government has "privatized" many small and medium state-owned enterprises (SOEs) and has allowed the non-state sector, including private entrepreneurs, increasing scope for economic activity. The International Monetary Fund (IMF) estimates that the non-state sector accounts for three-fourths of industrial output, 50 to 60 percent of Gross Domestic Product (GDP), and about 60 percent of nonagricultural employment.

China weathered the Asia Financial Crisis well. Most analysts expect GDP growth to be about eight percent this year. As in the past, exports were the primary engine for China's economic growth. For the January-August 2000 period, they were 35 percent greater than for the same period in 1999. The rapid export expansion reflected in part the recovery from the Asia Financial Crisis of China's Asian markets. The United States remains China's most important market; it takes more than 40 percent of China's total exports. Imports also increased rapidly. By value, they were up 39 percent in JanuaryAugust 2000 (year-on-year), due largely to the effect of higher prices for petroleum and non-ferrous metals. China's accession to the World Trade Organization (WTO) will likely further boost trade and accelerate China's integration into the world trading system.

To reverse the slowdown in economic growth, especially since 1998, the Chinese government has used deficit-financed fiscal stimulus to encourage domestic economic expansion. This program has contributed an estimated 1.5–2.0 percentage points to GDP annually. In August 2000 the Chinese government announced a $6 billion treasury bond issue, primarily to finance additional infrastructure projects and to ensure the completion of projects already underway. Reflecting the effects of the fiscal stimulus package and major increases in 1999 in social welfare expenditure and civil service salaries, urban consumer spending picked up somewhat in 2000. Supply of many industrial and consumer products greatly exceeds demand. Chinese policymakers, who for years made fighting inflation a major macroeconomic target, spent the last two years combating deflation. In 2000 many prices, especially

for food and consumer goods, continued to fall. Charges for services and fuel showed substantial increases.

The Chinese government recognizes that major structural reform is needed in three key areas: it must reform the SOEs, completely overhaul the financial system, and create and fund a social safety net. SOE earnings rose in 2000, although this appears to be largely the result of state-owned petroleum industry profits from higher oil prices, increased SOE exports, and a government-engineered reduction in interest paid by SOEs on bank debt. The large stock of non-performing loans to SOEs remains a critical obstacle to financial reform. Bank loans to non-agricultural SOEs accounted for about 60 percent of total outstanding short-term lending in 1999. The four state-owned, commercial banks that dominate China's financial system established asset management companies (AMCs) in 1999 to assume the burden of the non-performing loans. By September 2000 the AMCs had done little to restructure or to liquidate their holdings. The failure of the Guangdong Trust and Investment Corporation (GITIC) in late 1998 prompted the Chinese government to rein in the operations of more than 200 other trust and investment companies and toughen the supervision of domestic banks, securities firms, insurance companies, and other financial institutions. Stock and bond markets are immature. 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 the world's second largest destination for foreign direct investment (FDI). New inflows of FDI slumped 10 percent in 1999, to total $41 billion. In the January-October 2000 period, contractual foreign investment was $43 billion, up 37 percent over the corresponding period in 1999. Note that realized FDI is substantially lower than contractual totals reported by Chinese authorities.

2. Exchange Rate Policies

Foreign-Invested Enterprises (FIEs) and authorized Chinese firms have generally enjoyed liberal access to foreign exchange for trade-related and approved investment related transactions. FIEs may set up foreign currency deposits for trade and remittances. Since 1997, Chinese firms earning more than $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 mid-1998. U.S. firms reported that the extra delays caused by these measures had for the most part ended by mid-1999. China introduced currency convertibility for current account (trade) transactions in December 1996 (in accord with the IMF charter's Article VIII provisions). Capital account liberalization has been postponed indefinitely.

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 percentage points; 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. China's central bank, the People's Bank of China (PBOC), continues to set interest rates on all deposits and loans in domestic currency. In September 2000, however, the authorities lifted controls on interest rates on all foreign currency loans and on foreign currency deposits in excess of $3 million. A newly established association of Chinese banks, moreover, was granted the authority to set interest rates on foreign currency deposits under the $3 million level. Following several years of successive reductions, interest rates on Chinese currency loans and deposits are significantly below U.S. levels. As a result, "black market" trading continues to be a small albeit regular feature of the Chinese system. Forward rates are available in the small, offshore market.

3. Structural policies

A. Investment

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 high-tech industries and in the central and western, less developed parts of the country. In 2000 China published revised lists of sectors in which foreign investment would be encouraged, restricted or prohibited. 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, eco-

nomic 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.

Foreign-Invested Enterprises (FIEs) continue to report being forced to accept export performance requirements in investment contracts; they say that failure to meet these requirements can result in loss of licenses for foreign exchange or contract termination. Similarly, some firms report being forced to accept contracts mandating increased local content. Chinese government agencies strongly encourage firms under their control to "buy Chinese."

B. Industrial Policies

In 1994, China issued a "Framework Industrial Policy for the 1990s." The framework included plans to issue policies for the key automotive, telecommunications, transportation, machinery, electronics, high technology, and construction sectors. Of these, only the automotive industrial policy has been published to date and is currently under extensive revision. The delay stems from the Chinese government's recognition that these policies must be reconciled with the obligations China will incur when it accedes to the WTO.

C. China EXIM Financing

Regulations promulgated in July 1995 established guidelines for buyer's and seller's credit programs operated by the Export and Import Bank of China (China EXIM). China EXIM announced in early 1999 that it would expand it program to finance the export of mechanical and electrical products, particularly to Africa and South East Asia.

D. Price Controls

The Chinese government, as part of its comprehensive reform of the economy, is committed to gradually phasing out remaining price controls. It nevertheless continues to influence prices of 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 maintains discriminatory pricing practices with respect to some services and inputs offered to foreign investors in China. On the other hand, foreign investors benefit from investment incentives, such as tax holidays and grace periods, which allow them to reduce substantially their tax burden.

E. Taxation

China's accession to the WTO is likely to accelerate the phaseout of its two-tier tax system for domestic and foreign enterprises. Domestic enterprises have long resented rebates and other tax benefits enjoyed by foreign-invested 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.

As part of a national campaign to standardize tax treatment and increase collection rates, the State Administration of Taxation began work on a planned unification of the tax system in 1998. China's weak trade performance during most of 1999 and questions relating to China's WTO obligations have delayed the completion of this exercise. The Chinese government, in fact, increased rebates of value-added taxes (VAT) for selected exports twice in 1999. Despite the 1999 reprieve, State Administration of Taxation officials plan eventually to phase out VAT rebates to increase tax revenues.

F. A Growing Concern for Transparency

It is increasingly easy to find information about economic and trade regulations in the print and electronic media. Economic newspapers routinely carry the text of government policies and regulations; MOFTEC, for example, has its own website. Access to information, nevertheless, continues to be a problem. Chinese ministries routinely implement policies based on "guidance" or "opinion" that are not available to foreign firms. Officials are frequently unwilling to consult with Chinese and foreign industry representatives before new regulations are implemented. The opaque nature of customs and other government procedures also complicate the ability of businesses to take full advantage of opportunities in China.

4. Debt Management Policies

As of June 2000, China's external debt stood at $149 billion, according to official Chinese data. Given China's export performance, investment inflows, and high level

of foreign exchange reserves (nearly $160 billion at the end of June 2000), the debt burden seems likely to remain within manageable limits.

China's local bond market is in its infancy, with virtually no secondary market. This prevents the central bank from effectively regulating the money supply through indirect means. Interest rates on government bonds are fixed at about one percentage point above the comparable bank deposit rates, which are also fixed. As the government has increased its deficit, the percentage of the budget devoted to debt servicing has increased to about 17 percent of total expenditures (based on the Finance Minister's March 2000 annual budget report to China's national legislature).

5. Aid

The United States has no development assistance program in China. However, the United States has provided occasional disaster-relief assistance to China to support flood relief and other humanitarian efforts in recent years. In 1999–2000 the United States donated 200,000 tons of grain to the World Food Program in China. In 1999 it donated $500,000 to the International Federation of the Red Cross to assist in flood relief efforts in the Yangtze River Valley. In addition, the United States operates a modest Peace Corps program, called the Friendship Volunteers, which offers English language and environmental protection training. China is a major recipient of assistance from other countries and multilateral donors. China's largest bilateral aid donor is Japan. Multilateral assistance includes programs operated by the World Bank; the World Food Program; United Nations Development Program and other United Nations affiliated agencies and programs; and the Asian Development Bank. Domestic and international non-governmental organizations have also expanded their presence in recent years, thanks in part to a 1998 law giving them official status.

6. Significant Barriers to U.S. Exports

China concluded a bilateral market access agreement with the United States on November 15, 1999 but is not yet a member of the WTO. Once it becomes a member, it must fulfill its commitments to reduce substantially existing barriers to the entry into China of U.S. goods and services. Meanwhile, in an effort to cope with a slowing economy and relatively weak external demand, China continued its unilateral reform efforts in 1999 and 2000. Some of the policies adopted will improve 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, other measures have effectively closed existing markets for imported goods and services. Non-tariff barriers to trade and trade-distorting measures persist. Nontariff barriers (NTBs) include quotas, tariff rate quotas, import licensing, import substitution and local content policies, and unnecessarily restrictive certification and quarantine standards. Extra-legal trade barriers, such as export performance requirements, also distort trade; all of these nontariff barriers to trade will have to be eliminated when China accedes to the WTO.

In several cases, such as the initial public draft of encryption regulations introduced in late 1999, Chinese ministries tried to address national security issues in ways that resulted in the creation of new barriers to trade. The vague wording of many Chinese laws and regulations often leads to conflicts with other laws or broader trade and investment policies. Nonspecific language also makes it difficult for companies and individuals to be certain they are obeying the provisions of a given law.

Regulatory initiatives introduced since the completion of the November 1999 bilateral market access agreement on China's WTO accession appear to limit access for some goods and services. Examples of these problems include the following.

Technical Barriers to Trade: For manufactured goods, China requires quality licenses before granting import approval, with testing based on standards and specifications often unknown or unavailable to foreigners and not applied equally to domestic products. China continues to operate a dual inspection system that differentiates between imported goods and those produced domestically. This practice violates the principle of national treatment. A further complication is that imported products are sometimes required to be tested both at the port of entry by China Inspection and Quarantine (CIQ) and by the domestic testing authority, resulting in delays and increased costs for the importer.

Chain Stores: The U.S.-China agreement on China's WTO accession contains provision for the gradual liberalization of wholesale, retail, franchising, and direct sales services over three years. The language excepts large department stores and chain

stores with over 30 outlets. New chain store regulations appear to call these commitments into question by greatly broadening the definition of what constitutes a chain store.

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

7. Export Subsidies

China abolished direct subsidies for exports on January 1, 1991. Nonetheless, exports of agricultural products, particularly corn and cotton, still receive direct export subsidies. China agreed to stop such subsidies once it becomes a member of the WTO. There continue to be reports that some manufactured exports benefit from indirect subsidies through preferential access to or access at below market rates to inputs such as energy, raw materials or labor. Some companies also may enjoy de facto indirect subsidies by not repaying their bank loans.

8. Protection of U.S. Intellectual Property

China is a member of the World Intellectual Property Organization (WIPO) and is a signatory to the Paris Convention for the Protection of Intellectual Property, the Bern Convention for the Protection of Literary and Artistic Works, the Universal Copyright Convention, the Patent Cooperation Treaty, and the Madrid Protocol. China has also committed to bringing its laws and regulations on the protection of intellectual property rights (IPR) into full compliance with the WTO agreement on Trade-Related Intellectual Property (TRIPS) at the time of its accession to WTO. A new Patent Law was completed in August 2000, and new draft Trademark and Copyright Laws are currently under discussion in interagency meetings.

After signing the U.S.-China agreement on the protection of intellectual property rights in February 1995, and the June 1996 agreement on procedures for ensuring implementation of the bilateral, China made progress in implementing IPR regulations and improving enforcement and education. The United States took China off Special 301 lists in 1996, but continues to watch China under Section 306 of the Trade Act, which allows the United States to monitor China's compliance with its obligations. If China is found wanting in its IPR regime, the United States can begin a fast-track examination, which can result in penalties.

China revised its laws to provide criminal penalties for IPR violations. The United States, nevertheless, remains concerned that penalties imposed by Chinese courts are insufficient to deter violations. Some U.S. companies estimate losses from Chinese counterfeiting equal 15 to 20 percent of total sales in China. One U.S. consumer products company estimates that it loses $150 million annually due to counterfeiting. The destructive effect of counterfeiting has discouraged additional direct foreign investment and threatened the long-term viability of some U.S. business operations in China. The inferior quality of counterfeit products also creates serious health and safety risks.

China's State Council, the highest executive organ of the government, issued a decree in 1999 admonishing Chinese government agencies to purchase only legal computer software. Nevertheless, end-user piracy of computer software continues to cost U.S. companies millions of dollars. A PRC study on China's software industry published in September 2000 identified piracy as the major obstacle to the development of China's software industry. Regulations on the use of copyright agents by foreign companies have not yet been finalized; this effectively prevents foreign companies from using agents to register copyrights. Foreigners registering trademarks face a shortage of agents authorized to accept trademark applications from foreign companies. The lack of clear procedures to protect unregistered well-known trademarks makes it difficult to oppose or cancel well-known marks registered by an unauthorized party.

9. Worker Rights

a. *The Right of Association:* China's constitution provides for "freedom of association," but in practice this provision does not entitle workers to organize freely. The Trade Union Law states that workers who wish to form a union at any level must receive approval from a higher-level trade organization. Approved trade unions are legally required to join the All-China Federation of Trade Unions (ACFTU), a national umbrella organization controlled by the Communist Party. Independent trade unions are illegal. Since China's signing of the International Covenant on Economic,

Social, and Cultural Rights in 1997, several labor activists have petitioned the government to establish free trade unions, as allowed under the covenant. China has not yet ratified the Covenant nor approved any of these petitions to date.

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

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

d. *Minimum Age of Employment of Children:* China's National Labor Law forbids employers to hire workers under 16 years of age and stipulates administrative review, fines, and revocation of licenses for businesses that hire minors. Good public awareness, a surplus of legal adult workers, and nearly universal primary schooling have reduced incentives to hire child workers. A national government campaign in mid-2000 against women and child trafficking, however, revealed that child labor was perhaps a more significant problem than previously thought. The International Labor Organization (ILO) and UNICEF have been unable to collect statistics on child labor, but they do not believe the problem is systemic. Some Chinese academics maintain that child labor problems exist in agricultural and mining areas, where it is sometimes difficult to enforce labor law and where, in the agricultural areas in particular, families, including children, have always labored alongside one another during the critical planting and harvesting seasons.

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

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

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

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1999

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		991
Total Manufacturing		4,789
Food and Kindred Products	150	
Chemicals and Allied Products	259	
Primary and Fabricated Metals	203	
Industrial Machinery and Equipment	946	
Electric and Electronic Equipment	2,343	
Transportation Equipment	123	
Other Manufacturing	765	
Wholesale Trade		201
Banking		69
Finance/Insurance/Real Estate		784
Services		260
Other Industries		673
TOTAL ALL INDUSTRIES		7,766

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

HONG KONG

Key Economic Indicators

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

	1998	1999	2000 [1]
Income, Production and Employment:			
Nominal GDP [2]	161.8	158.1	166.0
Real GDP Growth (pct)	–5.3	3.1	8.5
GDP by Sector:			
Agriculture	0.2	N/A	N/A
Manufacturing	9.1	N/A	N/A
Services	127.7	N/A	N/A
Government	15.1	15.6	15.7
Per Capita GDP (US$)	24,352	23,530	24,707
Labor Force (000s)	3,306	3,343	3,380
Unemployment Rate (pct)	4.7	6.3	4.8
Money and Prices (annual percentage growth):			
Money Supply (M2) [3]	11.8	8.1	9.0
Consumer Price Inflation (pct)	2.8	–4.0	–3.5
Exchange Rate (HK$/US$)			
Official	7.75	7.77	7.78
Balance of Payments and Trade:			
Total Exports FOB [4]	172.8	172.9	197.1
Exports to United States [5]	10.5	10.5	11.7
Total Imports CIF	183.2	178.6	207.1
Imports from United States [5]	12.9	12.6	14.4
Trade Balance	–10.4	–5.7	–10.0
Balance with United States [5]	–2.4	–2.1	–2.7
External Public Debt	0	0	0
Fiscal Balance/GDP (pct)	–2.5	0.8	–0.5
Current Account Balance/GDP (pct)	1.1	5.4	4.9
Debt Service Payments/GDP (pct)	0	0	0
Gold and Foreign Exchange Reserves (end-of-period) [6]	89.6	96.3	101.8
Aid from United States	0	0	0
Aid from All Other Sources	0	0	0

[1] Estimates based on monthly data through August 2000.

[2] Expenditure-based GDP estimates.
[3] Money supply of Hong Kong dollars and foreign currencies.
[4] Of which domestic exports (as opposed to re-exports) constituted 14.0 percent (1998), 12.6 percent (1999) and 12.0 percent (2000 estimate based on data through August).
[5] 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 July 2000. Hong Kong merchandise trade includes substantial re-exports (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 duty-free port, with few barriers to trade in goods and services.

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

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

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. In August 1998 the government made what it describes as a "one-time" intervention in the stock, futures, and currency markets (spending about $15 billion) to defend against what it believed were market manipulation efforts by financial market players. In October 1999 the government began to divest itself of the shares it acquired in this intervention through sales to the public. By mid-2000 the economy was well into an export-driven recovery, but unemployment remained high by Hong Kong standards and concerns remained about the possible impact of an economic slowdown in the United States, which is Hong Kong's most important export market after China.

In July 2000 Hong Kong's Trade and Industry Bureau was reorganized to support the government's strategy of technology-based development. The creation of a new Innovation and Technology Commission reflects the government's increasing willingness to fund technology investment and encourage commercial applications. At the same time, the government created Invest Hong Kong, a new agency under the renamed Commerce and Industry Bureau, to actively promote inward investment.

2. Exchange Rate Policies

The Hong Kong dollar is linked to the U.S. dollar at an exchange rate of HK$7.8 = US$1.00. The link was established in 1983 to encourage stability and investor confidence in the run-up to Hong Kong's reversion to Chinese sovereignty in 1997. PRC officials have supported Hong Kong's policy of maintaining the link. In September 2000 the Hong Kong Monetary Authority completed phase two 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. When completed in December 2000, the system will reinforce 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.

3. Structural Policies

The government does not have pricing policies, except in a few sectors such as energy, which is partially regulated. Even in those controlled areas, the government continues to pursue sector-by-sector liberalization. Hong Kong's personal and cor-

porate tax rates remain low and it does not impose import or export taxes. Since 1996, Hong Kong has deregulated most interest rates. In July 2000 the Monetary Authority removed the remaining interest rate cap on time deposits with maturity of less than seven days. The interest rate cap on savings and current accounts will be removed in July 2001. 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 government-regulated, 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 91-day bills in 1990. Since then, maturities have gradually been extended. Five-year notes were issued in October 1993, followed by 7-year notes in late 1995 and 10-year notes in 1996. In March 1997 the Hong Kong Mortgage Corporation was set up to promote the development of the secondary mortgage market. The Corporation is 100 percent owned by the government through the Exchange Fund. The Corporation purchases residential mortgage loans for its retained portfolio in the first phase, followed by packaging mortgages into mortgage-backed securities for sale in the second phase.

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.

Hong Kong does not receive bilateral or multilateral assistance.

INDONESIA

Key Economic Indicators

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

	1998	1999	2000
Income, Production and Employment: [1]			
Nominal GDP	94	142	156
Real GDP Growth (pct)	–13.2	0.3	4.0
GDP by Sector:			
Agriculture	18.4	27.8	28.0
Manufacturing	23.4	36.2	39.0
Services	35.7	56.9	58.0
Government	4.1	7.2	7.6
Per Capita GDP (US$)	465	682	760
Labor Force (millions)	92.6	94.8	96.5
Unemployment Rate (pct)	4.7	6.3	6.2 [2]
Money and Prices (annual percentage growth):			
Money Supply (M2) (pct)	62.3	8.8	12.1
Consumer Price Inflation (pct)	75.0	2.0	7.6
Exchange Rate (Rupiah/US$ annual average)	10,014	7,855	8,290
Balance of Payments and Trade:			
Total Exports FOB	50.4	48.6	61.1
Exports to United States	9.3	9.5	9.7
Total Imports CIF	27.3	24.0	35.5
Imports from United States	2.3	2.0	2.5
Trade Balance	23.1	24.6	25.6
Balance with United States	7.0	7.5	7.2
External Public Debt	71.4	80.7	91.2
Debt Service Payments/GDP (pct)	7.6	6.5	6.9
Current Account Balance/GDP (pct)	3.9	4.1	4.8 [3]
Fiscal Deficit/GDP (pct)	2.2	6.8	4.8 [3]

Key Economic Indicators—Continued

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

	1998	1999	2000
Gold and Foreign Exchange Reserves (end-of-period)	23.5	27.1	27.2
Aid from United States (millions of US$)	135	139	205
Aid from All Other Sources	5.2	7.8	4.2 [4]

[1] 2000 GDP figures are GOI estimates. Annual variations partly due to exchange rate fluctuations.
[2] Official GOI Estimate of open unemployment. Does not measure underemployment.
[3] Indonesian Fiscal Year.
[4] 2000 number is amount pledged (Apr - Dec)

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

Three years after the Asian financial crisis devastated the Indonesian economy and precipitated the fall of President Soeharto, Indonesia's reform process remains incomplete. The country is caught between the remnants of the old autocracy and full democracy and open markets. The high hopes for rapid, all-encompassing change that accompanied the October 1999 elections of President K.H. Abdurrahman Wahid and Vice President Megawati Soekarnoputri have faded.

Indonesia is the world's fourth largest country 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 government faces daunting economic problems that must be addressed if it is to regain the economic stability and growth the country enjoyed until 1997. Urgent tasks include completing the reform and democratization of government institutions; resolution of current and potential conflicts (Aceh, West Timor, Moluccas, Papua); fiscal and political decentralization; establishment of civilian control over the military; reform of the justice sector, including bringing Soeharto-era criminals to justice; eradicating corruption; maintaining and advancing economic policy deregulation; and improving the investment climate.

The IMF-supported stabilization and recovery program has been the overriding fact of economic life in Indonesia since November 1997. However, the government has often been slow to implement its commitments. For example, although the Indonesian Bank Restructuring Agency (IBRA) has completed the recapitalization of the banking system, it has been slow to dispose of assets acquired in the debt-restructuring process and to move against uncooperative debtors.

Despite the continued policy disarray, Indonesia's real economy began to recover in 2000, led largely by a release of pent-up consumer demand and surging exports. In the first seven months of 2000, Indonesia's exports were up 34 percent over the same period of 1999. Observers expect overall real GDP growth to reach four percent in 2000, a marked improvement over the zero growth in 1999, but output is still below its immediate pre-crisis level. The country retains its solid export foundation of oil, gas, minerals and agricultural commodities such as coffee, tea, rubber, timber, palm oil and shrimp. Regions such as Sumatra and Sulawesi that have strong, agricultural commodity-based economies survived the crisis with only minor disruptions. Indonesian exports to the United States have remained steady throughout the crisis at more than $9 billion annually. Imports from the United States, which fell by almost half between 1997 and 1998, have begun to recover and should reach $2.5 billion in 2000.

The Indonesian government has historically maintained a "balanced" budget: expenditures were covered by the sum of domestic revenues and foreign aid and borrowing, without resort to domestic borrowing. Often the government ended the year with a slight surplus. This remains the government's long-term goal. However, the financial crisis, especially the bank recapitalization program, has placed a heavy burden on government finances. Interest payments on domestic debt, which before the crisis was almost zero, are estimated to reach Rp 55 trillion ($6.4 billion) or 19 percent of total spending in FY–2001. The government expects the gap between domestic revenues and expenditures to remain for several years although the rise in oil prices starting in late 1999 relieved budgetary pressure in 2000. The budgetary gap in the FY–2001 is targeted at approximately 3.7 percent of GDP.

In parallel with its fiscal policy, the Indonesian government earned 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 contributed to significant inflation.

Indonesian monetary authorities dampened pressure on prices and the exchange rate by significantly tightening monetary policy. There are signs that inflation may be creeping back up as the government slowly releases the brakes on the money supply.

The government made steady progress in trade and investment deregulation during the decade preceding the financial crisis. Periodic deregulation packages of liberalization measures lowered investment barriers and instituted a program of comprehensive tariff reduction by staged cuts. The goal is to reduce all tariffs in the 1 to 20 percent range to 5 percent or less by 2000, and to reduce all tariffs in the 20 percent and higher range to 10 percent or less by 2003. Although the deregulation packages made comparatively less progress in reducing non-tariff barriers, the government's collaboration with the International Monetary Fund (IMF) since November 1997 prompted much bolder measures, ending most import monopolies and gradually opening Indonesia's closed distribution system. Domestic interests continue to press for protection in specific sectors.

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's agreement with the IMF has been revised repeatedly in response to deteriorating macroeconomic conditions and political changes. The result is a complex, multi-faceted program to address macroeconomic imbalances, financial weaknesses, real sector inefficiencies, and the loss of private sector confidence. President Wahid's first cabinet, installed in October 1999, signed a revised LOI in January 2000; after the cabinet reshuffle in August 2000, the new economic team endorsed the IMF-supported economic restructuring and recovery program with minor modifications.

Since 1998, the government has introduced several measures to improve governance. These include a Competition Commission that was inaugurated in September 2000 and various bodies to investigate and prevent corruption, collusion and nepotism.

4. Debt Management Policies

Indonesia's foreign debt totaled about $162 billion as of July 2000, with about $80 billion owed by the public sector and $82 billion by the private sector. Indonesia and the Paris Club group of official creditors agreed to a second rescheduling agreement for official debt in April 2000 covering $5.8 billion in principal payments falling due from April 1, 2000 to March 21, 2002. In late September Bank Indonesia reached a parallel agreement with the London Club of commercial creditors to reschedule $340 million in principal installments on two standby loans received from a syndication of banks in 1994 and 1995.

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. It is also taking preliminary steps to establish a debt management unit at the Ministry of Finance.

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 government has issued a series of deregulation packages that have reduced overall tariff levels, simplified the tariff structure, removed restrictions, replaced nontariff barriers with more transparent tariffs, and encouraged foreign and domestic private investment.

Given Indonesia's ongoing economic reform program, the country's tariff regime is in rapid flux. Indonesia's applied tariff rates range from 5 to 30 percent, although bound rates are, in many cases, much higher. The major exception to this range are the 170 percent duty applied to all imported distilled spirits and the tariffs on motor vehicles and motor vehicle kits (see below). Consecutive IMF programs in which Indonesia committed to implement a three-tier tariff structure of zero, five or ten per-

cent on all imported products except motor vehicles and alcoholic beverages have reinforced the long-term liberalization policy. Indonesia also committed to eliminate all nontariff barriers except those imposed for health or safety reasons by the end of 2001. A further impetus to tariff liberalization is the ASEAN Free Trade Agreement under which ASEAN members committed to a Common Effective Preferential Tariff (CEPT) scheme for most traded goods by 2003. Indonesia implemented the first stage of its AFTA tariff reductions as of January 1, 2000 reducing tariffs on the agreed range of products to five percent or less. In June 2000 the government implemented an overdue 1999 tariff cut package, which included 708 tariff lines and 22 product sectors. This package also implemented Indonesia's final commitment under the 1996 WTO Information Technology Agreement (ITA).

Import tariffs on vehicles were lowered in June 1999 to 65 to 80 percent (depending on engine size) for completely built-up sedans, 5 to 40 percent for trucks, and 35 to 65 percent for motorcycles. Rates for parts were also reduced to a maximum 15 percent. Luxury taxes for sedans range from 35 to 50 percent.

Services trade barriers to entry continue to exist in many sectors, although the government 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 is liberalizing its distribution system, a trend that could accelerate as it implements its IMF-supported program, which includes a commitment to remove 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 has 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 enterprise 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

Investment Barriers: The government is committed to reducing burdensome bureaucratic procedures and substantive requirements for foreign investors. In 1994 the government dropped initial foreign equity requirements and sharply reduced divestiture requirements. Indonesian law provides for both 100 percent direct foreign investment projects and joint ventures with a minimum Indonesian equity of five percent. In July 2000 the government revised its so-called "negative investment list." While most of the changes were minor, the decree included two controversial provision banning foreign investment in the "multimedia sector" (i.e. the Internet) and reducing the cap on foreign investment in the telecommunications sector from 95 percent to 49 percent. Under a torrent of criticism from the affected industries, the government revoked these provisions three weeks later. 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. Approval procedures will be modified as the government implements political and fiscal decentralization starting January 1, 2001.

Government Procurement Practices: In February 2000 the government enacted Presidential Decree (Keppres) No. 18/2000 establishing new technical guidelines for government procurement of goods and services. The decree establishes set-aside 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. Most large government contracts are financed by bilateral or multilateral donors who specify procurement procedures. For large projects funded by the government, international competitive bidding practices are to be followed. The government seeks concessional financing which includes a 3.5 percent interest rate, a 25-year repayment period and seven-year grace period. Some projects do proceed on less concessional terms. Foreign firms bidding on certain government-sponsored construction or procurement projects may be asked to purchase and export the equivalent in selected Indonesian products. Government departments and institutes and state and regional government corporations are expected to utilize domestic goods and services to the maximum extent feasible, but this is not mandatory for foreign aid-financed goods and services procurement.

State-owned enterprises that have offered shares to the public through the stock exchange are exempted from government procurement regulations.

6. Export Subsidies Policies

Indonesia joined the GATT Subsidies Code and eliminated export-loan interest subsidies as of April 1, 1990. As part of its drive to increase nonoil and gas exports, the government permits restitution of VAT paid by a producing exporter on purchases of materials for use in manufacturing export products. Exemption from or drawbacks of import duties are available for goods incorporated into exports. Free trade zones and industrial estates are combined in several bonded areas. 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 full party to the Paris Convention for the Protection of Intellectual Property, the Bern 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 2000 the U.S. Trade Representative placed Indonesia on the Special 301 Watch List in recognition of the progress that had been made on the legal regime but noted in its report the continuing crippling weaknesses in Indonesia's IPR enforcement regime.

Among the serious deficiencies in Indonesia's intellectual property regime are rampant piracy of software, books, and videos, trademark piracy and an inconsistent enforcement and ineffective legal system. In order to bring Indonesia's laws into compliance with the TRIPS Agreement, the Indonesian government drafted (but not enacted as of October 2000) new laws on protection of trade secrets, industrial design and integrated circuits to complement existing laws on patents, trademarks and copyrights. Even with the new laws in place inadequate enforcement and a non-transparent judicial system unfamiliar with intellectual property law will pose daunting problems for U.S. companies. The Indonesian government often responds to U.S. companies with 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 has been rare.

Indonesia's 1997 Patent Law addressed several areas of concern to U.S. companies, including compulsory licensing provisions, a relatively short term of protection, and a provision that allowed 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 without prior authorization. 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. Since 1998, more than 20 new or previously unrecognized unions have formed. The courts may dissolve a union under the 2000 law if union members are convicted of crimes against the state.

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 civil servants 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, and the government generally enforces it. However, according to credible sources, there are several thousand children working on fishing platforms off the East Coast of North Sumatra in conditions of bonded labor. Most are recruited from farming communities, and once they arrive at the work site, are not permitted to leave for at least three months and until a replacement worker can be found. 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 a 1995 report of the Indonesian Central Bureau of Statistics, four percent of Indonesian children between the ages of 10 and 14 work full-time, and another four percent work in addition to going to school. Many observers believe that number to be significantly understated, because documents verifying age are easily falsified, and because children under 10 were not included. Indonesia was one of the first countries to be selected for participation in the ILO's International Program on the Elimination of Child Labor (IPEC). Although the ILO has sponsored training of labor inspectors on child labor matters under the IPEC program, enforcement remains lax. In April 1999 the government ratified ILO Convention 138, which establishes a minimum working age of 15, and in March 2000 the government ratified ILO convention 182 on the Elimination of the Worst Forms of Child Labor.

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 $40 (Rp. 344,000) per month (at an exchange rate of Rp 8500 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 1½ times the normal hourly rate for the first hour, and twice the hourly rate for additional overtime. Observance of laws regulating benefits and labor standards varies from sector to sector and by region. Employer violations of legal requirements are fairly common and often result in strikes and employee protests. In general, government enforcement and supervision of labor standards is weak. Both law and regulations provide for minimum standards of industrial health and safety. In the largely western-operated oil sector, safety and health programs function reasonably well. However, in the country's 100,000 larger registered companies in the non-oil sector, the quality of occupational health and safety programs varies greatly. The enforcement of health and safety standards is severely hampered by 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 in firms with U.S. ownership are widely recognized as better than the norm for Indonesia. Application of legislation and practice governing worker rights is largely dependent upon whether a particular business or investment is characterized as private or public. U.S. investment in Indonesia is concentrated in the petroleum and related industries, primary and fabricated metals (mining), and pharmaceutical sectors.

Foreign participation in the petroleum sector is largely in the form of production sharing contracts between the foreign companies and the state oil and gas company, Pertamina, which retains 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 but, with some exceptions, they do not have 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.

Regulations pertaining to child labor and child welfare are applicable to employers in all sectors. Employment of children and concerns regarding child welfare are not considered major problem areas in the petroleum and fabricated metals sectors. Legislation regarding minimum wages, hours of work, overtime, fringe benefits, health and safety applies to all sectors. The best industrial and safety record in Indonesia is found in the oil and gas sector.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1999

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		7,378
Total Manufacturing		66
Food and Kindred Products	20	
Chemicals and Allied Products	79	
Primary and Fabricated Metals	5	
Industrial Machinery and Equipment	–21	
Electric and Electronic Equipment	19	
Transportation Equipment	(1)	
Other Manufacturing	(1)	
Wholesale Trade		8
Banking		287
Finance/Insurance/Real Estate		287
Services		53
Other Industries		2,424
TOTAL ALL INDUSTRIES		10,504

(1) Suppressed to avoid disclosing data of individual companies.

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

JAPAN

Key Economic Indicators

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

	1998	1999	2000
Income, Production and Employment:			
Nominal GDP	3,808.2	4,346.8	4,622.1 [1]
Real GDP Growth (pct)	–2.5	.2	1.0 [1]
GDP by Sector:			
Agriculture	54.29	N/A	N/A
Manufacturing	895.5	N/A	N/A
Services	695.4	N/A	N/A
Government	317.2	N/A	N/A
Per Capita Income (US$)	30,086	34,283	36,455 [1]
Labor Force (millions)	67.9	67.8	67.4 [2]
Unemployment Rate (pct)	4.1	4.7	4.8 [3]

Key Economic Indicators—Continued

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

	1998	1999	2000
Money and Prices (annual percentage growth):			
Money Supply (M2+CD)	4.0	3.6	2.3 [3]
Consumer Price Inflation	0.6	–0.3	–0.7 [2]
Exchange Rate (Yen/US$)	130.90	113.91	106.84 [2]
Balance of Payments and Trade:			
Total Exports FOB	374.4	403.9	460.7 [4]
Exports to United States FOB	118.4	121.8	144.0 [5]
Total Imports CIF	251.7	280.5	328.8 [4]
Imports from United States CIF	67.0	57.8	62.9 [5]
Trade Balance	122.7	123.4	131.9 [4]
Trade Balance with United States	51.4	64.0	81.0 [5]
Current Account Surplus/GDP (pct)	3.2	2.5	N/A
External Public Debt	0	0	0
Debt Service Payments/GDP (pct)	0	0	0
Fiscal Deficit/GDP (pct)	–10.2	N/A	N/A
Gold and Foreign Exchange Reserves	215.9	288.1	344.9 [6]
Aid from United States	0	0	0
Aid from All Other Sources	0	0	0

[1] January–March, seasonally adjusted, annualized.
[2] January–June, non-seasonally adjusted average.
[3] January–June, seasonally adjusted average.
[4] January–June, seasonally-adjusted, annualized.
[5] January–July, non-seasonally adjusted, annualized.
[6] As of end-July 2000.

Sources: Ministry of Finance (trade figures BOP basis); Economic Planning Agency; Bank of Japan, OECD Economic Outlook, U.S. Bureau of Census.

1. General Policy Framework

The Japanese economy is gradually recovering from the worst recession in postwar history. Real GDP contracted by 2.5 percent in 1998, and the effects of this severe slowdown were reflected in corporate bankruptcies and record rates of unemployment. A modest recovery is now underway, with real GDP growing by 0.3 percent in 1999. This trend is expected to continue, and the government projects growth of one percent in the current fiscal year, which ends at the end of March 2001.

Japan's economic performance has been highly variable over the past ten years, as the end of the "bubble economy" in 1991 gave way to sharp changes in asset prices and the need for restructuring in the corporate and financial sectors. The more pronounced slowdown of the past few years was due to a combination of factors, including a cyclical decline, substantially weakened Asian demand for Japanese exports, and a crisis in the domestic banking system.

The policy response to Japan's recession has been an expansionary fiscal policy, made possible through a series of supplemental budgets, emergency spending packages (largely concentrated on public works to boost private demand), and special loan guarantees to stem the tide of corporate bankruptcies. Monetary policy was also accomodative, with the Bank of Japan attempting to keep interest rates as low as possible to encourage investment.

Based on Japanese statistics, Japan posted a global trade surplus of $123.4 billion in 1999, with a $61.5 billion bilateral surplus with the United States, an increase of 19.6 percent over 1998. Both these figures are expected to rise in 2000 as Japan's economic growth is expected to remain below that of both the United States and the EU. Continued strong growth in the United States, combined with a recovery among Asian economies, should support Japanese exports. Imports are also expected to rise in line with economic recovery. (Note: U.S. Customs figures show a $73 billion deficit with Japan in 1999, on U.S. exports of $57.4 billion and imports of $130.8 billion. The discrepancy is mostly accounted for by differences in CIF and FIB prices).

2. Exchange Rate Policy

The yen demonstrated some volatility against the dollar in 1998–99, although more moderate than the previous year. The average exchange rate through the first seven months of 2000 was 107 yen per dollar, compared to 113 yen per dollar in 1999. 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 very high gross retail margins (needed to cover high fixed and personnel costs) and a complex distribution system, Japan's retail prices exhibit a greater downward stickiness than in other large market economies. Moreover, some sectors such as construction are susceptible to cartel-like pricing arrangements, and in many key sectors heavily regulated by the government (i.e., transport and warehousing), it can still exert some limited temporary authority over pricing.

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

Regulatory and Deregulation Policy: Japan's economy is highly regulated. Although the government and business community recognize that deregulation is needed to spur growth, opposition to change remains strong among vested-interest groups, and the economy remains burdened by numerous national and local government regulations, which have the effect of impeding market access by foreign firms. Official regulations also reinforce traditional Japanese business practices that restrict competition, help block new entrants (domestic or foreign) and raise costs. Examples of regulations that act as impediments include: exceedingly high telecommunications interconnection rates, prolonged approval processes for medical devices and pharmaceuticals, and severe restrictions on foreign lawyers. Japan has appropriate anti-monopoly legislation, and in 1999 concluded an antitrust cooperation agreement with the United States. Nevertheless, enforcement of competition policy lacks needed rigor.

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

4. Debt Management Policies

Japan is the world's largest net creditor. The Bank of Japan's foreign exchange reserves exceed $345 billion. It is an active participant together with the United States in international discussions of developing-country indebtedness issues in a variety of fora.

5. Significant Barriers to U.S. Exports

Japan is the United States' third largest export market, after Canada and Mexico. The United States is the largest market for Japanese exports. However, in many sectors U.S. exporters continue to enjoy incomplete access to the Japanese market. While Japan has reduced its formal tariff rates on most imports to relatively low levels, it has maintained non-tariff barriers, such as nontransparent regulation and government procedure, 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 recently entered the U.S.-Japan market, nearly tripling their access to Japan. The agreement also allowed code sharing (strategic alliances) between carriers for the first time, thereby greatly increasing their operational flexibility. While U.S. carriers have been generally happy with the results of the 1998 agreement, there is growing concern over the inadequacy of facilities, scarcity of slots, and high landing fees.

American ocean going ships serving Japanese ports have long encountered a restrictive, inefficient and discriminatory system of port transportation services. After the Federal Maritime Commission (FMC) ruled in early 1997 that Japan maintained unfair shipping practices and proposed fines against Japanese ocean freight opera-

tors, the Japanese government pledged to grant foreign carriers port transport licenses, and, at the same time, to reform the prior consultation system which allocates work on the waterfront and requires carriers to obtain approval for any change in their operations. The FMC imposed fines in September 1997 after Japan failed to carry out the reforms. Shortly afterwards, however, the government committed itself to actions that would have provided a solid foundation for reform of Japanese port practices. However, a final report on deregulation issued by the Japanese government in mid-1999 was discouraging for its lack of aggressive proposals for deregulating ports. The Diet passed several resolutions regarding the Port Transportation Business Law in May 2000 including the elimination of demand and supply adjustments and changing the fee permission system to a registration system. The new law will go into effect November 1.

Energy: The government of Japan has taken a number of steps to begin deregulating its energy sector. Within the Enhanced Initiative for deregulation the U.S. government is urging Japan to speed up the process. Open and non-discriminatory access to electrical transmission and distribution grids and to LNG terminals and pipelines are key steps for Japan. Competitive, transparent pricing also remains as a key 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, mutual 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. Timely approval, acceptance, and ultimately sales of U.S. wood products are still limited by excessive regulation and continued reliance on prescriptive codes/standards. Unnecessary tariffs on processed wood products place additional costs on end-users.

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. These tariffs limit sales of U.S. farm products by encouraging substitution for local competitors and/or reducing consumption altogether.

Biotechnology: Japan has adopted a scientific approach in its approval process for genetically modified (GM) foods. To date, the Ministry of Agriculture, Forestry and Fisheries (MAFF) and the Ministry of Health and Welfare (MHW), which regulate biotechnology products, have approved the importation of 29 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.

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 the following measures: 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 that raise costs and reduce competitiveness of U.S. produce in Japan; 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.

In July 1999 the Japanese Agricultural Standard Law was amended to allow testing organizations overseas to function as JAS-registered grading organization and/or JAS-registered certification organization, to put them on equal footing with their Japanese counterparts. The Ministry of Agriculture, Forestry and Fisheries has subsequently clarified that a prerequisite for functioning as RGO/RCO is a determination of equivalency, i.e., a determination that the standards system in the applicant countries is open to Japanese manufacturers. MAFF should determine, in a timely way, a reasonable equivalency policy allowing U.S. testing organizations to apply to function as foreign JAS-registered grading organizations and/or JAS-registered certification organizations.

The government of Japan has taken steps to make the Building Standard Law (BSL) performance-based, in line with its commitment to implement performance-based codes. The United States is asking the Ministry of Construction to initiate a

review of certain provisions of the BSL which the United States deems prescriptive, including those related to 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. In the deregulation initiative, the United States continues to encourage Japan to take steps to establish a competitive secondary market for housing and to encourage the development of a larger market for refurbishing and remodeling existing homes.

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. In July 2000 Japan agreed to implement significant reductions in interconnection fees for connecting to the dominant carriers' local networks. This is expected to result in lower interconnection costs and increased competition in telephone services. However, progress overall 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 period 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. Discriminatory and anti-competitive discount pricing plans by the dominant carriers have put new entrants at a serious disadvantage in developing Internet services. The United States remains very concerned by the Japanese government's intent to combine the Ministry of Post and Telecommunications and the Japan Fair Trade Commission within a new General Affairs Ministry early in 2001 and continues to urge Japan to create a stronger regulatory firewall between the two. The U.S. government has sought from Japanese regulators steps to address these issues under the U.S.-Japan Enhanced Initiative on Deregulation and Competition Policy.

Foreign computer and telecommunications equipment suppliers continue to have difficulty selling to the Japanese public sector, having an extremely low share of this market. In addition, procurement from foreign sources by NTT (Nippon Telegraph and Telephone) 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 restrictions remain on NTT and on Direct-To-Home (DTH) satellite broadcasting companies.

Information Technology: The government of Japan has announced a major initiative to spur Japan forward in an IT revolution. High internet access fees remain but one of a number of major impediments still impeding the development of more widespread use of IT in Japan.

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

The United States believes that mandatory labeling will stigmatize foods derived through biotechnology by suggesting a health risk when there is none. In fact, already, in response to the release of MAFF's plans to require labeling, many manufacturers of products to be subject to mandatory labeling have recently switched, or have declared they will switch, to non-genetically engineered ingredients. The recent shift by industry to non-genetically engineered ingredients demonstrates that MAFF has added to the confusion and false misperceptions about the safety of biotech foods through its plans to require labeling.

The United States agrees that labeling is necessary when there is a health or safety reason, such as a presence of an allergen, or when there are changes in the characteristic of the food, such as an altered nutritional content. In these cases, the specific change is the subject of a label, rather than the process by which it is produced.

MAFF 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 United States agrees that it is important for consumers to have information on foods that have been genetically engineered. The United States 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.

Organic Certification: Effective April 1, 2001, all U.S. certified organic foods must also obtain additional certification by organizations incorporated in Japan. Products not certified by Japanese organizations may not be marketed as "organic" in Japan. The additional certification requirement is considered unnecessary, costly, and a serious threat to continued imports of U.S. organic foods, estimated at up to $100 million per year. The U.S. Department of Agriculture ISO Guide 65 accreditation program provides sufficient assurance that certified products meet Japanese standards. ISO Guide 65 is the internationally recognized norm for conformity assessments of third-party certifiers.

Foreign Direct Investment (FDI): FDI in Japan has remained extremely small in scale relative to the size of the economy. In Japan fiscal year 1999, Japan's annual inward FDI totaled 21.5 billion (up from $10.5 billion the previous year) but still only 0.5 percent of its GDP. (Comparatively, FDI for the United States in 1999 was $276 billion, according to UN Conference on Trade and Development figures). Although in Japan, inward foreign investment is on the rise, Japan continues to host the smallest amount of FDI as a proportion of total output of any major OECD nation. The low level of FDI reflects the high cost-structure of doing business (for example, registration, licenses, land prices and rents), the legacy of former investment restrictions, and a continuing environment of structural impediments to greater foreign investment. The challenges facing foreign investors seeking to establish or enhance a presence in Japan include: laws and regulations that directly or indirectly restrict the establishment of business facilities, close ties between government and industry, informal exclusive buyer-supplier networks and alliances, high taxation, extensive cross-shareholding by Japanese firms, and a difficult regulatory environment for foreign or domestic acquisitions of existing Japanese firms.

Recently, the Japanese government has implemented potentially useful measures for increasing FDI, including easing restrictions on foreign capital entry. Accounting changes introduced a wide range of new regulations and practices. Consolidated disclosure of contingent liabilities/guarantees on April 1, 1998, and implementation of stricter consolidated financial accounting on April 1, 1999 (showing up on corporate books on March 31, 2000), were the first Big-Bang accounting reforms. However, much of the recent vigorous corporate activity is impelled by the subsequent introduction of mark-to-market accounting for financial products and corporate pension assets introduced on April 1, 2000. This includes the disclosure of unfunded pension liabilities, and requires that firms make good on any pension shortfalls within 15 years.

The government has also passed legislation modeled on U.S. Chapter 11 bankruptcy procedures and corporate divestiture laws to promote efficient business reorganization. Such legislation should facilitate corporate restructuring and buy-outs by foreign and domestic investors.

In October 1998 the U.S. government proposed to the Japanese government 18 new reforms in the areas of mergers and acquisitions, land, and labor policy to improve Japan's environment for foreign direct investment. In May 1999 both governments submitted a Joint report to the President and Prime Minister on the status of Japan's investment climate and measures under consideration. The bilateral Investment Working Group (IWG) held talks in Tokyo in October 1999 and April 2000 that covered a range of investment issues under the auspices of the IWG. In March 2000 the United States and Japan jointly sponsored a symposium that focused on private sector concerns with regard to Japan's climate for investment and mergers and acquisitions. The group intends to continue consultations and the exchange of information as stipulated in the joint report.

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

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

6. Export Subsidies Policies

Japan's official development assistance for Asian countries in 1998 rose 71 percent from the previous year as the government focused on helping its neighbors recover from the region-wide economic crisis. Japan remained the world's top aid donor in 1998 for the eighth consecutive year, disbursing a total of $10.77 billion, up 14.2 percent from 1997. Although Japan had been moving towards untying its aid, during the past two years this trend has reversed. Both its Environmental Aid loans and its Special Yen loans are tied to the purchase of Japanese products. Not only does this limit U.S. firms' ability to participate in these projects; it also denies recipient countries the opportunity to use this aid as efficiently as possible. This trend towards retying has been actively opposed by the U.S. government. In addition, the U.S. government 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 Bern 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, but the United States will keep monitoring Japan's protection of intellectual property rights.

While Japan's IPR regime affords national treatment to U.S. entities, the United States has long been concerned by the long processing time for patent examination. Although Japan has recently reduced the time which the Japan Patent Office takes before responding to the applicant (i.e. the First Action Period) from 21 to 19 months, this period is still longer than in other industrialized countries. This length of time coupled with Japan's practice of opening all patent applications to public inspection 18 months after filing, exposes applications to lengthy public scrutiny with the potential of limiting legal protection.

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

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

Japan's Trademark Law was revised in 1997 to speed the granting of trademark rights, strengthen protection to well-known trademarks, address problems related to unused trademarks, simplify registration procedures, and increase infringement penalties. Japan became a member of the Madrid Protocol as of March 14 to realize simple trademark application multi-nationally. Japan started keeping statistics of the First Action Period for trademark applications in 1998. The latest data show that it takes about ten months. The United States will keep monitoring Japan's approval time. Since trademarks must be registered in Japan to ensure enforcement, delays make it difficult for foreign parties to enforce their marks.

End-user software piracy remains a major concern of U.S. and some Japanese software developers. Effective January 2001, Japan will raise the level of punitive damages for software piracy from 3 million yen to 100 million yen. However, there are other issues that need to be considered. Japan still does not require protection of temporary copies even though it signed the Bern Convention and the 1996 WIPO Copyright Act, both of which require the protection of temporary copies of software, music, film, or anything else.

Japan's lack 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 any compensation from violators. A system of statutory damages under which right holders

would only need to prove the loss and then could be awarded damages within a fixed range for each work violated based on a subjective judgement of the amount of damage would improve protection in Japan.

8. Worker Rights

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

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

c. *Prohibition of Forced or Compulsory Labor:* Article 18 of the Japanese Constitution states that "No person shall be held in bondage of any kind. Involuntary servitude, except as punishment for crime, is prohibited." This provision applies both to adults and children, and 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 ranged from $50 per day in Tokyo to $42 in Okinawa. The Labor Standards Law provides for a 40-hour work week in most industries and mandates premium pay for hours worked beyond 40 hours in a week or eight hours in a day. However, labor unions criticize the Japanese government for failing to enforce working hour regulations in smaller firms. The government effectively administers laws and regulations affecting workplace safety and health.

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

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1999

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		4,419
Total Manufacturing		13,332
Food and Kindred Products	850	
Chemicals and Allied Products	3,397	
Primary and Fabricated Metals	323	
Industrial Machinery and Equipment	1,049	
Electric and Electronic Equipment	2,054	
Transportation Equipment	2,044	
Other Manufacturing	3,615	
Wholesale Trade		5,429
Banking		608
Finance/Insurance/Real Estate		14,928
Services		7,132
Other Industries		1,938
TOTAL ALL INDUSTRIES		47,786

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

REPUBLIC OF KOREA

Key Economic Indicators

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

	1998	1999	2000 [1]
Income, Production and Employment:			
GDP (nominal/factor cost)	321,300	406,700	459,796
Real GDP Growth (pct) [2]	–6.7	10.7	8.6
GDP by Sector:			
Agriculture/Fisheries	15,768	20,326	23,345
Manufacturing	98,521	129,344	147,764
Electricity/Gas/Water	7,519	10,682	12,600
Construction	32,560	35,639	37,626
Financial Services	62,886	80,049	90,726
Government Services	25,864	30,150	32,897
Other	78,182	100,517	114,839
Government Expenditure (pct/GDP)	10	8.3	10
Per Capita GNI (US$)	6,823	8,581	10,000
Labor Force (000s)	21,456	21,634	21,778
Unemployment Rate (pct)	7.4	6.3	4
Money and Prices (annual percentage rate):			
Money Supply (M2)	24	27.9	24.6
Corporate Bonds [3]	15.1	8.9	9.58
Personal Savings Rate	24.4	24.2	23.4
Retail Inflation	7.5	0.8	2.1
Wholesale Inflation	12.2	–2.1	2.2
Consumer Price Index (1995 base)	117.8	118.8	121.3
Average Exchange Rate (Won/US$)	1,399	1,189.5	1,116.8
Balance of Payments and Trade:			
Total Exports FOB [4]	132,313	143,685	168,174
Exports to United States [4]	22,805	29,475	35,068
Total Imports CIF [4]	–93,282	–119,752	–158,530
Imports from United States [4]	–20,403	–24,922	–29,443
External Debt [5]	148,700	137,100	140,540
Debt Service Payments [6]	–29,800	–24,000	–58,700
Gold and FOREX Reserves [7]	52,041	74,055	92,530

[1] 2000 figures are estimates based on available monthly data as of October.
[2] Growth based on won the local currency.
[3] Figures are average annual interest rates.
[4] Merchandise trade, measured on customs clearance basis; Korean government data. (Estimated figures are for the entire year 2000).
[5] Gross debt; includes non-guaranteed private debt. 2000 figure is an estimate based on available monthly data as of August.
[6] Note that the ROKG does not release such data, so the 2000 figure is the estimated amount that Korea is obligated to repay by the end of 2000. Also, the ROKG has announced that it will repay approximately $6 billion from useable foreign currency reserves in 2001.
[7] 2000 figure is as of the end of September 2000.

1. General Policy Framework

In 1999 and during the first half of 2000, the Korean economy rebounded sharply from its unprecedented 1997–98 economic crisis, led mainly by buoyant domestic consumption and investment and a surge in exports. In 1999 Korea's gross domestic product (GDP) grew 10.7 percent 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 (13 percent) and Q1 2000 (12.8 percent). In 2000 the Korean economy is expected to grow eight to nine percent and considerably slower in 2001, with inflation expected to remain in the three to four percent range, despite high petroleum prices.

Korea's 1997–98 financial crisis coincided with the election and inauguration of President Kim Dae-Jung, who embraced as Korea's best chance to recover a $58 billion International Monetary Fund (IMF) package, including loans from the IMF, World Bank, and the Asia Development Bank. Under the IMF program, the Korean government has taken steps to open its financial and equity markets to foreign investment and to reform and restructure its financial and corporate sectors to increase transparency, accountability and efficiency. The Korean economy's recovery, although strong, is not yet firm or assured. Success depends on continued financial

and corporate-sector restructuring to encourage a high pace of productive domestic and foreign investment. Otherwise, existing high levels of domestic debt could threaten economic performance. So far, however, rapid productivity increases and a favorable yen-won exchange rate have kept exports strong.

Korea produces and 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, labor activism drove up wages faster than productivity growth and Korea lost its low-wage labor advantage to China and Southeast Asian countries. At the same time, Korea faced tough competition from Japan and other advanced countries in exporting cutting-edge, high-tech products.

Although the value of the won plunged from 800 won per dollar to nearly 2,000 won per dollar in late 1997, its value stabilized by 1999 to around the 1200 range. Beginning in early 2000, the won strengthened further, and the average exchange rate for 2000 is expected to be around 1,120 won per dollar. Korea's useable foreign currency reserves also grew to nearly $93 billion by September 2000. This strong growth in foreign exchange reserves has reduced their external vulnerability, but Koreans are still concerned about a narrowing trade surplus, as imports have increased faster than exports. The Korean government has revised its trade surplus estimate for 2000 to $10 billion, from its previous estimate of $12 billion.

The United States is a leading Korean trade partner, taking 21 percent of Korea's exports and providing 20 percent of Korea's imports for the first eight months of 2000.

2. Exchange Rate Policy

Since the introduction of the IMF program 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 system reforms include substantial liberalization of capital markets, including the abolition of 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. Korea, however, requires foreign branches to be separately capitalized, and other regulations such as prudential lending limits are based on local branch capital as opposed to a foreign bank's total capital worldwide, while a domestic bank's capital base is assessed as the entire bank's capital. Foreign banks are also disadvantaged in access to local currency funding. The April 1999 Foreign Exchange Transaction Law, which will be 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 investment climate for foreign firms, and in the longer run this should foster broader market access and imports. Changes to the investment regime increased greatly and immediately levels of foreign direct investment (FDI). FDI for the two years 1998 and 1999 exceeded the total FDI that Korea received during the previous 37 years (1960–1997). Investment restrictions remain on 21 industrial sectors, of which only seven are entirely closed. Mergers, including hostile mergers, are allowed, and most restrictions on foreign ownership of local shares have been lifted. For the first time in modern Korean history, foreigners are now permitted to purchase real estate and property. Tax incentives, especially for the high technology sector, have been increased. Restrictions on access to offshore funding (including offshore borrowing, intra-company transfers and inter-company loans), however, continue to be burdensome. Foreign equity participation limits, licensing requirements and other regulatory restrictions can limit foreign direct investment in sectors nominally open to foreigners. Foreign firms also face additional investment restrictions in many professional services sectors. 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 August 2000, Korea's total foreign debt (largely private sector) totaled $142 billion, up from $137 billion in 1999. Korea's short-term debt as a per-

centage of total foreign debt increased from 29 percent at the end of 1999 to 34 percent at the end of August 2000.

5. Significant Barriers to U.S. Exports

During the 1990s, Korea has 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 made efforts to address residual anti-import biases among both Korean consumers and bureaucrats. However, anti-import campaigns by various consumer groups still take place on a recurring basis, often instigated by the press, and are one of the most significant barriers to increased U.S. exports. Introduced in late 1998, the new foreign investment regime was aimed at attracting rather than tolerating foreign investment; total foreign investment in 2000 is expected to exceed $15 billion for the second straight year. The net impact of these changes is that Korea is now an easier place to do business than in the past; however, Korea is still a difficult market for foreign products in several key sectors, especially agriculture and automobiles. Problems also exist in intellectual property rights protection (the issue is considered below in greater detail).

Korea's tariffs are generally modest; however, Korea's 50.3 percent average tariff for agricultural products 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 them. Several agricultural products of interest to U.S. suppliers, such as rice and oranges, are directly impacted by these policies. Korea also uses adjustment tariffs to respond to import surges; the majority of the 27 adjustment tariffs apply to agricultural products. The government eliminated in June 1999 its import diversification program, which barred certain imports from Japan, and has committed to phase out its eight GATT balance-of-payments restrictions by year-end 2000.

Nontariff barriers, which often result from non-transparent regulatory practices, continue to inhibit imports to Korea across a range of sectors. A lack of regulatory transparency and consistency can affect licensing, inspections, type approval, marking/labeling requirements and other standards. To add transparency and due process to its regulatory system, in 1996, Korea enacted the Administrative Procedures Act, but public notice of new regulations, as well as comment and transition periods, is 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, including the review of 11,000 regulations, was initiated at the request of President Kim; it is not clear, however, that the elimination of many of these regulations has had a significant effect on doing business.

Products regulated for health and safety reasons (such as pharmaceuticals, 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 foreign pharmaceutical industry has faced discriminatory barriers in Korea. Registration requirements for such products as chemicals, processed food, medical devices and cosmetics hamper entry into the market as well. Korea has initiated efforts to streamline its complex and burdensome import clearance procedures, targeting some 54 laws for revision. It has committed to bring its Food Code, Food Additive Code and labeling requirements into conformity with international standards, and has taken 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.

Korea's automobile market remains effectively closed to foreign imports with only 2,401 imported cars sold in 1999, despite efforts by the Korean government to improve the market environment for foreign automobiles. 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. Korea also has taken some steps to reduce anti-import attitudes about the purchase of foreign automobiles, including the co-sponsorship of the Seoul Import Motor Show in May 2000, but these steps have yet to have a meaningful impact. In 2000 Korean imports of U.S. and other foreign cars are expected to barely exceed 4,000 units, which is far less than one percent of the 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.

On January 1, 1997 Korea acceded to the WTO Government Procurement Agreement (GPA). U.S. firms, however, continue to raise some concerns about Korean procurement practices, including perceived discrimination against U.S. firms participating in procurements for Korea's new Inchon International Airport. (However, the WTO Dispute Settlement Board [DSB] formally ruled in July 2000 against U.S. claims in this dispute).

Korea expanded its Uruguay Round minimum import quota for beef to 225,000 metric tons by the year 2000 as well as the proportion of the quota imported through the "simultaneous buy/sell system." Korea has committed to remove all remaining non-tariff barriers to beef imports, including state trading, by January 2001. However, due to a sharp drop in consumption, Korea has been unable to meet its WTO minimum import commitment in recent years. In July 2000 the WTO DSB ruled in favor of the United States concerning its complaints about import barriers and distribution restrictions on foreign beef, but the ROKG announced its intentions on September 11, 2000 to appeal certain issues of law and interpretation.

6. Export Subsidies Policies

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

7. Protection of U.S. Intellectual Property

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

Korean laws protecting IPR and related enforcement measures can be problematic. Korea's Special 301 status was upgraded from "Watch List" to "Priority Watch List" in April 2000. 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 fairly 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 vulner-

able 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. A fairly new provision now allows the Korean Industrial Property Office (KIPO) to reject suspected predatory applications based on a "bad faith" clause. There has been less success in stemming the export of Korean counterfeit products globally.

Korea's Copyright Law protects an author's rights, but local prosecutors take no action against infringement unless the copyright holder files a formal complaint. Korea is in the process of amending its Computer Program Protection Act (again) and is preparing revised copyright legislation so as to better meet its TRIPS obligations, especially with respect to copyright and trademark protection for transactions conducted in the new information economy. Regarding the Computer Program Protection Act, U.S. concerns focus on the provisions relating to: 1) reverse engineering; 2) private use; 3) circumvention of technical protection measures; 4) compulsory registration of exclusive licenses; and 5) the requirement of a complaint for criminal proceedings. Korea, however, 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, however, such activities dropped off precipitously, and IPR violations, especially of computer software, remain a problem.

8. Worker Rights

a. *The Right of Association:* With the exception of public sector employees, Korean workers enjoy the right of free association. White-collar workers in the government sector cannot join unions, but blue-collar employees in the postal service, railways, and telecommunications sectors, and the national medical center have formed labor organizations. Starting this year, government employees were allowed to form workplace consultative councils. In July 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. Workers in government agencies and defense industries do not have the right to strike. Unions in enterprises determined to be of "essential public interest," including utilities, public health, and telecommunications, may be ordered to submit to government-ordered arbitration in lieu of striking. In fact, work stoppages occur even in these sensitive sectors. The Labor Dispute Adjustment Act requires unions to notify the Labor Ministry of their intention to strike, and normally mandates a 10-day "cooling-off period" before a work stoppage may legally begin.

b. *The Right to Organize and Bargain Collectively:* The Korean constitution and the Trade Union Law provide for the right of workers to bargain collectively and undertake collective action, but does not grant government employees, school teachers or workers in defense industries the right to strike. Collective bargaining is practiced extensively in virtually all sectors of the Korean economy. The central and local labor commissions form a semi-autonomous agency that adjudicates disputes in accordance with the Labor Dispute Adjustment Law. This law empowers workers to file complaints of unfair labor practices against employers who interfere with union organizing or practice discrimination against unionists. In 1998 the government established the Tripartite Commission, with representatives from labor, management, and the government to deal with labor issues related to the economic downturn. The work of the Commission made it legal for companies to lay off workers due to economic hardship. 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 such as selling newspapers. 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 in 1999 was set at 1,600 won/hour ($1.34/hour, with $1 equal to an average of 1,189 won in 1999). Companies with fewer than 10 employees are exempt from this law. The maximum regular workweek is 44 hours, with provision for overtime to be compensated at a higher wage, but such rules are sometimes ignored, especially by small-companies. The law also provides for a maximum 56-hour workweek and a 24-hour rest period each week. Labor laws were revised in 1997 to establish a flexible hours system that allows employers to ask laborers to work up to 48 hours during certain weeks without paying overtime so long as average weekly hours do not exceed 44. The government's health and safety standards are not always effectively enforced, but the accident rate continues to decline. The number of work-related deaths remains high by international standards.

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

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1999

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		1,550
Total Manufacturing		3,651
Food and Kindred Products	479	
Chemicals and Allied Products	665	
Primary and Fabricated Metals	25	
Industrial Machinery and Equipment	409	
Electric and Electronic Equipment	930	
Transportation Equipment	175	
Other Manufacturing	968	
Wholesale Trade		810
Banking		2,110
Finance/Insurance/Real Estate		47
Services		533
Other Industries		48
TOTAL ALL INDUSTRIES		8,749

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

MALAYSIA

Key Economic Indicators

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

	1998	1999	2000 [1]
Income, Production and Employment:			
Nominal GDP	72,569	79,039	85,569
Real GDP Growth (pct) [2]	–7.4	5.8	7.5
GDP by Sector (1987 prices)			
Agriculture	4,443	4,757	4,780
Manufacturing	12,984	15200	17,777
Mining And Petroleum	3,680	3,677	3,700

Key Economic Indicators—Continued

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

	1998	1999	2000 [1]
Construction	1,871	1,822	1,878
Services	22,444	23,838	25,050
Government Services	3,387	3,743	3,881
Per Capita GDP (US$)	3,272	3,480	3,598
Labor Force (000s)	8,880	9,010	9,194
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)(pct) [3]	1.5	11.4	5.5
Consumer Inflation (pct)	5.3	2.8	1.9
Exchange Rate (RM/US$ annual average)	3.92	3.80	3.80
Balance of Payments and Trade:			
Total Exports FOB	71,925	84,521	97,229
Exports to United States [4]	19,001	21,428	24,369
Total Imports FOB	54,321	61,160	76,551
Imports from United States [4]	8,952	9,079	10,562
Trade Balance	7,604	23,361	20,678
Balance with United States [4]	10,049	12,349	13,807
External Public Debt	16,689	20,265	20,322
Fiscal Surplus/GDP (pct)	–1.8	–6.0	–4.9
Current Account Surplus/GDP (pct)	13.1	15.9	13.4
Debt Service Payments/GDP (pct)	5.2	6.4	N/A
Gold and Foreign Exchange Reserves [5]	26,196	30,900	32,300
Aid from United States	0.9	0.7	0.7
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 2000.
[4] Annualized estimate on eight-month data from U.S. Department of Commerce for 2000.
[5] As of October 23 for 2000.

1. General Policy Framework

Malaysia's economy has rebounded from the 1997–1998 regional economic and financial crisis. Following a 7.4 percent drop in real GDP in 1998, the economy registered 5.8 percent growth for 1999. The recovery picked up steam, and the government estimates growth at 7.5 percent for 2000 and 7.0 percent for 2001. Malaysia's economic recovery has been export-led, based in large part on continuing strong electronics exports to the United States, Malaysia's principal trade and investment partner, and government fiscal stimulus. Though consumer and investor confidence has improved with the recovery, aggregate domestic consumption and investment remain subdued. The government projects a budget deficit equal to 6.0 percent of GNP during FY2000 and will continue its stimulative approach with a deficit equal to 4.9 percent of GNP in FY2001.

To deal with a growing number of non-performing loans (NPLs) during the financial crisis, in 1998 the government established an asset management corporation, Danaharta, and a special purpose vehicle, Danamodal, to inject funds into banks in need of recapitalization. The government also created the Corporate Debt Restructuring Committee (CDRC) to provide a framework for creditors and debtors voluntarily to resolve liquidity problems of viable businesses and serve as an alternative to bankruptcy. Danaharta has removed approximately 43 percent of the NPLs from the banking system and states it has completed the acquisition stage of the NPL cleanup. CDRC has completed the first stages of the debt workout process for a substantial number of firms and reportedly hopes to complete its activities by the end of 2000.

Danamodal has completed its outlays and is currently negotiating repayment plans with five remaining client banks.

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 implementor of domestic policies and programs. The government actively seeks to bolster the economic status of the Malay and indigenous communities (commonly referred to as *bumiputeras*), 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. The government expects to run a budget deficit in 2001 of approximately 4.9 percent of GDP, down slightly from FY2000's deficit, which was equal to 6 percent of GDP. The FY2001 budget provides few new provisions to stimulate consumption or investment. The Malaysian government finances domestically the bulk of the deficit. In FY2001 the government expects to finance over $1 billion from external sources.

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. To ensure a positive return to depositors, the Malaysian government raised the deposit rate slightly during 2000. Overall, high liquidity and relatively low interest rates have helped stimulate a domestic economic recovery.

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. Though the government continues its fixed exchange rate policy, it has progressively relaxed capital controls until the remaining issue for foreign investors was a 10 percent exit levy on portfolio profits. In the October 27, 2000 budget speech, the Finance Minister announced that the government has dropped the levy on portfolio profits repatriated after one year. The Finance Minister pointed out that the change rewards longer-term investment, while maintaining the exit tax on profits earned through short term plays in Malaysian stocks.

3. Structural Policies

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

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

In contrast to the FY2000 budget, the FY2001 budget featured few new incentives to stimulate consumption or investment. The new budget foresees a significant deficit, equal to 4.9 percent of GDP, down from last year's deficit, which was equal to 6 percent of GDP. The FY2001 budget featured tax rebates to low income earners, provisions permitting withdrawals from retirement accounts for housing purchases, tax deductions for companies buying computers to give to their employees and new

deductions for investments in start-up companies. The budget also provided $132 million to create a new venture capital fund and $316 million for worker training.

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

4. Debt Management Policies

Malaysia's medium and long-term foreign debt (both public and private sector) amounted to $36 billion at the end of 1999, equal to about 46 percent of GDP. Almost all of the medium and long-term debt was granted on concessional terms. Short-term external debt continues to decline. In 2000 short-term debt totaled approximately $5.2 billion, down from $6.3 billion in 1999. Malaysia's debt service ratio declined from a peak of 18.9 percent of gross export earnings in 1986 to 6.9 percent in 1998, to 6.1 percent in 2000.

5. Aid

U.S. government assistance to Malaysia in FY2000 falls into three broad categories: the Trade Development Agency (TDA), approximately $250,000; the International Military Education Training (IMET) program, $700,000; and the U.S.-Asia Environment Program (U.S.–AEP), $304,000. Although statistics are not available for assistance provided from other governments, the Japanese government has since 1998 extended the following forms of financial assistance to help Malaysia recover from the economic crisis: Japanese Government Office of Developmental Assistance (ODA) Yen Loan Projects of approximately $2.2 billion; Japanese Ex-Im Bank loans of approximately $900 million, of which $600 million is co-financed with commercial banks; Ex-Im Bank guaranteed commercial bank loans of approximately $700 million; Japanese government guaranteed commercial bank loans of approximately $560 million; and a short-term financing facility of up to $2.5 billion. (Note: in October 1999 Japan's Overseas Economic Cooperation Fund, which implemented ODA yen loans, and Ex-Im Bank merged to create the Japan Bank of International Cooperation [JBIC], which now administers former ODA and Ex-Im loans).

6. Significant Barriers to U.S. Exports

Import Restrictions on Motor Vehicles: Malaysia maintains several measures to protect the local automobile industry, including high tariffs and an import quota and licensing system on imported motor vehicles and motor vehicle parts. Malaysia also maintains local content requirements of 45 to 60 percent for passenger and commercial vehicles, and 60 percent for motorcycles. 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 a two-year extension of the phaseout period 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)	80–120
Motorcycle (CKD)	30

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

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

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

Duties on Alcoholic Beverages and Tobacco Products: In 1999 excise duties were increased on tobacco products (now ranging from $10.50 to $48/kg) and alcoholic beverages (e.g., vermouth in retail-sized containers is subject to a specific tariff of $31.50/dal). In the 2001 budget, the government announced increases in the sales taxes for tobacco from 15 to 25 percent and alcohol from 15 to 20 percent.

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.

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

Float Glass Tariff Differentials: Malaysia levies high duties (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 Tariff: Malaysia applies a 25 percent tariff on imported instant print film that is estimated to cause an annual trade loss of $10 to $25 million for the U.S. industry. In August 1994 the government raised tariffs on several categories of imported kraft linerboard (used in making corrugated cardboard boxes) to between 20 and 30 percent depending on the category. These tariff increases are to be phased out after five years and are subject to review every two years. Malaysia did not change the tariff levels after the 1996 review. 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 May 2000 the Minister of Domestic Trade and Consumer Affairs announced that license issuance for direct selling companies would be frozen pending a review of existing licenses and company operations. In October 2000 the Minister announced its intention to limit new licenses with the aim of reducing the number of direct selling companies. The proposed conditions include requirements for higher paid-up capital, marketing plans and product quality.

Government Procurement: Malaysian Government policy calls for procurement to be used to support national objectives such as encouraging greater participation of

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

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

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

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

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

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

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

7. Export Subsidies Policies

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

8. Protection of U.S. Intellectual Property

Malaysia is a member of the World Intellectual Property Organization (WIPO), the Bern Convention, and the Paris Convention. Malaysia provides copyright protection to all works published in Bern 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 has increased, so have piracy rates for music and video discs. Malaysia's production capacity for CDs far exceeds local demand plus legitimate exports, and 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 1999 industry losses in Malaysia due to piracy at $286.8 million. IIPA estimates 1999 piracy rates at 71 percent for business software, 99 percent for entertainment, and 85 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.

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 de-

signs 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 have been given six months 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.

9. 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 in Malaysia—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1999

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		1,041
Total Manufacturing		3,555
Food and Kindred Products	5	
Chemicals and Allied Products	253	
Primary and Fabricated Metals	–6	
Industrial Machinery and Equipment	419	
Electric and Electronic Equipment	2,589	
Transportation Equipment	0	
Other Manufacturing	296	
Wholesale Trade		139
Banking		440
Finance/Insurance/Real Estate		483
Services		343
Other Industries		–13
TOTAL ALL INDUSTRIES		5,989

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

PHILIPPINES

Key Economic Indicators

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

	1998	1999	2000[1]
Income, Production and Employment:			
Nominal GDP	65.5	76.7	73.8
Real GDP Growth (pct)[2]	–0.6	3.3	3.7
Nominal GDP by Sector:			
Agriculture	11.4	13.5	11.8
Manufacturing	14.3	16.5	16.1
Services	33.6	39.8	39.5
Government[3]	8.3	9.5	9.1
Per Capita GDP (US$)	905	1,039	980
Labor Force (000s)	31,056	32,081	32,300
Unemployment Rate (pct)	10.1	9.6	11.0
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)[4]	8.0	19.3	8.5
Consumer Price Inflation (pct)	9.7	6.6	4.5
Exchange Rate (Peso/US$ annual average) Interbank Rate	40.89	39.09	44.00
Balance of Payments and Trade:			
Total Exports FOB[5]	29.5	35.0	39.9
Exports to United States[6]	11.9	12.4	13.9
Total Imports FOB[5]	29.5	30.7	32.6
Imports from United States[6]	6.7	7.2	7.7
Trade Balance[5]	–0.03	4.3	7.3
Balance with United States[6]	5.2	5.2	6.7
Current Acct. Surplus or Deficit/GDP (pct)	2.4	10.3	11.8
External Public Sector Debt	30.3	34.8	35.5
Foreign Debt Service Payments/GDP (pct)	7.8	7.8	8.7
Nat'l Gov. Fiscal Surplus or Deficit/GDP (pct)	–1.9	–3.7	–2.8
Gold and Foreign Exchange Reserves	10.8	15.1	15.7
Aid from United States (US$ millions)[7]	48.0	70.0	34.0[8]
Aid from Other Bilateral Sources (US$ millions)[7]	1,020.0	1,127.0	599.0[8]

[1] Figures for 2000 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; exports FAS, imports customs basis; 2000 figures are estimates based on data available through October 2000.
[7] Inflows per Philippine government balance of payments data, excluding inflows from the U.S. Veterans Administration (USVA).
[8] Actual January–June 2000 figures.

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

1. General Policy Framework

Preliminary results of the 2000 government census placed the Philippines' population count at 75.3 million, and the country's annual population growth rate between the 1995 and 2000 census years at two percent. Agriculture contributes only 20 percent of GDP but absorbs 40 percent of employment. Electronics, garments, and auto parts are the leading merchandise exports, but rely heavily on imported inputs. Overseas workers remittances, estimated at $5–6 billion yearly, are a major source of foreign exchange. The balance of payments historically has registered current account surpluses (including those since the Asian crisis) only during periods of lethargic economic growth and weak import demand. The domestic savings rate is relatively low, compared to the rest of Asia, estimated at barely 20 percent of GDP in 1999.

Weak public finance is a long-standing problem. After four consecutive surpluses (1994–1997), the national government has reverted to deficit-spending since 1998, partly as a response to the Asian financial crisis. The government perennially has problems containing its fiscal gap because revenues suffer from weak tax administration and collection while efforts to contain expenditures are hampered by the large share (over 70 percent) of "non-discretionary" expenditures such as payroll costs, interest payments and mandated transfers to local government units. Fiscal difficulties make it extremely difficult for the government to address the country's urgent infrastructure, health and education needs, and complicate government efforts to manage domestic interest rates.

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 in 2001 to better fulfill its price stabilization mandate.

Although nationalist groups and vested interests pose obstacles to the scope and pace of reforms, President Estrada has signed several economic reform bills into law. These include the Retail Trade Liberalization Act, General Banking Law, Securities Regulation Code, and the Electronic Commerce Act. The Philippine Congress is also moving forward on proposed legislation to restructure the power sector and privatize the government-owned National Power Corporation.

2. Exchange Rate Policy

There are generally no restrictions to full and immediate capital repatriation and profit remittances, foreign debt servicing, and the payment of royalties, lease payments and similar fees. In January 2000 the Bangko Sentral ng Pilipinas (Central Bank [BSP]) moved to curb foreign exchange speculation and volatility by requiring a minimum holding period for foreign investments registered as peso time deposits. There are no mandatory foreign exchange surrender requirements imposed on export earners and foreign exchange can be freely bought and sold outside the banking system. The exchange rate is not fixed and generally evolves freely in the interbank market, although the BSP imposes limits on banks' foreign exchange positions. The depreciation of the peso during the Asian financial crisis (from peso 26/dollar in June 1997 to weaker than peso 50/dollar at present) has hurt the competitiveness of some U.S. exports.

3. Structural Policies

Prices are generally determined by market forces, although basic public services (such as transport, water and electricity) are regulated by the government. Government regulation of prices of "socially sensitive" petroleum products (i.e., liquefied petroleum gas, regular gasoline, and kerosene) legally ended in July 1998 with the full deregulation of the oil industry. However, over the past year, the government has responded to public opposition to oil price increases by occasionally applying 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, important barriers to foreign entry remain. Two "negative lists" outline where investment is restricted. Divestment requirements exist for firms seeking certain investment incen-

tives. A number of other laws specify, or have the effect of imposing, local sourcing requirements.

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

4. Debt Management Policies

Foreign debt (estimated at $52.2 billion as of June 2000) has been growing, but debt servicing is no longer a severe problem. The ratio of debt service payments to exports of goods and services was 13.7 percent during the first half of 2000, compared to 40 percent in the early 1980s. The bias for medium- to long-term loans (which comprise more than 85 percent of external liabilities) and relatively small (25 percent) share of the private, non-bank sector have been advantages in coping with the Asian financial crisis. Concessional credits from multilateral and official bilateral lenders account for about half of the country's external debt.

The Philippines had four debt rescheduling rounds with official bilateral (Paris Club) creditors and did not exercise a fifth Paris Club debt rescheduling agreement. 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 twice extended (most recently 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 government has indicated it may explore a follow-through monitoring arrangement when the current program ends.

While regulations have substantially eased, the Bangko Sentral ng Pilipinas continues to monitor and/or regulate foreign borrowing 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.

5. Significant Barriers to U.S. Exports

Tariffs: Imported items that are not locally produced generally face low tariffs, while intermediate products and raw materials produced locally are generally assessed duties of seven or ten percent. Finished products, which compete with locally-produced goods face higher tariffs of between 15 to 30 percent. Imports of finished automotive vehicles (completely built-up units) are subject to a 30 percent tariff, currently the highest duty rate applied to a non-agricultural product, as an incentive to promote local assembly under the Philippines Motor Vehicle Development Program. In January 1999 President Estrada signed Executive Order (E.O.) 63 raising applied MFN tariff rates on a range of products including yarns, threads, fabric, apparel, and kraft liner paper. Rates on these items were reduced to their 1997 levels of 10 to 20 percent beginning January 1, 2000. The Philippines maintains high tariff rates of 35 to 65 percent on sensitive agricultural products, including grains, livestock and meat products, sugar, certain vegetables, and coffee. Overall, the unweighted average nominal tariff rate of 9.98 percent in 1999 has been lowered to 8.08 percent since January 1, 2000.

Import Licenses: The National Food Authority (NFA), a government entity, is the sole importer of rice and continues to be involved in imports of corn. Fisheries Administrative Order (FAO) 195, series of 1999, issued by the Department of Agriculture, requires a license to import fresh, chilled, and frozen fish when intended for sale in local retail markets. 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 tariff-rate quotas.

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

Services Barriers: In the field of banking, May 1994 amendments to the 1948 General Banking Act (GBA) allowed a maximum of ten foreign banks to establish foreign branches in the country. Foreign branch 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 or thrift bank (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: Membership in the Philippine stock exchange is open to foreign-controlled stock brokerage firms that are incorporated under Philippine laws. Foreign ownership in securities underwriting companies is limited to 60 percent. 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 government-funded 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.

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

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

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

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

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

Investment Barriers: The Foreign Investment Act of 1991 contains two "negative lists" that outline areas where foreign investment is restricted. "List A" restricts foreign investment in certain sectors because of constitutional or legal constraints. No foreign investment is permitted in, among others, mass media (including cable television), small-scale mining, private security agencies, and the manufacture of firecrackers and pyrotechnic devices. Varying foreign ownership limitations also apply to, among others, recruitment agencies (25 percent), public works construction and repair (25 percent, with the exception of BOT and foreign-assisted projects), advertising (30 percent), public utilities (40 percent), education (40 percent), commercial deep-sea fishing (40 percent), the exploration and development of natural resources (40 percent, except for high-cost and high-risk activities such as oil exploration and large-scale mining), financing (60 percent), and securities underwriting (60 percent). Land ownership is reserved to Philippine citizens and corporations that are at least 60 percent owned by Philippine citizens. The Retail Trade Liberalization Act of 2000 (signed in March 2000) repealed 1954 legislation banning foreigners from retail trade, but prohibits foreign participation in retail companies capitalized at less than $2.5 million. A lower minimum capitalization threshold ($250,000) applies to foreign retail establishments specializing in high-end luxury products. Retail trade firms not specializing in high-end luxury items which are more than 80 percent foreign-owned should offer at least 30 percent of their equity to the public within eight

years from start of operations. "List B" limits foreign ownership (generally to 40 percent) for reasons of public health, safety and morals. This list also seeks to protect local small- and medium-sized firms by restricting foreign ownership to no more than 40 percent in non-export firms capitalized at less than $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 Philippines has requested an extension of the January 1, 2000 deadline to eliminate WTO-inconsistent local-content and foreign exchange requirements under its motor vehicle development program. The U.S. counterproposal requires that the Philippines agree to an expedited procedure in the event of any dispute concerning the Philippine's obligations to eliminate the Trade-Related Investment Measures (TRIMs) by June 30, 2002.

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. 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 Liberalization Act of 2000 requires local sourcing for the first ten years after the law's effective date. During that period, 10 percent of the cost of inventory of foreign retail firms specializing in high-end luxury merchandise, and at least 30 percent of the inventory cost of other retail establishments, should consist of Philippine-made products.

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

Customs Procedures: On March 31, 2000 the Philippine government ended its contract with a private firm, Societe Generale de Surveillance, to perform preshipment inspection services. Thus, effective April 1, there is no longer any physical preshipment inspection requirement for exporters. Instead, all importers or their agents are required to file import entries directly with the Philippine Bureau of Customs (BOC), which 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). The government implements the "transaction value" method of customs valuation, in line with WTO obligations.

6. Export Subsidies Policies

Firms engaged in activities under the government's "Investment Priorities Plan" may register with the Board of Investments (BOI) for fiscal incentives, including three to six year income tax holidays and a tax deduction equivalent to 50 percent of the wages of direct-hire workers for the first five years from registration. BOI-registered firms that locate in less-developed areas may be eligible to claim a tax deduction of up to 100 percent of outlays for infrastructure works and 100 percent of incremental labor expenses also for the first five years from registration. Export-oriented firms located in government-designated export zones and industrial estates registered with the Philippine Economic Zone Authority enjoy basically the same incentives as BOI-registered firms, 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

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

While substantial progress has been made in recent years, significant problems remain in ensuring consistent, effective protection of intellectual property rights (IPR). The IP law (R.A. 8293), which took effect January 1, 1998, improves the legal framework for IPR protection. It enhanced copyright and trademark protection; created a new Intellectual Property Office with original jurisdiction to resolve IPR infringement complaints; increased penalties for infringement and counterfeiting; and relaxed provisions requiring the registration of licensing agreements. The law, however, contains significant deficiencies. These include the lack of authority for courts to order the seizure of pirated material as a provisional measure without notice to the infringer; ambiguous provisions on the rights of copyright owners over broadcast, rebroadcast, cable retransmission, or satellite retransmission of their works; and burdensome requirements concerning licensing contracts. Additional legislation is pending to provide IPR protection for plant varieties and layout-designs of integrated circuits, in line with WTO obligations. A new challenge for IPR has arisen in the pharmaceutical industry; the Philippine government is developing plans to purchase and parallel import pharmaceuticals in an effort to reduce medical costs. Such plans may involve off-patent but branded medicines. U.S. and other pharmaceutical manufacturers have threatened legal action if the plan is WTO-inconsistent or threatens their commercial interests.

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

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

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

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

The U.S. intellectual property industry estimates 1999 potential trade losses due to piracy of software at $50.5 million; of motion pictures, $18 million; of sound recordings, $2 million; of books, $44 million.

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 garment industry, the widespread use of short-term, contract workers is an obstacle to workers forming unions or obtaining medical and retirement benefits.

c. *Prohibition of Forced or Compulsory Labor:* The Philippine Constitution prohibits forced labor, and the government 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 organization estimates indicate that some three million children under age 18 are employed in the informal sector of the urban economy, certain fishing practices, port work or as unpaid family workers in rural areas.

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

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

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1999

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		601
Total Manufacturing		1,270
Food and Kindred Products	351	
Chemicals and Allied Products	419	
Primary and Fabricated Metals	41	
Industrial Machinery and Equipment	19	
Electric and Electronic Equipment	258	
Transportation Equipment	0	
Other Manufacturing	181	
Wholesale Trade		184
Banking		283
Finance/Insurance/Real Estate		1,028
Services		223
Other Industries		203
TOTAL ALL INDUSTRIES		3,792

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

SINGAPORE

Key Economic Indicators

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

	1998	1999	2000 [1]
Income, Production and Employment:			
Nominal GDP [2]	82,951	85,196	104,426
Real GDP Growth (pct) [2]	0.4	5.4	9.0
GDP by Sector: [2]			
Agriculture [3]	0	0	0
Manufacturing	19,133.5	22,049.7	27,150.8
Services	55,334.7	57,355.0	69,965.6
Government expenditure	8292.2	8264.4	10,129.3
Per Capita GDP (US$)	26,221.4	26,478.9	32,001.2
Labor Force (000s)	1,931.8	1,976.0	2,035.3
Unemployment Rate (pct)	3.2	3.5	3.5
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	30.2	8.5	2.9
Consumer Price Inflation (pct)	–0.3	0.4	2.0
Exchange Rate (SGD/US$ annual average)	1.67	1.69	1.72
Balance of Payments and Trade:			
Total Exports FOB	110,037.7	114,964.5	139,617.7
Exports to United States CIF [4]	21,859.7	22,020.6	23,064.5
Total Imports CIF	101,714.7	111,326.4	134,980.7
Imports from United States FAS [4]	18,714.4	18,960.9	19,636.3
Trade Balance	8,323.1	3,638.1	4,637.0
Trade Balance with United States [4]	3,154.3	3,059.6	3,428.3
External Public Debt	0	0	0
Fiscal Surplus/GDP (pct)	0.7	1.9	1.5
Current Account Surplus/GDP (pct)	25.4	25.0	25.0
Debt Service Payments/GDP (pct)	0	0	0
Gold and Foreign Exchange Reserves	73,994.2	75,243.2	77,183.8
Aid from United States	0	0	0
Aid from Other Sources	0	0	0

Note: All percentage changes are calculated based on the local currency.
[1] 2000 figures are projections based on most recent data available.
[2] Singapore introduced a methodology to include offshore stockbroking, investment advisory and insurance services in the output of the financial services industry, resulting in changes to the GDP and growth figures computed in previous years. GDP data has also been re-grouped into eleven industries from the eight previously.
[3] Includes the agriculture, fishing and quarrying industries.
[4] Trade data was taken from the U.S. Department of Commerce instead of Singaporean government sources.

1. General Policy Framework

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 2000 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. Singapore is a founding member of the World Trade Organization (WTO), the Asia Pacific Economic Cooperation (APEC) Forum, and the Association of Southeast Asian Nations (ASEAN).

Internally, while Singapore has a largely free-market business environment, government-linked companies (GLCs) account for some 60 percent of GDP. The GLCs generally operate as commercial entities and frequently include private local and foreign equity. Many are publicly listed.

Manufacturing, dominated by electronics, chemicals (including oil refining) and information technology-related products, accounted for 24 percent of total GDP in 1999. Multinational companies accounted for 75 percent of new manufacturing investment, which totaled US$4.7 billion in 1999. Wholesale and retail trade represented 14 percent of GDP in 1999, reflecting Singapore's key role as a regional gateway. Financial services, which accounted for 13 percent of GDP in 1999, is the third largest economic sector. Trade was 2.7 times GDP in 1999; re-exports (transshipments) accounted for 36 percent of total merchandise exports.

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. The government generally runs a budget surplus (US$1.7 billion in Singapore Fiscal Year [SFY] 1999). The Central Provident Fund (CPF), a compulsory savings program that requires 22 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 over 60 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 two 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 two percent in 2000. The average prime lending rate among the leading banks is currently at 5.9 percent, after peaking at about 7.8 percent in mid-1998.

The United States is Singapore's largest trading partner, accounting for 16 percent of Singapore's total trade in 1999. U.S. exports to Singapore amounted to US$16.2 billion in 1999, while Singapore's exports to the United States totaled US$18.2 billion. Singapore was the tenth largest export market for the United States in 1999. Over 1,300 U.S. companies have facilities in Singapore, with total investments of US$24.8 billion in 1999. In December 2000, Singapore began negotiations for a bilateral free trade agreement with the United States.

2. Exchange Rate Policy

Singapore has no exchange rate controls and exchange rates are determined freely by market forces. At the same time, the MAS uses currency swaps and direct open market operations to keep the Singapore dollar within an undisclosed desired range relative to an undisclosed basket of currencies of the country's major trading partners. The government imposes certain restrictions to limit the internationalization of the Singapore dollar. It opened up the Singapore dollar debt market to foreign companies and financial institutions, on condition that the funds are converted to foreign exchange prior to use abroad.

The Singapore dollar depreciated by as much as 20 percent against the U.S. dollar between July 1997 and August 1998, but appreciated vis-a-vis major regional currencies and maintained its trade-weighted exchange rate. Since then, the Singapore currency has recovered slightly against the U.S. dollar, in tandem with the economic rebound, and is forecast to post an average exchange rate for 2000 of about SGD 1.71 to SGD 1.72 per U.S. dollar.

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 2 percent for the lowest income bracket to 28 percent for those earning annual incomes exceeding SGD 400,000 (about US$240,000). The government lowered the corporate income tax rate from 26 percent to 25.5 percent this year. Foreign firms are taxed at the same rate as local firms. There is no tax on capital gains except on residential properties that are sold within three years. The government implemented a three percent value-added Goods and Services Tax (GST) in 1994.

Investment policies are open, transparent, and tailored to attract foreign investment and ensure an environment conducive to efficient business operations. Although the government vigorously develops and implements industrial policies, it does not impose production standards, require purchases from local sources, or specify a percentage of output for export. To catalyze Singapore's advancement into a knowledge-based economy and an international financial center, the government is working to attract foreign professionals to live and work in Singapore.

4. Debt Management Policies

Singapore has no external public debt. The country's total foreign reserves amounted to US$77.2 billion as of end-1999, sufficient to cover 8.2 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 have existed in some sectors, particularly in finance, telecommunications, legal services and power generation and distribution. However, the government has embarked on a major liberalization effort to reduce or remove these barriers.

As part of its strategy to become an international financial center, the Monetary Authority of Singapore (MAS) has liberalized domestic restrictions on foreign financial services providers. In May 1999 MAS removed the 40 percent ceiling on foreign ownership of local banks, and in late 1999 it opened up the local securities market to foreign brokers. In October 1999 MAS issued a "qualifying full bank" (QFB) license to four new foreign banks, allowing each of them to establish up to ten retail locations (branches or ATMs). MAS also issued eight additional restricted bank licenses. These measures expand the capability of foreign banks to engage in local retail banking; foreign banks currently hold 23 of the 35 full (local retail) banking licenses. However, foreign banks cannot use Automated Teller Machines (ATM) beyond those located at their premises and ATM networks remain restricted to local banks. Customers of foreign banks are thus unable to access their accounts except through ATMs owned by their bank, a significant barrier given government efforts to encourage electronic payments and use of "smart" cards.

The telecommunications sector was opened to full competition on April 1, 2000, two years ahead of schedule. Restrictions on the provision of value-added network services have been lifted, although the government bans the importation of satellite receivers. The government is in the process of opening the power generation and supply sectors to competition. The electricity and gas distribution network will become a regulated monopoly operated by a corporatized-government entity.

The government has moved tentatively to open the legal services market. In August 2000 the government approved licenses for seven foreign law firms to form joint ventures with local firms to offer legal services relating to international and cross-border financial, banking, Internet and corporate cases. However, foreign lawyers are still not allowed to represent their clients in local courts, undertake litigation and conveyancing work, or to engage in other fields of law.

In May 2000 the government passed legislation easing the ban on direct selling and multi-level marketing arrangements. The Ministry of Trade and Industry has issued guidelines for the type of arrangements that will be permitted. However, the legislation makes any recruitment-connected revenue illegal, and officials have stressed that earnings must come from the sale of goods, not recruitment.

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 been on the USTR's Special 301 Watch List since 1997, due to inadequate protection of intellectual property (IP) rights. Overall piracy levels, while among the lowest in Asia, remain double those in the United States. A primary problem has been retail piracy of computer software, music, and films. Singapore is a signatory to the Bern Convention, the Paris Convention, the Patent Co-operation Treaty, and the Budapest Treaty. Singapore is also a party to the WTO Agreement on Trade-Related Intellectual Property Rights (TRIPS). Singapore has not acceded to the WIPO Copyright Treaty and the WIPO Performances and Phonograms Treaty, although aspects of the treaties have been incorporated into local law.

Singapore has enacted a series of laws and amendments to existing provisions intended to bring the country into compliance with its TRIPS obligations. These measures included numerous amendments to its Copyright Law (1998 and 1999) and the Medicines Act (1998), as well as a new Trade Marks Act (1998), Geographical Indications Act and Layout Designs of Integrated Circuits Act (1999), and Registered Designs Act (2000). Singapore government officials state that the country's legal framework intellectual property (IP) rights now goes beyond the country's TRIPS obligations.

In addition to crafting new laws, the government has taken more aggressive and sustained action to improve IP enforcement. Licensing requirements for optical disc (OD) manufacturing and import controls on OD manufacturing equipment came into force in late 1998 and are generally believed to have effectively eliminated the production of pirated optical discs in Singapore. A new IP unit in the Singapore Police Criminal Investigation Division has made progress in targeting retail pirates and criminal syndicates. According to government officials, there were over 2,000 raids against retail pirates in 1999. Since mid-July 2000, the most notorious shopping center for retail piracy has been free of pirated works, as a result of sustained enforcement action, and the police have raided several night markets selling pirated goods. Finally, the government has intensified a long-term campaign aimed at educating primary and secondary students as well as the general public on the IP issue.

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

However, problems remain. The government has appeared unwilling to discard the "self-help" approach that forces industry groups to conduct raids on their own, even though the new police unit represents an important step away from this approach. Significant remaining problems include retail piracy at itinerant street markets, end-use piracy of computer software, widespread piracy of computer entertainment software, and the unauthorized copying of books. The lack of criminal penalties for end-use piracy of software hampers effective enforcement. Copyright industry groups contend that August 1999 amendments extending copyright protection to the Internet and certain digital works contain gaps and omissions which present a serious problem for copyright protection. Actions to improve responsiveness to information sharing requests from U.S. enforcement agencies would also facilitate efforts to address effectively transnational IP crimes.

According to the International Intellectual Property Alliance (IIPA), total losses from local IP piracy were estimated at about US$115 million in 1999, down from US$139 million in 1998. For business application software, IIPA estimated 1999 losses at nearly US$50 million with a 51 percent level of piracy, down from 1998. For computer entertainment software, it estimated US$52 million in losses and a 65 percent piracy rate in 1999, also down from 1998. IIPA calculated that the motion picture industry lost US$8 million due to a 25 percent piracy level in 1999, level with losses in 1998. The music industry was reported to have suffered losses of US$2 million and a 20 percent piracy rate in 1999. The American Association of Publishers estimated that publishers lost US$2 million to piracy of printed works in 1999.

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 two million in 1999, of which 290,000 or about 15 percent were organized into 76 trade unions. Sixty-nine 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—1999

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		2,815
Total Manufacturing		11,367
Food and Kindred Products	–4	
Chemicals and Allied Products	628	
Primary and Fabricated Metals	23	
Industrial Machinery and Equipment	5,280	
Electric and Electronic Equipment	4,637	
Transportation Equipment	230	
Other Manufacturing	573	
Wholesale Trade		1,354
Banking		532
Finance/Insurance/Real Estate		8,103
Services		519
Other Industries		91
TOTAL ALL INDUSTRIES		24,781

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

TAIWAN

Key Economic Indicators

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

	1998	1999	2000 [1]
Income, Production and Employment:			
GDP (at current prices)	267.2	287.8	316.8
Real GDP Growth (percent)	4.6	5.4	6.6
GDP by Sector:			
Agriculture	6.6	7.4	6.6
Manufacturing	73.2	76.5	83.0
Services	168.2	184.9	207.5
Government	26.8	29.3	32.2
Per Capita GDP (US$)	12,268	13,114	14,326
Labor Force (000s)	9,668	9,668	9,790
Unemployment Rate (percent)	2.7	2.9	2.9
Money and Prices (annual percentage growth):			
Money Supply (M2)	8.8	8.3	7.0
Consumer Price Inflation	1.7	0.2	1.6
Exchange Rate (NT$/US$) [2]			
Official	33.41	32.23	30.88
Balance of Payments and Trade: [3]			
Total Exports FOB [4]	110.6	121.6	151.0
Exports to United States CV [5]	33.1	35.2	39.8
Total Imports CIF [4]	110.7	110.7	144.8
Imports from United States FAS [5]	18.2	19.1	23.8
Trade Balance [4]	5.9	10.9	6.2
Trade Balance with United States [5]	14.9	16.1	16.0
External Public Debt	.05	0.03	0.02
Fiscal Deficit/GDP (pct)	1.1	1.1	1.4
Current Account Surplus/GDP (pct)	1.3	2.0	0.7
Debt Service Payments/GDP (pct)	1.1	2.5	2.5

Key Economic Indicators—Continued

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

	1998	1999	2000 [1]
Gold and Foreign Exchange Reserves	95.1	111.1	130.0
Aid from United States [6]	0	0	0
Aid from Other Countries	0	0	0

[1] 2000 figures are estimated based on data from the Directorate General of Budget, Accounting and Statistics (DGBAS), or extrapolated from data available as of June 2000.
[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; 2000 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): (1998) 29.4/19.7, (1999) 30.9/19.7, (2000) 35.8/27.2.
[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

Over five decades, Taiwan has transformed from a developing to a comparatively developed economy. During its transformation, Taiwan has maintained macro-economic stability, though its real GDP growth slowed from well over nine percent in the 1950s and 1960s to 6.5 percent in the 1990s. Economic growth declined to 4.6 percent in 1998 and 5.4 percent in 1999 when Taiwan experienced the aftershocks of the 1997–98 Asian financial crisis and a destructive earthquake in the central part of the island in September 1999. Prompted by an expansion of world trade, economic growth in 2000 is expected to exceed 6.5 percent. Per capita GDP is currently $14,300. As of August 2000, Taiwan held $113 billion in foreign exchange reserves, the third largest in the world (after Japan and the PRC). Prices rose 0.2 percent in 1999 and are expected to rise no more than two percent in 2000 despite a sharp rise in international oil prices.

Industrial growth is now concentrated in capital and technology intensive industries such as petrochemicals, computers, semiconductors, and electronic components, as well on consumer goods industries. 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 64 percent of GDP in 1999, up one percentage point from 1998. Merchandise exports remained unchanged from 1998 at 42 percent of GDP in 1999.

An expansion of social welfare programs and earthquake reconstruction efforts have broadened the central budget deficit and caused domestic public debt to increase steadily. The central budget deficit is expected to grow from 1.1 percent of GNP in 1998 and 1999 to 1.4 percent in 2000. During the period of 2000–02, outstanding public debt is expected to increase from 27.7 percent of GNP to 28.3 percent. Taiwan's central authorities now rely largely on domestic bonds and bank loans to finance the fiscal gap. Social welfare replaced national defense as the largest share of public expenditures in 2000. The share for social welfare expenditure increased from 11.4 percent in 1999 to 16.4 percent in 2000 and will further rise to 18.8 percent in 2001. On the other hand, the share for defense spending dropped from 20.1 percent in 1999 to 15.5 percent in 2000 and is expected to level off in 2001. The greatest pressure on the budget now comes from growing demands for improved infrastructure and social welfare spending, including a national health insurance plan initiated in early 1995.

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

2. Exchange Rate Policies

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

tools to influence exchange rates. The CBC still limits the use of derivative products denominated in New Taiwan Dollars (NTD).

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

3. Structural Policies

Twenty-one state-owned enterprises have been either totally or partially privatized in the past six years, including nine in 1998 and six in 1999. Liberalization has begun to break up state-owned enterprises' monopoly in wireless and fixed line telecommunications, power generation, and gasoline supply. Taiwan will phase out the monopoly over wine and beer production after it accedes to WTO. State-owned enterprises account for 8.3 percent of GDP, a proportion that shrinks annually. Taiwan's Fair Trade Commission (FTC) acts to thwart noncompetitive pricing by state-run monopolies. FTC exemptions granted 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. Right after the September 1999 earthquake, import duties for construction materials were reduced to increase supply and stabilize domestic prices. In 1997 the import duty for the foot-and-mouth disease (FMD) vaccine was cut by half in an effort to check the spread of the disease. Many of the tariff cuts have been of specific interest to U.S. industry. Taiwan's current average nominal tariff rate is 8.2 percent; the import-weighted rate is 2.5 percent, both down slightly over the past three years.

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 primarily excise taxes and import tariffs, and also to open these markets after Taiwan accedes to WTO.

4. Debt Management Policies

Unofficial estimates put Taiwan's outstanding long and short-term external debt at $26 billion as of June 2000, equivalent to eight percent of GDP. Official figures show that Taiwan's long term outstanding external public debt totaled $31 million as of March 2000, compared to gold and foreign exchange reserves of about $118 billion. Taiwan's debt service payments in 1999 totaled $7.3 billion, only 5.4 percent of exports of goods and services.

Foreign loans committed by Taiwan authorities exceed $5.9 billion. Taiwan offered low-interest loans to the Philippines, Eastern Europe, Vietnam, South Africa, and Latin America, mostly to build industrial zones and to foster development of small and medium enterprises. Taiwan also contributes to the Asian Development Bank (ADB), one of the two multilateral development banks in which it has membership. Taiwan is a member of the Central American Bank for Economic Integration (CABEI). The ADB, CABEI, the European Bank for Reconstruction and Development (EBRD) and a number of other international organizations have all floated bonds in Taiwan.

5. Significant Barriers to U.S. Exports

Accession to the WTO by Taiwan will open markets for many U.S. goods and services. Of some 10,240 official import product categories, 1,024 are "regulated" and require approval from relevant authorities based on the qualifications of the importer, the origin of the good, or other factors. Another 151 categories require import permits from the Board of Foreign Trade or pro forma notarization by banks. Imports of 251 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 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 re-

move restrictions on employment of foreigners by securities firms, effective upon Taiwan's accession to the WTO. In early 1999 the limit on foreign ownership in listed companies was raised from 30 percent to 50 percent. For qualified foreign institutional investors, restrictions on capital flows have been removed, although they are still subject to limits on portfolio investment. Foreign individual investors are subject to some limits on their portfolio investment and restrictions on their capital flows.

Banking: In June 1997 the annual limit on a company's 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 in principle insurance companies would be allowed to set some premium rates and policy clauses without prior approval from regulators. Insurance companies are still required to report such rates and clauses. In July 1995 Taiwan removed a prohibition against mutual insurance companies; as of late 1999, however, authorities had not issued implementing regulations.

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

Telecommunications: Taiwan's private fixed-line telecommunication companies will commence services in 2001. Taiwan's authorities issued three new fixed line licenses to private consortia in March 2000. Taiwan liberalized the submarine cable lease market in August 2000 and is expected to issue licenses two months after the authorities receive applications. Restrictions on the operations of the license holders continue to limit market openness, however, and are of major concern. Taiwan will open the third generation (3 G) cellular phone market in early 2001. Under the bilateral WTO agreement signed in February 1998, the state-owned Chunghwa Telecom began to lower excessively high interconnection fees previously imposed on private mobile service providers. This phased process is ongoing, but Chunghwa continues to engage in pricing practices which appear designed to unfairly subsidize its mobile operations with its fixed line services, in which it continues to enjoy monopoly status. Taiwan regulators have begun to address such unfair trading practices. In October 1998 Taiwan's legislature passed a revised Telecom Law. It raised the current 20 percent limit on foreign ownership of a telecom firm to 60 percent by allowing a combination of direct and indirect ownership.

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. 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 the steps required for them to be approved on 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 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 channels to negotiate reasonable fees for their programs.

Standards, Testing, Labeling, and Certification: Taiwan has agreed to bring its laws and practices into conformity with the WTO Agreement on Technical Barriers to Trade as part of its WTO accession. However, Taiwan is not yet in conformity with WTO norms. U.S. agricultural exports are often negatively affected because prior notification of changes to standards, labeling requirements, etc, are not provided with adequate lead time; 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, fixed line telecommunications, broadcasting, and liquor and cigarette production. Fixed line telecommunications will be completely liberalized by July 2001 under Taiwan's WTO commitments. Liquor and cigarette production will be fully liberalized by 2004.

Limits on foreign equity participation in a number of industries have been progressively relaxed in recent years. For example, permissible participation in shipping companies was raised from 50 to 100 percent. A 33 percent limit on holdings in air cargo forwarders and air cargo ground handling was raised to 50 percent in 1998, but remains unchanged for airlines. 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. 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, potentially marking an important first step towards open, fair competition in Taiwan's multi-billion dollar market for public procurement projects. However, in practice, foreign bidders still face one-sided terms and conditions, including inefficient allocations of risks to the supplier and the lack of a binding arbitration mechanism. These practices are discouraging foreign bidders from taking part in the market.

Customs Procedures: Taiwan has amended 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 adopts a reference price that is higher than the import cost reported by importers.

6. Export Subsidies Policies

Taiwan provides an array of direct and indirect subsidy programs to farmers, ranging from financial assistance to guaranteed purchase prices higher than world prices. It also provides incentives to industrial firms in export processing zones and to firms in designated "emerging industries." Some of these programs may have the effect of subsidizing exports. Taiwan is reducing or eventually eliminating such subsidies as part of its commitments to WTO accession.

7. Protection of U.S. Intellectual Property

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

In 1999 Taiwan took steps to address U.S. concerns that the island was the largest source of counterfeit goods in the United States. The Intellectual Property Office (IPO) cooperated with police to implement an island-wide K-plan to crack down on counterfeiting. The Bureau of Standards, Metrology, and Inspection conducts unscheduled inspection on CD manufacturers at night. In July 2000 the IPO adopted a mandatory chip-marking program for MASK–ROM. As a result, counterfeit goods from Taiwan seized by the U.S. Customs Service in the first half of 2000 dropped 31 percent below the same period of 1999 to $2.7 million, and the seized goods from Taiwan declined from 43 to 12 percent of total U.S. seizures in the period. However, concerns remain over significant amounts of pirate optical media products and counterfeit semiconductor chip production. We look to Taiwan to confiscate CD products without SID codes, to expand the chip-marking program to include micro-processors, and to implement an effective semiconductor chip marking plan to aggressively stem counterfeit chip production. Also, while Taiwan has made improvements in its Power-of-Attorney (POA) procedures, we look forward to passage of the electronic signatures act as a further step in simplifying POA procedures. The Taiwan authorities are considering abandoning their Export Marketing System (EMS). While the EMS has not been a particularly effective anti-piracy tool, there is concern over eliminating it unless it is replaced with a well-enforced optical disc law. We understand that Taiwan is currently not considering such a law.

8. Worker Rights

a. *The Right of Association:* Although the Labor Union Law (LUL) forbids civil servants, teachers, and defense industry workers from organizing trade unions, the Judicial Yuan's 1995 constitutional right ruling led to the organization of the National Teachers' Association in February 1999. Taiwan's authorities recently accepted the registration of three national federations of labor unions (i.e., National Trade Union Confederation, Chinese Labor Unions, and Taiwan Confederation of Trade Unions) in addition to the KMT-related Chinese Federation of Labor, formerly the only recognized island-wide labor union. In July workers unions of 18 state-owned enterprises formed an alliance to protect their rights during privatization. As of March, 2.9 million workers, or 29.6 percent of Taiwan's labor force, belonged to 3,785 labor unions.

b. *The Right to Organize and Bargain Collectively:* The Labor Union Law, the Law Governing the Handling of Labor Disputes, and the Collective Agreement Law offer workers, except civil servants and defense industry workers, the right to organize and bargain collectively. However, the laws restrict workers' exercise of these rights. The settlement of Labor Disputes Law forbids labor and management from disrupting the working order where mediation or arbitration is in progress. Collective bargaining agreements exist only in large-scale enterprises. As March of 2000, there were 290 such collective agreements, down from 298 in June 1999.

c. *Prohibition of Forced or Compulsory Labor:* The Labor Standards Law (LSL) prohibits forced or compulsory labor. The maximum jail sentence for violation of the law is five years. Violations have been very rare. Suspected cases have involved prostitution and crew-members on fishing boats.

d. *Minimum Age for Employment of Children:* The LSL stipulates the minimum age for employment be 15, after completion of nine years compulsory education, as required by law. County and city labor bureaus enforce minimum age laws. Child labor is rare in Taiwan.

e. *Acceptable Conditions of Work:* The LSL mandates basic labor standards, covering all workers except teachers, civil servants, medical doctors, lawyers and specialized professional workers. Of 6.6 million workers, 5.7 million are protected by the LSL. The minimum monthly wage remained unchanged in 1999 at NT$15,840 (or US$505), which was far below the average monthly manufacturing wage of NT$43,003 (US$1,370) in 2000. The LSL is not well enforced in such areas as overtime work, overtime pay and retirement pay. According to legislation in June 2000, the biweekly working time will be cut from 96 to 84 hours beginning January 2001. Other legislation requires government agencies to adopt a five-day-work system at

the same time. Employers typically cover the majority of premiums for the national health insurance and labor insurance programs, contribute to labor welfare funds, and provide meals and transportation allowances.

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

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1999

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		60
Total Manufacturing		3,631
Food and Kindred Products	44	
Chemicals and Allied Products	1,804	
Primary and Fabricated Metals	(1)	
Industrial Machinery and Equipment	317	
Electric and Electronic Equipment	1,109	
Transportation Equipment	(1)	
Other Manufacturing	(1)	
Wholesale Trade		614
Banking		691
Finance/Insurance/Real Estate		1,577
Services		101
Other Industries		185
TOTAL ALL INDUSTRIES		6,860

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

THAILAND

Key Economic Indicators

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

	1998	1999	2000 [1]
Income, Production, and Employment:			
Nominal GDP	112,060	124,284	125,803
Real GDP growth (pct) [2]	–10.2	4.2	4.5 [3]
Nominal GDP by sector:			
Agriculture	13,379	13,007	10,925
Manufacturing	34,350	40,232	41,458
Services	17,191	20,158	20,797
Government [4]	12,103	13,782	13,208
Per capita GDP (US$)	1,823	2,016	2,019
Labor force (000s)	32,600	32,960	33,270 [3]
Unemployment rate (pct)	4.4	4.2	3.2 [3]
Money and Prices (annual percentage growth):			
Money supply growth (M2)	9.5	2.1	N/A
Consumer price inflation	8.1	0.3	2.5
Exchange rate (BHT/USD—annual average)			
Official	41.37	37.84	40.00 [5]
Balance of Payments and Trade:			
Total exports FOB [6]	52,878	56,800	62,200 [3]
Exports to United States [6]	12,105	12,668	13,791 [7]
Total imports CIF [6]	40,643	47,529	56,900 [3]
Imports from United States [6]	6,037	6,434	6,151 [7]
Trade balance [6]	12,236	9,271	5,300
Balance with United States [6]	6,068	6,234	7,640
External public debt	31,060	36,024	34,866 [8]
Fiscal balance/GDP (pct)	–5.2	–5.3	–5.0 [3]

Key Economic Indicators—Continued

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

	1998	1999	2000 [1]
Current account/GDP (pct)	12.8	10.0	7.7 [3]
Debt service payments/GDP (pct)	1.96	2.31	N/A
Gold and foreign exchange reserves	29,536	34,781	35,000 [3]
Aid from United States [9]	5.5	20.8	N/A
Aid from All Other Sources [9]	105.8	110.7	N/A

All figures based on Royal Thai Government data.
[1] 2000 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] Based on nine-month data.
[6] Merchandise trade under balance of payments concept.
[7] Based on seven-month data.
[8] Data as of July 2000.
[9] Based on fiscal year (October-September).

1. General Policy Framework

The government of current Thai Prime Minister Chuan Leekpai has been working to stabilize and reinvigorate the Thai economy since it took office in November 1997. The East Asian economic crisis began in Thailand when a failed effort to defend the baht (the Thai currency) depleted Thailand's foreign exchange reserves and forced the Bank of Thailand to float the currency in July 1997. Over the next six months the baht lost half of its value, and the crisis spread to the real sector. The Thai economy, one of the world's fastest growing up through 1995, tumbled, and real GDP suffered declines of 1.7 percent and 10.2 percent in 1997 and 1998, respectively. The crisis spread to other countries in the region, particularly Korea and Indonesia, impairing Thailand's ability to export its way out of the crisis.

Real sector contraction slashed Thai imports, which dropped from $70 billion in 1996 to just over $40 billion in 1998 before rebounding to $48 billion in 1999 and a projected $57 billion in 2000. Imports from the United States fell correspondingly, dropping from $7.4 billion in 1997 to under $5 billion in 1999. At the same time, U.S. markets remained open to Thai exports. By 1999, according to U.S. Department of Commerce figures, the U.S. trade deficit with Thailand had widened to $9.3 billion. (Thai data shows a smaller deficit due to differences in trade calculation methodology).

A $17.2 billion program arranged through the IMF in August 1997 helped Thailand begin restructuring its economy and financial sector. The government closed or took over insolvent institutions and tightened provisioning requirements for banks. The crisis and subsequent restructuring opened the way for increased foreign participation in the financial sector, and foreign banks now own controlling interests in four Thai commercial banks. The sale of another is underway. Legal reforms focused on the financial sector continue. Throughout, Thailand has favored a market-oriented private sector-led approach to restructuring the financial sector. These important measures notwithstanding, the slow pace of economic restructuring raises concerns about the sustainability of recovery.

While the economy stabilized by late 1998, the real economy did not respond, and the focus turned to stimulating domestic demand. With the support of the IMF, the government ran fiscal deficits (after years of balanced or surplus budgets) of 5.2 percent of GDP in FY 1998, 5.3 percent of GDP in FY 1999, and a likely 5 percent in FY 2000. In March and August 1999 the government announced additional stimulus programs equal to 4.6 percent of GDP to create jobs, increase government purchases of goods and services, lower taxes and industrial energy costs, and promote investment. The economy responded to these stimulus programs with moderate improvements in most indicators from the first quarter of 1999. The government is financing the stimulus program through domestic bond sales, as well as foreign debt and grant assistance. The government recognizes the important role of foreign investment and in mid-2000 introduced new incentives designed to make Thailand a more attractive destination for direct foreign investment.

Thai monetary policy formally aims at keeping inflation between zero and 3.5 percent, but maintaining adequate system liquidity and keeping interest rates low to promote debt restructuring and new lending are also major policy goals. The government uses a standard array of monetary policy tools but focuses on open market operations, particularly the repurchase market. 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 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 below 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 44 baht per dollar range since March 1998.

The Thai government began liberalizing the exchange control regime in 1990 and has accepted IMF Article VIII obligations. Commercial banks received permission to process larger foreign exchange transactions, and ceilings on money transfers were increased. Since 1991 Thai banks have offered foreign currency accounts for residents, although they are limited to $500,000 for individuals and $5 million for corporations (without conditions). After the baht was floated in July 1997, the government tightened conditions on foreign exchange, requiring customers to show evidence of foreign currency obligations (within three months from date of deposit) to open 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 $1.25 million) per non-resident counter party (unless there is an underlying transaction requiring the currency) to cut down on offshore speculation.

3. Structural Policies

Prices generally are determined by market forces. The government retains authority to control the price of 14 products (certain food staples, transportation-related items, agricultural inputs) under the recently revised Price of Goods and Services Act of 1999. 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 in petroleum, aviation, and telecommunications sectors, to influence prices in the market. For example, under pressure from the government, the state petroleum company for a short period of time kept diesel fuel prices below production cost in response to escalating international petroleum prices in 2000.

The Thai taxation system has undergone significant revision since 1992, when a value added tax (VAT) system was introduced to replace a multi-tiered business tax system. The VAT rate was raised from 7 to 10 percent in 1997 but lowered temporarily back to 7 percent in March 1999 to stimulate consumption; the rate is scheduled to revert to 10 percent on September 30, 2001. Exemptions in place for low revenue businesses were expanded in March 1999. Exporters are "zero rated" under the VAT system but must file returns and apply for rebates. The corporate tax rate is currently 30 percent of net profits for all firms. Thailand and the United States signed a tax treaty in November 1996, and the treaty entered into force in early 1998. The treaty eliminates double taxation and gives U.S. firms tax treatment equivalent to that enjoyed by Thailand's other tax treaty partners.

The Board of Investment exerts wide-ranging influence on the formulation and implementation of trade and investment policies. It has pushed its objectives of 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 levels have declined markedly since the onset of the crisis, falling from $85 billion at the end of 1997 to $53 billion at the end of June 2000. (Private sector debt figures were revised significantly upwards in mid-2000). Thailand entered the crisis with low levels of public debt, but since then public borrowings have risen significantly as the government stabilized and sought to stimulate the economy. At the end of 1997 total public sector external debt (including that of the Bank of Thailand) stood at $24 billion. By June 2000, the figure had risen to $35 billion. 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. The public external debt service ratio (payments as a percent of the exports of goods and services) stood at the end of June 2000 at 3.5 percent, in comparison to a private sector debt service ratio of 11.7 percent.

Mounting public sector debt, triggered by higher budget deficits, is a concern in Thailand, and the government is attempting to diversify its sources of funding by developing a domestic bond market. By April 2000, total public sector debt, including the non-guaranteed debt of state-owned enterprises, had climbed to 52 percent of Thailand's GDP.

Thailand consistently met the targets and performance criteria elaborated in its IMF stand-by arrangement, which was completed in June 2000. The government plans to begin repaying the IMF in the fourth quarter of 2000 and other 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 currently has 23 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, including most recently in July 2000, when it reduced tariffs on 542 items.

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

Import Licenses: Thailand is in the process of changing its import licensing procedures to comply with its WTO obligations. Import licenses 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. A government commitment to eliminate certificate of origin requirements for information technology imports has not been implemented fully.

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. As of May 1998, foreigners may hold majority stakes in Thai securities houses, although there are minimum investment requirements.

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. 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: 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 nec-

essary 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: Procurement regulations require that non-discriminatory treatment and open bidding be accorded to all potential bidders. However, the system is not fully transparent. Procuring agencies 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. The government requires a counter-trade transaction on government procurement contracts valued at more than 300 million baht on a case-by-case basis. A counter purchase of Thai commodities valued at not less than 50 percent of the principal contract may be required. As part of a counter-trade deal the government may also specify markets into which commodities may not be sold, usually markets where Thai commodities already enjoy significant access.

Customs Procedures: The Thai Customs Department enjoys considerable autonomy and some of its practices appear arbitrary and irregular. Problems in customs administration include excessive paperwork and formalities, lack of coordination between customs and other import-regulating agencies, and lack of modern computerized processes. Many importers complain of demands for unrecorded cash. Import regulations are complicated, opaque and inconsistently applied. 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 have not been fully implemented. The pilot program for EDI became operational early in 1998, but thus far affects only export procedures and only in the airport, not in the seaports. Customs Act amendments that went into effect January 2000 established transaction value as the standard for assessing customs duties, but many officials reportedly are not applying the new standard.

6. Export Subsidies Policies

The government maintains several programs that benefit exports of manufactured products or processed agricultural products. These include subsidized credit on some government-to-government sales of Thai rice (agreed on a case-by-case basis), preferential financing for exporters in the form of packing credits, tax certificates for rebates of packing credits, and rebates of taxes and import duties for products intended for re-export. The Thai Ex-Im bank currently offers 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 an IPR action plan concluded between the United States and Thailand in 1998 strengthened levels of enforcement. 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. The parliament is deliberating on drafts of a Trade Secrets Act, a Protection of Geographic Indications Act, and an Optical Disk Factory Control Act. Despite growing enforcement activity and good cooperation with rights-holders, however, the government has been unable to stem high levels of piracy. Thailand has been on the Special 301 Watch List since 1994. Thailand is a member of the World Intellectual Property Organization, the Bern Convention, and the WTO Trade-Related Aspects of Intellectual Property Agreement (TRIPS). Thailand is not a signatory to the Paris Convention or Patent Cooperation Treaty, although aspects of those instruments are addressed by local law.

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. However, in many cases penalties imposed are insufficient deterrence according to rights-holders, and relatively few persons have served time in jail for copyright infringement. Defendants sometimes disappear while on bail, and sentences sometimes are reduced or overturned on questionable grounds.

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. The administrative structure of enforcement is confusing, with no fewer than three separate offices (the Economic Crimes Investigation Division, the Special IPR Enforcement Task Force, and the local police) with authority to conduct raids. Pirates, including those associated with transnational crime syndicates, have responded to stepped up levels of enforcement with intimidation against authorities and rights-holders.

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.

Patent examinations can take more than five years. Safety monitoring programs (SMPs) must be undertaken prior to filing for full registration of pharmaceuticals, and no generic versions of a drug can be approved for the two-year SMP period. However, following the expiration of the SMP but before a patent is issued, often a period of years, generic versions may be sold. In such cases, civil remedies to recover damages suffered by the patent-holder are available after the patent is granted but are inadequate. The government retains compulsory licensing authority in some instances but does not generally exercise it. The Government Pharmaceutical Office's exemption from registration and approval requirements in manufacturing and distributing medicine is of concern to rights-holders, although the exemption is not widely exercised.

The U.S. pharmaceutical, film, and software industries estimate lost sales to American rights-holders at over $200 million annually. Piracy is growing as pirates from elsewhere in the region have come to set up shop in Thailand, and imports and exports of pirated products remain at troublesome levels. 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. 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. State enterprise employees, essential workers (transportation, education, and health care personnel), and civil servants may not strike. However, they may be members of employee associations. Though 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, Thailand remains the target of ILO actions under Convention 29 (forced labor) because child prostitution persists despite recent government moves to step up enforcement of laws prohibiting it, and to cooperate with ILO programs.

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

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		2,529
Total Manufacturing		2,571
Food and Kindred Products	113	
Chemicals and Allied Products	312	
Primary and Fabricated Metals	70	
Industrial Machinery and Equipment	1,359	
Electric and Electronic Equipment	366	
Transportation Equipment	40	
Other Manufacturing	311	
Wholesale Trade		416
Banking		625
Finance/Insurance/Real Estate		385
Services		49
Other Industries		391
TOTAL ALL INDUSTRIES		6,966

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