2000 Country Reports on Economic Policy and Trade Practices
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RUSSIA

Key Economic Indicators

(Billions of U.S. dollars unless otherwise noted)

	1998	1999	2000	1/
Income, Production and Employment:				
Nominal GDP 2/	2,696	4,546	2,946	
Real GDP Growth (pct)	-4.6	3.2	3.5	
Per Capita Personal Income (US$)	1,168	650	459	5/
Labor Force (000s)	72,000	72,000	73,700	5/
Unemployment Rate (pct)	11.2	13.3	12.4	5/
Money and Prices (annual percent growth):				
Money Supply Growth (M2)	19.8	57.2	32.1	
Consumer Price Index (percent increase)	56.4	62.0	12.0	4/
Exchange Rate (Ruble/US$ annual average)	9.97	24.84	28.21	
Balance of Payments and Trade:				
Total Exports (FOB)	71.3	71.8	47.8	
Exports to U.S.	5.7	5.9	4.5	6/
Total Imports (CIF)	43.6	30.2	15.5	
Imports from U.S.	3.6	2.0	1.4	6/
Trade Balance	27.7	41.6	32.3	
Balance with U.S.	2.1	3.9	3.1	6/
Current Account	1.0	25.0	11.2	
External Public Debt	147	159.7	147.0	8/
Debt Service Payments/GDP (pct)	3.7	5.9	4.0	4/
Fiscal Deficit/GDP (pct)	5.0	1.7	-7.0	5/
Gold and Foreign Exchange	12.2	12.5	25.0	3/
Aid from U.S. (US$ millions) 7/	639.4	1,937.1	1,062	
Aid from All Other Sources	N/A	N/A	N/A	

1/ 2000 data has been provided for the last available period (6/00) unless otherwise noted.
2/ Billions of Russian Rubles.
3/ Data as of September 29, 2000.
4/ Data for January-August 2000.
5/ Data for the period January-July 2000.
6/ U.S. Commerce Department data for the period January-July 2000.

7/ U.S. government assistance (by fiscal year) including food assistance, not including donated humanitarian commodities shipped by U.S. government.

8/ Data as of May 2000.

Sources: Russian Statistics Committee (Goskomstat), Russian State Customs Committee, International Monetary Fund, Department of State S/NIS/C and embassy estimates.

1. General Policy Framework

The Russian economy is in its second year of economic growth, the longest and only substantial period of economic expansion since the collapse of the USSR. Growth is the result of improved corporate competitiveness as a result of the 1998 ruble devaluation, high commodity prices, and lately increased investment. Growth has been accompanied by increased monetization of the economy, a substantially improved fiscal situation, and a perception of greater political stability. Whether economic growth continues depends on several factors, some internal (continued structural reform, domestic investment, improved rule of law) and some external (oil and other commodity prices, foreign investment flows).

The Russian economy grew 3.2 percent in 1999. In the first six months of 2000, GDP increased 7.5 percent (year-on-year) and forecasts for calendar year 2000 are for 6.5 percent GDP growth. The major growth component continues to be net exports, particularly oil and other commodities, now enjoying substantially higher prices. Imports remain depressed, although there is some evidence that the volume of imports (as opposed to their dollar value) is increasing, masked by the weakness of the euro against both the dollar and the ruble. (Note: Many of Russia's imports are denominated in euros). Domestic demand is increasing, but has not yet recovered from the 1998 financial crisis. Investment also increased substantially in 2000 based on high corporate retained earnings, up 17.2 percent in the first seven months compared to the same period in 1999.

In the medium term, sustainable economic growth will depend on a continued recovery in domestic demand, and investment, underpinned by progress on structural reform. The Russian government has begun to implement its reform program, passing a major tax reform and simplifying the tariff system. However, the lack of significant progress on other structural reforms, including corporate governance, deregulation, competition policy, land reform and banking reform, contributed to a difficult investment climate, continued net capital outflow (although the pace of capital flight has slowed). The banking sector has stabilized from its collapse in 1998, but still is not in a position to effectively intermediate savings to productive investments on a large scale. State banks increasingly are crowding out private banks for commercial lending.

The substantial improvement in Russia's fiscal situation was in 1999 and 2000 was greatly aided by an improved external environment but also reflects better fiscal policy. Fiscal policy for the first seven months of the year was very disciplined, with both primary and overall surpluses. Revenues were R596.1 billion, or 17 percent of GDP, while expenditures were R463.7 billion, or 13.2 percent of GDP. Monetary policy has been moderately tight during the first eight months, with base money increasing 31.1 percent. The budget surplus has been the major factor on this regard, absorbing monetary liquidity created by the Central Bank of Russia's (CBR) doubling its reserves in the first nine months of 2000. Meanwhile, keeping monetary growth even to this level has been a significant challenge, in the context of high dollar inflows and the government's desire to build reserves and avoid significant ruble appreciation or inflation. The Russian government and CBR continue to coordinate their fiscal and monetary policies to try to avoid substantial real ruble appreciation. The CBR has intervened selectively to even out exchange rate fluctuations, preventing sharp appreciation or depreciation

The positive trend for Russia's economy should be put in perspective. The cost of Russia's 1998 financial collapse was significant. Measured in dollar terms at the average rate of exchange (and keeping in mind that the sharp devaluation may have magnified the drop), Russia's GDP in 1999 was only about $183 billion, slightly more than half of its value in 1995 ($337 billion). Even with strong growth in 2000 and some real ruble appreciation, Russia's GDP in dollar terms may not reach pre-crisis levels until 2001 or later.

2. Exchange Rate Policy

The objective of the Central Bank of Russia's (CBR) exchange rate policy is to prevent sharp fluctuations in exchange rates. The CBR and Russian government also are working together to prevent significant real ruble appreciation due to high dollar inflows from high oil and commodity prices. The nominal ruble/dollar exchange rate has remained relatively flat, rising less than one ruble from 27 to 27.8 in the first eight months. Factoring in differences in inflation, the ruble has appreciated 7.8 percent against the dollar in real terms during the first eight months. Given the large devaluation in 1998, the price competitiveness of imported goods (including U.S. goods) has recovered only marginally due to this real appreciation in exchange rates. During the first nine months of 2000, the CBR's international reserves more than doubled, from $12.3 billion to $25 billion. High ruble liquidity, as reflected in the approximately R75-90 billion held in banks' correspondent accounts at the CBR, reflect the CBR's purchase of dollars. Much of these CBR ruble emissions have been "sterilized" by the Russian government's budget surplus.

Part of the ruble's strength can be explained by administrative controls maintained by the CBR. The CBR continues restrictions on foreign exchange for import contracts, requiring 75 percent of repatriated export proceeds to be sold on authorized exchanges, not allowing banks to trade on their own accounts, limiting the conversion of funds in S-accounts from the GKO restructuring, and requiring banks to deposit amounts equivalent to those it holds in S-accounts of non-residents. Under such conditions, the CBR only needs to make tactical interventions in the foreign exchange markets to smooth volatility.

3. Structural Policies

Conclusion of Russia's election cycle gave new impetus to economic and structural policy, which had been on hold through 1999. Even before his elevation to the Presidency on an acting basis at the end of the year, Vladimir Putin created a Center for Strategic Research under the direction of Deputy Minister for State Property German Gref, and directed that it formulate a

10-year strategic reform plan. That plan was presented to the Russian government in May 2000, and formally adopted by it at the end of July. Gref assumed primary responsibility for its implementation with his appointment as Minister for Economic Development and Trade, a new "super-ministry" that united six past Ministries and Committees in part or in whole.

The new direction from above, coupled with the more cooperative Duma that emerged from the December 1999 elections, holds out hope that the effective policy stalemate that characterized the economic sphere through the last years of the Yeltsin Presidency may be at an end. Putin and his government won early successes in the summer of 2000, with the implementation of far-reaching tax reform, that set a 13 percent flat rate income tax and which drastically scaled back the country's infamous turnover tax.

Overall, the "Strategy of Development of the Russian Federation through 2010" is an ambitious reform program that seeks a middle course between "paternalism" and "radical liberalism." It focuses on modernizing the economy through releasing private initiative and ensuring a favorable environment for economic activity, including fair rules for competition, deepening of the rule of law, integration into the world economy, and reform of Russia's natural monopolies. The strategy includes a detailed table of actions to be undertaken in its initial 18 months, and more general goals for the following eight years.

4. Debt Management Policies

The Government of Russia seeks to reduce substantially its internal and external debt, and to minimize new debt or contingent guarantee liability. In 2000 government budget surpluses, combined with trade and current account surpluses have allowed Russia to meet external debt payments and build Central Bank reserves. Since the August 1998 financial crisis, it has restructured almost all of its internal and pre-1992 external debt. In August 1999 it reached agreement with the Paris club to restructure Soviet-era payments falling due through the end of 2000. In February 2000 it reached agreement with its London Club commercial creditors to restructure and reduce the commercial debt inherited from the Soviet government. It has announced plans to complete the restructuring of its MinFin3 bonds before the end of 2000. The 2001 Russian government budget assumes further restructuring of roughly $6.6 billion in Paris Club service payments falling due during next year. Any new restructuring arrangement, however, requires agreement on an IMF program.

The CBR continues to prohibit the conversion of S-account (accounts through which non-residents invested in government securities) rubles to foreign currency, except during occasional CBR foreign exchange auctions. Investors also may invest restricted S-account rubles in certain securities. Many foreign S-account holders were able to repatriate their funds, at substantial discounts, through schemes by which they bought and then resold authorized securities.

The Government of Russia continues to negotiate with the IMF on a new program. The World Bank is negotiating with the government on a successor to its Structural Adjustment Loan (SAL), which failed due to lack of progress on structural reform legislation.

5. Significant Barriers to U.S. Exports

U.S. exports to Russia continue to suffer more from unfavorable economic conditions in Russia than from statutory trade barriers. Despite the overall improvement in Russian macroeconomic indicators, the effects of the August 1998 devaluation and depressed purchasing power of most Russians continue to depress imports. Russia's overall imports in the first half of 2000 were up only seven percent from the very depressed levels of the same period in 1999. U.S. exports to Russia have recovered only slightly from sharply reduced levels in 1999. Exporters have been cautious about entering the Russian market, suffering from reduced availability of trade finance and in some sectors facing much stronger domestic competition, as some Russian companies have used the weak ruble to build up their market share.

Since 1995, Russian tariffs have generally ranged from zero to thirty percent, with average import tariff rates at 11.4 percent. However, for some products, including poultry and automobiles, compound duties with minimum tariffs per unit or by weight effectively have raised tariff rates above their ad valorem equivalents. This has been particularly the case for poultry imports, although the Russian government did unify poultry tariffs at 25 percent in August, reducing duties on chicken, while increasing duty on other poultry meat. In addition, excise and Value-Added Tax (VAT) is applied to selected imports. The VAT, which is applied on the import price plus tariff, is currently 20 percent with the exception of some medicines and food products, which are taxed at 10 percent. Under the government's reform program, Russia in September 2000 adopted a new unified tariff regime, which will apply the same duty across broad product categories. These new tariffs, which take effect in January 2001, will generally range from 5 to 20 percent, with a very small number of items remaining at the zero (insulin), 25 (poultry) and 30 percent (sugar) levels. For sugar, Russia also has resorted to high seasonal tariffs on top of these rates and the introduction of a tariff rate quota. The Russian government believes its new tariff structure will simplify customs administration, reduce fraud, and through better compliance eventually increase customs revenues and effective protection, even though the proposal will reduce overall tariff levels.

Other Russian tariffs that have stood out as particular hindrances to U.S. exports to Russia include those on autos (where combined tariffs and engine displacement-weighted excise duties can raise prices of larger U.S.-made passenger cars and sport utility vehicles by over 70 percent); some semiconductor products; and aircraft and certain aircraft components (for which tariffs are set at 30 percent). The tariff unification may reduce these tariffs, but the exact effect depends on how the Russian government sets specific and compound duties, which is still undetermined. The Russian government continues to make waivers on aircraft import tariffs for purchases by Russian airlines contingent on those airlines' purchases of Russian-made aircraft.

Throughout 2000 Russia maintained or increased export duties (for exports to non-CIS countries) on many products as a revenue measure. Initially, these duties were imposed on oil and gas, but have since been expanded to include many export commodities, including fertilizers, paper and cardboard, some ferrous and non-ferrous metals, and agricultural products, including oilseeds raw hides, and hardwoods, all ranging from 5 to 30 percent. Throughout the year, the government has increased export duties on crude oil and oil products, and recently decided to set crude oil export duties from 27 to 34 euro per ton, effective November 2000.

Import licenses are required for importation of various goods, including ethyl alcohol and vodka, color TVs, sugar, combat and sporting weapons, self-defense articles, explosives, military and ciphering equipment, encryption software and related equipment, radioactive materials and waste including uranium, strong poisons and narcotics, and precious metals, alloys and stones. Most import licenses are issued by the Russian Ministry of Economic Development and Trade or its regional branches, and controlled by the State Customs Committee. Import licenses for sporting weapons and self-defense articles are issued by the Ministry of Internal Affairs.

Throughout 2000 the government has continued tight controls on alcohol production, including import restrictions, export duties, and increased excise taxes. Many of these controls are designed to increase budget revenues.

In spring 1998 Russia passed the Law on Protective Trade Measures, which provides the government authority to undertake antidumping, countervailing duty and safeguard investigations, under certain conditions. In 2000 for the first time, Russian companies filed a successful action under this law, a special safeguard action on starch molasses imposed in March 2000. In addition, two other actions remain under investigation: an anti-dumping case against steel pipe from Ukraine, and a safeguard case on potato and corn starch. The Ministry of Economic Development and Trade has stated it plans to submit amendments to the Law on Protective Trade Measures, to make easier for Russian companies to file actions. Under the government's economic reform plan, such protective actions, and not tariffs, are to become the preferred method for protecting domestic industry. The government has introduced tariff rate quotas on sugar (not exported by the United States to Russia) and domestic industry has advocated extending such quotas to poultry imports, although no government action has been taken.

The June 1993 Customs Code standardized Russian customs procedures generally in accordance with international norms. However, customs regulations change frequently, (often without sufficient notice), are subject to arbitrary application, and can be quite burdensome. In addition, Russia's use of minimum customs values is not consistent with international norms. In April 2000 the State Customs Committee implemented a restriction that forced U.S. poultry importers to ship directly through Russian ports, rather than through warehouses in the Baltic States, as had been their practice. On the positive side, Russian customs is implementing the "ClearPac" program in the Russian Far East that facilitates customs clearance from the United States.

U.S. companies continue to report that Russian procedures for certifying imported products and equipment are non-transparent, expensive, time-consuming and beset by redundancies. Russian regulatory bodies also generally refuse to accept foreign testing centers' data or certificates. U.S. firms active in Russia have complained of limited opportunity to comment on proposed changes in standards or certification requirements before the changes are implemented, although the Russian standards and certifications bodies have begun to work closely with the American Chamber of Commerce in Russia to provide additional information. Occasional jurisdictional overlap and disputes between different government regulatory bodies compound certification problems.

Under current law some of Russia's legislation in the services sector is overtly protectionist, and a draft law before the parliament could codify restrictions and bans on foreign investment in many services sectors, although its passage is currently uncertain. Formally, foreign participation in banking has been limited to 12 percent of total paid-in banking capital. In the aftermath of the financial crisis, foreign banks' share has exceeded this limit, but the government has taken no action, and the Central Bank of Russia has indicated it will seek a higher quota so as not to impede foreign bank entry, or possibly eliminate the quota altogether. Foreign investment is also limited in other sectors, such as electricity generation and aviation. In October 1999 a law took effect, which implicitly allows majority-foreign-owned insurance companies to operate in Russia for the first time, but restricts their total market capitalization and prohibits them from selling life insurance or obligatory types of insurance. The law contains a "grandfather clause" exempting the four foreign companies currently licensed in Russia from these restrictions. In practice, foreign companies are often disadvantaged vis-à-vis Russian counterparts in obtaining contracts, approvals, licenses, registration, and certification, and in paying taxes and fees.

Despite the passage of a revised law regulating foreign investment in June 1999, Russian foreign investment regulations and notification requirements can be confusing and contradictory. The Law on Foreign Investments provides that a single agency (still undesignated) will register foreign investments, and that all branches of foreign firms must be registered. The law does codify the principle of national treatment for foreign investors, including the right to purchase securities, transfer property rights, protect rights in Russian courts, repatriate funds abroad after payment of duties, and to receive compensation for nationalizations or illegal acts of Russian government bodies. However, the law goes on to state that Federal law may provide for a number of exceptions, including where necessary for "the protection of the constitution, public morals and health, and the rights and lawful interest of other persons and the defense of the state." The potential large number of exceptions thus gives considerable discretion to the Russian government. The law also provides a "grandfather clause" that existing "priority" foreign investment projects with a foreign participation over 25 percent be protected from unfavorable changes in the tax regime or new limitations on the foreign investment. The definition of "priority" projects is not fully clear, although it appears that projects with a foreign charter capital of over $4.1 million and with a total investment of over $41 million will qualify. Furthermore, lack of corresponding customs and tax legislation has so far prevented implementation of these tax protections ostensibly afforded by the investment law. In addition, although the situation has improved over the past few years, foreigners encounter significant restrictions on ownership of real estate in some cities and regions in Russia.

The government maintains a monopoly on the sale of precious and several rare-earth metals, conducts centralized sales of diamonds, and conducts centralized purchases for export of military technology. Throughout 1999 the government has sharply restricted exports of platinum group metals, based on new legislation. An August 1997 series of Presidential Decrees on military exports remain in effect. These decrees established tighter control over military exports by the state enterprises, Rosvooruzheniye and Promeksport, and opened the door to future direct sales by arms manufacturers, if licensed and approved by the Ministry of Industry, Science, and Technology.

Most of these issues are the subject of discussion, as Russia continues to negotiate its accession to the World Trade Organization (WTO). By the end of 2000, the government completed ten working party meetings. It has conducted negotiations on its goods and services market access offer throughout the year, and the government has announced that accelerated WTO accession will be a priority. The Russian government provided a revised goods market access offer in 2000, and plans to revise its services offer by early 2001. Russia is not yet a signatory of the WTO Government Procurement or Civil Aircraft codes.

6. Export Subsidies Policies

The government has not instituted export subsidies, although a 1996 executive decree allows for provision of soft credits for exporters and government guarantees for foreign loans. The government does provide some subsidies for the production of coal, but coal exports are minimal. Low domestic prices for energy, which are provided to all industries, are seen by some as providing a hidden subsidy to some export industries, such as metals producers. However, the government is moving to encourage more realistic pricing for energy. Soft credits are at times provided to small enterprises for specific projects. Senior Russian officials have publicly advocated establishing an export credit agency, along the lines of the U.S. Exim Bank, but no concrete steps have been taken to establish such an agency.

7. Protection of U.S. Intellectual Property

Under the U.S.-Russia Trade Agreement that was originally signed with the Soviet Union in 1990, Russia is obligated to take steps that would provide for the adequate and effective protection and enforcement of intellectual property (IP). In order to address these obligations, the United States and Russia established a bilateral working group as called for under the 1990 Trade Agreement; the bilateral working group is scheduled to meet again in early 2001. In addition, Russia is in the process of accession to the World Trade Organization (WTO) and, accordingly, must fully comply with the Trade-Related Aspects of Intellectual Property Rights (TRIPS) Agreement upon its accession. In 2000 the U.S. Trade Representative retained Russia on the "Special 301" Priority Watch List for a fourth year due in large part to concerns over weak enforcement of IP laws and regulations as well as the lack of retroactive copyright protection for U.S. works in Russia. In 2000 the U.S. copyright industry filed a petition with the U.S. Trade Representative requesting review of Russia's eligibility under U.S. Generalized System of Preferences (GSP) program, citing deficiencies in Russia's IP regime and inadequate enforcement of IP in Russia.

Russia is currently a member of the World Intellectual Property Organization (WIPO) and has acceded to the obligations of the former Soviet Union under the Paris Convention for the protection of industrial property (patent, trademark and related industrial property), the Madrid

Agreement Concerning the International Registration of Marks, and the Patent Cooperation Treaty. Russia has also become a signatory to the Bern Convention for the Protection of Literary and Artistic Works (copyright), as well as the Geneva Phonograms Convention.

In 1992-93 Russia enacted laws strengthening the protection of patents, trademarks and appellations of origins, and copyright of semiconductors, computer programs, literary, artistic and scientific works, and audio/visual recordings. Legal enforcement of intellectual property rights (IPR) continued to show a pattern of slow improvement in 2000 with several large raids on manufacturing facilities, wholesale and retail outlets of pirated goods. A new Criminal Code took effect January 1, 1997 that contains considerably stronger penalties for IPR infringements. However, there are still disappointingly few cases in which these penalties have been applied. Widespread sales of pirated U.S. videocassettes, recordings, books, computer software, clothes, toys, foods and beverages continue. The Russian Patent and Trademark Agency (Rospatent) was re-established as an independent agency this year, and was given full authority for intellectual property rights policy.

The Patent Law includes a grace period, procedures for deferred examination, protection for chemical and pharmaceutical products, and national treatment for foreign patent holders. Inventions are protected for 20 years, industrial designs for ten years, and utility models for five years. The Law on Trademarks and Appellation of Origins introduces for the first time in Russia protection of appellation of origins. The Law on Copyright and Associated Rights, enacted in August 1993, protects all forms of artistic creation, including audio/visual recordings and computer programs as literary works for the lifetime of the author plus 50 years. The September 1992 Law on Topography of Integrated Microcircuits, which also protects computer programs, protects semiconductor topographies for 10 years from the date of registration. The government plans to submit new draft legislation by the end of 2000 to the parliament to provide for retroactive protections for copyrights and other measure to bring Russia into compliance with its bilateral and multilateral obligations.

Losses to U.S. industry from pirated products sold in Russia (a significant portion of which are produced in third countries) are estimated to be significant, although there are few reliable estimates of their value. Counterfeit goods also cause significant losses, in many cases for U.S. firms that have local production. Investors in the consumer goods sector increasingly are warning the Russian government that they will not make further investments if infringement of intellectual property rights continues.

8. Worker Rights

a. *The Right of Association:* The law provides workers with the right to form and join trade unions, but practical limitations on the exercise of this right arise from governmental policy and the dominant position of the formerly governmental Federation of Independent Trade Unions of Russia (FNPR). As the successor organization to the governmental trade unions of the Soviet period and claiming to represent 80 per cent of all workers, the FNPR occupies a privileged position that inhibits the formation of new unions. In some cases, FNPR local unions have continued to work with management to destroy new unions. While recent court decisions have supported the right of association and often ruled in favor of employees, enforcement of these decisions remains difficult. The parliament will consider this fall an amendment to the Law on Trade Unions that could set complicated new re-registration requirements for unions.

b. *The Right to Organize and Bargain Collectively:* Although the law recognizes collective bargaining, and requires employers to negotiate with unions, in practice employers often refuse to negotiate and agreements are not implemented. Past court rulings have established the principle that non-payment of wages (by far the predominant grievance) is an individual dispute and cannot be addressed collectively by unions. As a result, a collective action based on non-payment of wages would not be recognized as a strike, and individuals would not be protected by the Labor Law's guarantees against being fired for participation. The right to strike is difficult to exercise. Most strikes are considered technically illegal, as the procedures for disputes remain exceedingly complex. Moreover, courts have the right to order the confiscation of union property to settle damages and losses to an employer, if a strike is found to be illegal. Reprisals for strikes are common, although strictly prohibited by law. In December 2000 the parliament will consider two draft versions of a new Labor Code. The first was proposed by the government last year and emphasizes labor mobility and a reduction of the so-called "gray economy." The other is supported by pro-union deputies in the parliament and proposes to strengthen trade union rights and workers' guarantees, including indexation of delayed wages.

c. *Prohibition of Forced or Compulsory Labor:* The Labor Code prohibits forced or compulsory labor by adults and children. There are documented cases of soldiers being sent by their superior officers to perform work for private citizens or organizations. Such labor may violate military regulations and, if performed by conscripts, would be an apparent violation of ILO convention 29 on forced labor.

d. *Minimum Age for Employment of Children:* The Labor Code prohibits regular employment for children under the age of 16 and also regulates the working conditions of children under the age of 18, including banning dangerous, nighttime and overtime work. Children may, under certain specific conditions, work in apprenticeship or internship programs at the ages of 14 and 15. Accepted social prohibitions against the employment of children and the availability of adult workers at low wage rates combine to prevent widespread abuse of child labor legislation. The government prohibits forced and bonded labor by children, and there have been no reports that it occurred. However, an increase in the number of children working and living on the streets is largely the result of drastic economic changes and a deterioration in the social service infrastructure.

e. *Acceptable Conditions of Work:* The Labor Code provides for a standard workweek of 40 hours, with at least one 24-hour rest period. The law requires premium pay for overtime work or work on holidays. The government-supported draft of the new Labor Code proposes loosening present restrictions on the work day, including conditions under which women may work and other measures that will reduce government control of the workplace. Wage arrears during the first half of 2000 fell by over 80 percent in real terms compared with the same period in 1998. However, the monthly minimum wage of $4.70 (132 rubles) remains below the official subsistence level of $42 (1,185 rubles) and approximately 34.7 percent of the population have incomes below this survival level. Workers' freedom to move in search of new employment is virtually eliminated by the system of residency permits. The law establishes minimal conditions of workplace safety and worker health, but these standards are not effectively enforced.

f. *Rights in Sectors with U.S. Investment:* Observance of worker rights in sectors with significant U.S. investment (petroleum, telecommunications, food, aerospace, construction machinery, and pharmaceuticals) did not significantly differ from observance in other sectors. There are no export processing zones. Worker rights in the special economic zones/free trade zones are fully covered by the Labor Code.

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

(Millions of U.S. dollars)

Category		Amount
Petroleum		627
Total Manufacturing		(1)
Food & Kindred Products	127	
Chemicals & Allied Products	-107	
Primary & Fabricated Metals	(1)	
Industrial Machinery and Equipment	2	
Electric & Electronic Equipment	(2)	
Transportation Equipment	0	
Other Manufacturing	-67	
Wholesale Trade		-124
Banking		-141
Finance/Insurance/Real Estate		(1)
Services		-166
Other Industries		324
TOTAL ALL INDUSTRIES		509

(1) Suppressed to avoid disclosing data of individual companies.
(2) Less than $500,000 (+/-).
Source: U.S. Department of Commerce, Bureau of Economic Analysis.