AFRICA

GHANA

Key Economic Indicators

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

	1998	1999	2000 [1]
Income, Production and Employment:			
Nominal GDP [2]	7,470	7,774	N/A
Real GDP Growth (pct.) [3]	4.7	4.4	3.0
GDP by Sector:			
Agriculture	2,574	3,090	N/A
Manufacturing	640	656	N/A
Services	1,976	2,220	N/A
Government	730	832	N/A
Per Capita GDP (US$)	415	324	349
Labor Force (000s)	8,240	8,480	8,734
Unemployment Rate (pct.)	20	20	20
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	17.6	N/A	N/A
Consumer Price Inflation (end-of-period)	15.7	13.8	26.6
Exchange Rate (Cedis/US$ annual average)			
Interbank	2,314	2,648	5,445
Balance of Payments and Trade:			
Total Exports FOB [4]	2,091	2,031	2,056
Exports to United States [4]	144	209	170
Total Imports CIF [4]	2,897	2,792	2,883
Imports from United States [4]	223	235	210
Trade Balance [4]	–806	–761	–827
Balance with United States [5]	–79	–26	–40
External Public Debt	5,651	6,300	5,750
Fiscal Deficit/GDP (pct.)	2.3	N/A	N/A
Current Account Deficit/GDP (pct.)	3.5	N/A	N/A
Debt Service Payments/GDP (pct.)	8.4	N/A	N/A
Gold and Foreign Exchange Reserves	508	446	530
Aid from United States	58	60	N/A
Aid from All Other Sources	N/A	N/A	N/A

[1] 2000 figures are all estimates based on most recent data available.
[2] GDP at factor cost.
[3] Percentage changes calculated in local currency.
[4] Merchandise trade.
[5] Data not available.

1. General Policy Framework

Ghana operates in a free market environment under a popularly elected civilian government. In December 2000, opposition leader John Kufuor was elected President and his New Patriotic Party won 100 of 200 seats in Parliament, gaining from their previous 133–61 minority. A UK-trained lawyer with longstanding ties to the United States, President Kufuor has called for greater foreign investment and pledged a "zero tolerance" for corruption. President Rawlings, who had been at the helm of government since December 31, 1981, observed constitutional term limits, and after winning elections in 1992 and 1996 did not run in the 2000 elections. An independent judiciary acts as the final arbiter of Ghanaian laws.

Since 1983 Ghana has pursued an economic reform agenda aimed generally at reducing government involvement in the economy and encouraging private sector development. The government's economic program has focused on the development of Ghana's private sector, which historically has been weak. Privatization of state-owned enterprises continues, with about two-thirds of 300 enterprises sold to private owners. The government is in the process of off-loading some of its interest in some state-owned enterprises it considered as strategic enterprises. These include the oil refinery, power and water utilities, ports and railways, and civil aviation establishments. The government's monopoly on the export of cocoa was also removed in 1999 by allowing private sector participation in cocoa exports.

The Bank of Ghana, the central bank, is currently pursuing a tight monetary policy in an attempt to absorb excess liquidity in order to arrest inflation and the fast depreciating local currency, the cedi. Inflation, measured at about 71 percent at the end of 1995, consistently declined to 9.4 percent by the end of May 1999, the lowest in 20 years. Inflation rose, however, to 26.6 percent in August 2000. The government resorted to heavy domestic borrowing to make up for shortfalls from mainly non-tax revenue, leading to rising domestic interest rates. Lending rates, which fell to about 35 per cent in 1999 shot up to about 50 percent in October 2000. In an effort to reduce inflationary pressures, the Bank of Ghana increased treasury bill rates and banks' reserve requirements. Lessons learned from the inflation resulting from government expenditure overruns prior to the 1992 and 1996 presidential and parliamentary elections continue to guide the government in the December 2000 election. The effective erosion of the purchasing power of most Ghanaians has led the government to delay increases in fuel and utility prices to avoid social unrest and losing favor with the electorate in the upcoming December 2000 elections. It is expected, however, that increases will take effect in early 2001.

Ghana achieved real economic growth of 4.4 percent in 1999. The 1999 growth rate is a slight dip from the 4.7 percent recorded in 1998, but close to the 4.5 percent average for the period 1990–98. The government is still seeking solutions to move away from this static growth level. Growth in 2000 is expected to be significantly lower than the government projection of five percent due to the adverse effect of terms of trade shocks arising from a decline in world prices of cocoa and gold and increases in oil prices. Agriculture (which still accounts for about 37 percent of GDP and employs about 60 percent of the work force) and manufacturing have recorded much slower growth. Other reforms adopted under the government's structural adjustment program include the elimination of exchange rate controls and the lifting of virtually all restrictions on imports. The establishment of an Interbank Foreign Exchange Market has greatly expanded access to foreign exchange. The elimination of virtually all local production subsidies is a further indication of the government's intention to move toward a market-oriented economy.

2. Exchange Rate Policy

The foreign exchange value of the Ghanaian cedi is established independently through the use of Interbank Market and Foreign Exchange bureaus, and currency conversion is easily obtained. The foreign exchange auction procedure was abandoned in 1992. Ghana fully accedes to Article IV of the IMF convention on free current account convertibility and transfer. The foreign exchange value of the cedi against the dollar declined by about 48 percent in 1999 as compared with 4.1 percent in 1998. From January through September 2000, the cedi has suffered a depreciation of about 80 percent in the interbank market, which is lower than the prevailing rate at the re-emerging black market. The cedi is suffering as a result of the shortage of foreign exchange. This is the result of a decline in the value of Ghana's major exports and expected donor inflows. Rising world crude oil prices worsened the situation by doubling Ghana's oil import bills. The central bank responded to the foreign exchange demand pressure by running down its international reserves, leaving the country with less than two months import cover by the end of 1999. The build-up of queues for foreign exchange in the banks has resulted in delays in foreign payments. Although the situation seems to be improving, Ghana's non-oil imports continue to be squeezed. In general, the exchange rate regime in Ghana does not have any particular impact on the competitiveness of U.S. exports.

3. Structural Policies

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

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

The government successfully reintroduced a value-added tax (VAT) in December 1998, at a 10 percent rate. In July 2000 government increased the VAT to 12.5 percent to make up for anticipated revenue shortfalls in 2000. Additionally, the government is expected to broaden the tax base and enhance compliance. Although significant, this still has not been enough to reduce net domestic borrowing, which would ease pressure on inflation and domestic interest rates. The government's domestic interest payments continue to be about 30 percent of its domestic revenue, more than the domestic budget for both health and education.

4. Debt Management Policies

Ghana's total outstanding external debt, including obligations to the IMF, totaled approximately $6.3 billion at the end of 1999. Outstanding obligations to the IMF under medium-term facilities stood at $308.8 million at the end of the same period. Multilateral debt accounted for 65 percent of the total, and official bilateral debt was 30 percent. The size of external debt as a proportion of GDP decreased from its 1994 level of 97 percent to 79 percent of GDP in 1998, but is projected to increase to 130 percent in 2000. Ghana's public debt service ratio in 1999 was 20 percent. In 1991 Ghana cleared all external debt arrears. Ghana is a heavily indebted poor country (HIPC) but has not asked to be the beneficiary of debt relief or rescheduling in recent times. In 1996–97 the government borrowed on nonconcessional terms to finance hospital projects and expand and upgrade the Tema Oil Refinery. This significantly raised the debt service burden by the end of 1997. To better manage its debt portfolio, the government has applied a moratorium on public and public guaranteed nonconcessional borrowings since August 1997.

Persistent balance of payments deficits have resulted in a continuing increase in foreign indebtedness. Swings in commodity prices, especially gold and cocoa, have a dramatic impact on Ghana's export revenues. Since 1999, Ghana has suffered from external shocks not only from the falling prices of these commodities but also the increase in the world price of crude oil. These are adversely affecting its balance of payments. This deficit is reflected in the reduction in non-oil imports, real GDP growth, and a foreign exchange shortage. The government is expected to sustain its present level of external program assistance and increase receipts from the divestiture of state-owned enterprises to moderate the volatility of the cedi.

5. Significant Barriers to U.S. Exports

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

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

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

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

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

6. Export Subsidies Policies

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

7. Protection of U.S. Intellectual Property

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

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

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

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

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

8. Worker Rights

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

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

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

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

e. *Acceptable Conditions of Work:* In 1991 a Tripartite Commission composed of representatives from government, organized labor, and employers established minimum standards for wages and working conditions. The daily minimum wage combines wages with customary benefits such as a transportation allowance. The current daily minimum wage is 2,900 cedis, about 44 cents at the present rate of exchange. This sum does not permit a single wage earner to support a family and frequently results in multiple wage earners and other family-based commercial activity. A much-vaunted, government-commissioned study on reform of the civil service (including a serious revision of grades and salary levels) was implemented in June 1999. By law the maximum workweek is 45 hours, but collective bargaining has established a 40-hour week for most unionized workers.

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

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

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		–1
Total Manufacturing		(1)
Food and Kindred Products	0	
Chemicals and Allied Products	0	
Primary and Fabricated Metals	(1)	
Industrial Machinery and Equipment	0	
Electric and Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		0
Banking		0
Finance/Insurance/Real Estate		0
Services		0
Other Industries		(1)
TOTAL ALL INDUSTRIES		242

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

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

NIGERIA

Key Economic Indicators

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

	1998	1999	2000 [1]
Income, Production, and Employment:			
Nominal GDP [2]	33.2	34.4	35.4
Real GDP Growth (pct)	2.4	2.7	3.0
GDP by Sector (pct):			
Industrial [3]	18.2	17.3	16
Agriculture	40.1	40.7	27
Services	31.5	32.7	34
Government	10.9	11.1	22
Per Capita GDP (US$) [4]	250	260	260
Labor Force (millions)	40.0	40.1	N/A
Unemployment Rate (pct) [5]	3.9	3.9	N/A
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	23.3	31.4	N/A
Price Inflation	10	6.6	8.0
Exchange Rate [6] (Naira/US$)	81.8	98.2	104
Free Market Rate	85	101	110
Balance of Payments and Merchandise Trade:			
Total Exports FOB [7]	9.0	12.9	18.7
Exports to United States [8]	4.2	4.4	7.9
Total Non-oil Exports [9]	0.4	0.2	0.2
Total Imports CIF [7]	9.9	8.6	12.5
Imports from United States [8]	0.8	0.6	0.5
Trade Balance [7]	(0.95)	4.3	6.2
Balance with United States [8]	3.4	3.7	7.4
Current Account Deficit/GDP (pct)	(11.6)	0.4	N/A
External Public Debt	28.7	28.0	31.0
Debt Service Payments/GDP (pct)	1.4	1.5	1.7
Fiscal Deficit/GDP (pct)	4.7	8.4	N/A
Gold and Foreign Exchange Reserves	7.1	5.5	8.0
Aid from United States (US$ millions)	8	37.5	108
Aid from All Other Sources	N/A	N/A	N/A

[1] 2000 figures, except exchange rates, are estimates based on available Central Bank of Nigeria (CBN) monthly data, October 2000 (unless otherwise noted).
[2] GDP at factor cost. Conversion to U.S. dollars at CBN rate of 81.8 per dollar for 1998, and 98.2 naira per dollar for 1999. GDP for 2000 based on 4 percent estimated growth. All 2000 GDP figures based on IMF projections.
[3] Total GDP for the Industrial sector (includes oil/gas, manufacturing, and mining.)Percentage changes calculated in local currency.
[4] Source: IBRD.
[5] Real unemployment is estimated at 50 percent by unofficial sources. According to the CBN, official statistics are based on the number of unemployed registered with the Federal Ministry of Labor.
[6] Annual average Interbank Foreign Exchange Market Rate.
[7] 2000 figures are IMF projections.
[8] 2000 figures are January-September.
[9] Source: Federal Ministry of Commerce; 2000 figure is January-June

1. General Policy Framework

With an estimated 120 million people, Nigeria is Africa's most populous nation. It is also the United States' fifth largest oil supplier. Although Nigeria potentially could offer investors a low-cost labor pool, abundant natural resources, and the largest domestic market in sub-Saharan Africa, its economy remains stagnant, its market potential unrealized. The country suffers from collapsing infrastructure, possesses an inconsistent regulatory environment, and enjoys a well-deserved reputation for endemic crime and corruption. Following decades of misrule, Nigeria's transportation, communications, health and power public services are a mess. Once a breadbasket, Nigeria has witnessed a severe deterioration of its agricultural sector. Social, religious, and ethnic unrest, and a lack of effective due process, further complicate business ventures in Nigeria. Moreover, the government remains highly over-reliant on oil exports for its revenue and thus subject to the vagaries of the world price for petroleum. Investors must carefully research any business opportunity and avoid those opportunities that appear "too good to be true."

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

To strengthen the economy, the Obasanjo administration has embarked on an extensive reform program. Government controls over foreign investment are gradually loosening up. Tariffs on numerous products have been reduced and the ban on many specific imports such as wheat and frozen chicken lifted. Previous government decrees that inhibited competition or conferred monopoly powers on public enterprises in the petroleum, telecommunications, power, and mineral sectors have been repealed or amended. Meanwhile, the promised privatization of government enterprises has begun, albeit at a very slow pace.

In 1999 the Nigerian government ran a reported budget deficit of around eight percent, a result of excessive spending prior to the transition to civilian rule in May. This follows reported budget surpluses in the mid-1990s, when the military government neglected social spending and infrastructure maintenance. An agreement reached with the IMF in August 2000 called for the reduction of this deficit through, among other actions, the eventual elimination of price subsidies, the shelving of white elephant government projects, and reduced revenue leakage due to corruption. An attempt to reduce fuel subsidies in June 2000 had met with stiff popular resistance and was rolled back. Due to significantly higher than anticipated revenues from oil exports, the 2000 budget deficit decreased to about 0.5 percent of GDP.

In previous years, monetary policy was driven by the need to accommodate the government's budget deficit and a desire to reduce its inflationary impact on the economy. In 1999, the deficit was financed mainly through the issuance of treasury bills, absorbed entirely by the Central Bank of Nigeria (CBN), and deferred capital expenditures. By the end of 1999, CBN holdings of government domestic debt amounted to 66 percent. With monetization of the debt, money supply has risen sharply with the corollary impact on inflation. For 2000 (through September) the consumer price index rose over 15 percent.

2. Exchange Rate Policy

In 1999 the Nigerian government abolished the long-standing dual exchange rate mechanism that had favored government cronies. Instead, the Central Bank utilizes a single interbank foreign exchange market rate for all transactions. Under this rate, commercial banks, oil companies, and the CBN can transact foreign exchange. Throughout 2000 the lively parallel market placed about a five percent discount on the Nigerian Naira, although this discount spiked briefly at the end of the year due in part to higher than average liquidity in the banking system. Companies and individuals can hold domiciliary accounts in private banks, and account holders have unfettered use of the funds. Foreign investors may bring capital into the country to finance investments, and remit dividends without prior Ministry of Finance approval. Currency houses also offer foreign exchange up to $10,000 per transaction.

3. Structural Policies

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

In 1995 Nigeria liberalized its foreign investment regime, allowing 100 percent foreign ownership of firms outside the petroleum sector. Investment in the petroleum sector is still limited to existing joint ventures or production-sharing agreements. Foreign investors may buy shares of any Nigerian firm except those on a "negative list" (for example, manufacturers of firearms and ammunition and military and paramilitary apparel). Foreign investors must register with the Investment Promotion Commission after incorporation under the Companies and Allied Matters Decree of 1990. The decree also abolishes the expatriate quota system (except in the oil sector) and prohibits any nationalization or expropriation of a foreign enterprise by the Nigerian government except for such cases determined to be in the national interest.

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

4. Debt Management Policies

In 2000 Nigeria and the IMF agreed in principle to a new, precautionary $1 billion Standby Arrangement. However, Nigeria still must institute promised economic reform and maintain budgetary discipline to stay on its Standby targets. Despite the government's windfall revenue earnings from unexpectedly high world oil prices, Nigeria did not apply these additional funds to servicing its external, Paris Club debt and arrears of about $21 billion had been reached by mid-2000. According to the CBN, Nigeria's total stock of external debt at the end of 2000 stood at $ 28 billion. Discussions with the IMF and World Bank continue on a medium term economic program, and Nigeria is making some progress at meeting their criteria. Nigeria is expected to have its first review under the Standby in February 2001.

Agreement with the Paris Club is critical to the IMF program. In November 2000 Nigeria made its first appearance at the Paris Club in almost a decade and one month later reached tentative agreement with the creditor governments to reschedule over $23 billion in debt through July 31, 2001. Nigeria agreed to pay the Paris Club $700 million in 2000 and $1 billion in 2001. Roughly $20 billion of Nigeria's debt will be rescheduled over eighteen years with three years grace, while the remainder of Nigeria's debt would be rescheduled over the next five to nine years. Unless creditor governments decide that Nigeria has not made satisfactory debt payments or has not met IMF targets, the Paris Club agreement will enter into force on April 15, 2001.

Nigeria is the largest debtor country currently due to benefit from the IMF/World Bank's Highly Indebted Poor Countries (HIPC) Initiative. Under the HIPC program, beneficiary countries that maintain economic reform programs would see their debt burdens reduced significantly through debt relief from multilateral and bilateral creditors.

As a result of Nigeria's 1992 agreement with the London Club of commercial banks that gave Nigeria's bank creditors a menu of options in reducing Nigeria's commercial debt, Nigeria was able to reduce its external commercial debt by $3.9 billion. Nigeria remains current on most of its multilateral bank debt. The accumulation of arrears on other debt (especially Paris Club official bilateral debt), which currently represents 70 percent of total debt stock, has kept external debt levels high.

5. Significant Barriers to U.S. exports

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

While the GON continues to implement protectionist policies, highlighted by prohibitive import duties of up to 150 percent, tariff changes announced by the GON in December 2000 reduced tariffs on a broad range of imported items but raised tariffs on some agricultural commodities already produced in Nigeria. Immediately after lifting its longtime ban on corn imports, the GON placed a 70 percent duty on this grain. In conjunction with other surcharges and taxes, the effective tariff on corn imports is more than 80 percent. Although Nigeria is the most important market in Sub-Saharan Africa for U.S. wheat, U.S. wheat exports fell in 1999 and 2000 following a doubling of Nigeria's import duty from 7.5 to 15 percent. While the tariff on Durum wheat was halved from 60 to 30 percent, the effective import duty on rice rose to approximately 80 percent. Soybeans, sunflower seed and cottonseed oil, apples, fruit juices, and woven fabrics also face stiffer tariffs following the December 2000 changes. The import of bulk vegetable oil has been banned.

Tariffs were reduced significantly to as low as 5 percent on such items as non-combed cotton, synthetic filament yarn, newsprint, textile and industrial machinery, vehicles, tractors, and chemicals. Cement imports must be imported in bulk only of not less than 10,000 mt or the full capacity of the carrying vessel.

Nigeria is a long-standing member of the World Trade Organization (WTO). Its current tariff structure reflects revisions aimed at narrowing the range of custom duties, increasing rate coverage in line with WTO provisions, and decreasing import prohibitions. In general, Nigeria continues to reduce its tariffs and duties, although some excise duties eliminated in 1998 have been restored for certain goods such as cigarettes, cigars, tobacco, and spirits. For 1999 a 25 percent import duty rebate that was granted importers in late 1997 was abolished.

Nigeria's ports continue to be a major hindrance for imports. Importers bemoan excessively long clearance procedures, petty corruption, and arbitrary application of Nigerian regulations. All unaccompanied imports and exports regardless of value require pre-shipment inspection (PSI) and must be accompanied by an import duty report (IDR). The Nigerian Customs Service will confiscate goods arriving without an IDR. In addition, all goods are assessed a one-percent surcharge to cover the cost of inspection. In January 2001, the GON announced that all imported containers and vehicles enter Nigeria through its ports. This policy was implemented in an attempt to halt the transshipment of vehicles and products from neighboring countries.

The Obasanjo Administration has pledged to practice open and competitive contracting for government procurement, and anti-corruption is an energetic and central plank of the current government's procurement policies. However, deed has been somewhat slower to accomplish than rhetoric. Foreign companies incorporated in Nigeria are entitled to national treatment, and tenders for government contracts are published in Nigerian and international newspapers. (Proper precautions should be exercised by prospective contractors to avoid possible "419" problems). According to government sources, approximately five percent of all government procurement contracts are awarded to U.S. companies.

6. Export Subsidy Policies

On paper, the Nigerian Export Promotion Council (NEPC) administers export incentive programs, including a duty drawback program, an export development fund, tax relief and capital assets depreciation allowances, and a foreign currency retention program. The effectiveness of these programs for more than a limited number of beneficiaries is dubious. In 1999 Nigeria's non-oil exports had fallen to an all time low of just $211 million, down from $406 million in 1998. This level rebounded somewhat in 2000 and will likely rise again in 2001 and tariffs on manufacturing components are slashed. The duty drawback or manufacturing in-bond program was designed to allow the duty free importation of raw materials to produce goods for export, contingent on the issuance of a bank guarantee. The performance bond is discharged upon evidence of product exportation and repatriation of foreign exchange. Though meant to promote industrial exports, these schemes have been burdened by inept administration, confusion among industrialists, and corruption, causing in some cases losses to those manufacturers and exporters who opted to use them.

7. Protection of U.S. Intellectual Property

Nigeria is a signatory to the Universal Copyright Convention and the Bern Convention. In 1993 Nigeria also became a member of the World Intellectual Property Organization (WIPO), thereby becoming party to most of the major international agreements on intellectual property rights. The Patents and Design Decree of 1970 governs the registration of patents, and the Standards Organization of Nigeria is responsible for issuing patents, trademarks, and copyrights. Once conferred, a patent conveys an exclusive right to make, import, sell, or use the products or apply the process. The Copyright Decree of 1988, based on WIPO standards and U.S. copyright law, criminalizes counterfeiting, exporting, importing, reproducing, exhibiting, performing, or selling any work without the permission of the copyright owner. This act was amended in 1999 to include video rental and security devices.

Although existing patent and piracy laws are considered reasonable, enforcement remains extremely weak and slow. Copyrighted material piracy is widespread and includes a large portion of the pharmaceutical market and virtually 100 percent of the Nigerian recordings and home video market. Companies rarely have sought trademark or patent protection in Nigeria because it is generally perceived as ineffective. Very few cases involving infringement of non-Nigerian copyrights have been successfully prosecuted in Nigeria, while the few court decisions that have been rendered have been inconsistent. Most copyright cases have been settled out of court.

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

Recently, Nigeria's active participation in international conventions has yielded positive results. Law enforcement agents occasionally do carry out raids on suspected sites for production and sale of pirated tapes, videos, computer software and books. Moreover, some Nigerian companies, including filmmakers, have sought to protect their legitimate business interests by banding together in bringing suits against pirate broadcasters.

8. Worker Rights

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

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

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

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

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

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

e. *Acceptable conditions of work:* Nigeria's 1974 labor decree established a 40-hour workweek, prescribed 2 to 4 weeks of annual leave, set a minimum wage, and stipulated that workers are to be paid extra for hours worked over the legal limit. The decree states that workers who work on Sundays and legal holidays must be paid a full day's pay in addition to their normal wages. There is no law prohibiting excessive compulsory overtime. In May 2000 the federal government approved a new National Minimum wage for both federal and state employees. Under the approved wage, federal workers are to receive a minimum monthly wage (salary and allowance) of 7, 500 naira ($75) while state employees would receive 5,500 naira as a minimum monthly wage. The new wage review has, however, set many state governments and their employees on a collision course. While some states claim that they cannot afford the stipulated 5,500 naira labor unions and state workers insist their wages should be the same as those of federal workers. The last minimum wage review was carried out in 1998 by the Abubakar regime. The 1974 decree contains general health and safety provisions. Employers must compensate injured workers and dependent survivors of those killed in industrial accidents but enforcement of these laws by the ministry of labor is largely ineffective.

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

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

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		1,148
Total Manufacturing		65
Food and Kindred Products	(1)	
Chemicals and Allied Products	26	
Primary and Fabricated Metals	–1	
Industrial Machinery and Equipment	0	
Electric and Electronic Equipment	0	
Transportation Equipment	(1)	
Other Manufacturing	0	
Wholesale Trade		5
Banking		(1)
Finance/Insurance/Real Estate		(1)
Services		0
Other Industries		5
TOTAL ALL INDUSTRIES		1,375

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

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

SOUTH AFRICA

Key Economic Indicators

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

	1997	1998	1999
Income, Production and Employment: [1]			
Nominal GDP (at nominal prices)	147.5	134.0	130.0
Real GDP Growth (pct)	2.5	0.6	1.2
GDP by Sector:			
Agriculture	4.5	4.4	4.5
Mining and Quarrying	6.6	6.5	6.4
Manufacturing	20.6	20.1	19.9

Key Economic Indicators—Continued

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

	1997	1998	1999
Wholesale/Retail Trade	14.0	13.7	13.5
Transport, communications	9.5	10.2	10.7
Electricity, water	3.6	3.6	3.6
Construction	3.1	3.1	3.0
Financial Services	17.1	17.6	17.9
Government	20.8	20.6	20.4
Per Capita GDP (US$)	2,987	3,100	3,000
Total labor employed (millions)	9.25	9.39	10.37
Total economically active (millions)	11.7	12.6	13.53
Official unemployment Rate (pct)	21.0	25.2	23.3
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	18.7	13.6	13.6
Consumer Price Index	8.6	6.9	5.2
Exchange Rate (Rand/US$ annual average)[1]	4.61	5.53	6.11
Balance of Payments and Trade:			
Total Exports FOB[2]	25.6	24.6	24.4
Exports to United States[3]	2.5	3.0	3.0
Total Imports CIF[2]	28.9	27.3	24.6
Imports from United States[3]	3.0	3.6	2.4
Trade Balance[2]	–3.3	–2.5	–0.2
Trade Balance with United States[3]	–0.5	–0.6	0.6
External Public Debt/GDP (pct)[4]	3.3	2.7	2.0
Fiscal Deficit/GDP (pct)	4.2	12.8	2.6
Current Account Deficit/GDP (pct)	1.5	–1.6	–0.4
Debt Service Payments/GDP (pct)	6.1	6.3	5.5
Gross Gold and Foreign Exchange Reserves	7.7	7.6	11.0
Aid from United States (US$ millions)[5]	111	71	53
Total Aid (US$ millions)[6]	126	172	124

[1] The following exchange rates were used in the calculations: $1/R4.61 for 1997, $1/R5.53 for 1998, and $1/R6.11 for 1999.
[2] All South African trade statistics include export and import data for the five members of the Southern African Customs Union (Botswana, Lesotho, Namibia, South Africa, and Swaziland) up to December 1997.
[3] Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis.
[4] 1997 and 1998 from IMF Yearbook, September 1999.
Figure for 1999 from SA Reserve Bank Quarterly Bulletin September 2000.
[5] The figures represent aid from USAID only.
[6] Funds for foreign technical cooperation and some grants have been received from all over the world for the Reconstruction and Development Fund (RDP). It contributes less than one percent to government revenue. Source SA Department of Finance 2000 Budget Review.

1. General Policy Framework

South Africa is a middle-income developing country with an economy marked by substantial natural resources, a sophisticated industrial base, and modern telecommunications and transport infrastructure. It has a well-developed legal and sophisticated financial sector with a stock exchange that ranks among the 20 largest in the world. However, to date, South Africa has made little progress in changing its low overall income levels, highly skewed income distribution, and a poor record of economic growth and job creation.

Notwithstanding the deep faultlines in its society, South Africa's transition process has been more peaceful than most expected at its onset in 1993, when apartheid was ended. The second democratic elections and hand-over of the presidency to Thabo Mbeki from Nelson Mandela took place peacefully, demonstrating that South Africa's democracy has developed firm roots.

For the years 1988–1992, South Africa had a negative real GDP growth as a consequence of apartheid-era policies, which included under-investment in human capital, large budgetary outlays for duplicative layers of government and facilities and a lack of foreign investment and imported goods, resulting from international sanctions. In the lead-up to the 1994 elections, the South African economy, however, started enjoying a period of recovery. Real GDP growth rates went to 2.5 percent in 1994, 3.1 percent in 1995, 4.2 percent in 1996 and 2.5 percent in 1997. The 1998 growth rate however came in at 0.6 percent largely due to the financial turmoil that hit almost all emerging markets. A turnaround started in 1999 with a 1.2 percent growth rate and real GDP is expected to grow by 3 to 4 percent per year this decade, significantly faster than the average of just 1.3 percent in the 1990s.

A key impediment to faster growth is the country's geographical location. Both Mexico and the Eastern European transition economies have huge export markets on their doorsteps to which they have special access through free trade or association agreements. Conversely, South Africa's neighbors continue to struggle, and political and economic troubles, such as those currently experienced by Zimbabwe, tend to have a serious adverse effect on regional export prospects and affect investor perception in general.

With its large structural savings/investment gap, South Africa depends on foreign savings to support investment and growth. However, progress in attracting higher levels of FDI has been uneven at best, hindered by the sluggish pace of privatization. As a result, South Africa has had instead to rely on more volatile portfolio inflows. Inflows of FDI are still more than fully offset by South African corporations' expansion and investment abroad as exchange controls are relaxed. Portfolio inflows reached record highs in 1999 with the bulk of these inflows, however, going into the domestic equity market. Capital account developments in South Africa continue to be marked by considerable vulnerability to changes in investor confidence because of this reliance on portfolio investment inflows. Recent developments this year, with investors turning bearish and divesting from South African bond and equity markets, are evidence again of this vulnerability.

The South African Reserve Bank (SARB) now operates in much the same way as western central banks, influencing interest rates and controlling liquidity through its rates on funds provided to private sector banks, and to a lesser degree through the placement of government paper. Previous policies of quantitative credit controls and administrative control of deposit and lending rates have long since disappeared. The SARB's monetary policy remains committed to orthodox policy targets in the form of stable prices and stable financial markets and institutions. Over the past 12 months important personnel and institutional changes substantially strengthened the policy framework and enhanced transparency and predictability of policy formulation. In his first policy statement, the new governor announced the creation of a broader Monetary Policy Committee (MPC), made up of the governor, the deputy governor, and senior officials of the bank as nonvoting members. In a further step to revamp South Africa's monetary policy framework, an inflation-targeting framework was announced by the Minister of Finance in February.

In November 1999 the South African Reserve Board announced preparations to introduce inflation targeting. After extensive consultations, the SARG stated it would use CPIX (Consumer Price Index for metropolitan and urban areas excluding interest costs on mortgage bonds) as the benchmark for inflation targeting. The government subsequently announced a target band of three to six percent CPIX for the year 2002. The SARB Monetary Policy Committee closely monitors CPIX and maintains that it will meet the inflation target.

The Government of South Africa demonstrated its commitment to open markets, privatization and a favorable investment climate with its release of the crucial Growth, Employment and Redistribution (GEAR) strategy to cover 1996–2000. The strategy had mixed success. It brought greater financial discipline and stability, but has failed to deliver in key areas. Per capita income slipped from $3,545 to about $3,000 between 1995 and 1999, formal employment continued to decline, and despite the ongoing efforts of black empowerment, and signs of a fledgling black middle class and social mobility, the country's wealth remains very unequally distributed along racial lines. South Africa's budgetary reforms such as the Medium-Term Expenditure Framework and the Public Finance Management Act (which aims at better reporting, auditing, and increased accountability) and the structural changes to its monetary policy framework (including this year's move to inflation targeting) have, however, created a transparency and predictability and are widely acclaimed. Trade liberalization has also progressed substantially since the early 1990s. Average import tariffs in South Africa have declined to 14.3 percent in 1999 from more than 30 percent in 1990. These efforts, together with South Africa's implementation of its World Trade Organization (WTO) obligations, show South Africa's acceptance of free market principles.

A new Competition Act came into effect in September 1999. The act provides for a much stronger and more independent competition authority than the previous Competition Board. In its first year, it has handled over sixty merger cases and is playing a significant role in opening the economy.

Although poverty, inequality, unemployment, lack of skilled labor, crime and the rising incidence of HIV/AIDS remain significant socio-political problems facing South Africa, the country's economic fundamentals are in place and it remains, by far, the largest economy in Africa. As a result, South Africa is important to U.S. trade and investment.

2. Exchange Rate Policy and Foreign Exchange Controls

South Africa's exchange rate policy is market driven with the rate determined by supply and demand in the currency market. The SARB may, in line with prevailing monetary and exchange rate policy, intervene in the market from time to time. When intervening in the market, the Bank does not attempt to bring about any structural change in the economy or to affect longer-term movements in balance of payments transactions. It merely intervenes to smooth out unduly large short-term fluctuations in the money market liquidity or in the exchange rate. While the SARB has the option of intervention, its current policy is that it will not take that action.

South African authorities continue to maintain foreign exchange controls to prevent large capital outflows. However, in principle, they have taken a decision to abolish exchange controls in full. In implementing this decision, the authorities have opted for a phased approach, which allows the consequences of certain relaxations to be absorbed before further measures are introduced. They argue that the abolition of all existing exchange control rulings in one step could very easily give rise to a massive demand for foreign exchange that could upset and destabilize the South African foreign exchange market. There is basically no exchange control on non-residents and exchange controls for South African corporates, institutional investors, and resident private individuals have been relaxed steadily. For example, private individuals have been permitted to invest some funds abroad since July 1997. The limit of R500, 000 per year was increased to R750, 000 on February 23, 2000.

The existing exchange controls are administered by the SARB's Exchange Control Department through commercial banks that have been authorized to deal in foreign exchange. All international commercial transactions must be accounted for through these "authorized foreign exchange dealers." The government is more likely to approve foreign exchange purchases for investment abroad if the foreign partner of the South African party conducts an asset swap, whereby the foreign partner invests an equivalent amount of foreign exchange in South Africa. Although domestic as well as foreign business concerns have lobbied hard for the lifting of the asset swap requirement, it is unlikely that the government will do so until foreign reserve levels approach the three-month coverage level.

The 2000/2001 budget introduced a number of other steps in the exchange control liberalization process. According to the SARB, further relaxations will take into account the circumstances prevailing at the time and, in particular, the foreign liquidity position of the country. A full liberalization of remaining limitations is unlikely until the Reserve Bank has closed its forward book, which currently stands at just under $10 billion. However, the Department of Finance is facing increased pressure from corporate and institutional investors for greater freedom of capital flows.

3. Structural Policies

Prices are market-determined with the exception of petroleum products. With regard to agricultural products, the sugar industry is the only area in which a degree of regulation still exists. Purchases by government agencies and major private buyers are by competitive tender for projects or supply contracts. Bidders must prequalify, with some preferences allowed for local content and black economic empowerment advantages.

The South African tax system used to be based on the source principle and tax was levied on income from a source within South Africa irrespective of whether it was earned by a resident or non-resident. Commencing January 2001, South Africa will move to a residence-based income tax system. Tax will be levied on residents of South Africa irrespective of where in the world the income is earned. Taxpayers will be taxed on their world-wide income but some categories of income and activities undertaken outside the country will be exempt from South African tax. Legislation must still be passed to implement this new system.

Income tax payers are divided into two categories: individuals, who are taxed at progressive rates, and companies, taxed at 30 percent of taxable income. A secondary tax on companies (STC) (an additional tax on company income) is imposed at a rate of 12.5 percent on the net amount of dividends declared by a company. Withholding taxes are imposed on interest and royalties are remitted to non-residents. Capital gains are not currently taxed, but effective April 2001, South Africa will institute a capital gains tax. Effective rates for individuals will range from zero to 10.5 percent, retirement funds 6.25 percent, unit trusts 7.5 percent, life assurers from 6.25 to 15 percent, and companies 15 percent. Legislation on the proposed new tax must still be drafted. SA has a 14 percent value-added tax (VAT). Exports are zero-rated, and no VAT is payable on imported capital goods.

The government has undertaken some measures recently to ease the tax burden on foreign and domestic investors. It has steadily reduced the corporate primary income tax rate from 40 percent in 1994 to 30 percent in 1999. In addition, the Secondary Tax on Corporate Dividends was halved to 12.5 percent in March 1996. In the 2000 Budget, extensive relief was also allowed on individual tax rates, with the top marginal tax rate to decrease to 42 from 45 percent and the lowest to 18 from 19 percent.

4. Debt Management Policies

At the end of 1999 the SARB reported that total foreign (public and private) debt amounted to approximately $38.9 billion. The ratio of total foreign debt to GDP has remained steady at around 26 to 30 percent over the past three years, while interest payments as a percentage of total export earnings have remained at levels ranging from 7.3 percent to 8.7 percent.

The government primarily finances its debt through the issuance of government bonds. To a lesser extent, the government has opted to finance some short-term debt obligations through the sale of foreign exchange and gold reserves. As a corollary to its restrictive financial policies, the government has not opted to finance deficit spending through loans from commercial banks. South Africa's liquid and sophisticated domestic capital market helped the country to cope relatively well with the 1998 global financial market crisis. The country did not require an IMF program and could easily afford not to borrow from international markets. Domestic debt (of which the bulk is medium- and long-term, with an average duration of close to five years) accounts for over 90 percent of the national government's total debt portfolio. Foreign debt (almost entirely capital market debt) accounts for only six to seven percent of the portfolio and is mainly denominated in U.S. dollars, euros, and Japanese yen.

5. Aid

Funds for foreign technical cooperation and some grants have been received from all over the world for the South African "Reconstruction and Development Fund." According to the Department of Finance 2000 Budget Review, the amount received from outside donors during the 1999/2000 budget was $124 million. A Development Cooperation Report for South Africa was released during October 2000, which provides an overview of Overseas Development Aid commitments from different donor countries for the period 1994–1999. The largest donor was the European Union, followed by USAID. Besides the aid of $53.4 million from USAID for 1999 noted in the front table, the United States also provides a small amount in military aid to South Africa.

6. Barriers to U.S. Exports

Under the terms of the Import and Export Control Act of 1963, South Africa's Minister of Trade and Industry may act in the national interest to prohibit, ration, or otherwise regulate imports. In recent years, the list of restricted goods requiring import permits has been reduced, but still includes goods such as: fish and dairy products (health concerns), petroleum products (strategic concerns), Montreal Protocol chemicals (international obligations), pneumatic tires (quality specifications), footwear (monitoring in respect of WTO quotas), as well as firearms and ammunition (safety concerns). Nonetheless, the South African government remains committed to the simplification and reduction of tariffs within the WTO framework, and maintains active discussions in trade organizations.

The government is attempting to centralize and standardize the buying procedures of national, provincial, local, and state-owned corporate entities. Purchases are by competitive tender for project, supply and other contracts. As part of the government's policy to encourage local industry, a price preference schedule, based on the percent of local content in relation to the tendered price, is employed to compare tenders. To claim preference for local content, tenders must enclose with their bid a certificate showing classification of supplies offered in terms of local content. An additional preference may be claimed if a product bears the mark of the South African Bureau of Standards. On tenders of less than R2 million ($350,000), the government awards preference points to enterprises and companies operating in South Africa that demonstrate significant ownership or employment of previously disadvantaged individuals.

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

7. Export Subsidies Policies

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

8. Protection of U.S. Intellectual Property

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

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

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

Software piracy occurs frequently in South Africa. The Business Software Alliance (BSA) estimates that as much as 47 percent of South Africa's business software is pirated, resulting in a loss of over $68.4 million to computer companies. Piracy in the video and sound industry is also an issue of concern, with an estimated sound piracy rate in 1998 of 40 percent and a video piracy rate of 16 percent. Total annual losses due to audiovisual piracy in South Africa during 1998 are estimated to be $24.0 million.

9. Worker Rights

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

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

c. *Prohibition of Forced or Compulsory Labor:* Forced labor is illegal under the constitution. There are reports, however, that women and children have been forced into prostitution.

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

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

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

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

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		372
Total Manufacturing		836
Food and Kindred Products	166	
Chemicals and Allied Products	191	
Primary and Fabricated Metals	(1)	
Industrial Machinery and Equipment	34	
Electric and Electronic Equipment	60	
Transportation Equipment	76	
Other Manufacturing	(1)	
Wholesale Trade		87
Banking		(1)
Finance/Insurance/Real Estate		605
Services		317
Other Industries		(1)
TOTAL ALL INDUSTRIES		3,258

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

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