E/ESCWA/ED/1998/5

ECONOMIC AND SOCIAL COMMISSION
FOR WESTERN ASIA

SURVEY
OF ECONOMIC AND SOCIAL DEVELOPMENTS IN THE ESCWA REGION 1997-1998

UNITED NATIONS

E/ESCWA/ED/1998/5
ISSN. 0255-5123
ISBN. 92-1-128194 -6
98-0201

UNITED NATIONS PUBLICATION
Sales No. E.98.II.L.3

Preface

The Survey of Economic and Social Developments in the ESCWA Region is an annual publication prepared by the secretariat of the Economic and Social Commission for Western Asia (ESCWA). The first issue in this series was published in 1980. The Survey reviews and analyses the latest economic and social conditions in the region.

The Survey of Economic and Social Developments in the ESCWA Region, 1997-1998 indicates that overall economic conditions improved in 1997, with the region's gross domestic product (GDP) estimated to have registered a growth rate of 3.4 per cent in real terms. Although this was below the 5.5 per cent growth rate achieved in 1996, it nevertheless resulted in a positive per capita real GDP growth rate for the second consecutive year. There was, however, a marked difference in economic growth between the Gulf Cooperation Council (GCC) countries and the countries with more diversified economies in the region. While the combined GDP growth rate in the GCC countries declined from 5.9 per cent in 1996 to an estimated 3 per cent in 1997, it remained steady at an estimated 4.4 per cent in the more diversified economies.

Economic reform and structural adjustment programmes designed to correct internal and external imbalances as well as to enhance efficiency and productivity continued to be implemented in most of the more diversified ESCWA member countries in 1997. The trend of moving away from inward-looking economic development strategies continued, and the economic dominance of the region's Governments appeared to be declining steadily. There is now more emphasis on outward-looking development strategies which focus on the private sector as the engine of growth and development and the major source of employment opportunities. The pace of economic reform varied widely from one ESCWA member to another.

While inflation declined in most ESCWA members to generally acceptable levels in 1997, high unemployment rates remain a major problem facing many countries in the region.

In 1998, the real GDP in the ESCWA region is projected to grow by 2.1 per cent. The projected decline in the region's GDP growth rate in 1998 may be attributed entirely to the projected decline in the real GDP growth of the GCC countries. These countries, as a group, are expected to witness their combined real GDP grow by 1.2 per cent, down from the 3 per cent registered in 1997. The main factor contributing to this decline is the sharp decline in oil prices and its impact on revenues, budget positions and balance of trade. With regard to the countries with more diversified economies in the region, they are expected to witness their combined real GDP grow by 4.5 per cent in 1998, marginally higher than the 4.4 per cent registered in 1997.

The Survey includes a chapter that focuses on social developments. This year's chapter on social issues reviews the conditions of human settlements and assesses the social integration of the disadvantaged groups in the region.

It is hoped that the Survey will continue to contribute to a better understanding of the most recent economic and social developments and provide insight into the most appropriate policies required for sustainable economic growth in the ESCWA region.

The Survey is published on the responsibility of the ESCWA secretariat, and the views expressed herein do not necessarily reflect those of the Governments of the ESCWA member countries.

CONTENTS

CONTENTS *(continued)*

Page

LIST OF TABLES

CONTENTS *(continued)*

CONTENTS *(continued)*

Page

LIST OF BOXES

CONTENTS *(continued)*

Page

LIST OF CHARTS

ABBREVIATIONS AND EXPLANATORY NOTES

AFTZ	Arab Free Trade Zone
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of South-East Asian Nations
bcm	billion cubic metres
c.i.f.	cost, insurance, freight
CD	certificate of deposit
Dh	UAE dirham
EFTA	European Free Trade Association
EMU	European Economic and Monetary Union
ESCAP	Economic and Social Commission for Asia and the Pacific
f.o.b.	free on board
FDI	foreign direct investment
GCC	Gulf Cooperation Council
GDP	gross domestic product
HDI	human development index
hectare	ha
HPI	human poverty index
ID	Iraqi dinar
IMF	International Monetary Fund
JD	Jordanian dinar
KD	Kuwaiti dinar
LE	Egyptian pound
LL	Lebanese pound
LS	Syrian pound
m/b/d	million barrels per day
mcm	million cubic metres
MED	multi effect distillation
MENA	Middle East and North Africa
MSF	multi stage flash
NAFTA	North American Free Trade Agreement
NGO	non-governmental organization
OECD	Organisation for Economic Cooperation and Development
OPEC	Organization of Petroleum Exporting Countries
ppm	parts per million
PPP	purchasing power parity

ABBREVIATIONS AND EXPLANATORY NOTES *(continued)*

QR	Qatar riyal
RO	reverse osmosis
RO	rial Omani
SRls	Saudi Arabian riyals
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund
WHO	World Health Organization
WTO	World Trade Organization
YRls	Yemeni rials

Notes: References to dollars ($) are to United States dollars, unless otherwise stated.

Two dots (..) indicate that data are not available or are not separately reported.

An em dash (—) indicates that the amount is nil or negligible.

A hyphen (-) indicates:

(1) The item is not applicable;

(2) Between years or months (for example, 1990-1992 or January-June), the years or months covered, including the beginning and ending of years or months.

An oblique (/) between years (1993/94) indicates fiscal (financial) year.

I. INTERNATIONAL ECONOMIC AND SOCIAL DEVELOPMENTS

A. Economic growth and trade developments

1. *World economic growth*

The world economy continued its buoyant expansion for the fourth year in a row. World economic growth, measured by GDP, is estimated to have grown by 3.2 per cent in 1997, compared with 3 per cent in 1996 (table 1 and chart 1). All major groups of countries contributed, at different levels, to the overall world economic growth. This included the economies in transition, which as a group recorded positive, albeit small, economic growth for the first time since the start of their economic transformation process in the early 1990s.

One of the most important observations to note is the deceleration of the economic growth in Eastern and Southern Asia, precipitated by the financial crises that hit several countries of this group during the second half of 1997. This group of countries, which previously enjoyed several years of robust economic growth that exceeded an average of 7 per cent, is estimated to have achieved lower economic growth in 1997, and expected to witness a further sharp drop in economic activities in 1998.

In 1997, economic growth in the major industrialized countries, while remaining satisfactory, was unevenly distributed among individual countries. In the United States of America the economy continued to expand, boosted by strong domestic demand, low levels of unemployment, a strong export sector and a sharp reduction in fiscal imbalances, reflected in the sharp reduction in the budget deficit. The reduction in the fiscal deficit created a favourable investment environment and thus boosted economic growth. The GDP of the United States is estimated to have grown by 3.7 per cent in 1997, up from a growth rate of 2.4 per cent recorded in 1996. This estimated growth was achieved despite the tightening of monetary policy by the Federal Reserve Board, which raised the federal funds rate in March 1997 to cool down the economy, prevent any inflationary pressures and steer the economy into a path of more sustainable growth.

In 1997, the economic growth in the European Union (EU) varied from one country to another. In general, however, there was a slight improvement in economic performance in 1997. The tight fiscal policies introduced by several member countries to cut budget deficits to at or below 3 per cent of GDP, as stipulated in the Maastricht Treaty for economic and monetary union, were offset somewhat by the strong export sector.

In France, economic growth, which slowed in 1996 to 1.5 per cent from its 1995 level of 2.1 per cent, is estimated to have rebounded in 1997 to 2.2 per cent (table 1). This was supported by a strong export sector and a rebound in domestic demand, despite the continued high unemployment rate. The tight fiscal policy, which has been implemented by the French Government to meet the maximum budget deficit of 3 per cent of GDP stipulated by the Maastricht Treaty, contributed to the relatively low economic growth registered in the past two years.

In Germany, economic growth slowed considerably in 1996. Economic growth was constrained by sluggish domestic demand, which was partly due to the high unemployment rate in the country. In 1997, however, the country's GDP growth is estimated to have registered 2.4 per cent, up from 1.4 per cent in 1996 (table 1), mainly as a reflection of an expansionary monetary policy and continued strong performance of the export sector. These two factors more than offset the negative impact on economic growth that emanated from the contractionary fiscal policy adopted to reduce the budget deficit. However, the country's high unemployment rate continued to constrain economic growth, as it reduced consumer confidence and hence consumer spending.

In Italy, there was a sharp drop in economic activities in 1996, precipitated by a tight fiscal policy and a strong appreciation of the lira, which adversely affected the country's exports. In 1997, there was a rebound in economic growth in Italy, with the GDP estimated to have achieved a growth rate of 1.3 per cent,

up from a meagre 0.7 per cent in 1996. The economy benefited in 1997 from the depreciation of the lira, which in turn boosted exports. The priority given by several EU member countries, including Italy, to meeting the strict fiscal conditions of the Maastricht Treaty constituted an additional constraining factor on the growth of their economies.

In the United Kingdom of Great Britain and Northern Ireland, economic growth, which picked up in 1993 and peaked in 1994 to an unsustainable rate of 4.3 per cent, decelerated in 1996 to 2.4 per cent as a reflection of the tight monetary policy adopted by the Bank of England to slow economic growth to a more sustainable level. In 1997, economic performance was estimated to have continued its brisk growth, despite the rise in the short-term interest rate. Economic growth in 1997 is estimated to have reached 3.5 per cent, the highest among the EU countries and third after the United States and Canada among the developed countries. This unsustainable growth rate is expected to prompt the Bank of England to raise the short-term interest rate in 1998 to curtail growth to a sustainable level. The main reason for the delay in increasing interest rates so far was the eruption of the financial crisis in South-East Asia, which is expected to lead to a deceleration of economic growth not only in the United Kingdom but also in the rest of the major industrialized countries, particularly those with close economic and trade relations with South-East Asia. The monetary authorities in the major industrialized countries, particularly in the United Kingdom and the United States, are expected to wait for the full manifestation of the financial crisis in South-East Asia before taking further steps and deciding on the next move in short-term interest rates.

In Japan, economic activities, which picked up in 1996, were estimated to have stagnated in 1997. The country's GDP growth rate is estimated to have dropped in 1997 to 0.8 per cent, the lowest among the major industrialized countries, and lower than its 1996 level of 3.5 per cent. Japan is the only major industrialized country in which economic growth in 1997 was lower than in 1996. This is an indication that the previous stimulating measures introduced by the Government to promote economic growth were insufficient. Additional measures are needed, with emphasis on those related to expansionary fiscal policy to boost domestic demand, and in particular private spending. Economic growth in Japan may have also been dampened by the South-East Asian financial crisis. The crisis led to a sharp depreciation of the currencies of these countries and thus increased the competitiveness of their exports compared with Japanese exports, particularly in the automobile sector. The Government took several measures, including fiscal expansion, to boost economic growth. However, the market response to these measures has been below expectations. The Government is urged by its main trading partners to take measures to stimulate the economy, including expansionary fiscal policies, and to further open up its economy.

In Canada, the rebound in economic growth that had prevailed since mid-1996 continued in 1997, boosted by a combination of strong consumer confidence and a buoyant export sector. The country's GDP is estimated to have recorded a 3.6 per cent growth rate in 1997, up from its 1996 level of only 1.5 per cent.

In the economies in transition, economic growth is estimated to have reached an average of 1.7 per cent in 1997, the first positive economic growth achieved by this group of countries since the start of the economic transformation process in the period 1989-1990. Several countries in this group, in particular the Czech Republic, Hungary, Poland, Slovakia, and Slovenia, have overcome the economic deterioration that followed their respective economic transformations into market economies. The countries that have completed their economic reform process have begun to attract foreign investment, which contributed to the rebound in economic growth in 1997. Moreover, these countries may benefit from the financial crisis in South-East Asia, as a portion of the foreign capital that was taken out of these countries in the aftermath of the crisis may find its way into the capital markets of these countries, which would further boost economic growth. In other countries that have not yet completed their respective economic stabilization and reform processes, such as Bulgaria, Romania and the Ukraine, economic growth has not yet rebounded. GDP in this

group of countries is estimated to have recorded a negative growth rate of 7.4 per cent, 1.5 per cent and 3 per cent in Bulgaria, Romania and the Ukraine respectively in 1997.[1]

TABLE 1. GROWTH OF WORLD OUTPUT, 1991-1997[a/]
(Percentage change)

	1991	1992	1993	1994	1995	1996	1997[b/]
World	0.8	1.8	1.4	3.0	2.5	3.0	3.2
Developed economies	0.7	1.6	0.8	2.7	2.1	2.4	2.6
Major industrialized countries	0.7	1.7	0.9	2.6	2.0	2.4	2.5
Canada	(1.8)	0.8	2.2	4.1	2.3	1.5	3.6
France	0.8	1.2	(1.3)	2.8	2.1	1.5	2.2
Germany	1.2	2.2	(1.1)	2.9	1.9	1.4	2.4
Italy	1.1	0.6	(1.2)	2.2	2.9	0.7	1.3
Japan	3.8	1.0	0.3	0.6	1.4	3.5	0.8
United Kingdom	(2.0)	(0.5)	2.1	4.3	2.7	2.4	3.5
United States	(1.0)	2.7	2.3	3.5	2.0	2.4	3.7
Economies in transition	(8.1)	(13.0)	(9.2)	(7.0)	(1.1)	(0.3)	1.7
Developing economies	3.3	5.1	5.2	5.6	4.6	5.7	5.7
China	9.2	14.2	13.5	12.6	10.5	9.7	9.3

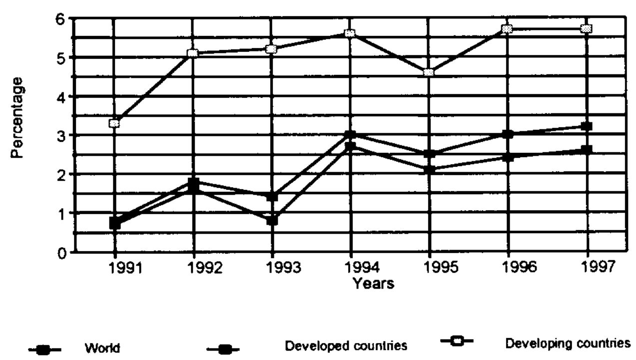
Source: United Nations, Economic and Social Council, "The World Economy at the Beginning of 1998: Report of the Secretary-General" (E/1998/INF/1), pp. 1 and 27.

Note: ( ) indicates negative.

a/ Calculated as a weighted average of individual country growth rates of GDP, where weights are based on GDP in 1993 prices and exchange rates.

b/ Preliminary estimates.

Chart 1. Growth of world output



Source: United Nations, Economic and Social Council, "The World Economy at the Beginning of 1998: Report of the Secretary-General" (E/1998/INF/1), pp. 1 and 27.

---

[1] International Monetary Fund, *World Economic Outlook, October 1997: EMU and the World Economy* (Washington, D.C., 1997), p. 27.

2. *Economic growth in the developing countries*

In 1997, economic growth in the developing countries, as a group, was estimated to have maintained its brisk rate of an average 5.7 per cent achieved in 1996. This was achieved despite the estimated deceleration in economic activities in Africa and East and South Asia. Economic growth in Africa, which recorded a robust growth rate of 4.4 per cent in 1996, is estimated to have dropped to 3.1 per cent in 1997 (table 2 and chart 2). The economic growth on this continent has been negatively affected by the adverse weather conditions which prevailed in a large number of countries in 1997 and which led to a sharp drop in agricultural production. Owing to the large share of the agricultural sector in the total GDP in a large number of African countries, the drop in agricultural production had a significant negative impact on the performance of their economies in general. Restrictive fiscal and monetary policies, as part of the economic reform programmes in a number of African countries, were also responsible for the slow economic growth in 1997. Political instability has further reduced economic activities.

TABLE 2. OUTPUT AND GROWTH IN DEVELOPING COUNTRIES, 1991-1997
(Annual percentage change)

	1991	1992	1993	1994	1995	1996	1997
Developing countries	3.3	5.1	5.2	5.6	4.6	5.7	5.7
Africa	0.8	(0.3)	(0.4)	1.9	2.7	4.4	3.1
Latin America the Caribbean	3.6	3.0	3.6	5.5	(0.1)	3.7	5.2
Eastern and Southern Asia	6.9	7.8	7.9	8.6	8.2	7.4	6.5
China	9.2	14.2	13.5	12.6	10.5	9.7	9.3

Source: United Nations, Economic and Social Council, "The World Economy at the Beginning of 1998: Report of the Secretary-General" (E/1998/INF/1), p. 32.

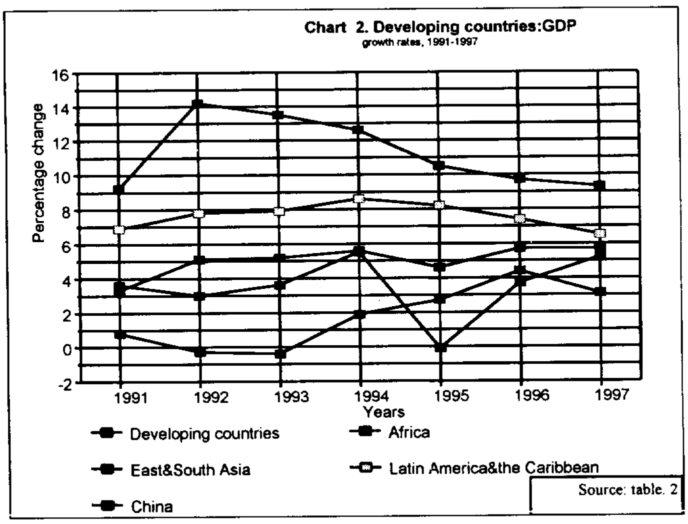
Note: ( ) indicates negative.

In Latin America and the Caribbean, economic activities recorded a strong performance in 1997. The negative repercussions of the Mexican financial crisis of 1994-1995 are already an episode of the past in this group of countries. Economic growth in this group is estimated to have recorded an average rate of 5.2 per cent in 1997, up from an average rate of 3.7 per cent in 1996 and a negative average growth rate of 0.1 per cent in 1995. This group of countries benefited from the rebound in the inflow of foreign direct investment (FDI), from the continued expansion in the economies of the major industrialized countries—particularly the United States and Canada, their main trading partners—and from increased consumer spending and a strong export sector. This group was the first among the developing countries to undertake economic reform programmes, and currently are benefiting from high inflows of foreign investment, which contributed significantly to the acceleration of economic growth. However, the sharp drop in oil prices in late 1997 and early 1998 has had a dampening effect on the economic performance in several member countries in this group, in particular Mexico and Venezuela.

In East and South Asia, economic performance, which had achieved a brisk growth averaging 7.4 per cent in 1996 and 8.2 per cent in 1995, is estimated to have decelerated in 1997 to 6.5 per cent. The financial crises that hit several countries in this group in 1997, and the subsequent bail-out packages used to stabilize these markets, had a severe negative impact on economic growth in 1997. Large sums of short-term private investment were withdrawn from the region, which led to the crash of the equity markets in several countries in this group, in particular Indonesia, Malaysia, the Republic of Korea and Thailand. In addition, the outflow of foreign investment led to a sharp depreciation of the currencies of these countries, which led to the bankruptcy of a large number of local firms in both the public and private sectors. The sharp

depreciation of their currencies fuelled the inflation in these countries. To stabilize their currencies, Governments used large portions of their foreign reserves, which in turn led to sharp declines in investment allocations. The tight fiscal policies that followed, as part of the rescue plans negotiated with the International Monetary Fund (IMF), led to a sharp drop in public spending, including investment, which contributed to a drop in economic growth. The ensuing events took these countries and the world by surprise, as no one had anticipated that these countries, which had achieved remarkable growth rates in the past decade, would suffer such a severe financial crisis. The full impact of the crisis is still not known; however, it seems that its impact will continue to be felt in the next few months, and perhaps years, depending on the success of these countries in implementing the agreed economic measures and their ability to withstand the short-term impact of this crisis on their populations.

In China, economic growth was moderated in 1995 and 1996 by the restrictive measures that had been taken by the Government to slow down the economy. These measures, which included a tight fiscal policy, succeeded in slowing economic growth in 1996 to 9.7 per cent, down from 10.3 per cent in 1995 and are estimated to have led to a further decline, albeit small, in the economic growth rate in 1997. The country's GDP is estimated to have grown by 9.3 per cent, slightly below its 1996 level of 9.7 per cent. Despite this drop, economic growth in China remains the highest in the world and had it not been for the Government measures to constrain economic growth to more sustainable levels, the economic performance could have been even stronger. Economic performance in China in 1997 was estimated to have been negatively affected by the financial crisis in South-East Asia, including Hong Kong (China), which returned to China in July 1997. The sharp depreciation of the currencies of the countries directly affected by the crisis boosted the competitiveness of their exports compared with those of other countries, including China. This is estimated to have had a negative impact on China's exports, but the Government has not yet taken any measures to devalue the country's currency to boost exports. However, if China takes such measures, the impact of the crisis will intensify. Among the most important measures taken by the Government in 1997 to liberalize the economy were the conversion of several State-owned enterprises to joint stock companies, the merging of several of these companies, and the liquidation of those companies that could not be reformed.



Source: United Nations, Economic and Social Council, "The World Economy at the Beginning of 1998: Report of the Secretary-General" (E/1998/INF/1), p. 32.

BOX 1. THE FINANCIAL CRISIS IN SOUTH-EAST ASIA

The financial crisis that hit several South-East Asian countries during the second half of 1997 is considered among the worst faced by the international financial system since the establishment of the Bretton Woods institutions. It was more severe in its implications for the world financial system than the Mexican crisis of December 1994. The crisis hit relatively large economies, including the Republic of Korea, the eleventh largest economy in the world, and Indonesia, the fourth most populous country in the world. The crisis erupted first in Thailand in July 1997 and quickly spread to the Republic of Korea, Malaysia, Hong Kong (China), China and Indonesia.

BOX 1 *(continued)*

While the manifestations of the crisis are relatively similar, the symptoms were slightly different, particularly with regard to the Republic of Korea on the one hand, and Malaysia, Indonesia and Thailand on the other hand. In the Republic of Korea, the crisis erupted mainly as a result of a sharp increase in short-term private sector debt. This led to an accelerated outflow of foreign capital, which, in turn, put severe pressure on the country's currency. The problem in the Republic of Korea has been more of a short-term drop in foreign exchange reserves and not a reflection of structural economic problems. In both Indonesia and Malaysia, however, the problems were of a more fundamental nature. Both countries have been faced with prolonged fiscal imbalances, highly appreciated currencies and a deterioration in their current accounts. The appreciation of their currencies, which resulted, among other things, from pegging these currencies to the United States dollar, reduced the competitiveness of their exports in the international markets. This, together with a sharp increase in their debt service payments, led to a further deterioration in these countries' current accounts which, in turn, led to a drain on their foreign reserves. The outflow of capital also contributed to a sharp and sudden depreciation of these countries' currencies. The crisis has negatively affected the economies of these countries and it led to the following:

(a) Sharp loss of output;
(b) Loss of confidence of the international capital markets;
(c) Sharp increase in the unemployment rates;
(d) Sharp increase in the poverty levels;
(e) Sharp rise in their external debt and debt service payments;
(f) Sharp increase in the bankruptcy rates.

In addition, the crisis had a negative impact on the international banks, particularly those in the European Union and Japan, reflected in a sharp increase in bad loans, debt default and loans overrolling. The crisis also has had a negative impact on the equity markets in these countries and, in the short term, on the global equity markets. Foreign investors lost in the equity markets as a result of both the sharp drop in the average indices of these markets and from the depreciated currencies.

This situation prompted these countries, with the exception of Malaysia, to seek the assistance of the International Monetary Fund to formulate bail-out packages to restore confidence in their markets and to mitigate the negative impact on their economies. These rescue packages included the following:

(a) Sharp increase in the short-term interest rates, to stabilize the exchange rates of the local currencies;

(b) Reduction in the fiscal imbalance, through a contractionary fiscal policy that includes sharp reductions in government spending;

(c) Reform and restoration of the financial systems and financial institutions, including the liquidation of non-viable institutions.

To implement these policies, the IMF has provided financial assistance in excess of $100 billion to these countries, including $17 billion to Thailand, $43 billion to Indonesia and $57 billion to the Republic of Korea. However, these funds are to be made available only if these countries agree to implement the economic stabilization and reform policies that were agreed upon with the IMF.

Although the full impact of the South-East Asian crisis on the global economy has not yet been evaluated, the crisis is expected to lead to a drop of 0.5 per cent in the world economy in 1998. This is due to the expected drop in domestic demand in the crisis-stricken countries, reflecting the drop in public spending, the decrease in consumer spending as a result of the increase in unemployment levels and the outflow of the foreign capital that had been one of the major factors in boosting economic growth in these countries in the past. In addition, the sharp depreciation of these countries' currencies is expected to lead to a sharp drop in their demand for imports and thus negatively affect the exports of other countries, particularly the major trading partners of these countries. Moreover, the depreciation of the currencies of these countries could lead to a surge in their exports as these exports

BOX 1 *(continued)*

become more competitive in the international markets, which in turn will hurt the exports of other countries, in particular China, Japan and the United States.

The impact of the crisis on the economies of the developing countries is expected to be mixed. The impact could be positive for those countries that are able to attract a large portion of the foreign capital that was moved out as a result of the crisis. However, only those countries that implemented economic reform programmes are expected to benefit from this movement of capital. The impact on other countries, particularly those exporting raw materials to these developing countries, is expected to be negative, as has been the case for the oil-exporting countries that have been faced with a sharp drop in oil prices in late 1997 and early 1998, reflecting mainly the drop in the demand for oil from the crisis-stricken countries. In addition, this crisis is expected to prompt the developing countries to re-evaluate their policies towards the rules and regulations that govern investment by foreign capital, particularly in the equity markets. The sudden and sharp outflow of foreign capital from South-East Asian countries has exacerbated the crisis as it contributed significantly to the drain of these countries' foreign reserves and hence to the sharp depreciation of their currencies. Other developing countries are expected to draw an important lesson from this experience, particularly in their future dealings with foreign private capital.

The impact on the ESCWA region is expected to be limited to the drop in oil demand, reflecting the drop in domestic demand for those countries and the expected sharp drop in economic growth. The expected drop in oil demand came during a period when the countries that are members of the Organization of Petroleum Exporting Countries (OPEC) decided to raise their output to keep their market share. This, together with a warmer winter in both the European countries and the United States, contributed to the current fall in oil prices. This is expected to have a negative impact on the economies of the ESCWA region in 1998. It will also adversely affect some exports, particularly textile and light industrial products, from the ESCWA region.

3. *World trade*

The growth of the world merchandise trade, which grew by 9.3 per cent and 9.5 per cent in 1994 and 1995 respectively and slowed to 6.3 per cent in 1996, is estimated to have rebounded slightly in 1997 to 7.7 per cent (table 3). Most of this rebound resulted from the strong performance of the trade sector in the advanced economies, and despite the drop in performance of the developing countries. In the advanced economies, the volume of exports is estimated to have achieved a growth rate of 8.2 per cent in 1997, up from a growth rate of 5.5 per cent in 1996. In the United States, the volume of exports is estimated to have recorded a growth rate of 11.7 per cent in 1997, the highest among the major industrialized countries, up from 8.3 per cent in 1996.[2] The strong performance of the export sector in the United States was boosted by increased productivity, which lowered the production cost of American goods. The strong performance by the exports was achieved despite the appreciation of the dollar against many major currencies during the second half of the year.

In the European Union, the volume of exports rose in the majority of member countries in 1997, with the exception of Italy. The performance of the export sector in the European Union is boosted by the depreciation of several currencies, including the French franc, the German deutsche mark and the Italian lira. In addition, the exports of the European Union also benefited from cost-cutting, increased productivity and the increased demand, particularly by the developing countries.

In Japan, the volume of exports is estimated to have increased by almost fivefold in 1997, boosted by the sharp depreciation of the yen and the strong competitiveness of Japanese goods. Japan's volume of exports is estimated to have grown by 10.5 per cent in 1997, up sharply from its 1996 level of just 2.3 per

[2] Ibid., p. 178.

cent.[3] However, the growth of exports from Japan is expected to be negatively affected by the financial crisis in South-East Asia. The sharp depreciation of the local currencies of several countries in this group, which resulted from the bail-out packages agreed upon to restore stability to these economies, will make the exports of these countries more competitive in the international markets. Therefore, the estimated growth rate of Japanese exports in 1997 is expected to be revised downward.

In the developing countries, the growth rate of the volume of exports, which dropped significantly in 1996 to an average of 8.6 per cent, down from an average of 10.5 per cent in 1995, is estimated to have fallen further to an average of 7.5 per cent in 1997. This was mainly as a result of the drop in the volume of exports in Africa to 7.5 per cent in 1997, down from a brisk growth of 12 per cent in 1996, and a drop in the volume of exports from the Western hemisphere estimated at 8.8 per cent, down from the 1996 level of 10.4 per cent.[4]

In Africa, the estimated drop in the volume of exports of goods and services was attributed to the decrease in 1997 of agricultural production, which represents the main export source in this group of countries. The fluctuations in the performance of the export sector in Africa will continue as long as this group of countries remains dependent on the exports of raw material and primary products, owing to the limited diversification in their trade sector.

In Asia, the volume of exports of goods and services, which dropped sharply in 1996 to 2.1 per cent, down from a growth rate of 15.8 per cent in 1995, is estimated to have rebounded strongly in 1997 to reach 8 per cent. The main factors behind this strong rebound were the sharp depreciation of the currencies of several countries in this group, and the drop in the prices of electronic equipment, which represents one of the main export items of these countries. The depreciation of several currencies made these countries' exports more competitive, particularly when compared with Japanese and Chinese goods, and thus boosted the estimated growth rate in 1997.

TABLE 3. WORLD TRADE IN GOODS AND SERVICES: RATES OF GROWTH OF VOLUMES, 1991-1997

	1991	1992	1993	1994	1995	1996	1997[a/]
World trade	4.0	5.1	4.0	9.3	9.5	6.3	7.7
			Exports				
Advanced economies	5.7	5.2	3.3	8.9	8.8	5.5	8.2
Developing countries	4.3	10.3	7.2	12.5	10.5	8.6	7.5
			Imports				
Advanced economies	3.3	4.7	1.6	9.7	8.9	6.1	7.1
Developing countries	7.5	9.5	9.0	6.9	11.4	8.7	8.4

Source: International Monetary Fund, *World Economic Outlook, October 1997: EMU and the World Economy* (Washington, D.C. 1997), p. 175.

a/ Estimates.

The volume of imports of goods and services in the advanced economies is estimated to have recorded a modest growth in 1997 to 7.1 per cent, up from its 1996 level of 6.1 per cent. In the major industrialized countries, the volume of imports is estimated to have grown by 7.1 per cent in 1997,[5] up from

[3] Ibid.

[4] Ibid., p. 180.

[5] Ibid., p. 178.

6.1 per cent in 1996. The highest growth in this group was achieved by the United States (13.5 per cent), followed by Canada (11.7 per cent), and the United Kingdom (7.8 per cent). In the United States, imports benefited in 1997 from the continued strong economic growth and the appreciation of the dollar. The appreciation of the dollar, particularly against the currencies of South-East Asia, led to a sharp inflow of imports from these countries, and at the same time demand for United States exports to these countries dropped as a result of the financial crisis. This is expected to widen the trade deficit gap of the United States in 1998.

In the European Union, the performance of the volume of imports of goods and services varied from one country to another. While the volume of imports is estimated to have achieved growth rates of 5.7 per cent, 3.2 per cent and 2.9 per cent in Germany, France and Italy respectively, it is estimated to have dropped in the United Kingdom to 7.8 per cent in 1997, down from the 1996 level of 8.5 per cent.[6] The estimated rebound in the growth of volume of imports in these countries was attributed to the rebound in economic growth in 1997.

In Japan, the volume of imports of goods and services, which dropped in 1996 to 10.5 per cent from its 1995 level of 14.3 per cent, is estimated to have continued its downward trend. The continued sluggish economic growth is the main factor behind the drop in the volume of imports, in addition to the depreciation of the yen, which made imports more expensive in the local market. Moreover, imports in Japan remain constrained by the regulated trade sector. Japan's main trading partners, in particular the United States and the European Union, have been urging the Government to liberalize the trade sector further in order to open it up to the free inflow of imports. Japan has been urged in particular to increase its imports from South-East Asian countries to help these countries to overcome their financial crisis.

In the developing countries, the growth of the volume of imports (goods and services), which decelerated in 1996 to 8.7 per cent from its 1995 level of 11.4 per cent, is estimated to have dropped slightly in 1997 to 8.4 per cent (table 3). This drop occurred despite the continued strong economic growth in this group of countries, and could be attributed to the measures taken by several countries to reduce imports as part of their restrictive fiscal policies. In addition, the financial crisis faced in the South-East Asian countries, which led to a sharp depreciation of their currencies, may have contributed to the drop in the imports of the developing countries as a group.

B. UNEMPLOYMENT

Available data on unemployment in the developed countries show a mixed picture. In both the United Kingdom and the United States, unemployment rates have been falling for the past few years, while in other countries unemployment rates remained high. In the United States, the rate of unemployment dropped to less than 5 per cent during the second half of 1997. For 1997, the unemployment rate is estimated to have dropped to 5 per cent, down from its 1996 level of 5.4 per cent. Despite this low level of unemployment in the United States, there has not been any sign of inflationary pressures in the economy. This has been attributed to the rise in the productivity of the labour force in the country, which kept production costs low. The drop in the unemployment rate has not been accompanied by a significant increase in the average hourly wage, the most important factor to gauge inflationary pressure.

In the United Kingdom, the unemployment rate has fallen in the past several years, helped by continued strong economic growth. In 1997, the country's unemployment rate is estimated to have dropped to 7 per cent, down from a rate of 8.2 per cent in 1996 (table 4). The unemployment rate in the United Kingdom in 1997 was the lowest among the major economies of the European Union, and was below the average for the developed countries as a whole.

[6] Ibid.

In Germany and France, increases in unemployment rates reached a new record in 1997 as economic growth in both countries remained sluggish and below the required rates to reduce significantly the rate of unemployment. In addition, fiscal consolidation measures applied by these two countries and other EU members to reduce fiscal deficits to within the Maastricht Treaty target of 3 per cent of GDP constrained economic growth and hence contributed to the persistently high unemployment rates. Moreover, the unemployment rate in Germany continued to be fuelled by the continued high unemployment rate in the eastern part of the country, which has been undergoing a massive economic transformation process since the unification of Germany in 1990. The unemployment rate in Germany is estimated to have reached 9.6 per cent in 1997,[7] compared with a rate of 8.9 per cent recorded in 1996.

In Italy, the unemployment rate is estimated to have reached 12.2 per cent in 1997, up from its 1996 level of 12 per cent. This rate, which was the second highest among the major industrialized economies after France, was boosted by the continued low economic growth and the country's efforts to reduce public spending to cut the budget deficit to meet the target of 3 per cent stipulated in the Maastricht Treaty. Italy wants to be among the first group of EU countries to join the European Economic and Monetary Union (EMU) in 1999.

High unemployment rates in the major EU countries, with the exception of the United Kingdom, can be attributed to several factors in addition to the low economic growth and the fiscal consolidation. These additional factors include the relatively rigid labour markets in these countries and the lack of liberalization of labour laws and regulations. The financial crisis in South-East Asia is also expected to have an adverse effect on unemployment in these countries. The sharp depreciation of the currencies of these countries that accompanied the economic restoration programmes made their exports more competitive and thus is expected to have an adverse effect on the exports of several European countries. This, in turn, could complicate the already severe unemployment problems.

TABLE 4. DEVELOPED ECONOMIES: UNEMPLOYMENT RATES, 1991-1997
(Annual percentage changes)

	1991	1992	1993	1994	1995	1996	1997[a]
All developed economies	6.7	7.4	8.1	7.9	7.6	7.6	7.4
Major industrialized countries	6.3	6.8	7.2	7.1	6.8	6.8	6.7
Canada	10.2	11.3	11.2	10.4	9.5	9.7	9.3
France	9.5	10.4	11.7	12.3	11.7	12.4	12.5
Germany	4.2	4.6	7.9	8.4	8.2	8.9	9.6
Italy	9.8	10.5	10.3	11.4	11.9	12.0	12.2
Japan	2.1	2.2	2.5	2.9	3.1	3.4	3.5
United Kingdom	8.8	10.1	10.5	9.6	8.8	8.2	7.0
United States	6.8	7.3	6.9	6.1	5.6	5.4	5.0
Other industrialized countries	8.9	10.1	12.1	12.3	11.6	11.4	10.9

Source: United Nations, Economic and Social Council, "The World Economy at the Beginning of 1998: Report of the Secretary-General" (E/1998/INF/1), p. 30.

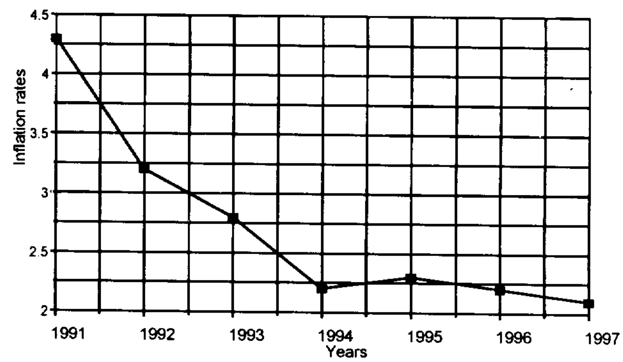
a/ Estimates.

7 This was equivalent to 4.38 million unemployed workers. See the Deutsche Bundesbank, Monthly Report, January 1998, vol. 50, No. 1, p. 14.

C. INFLATION

Maintaining price stability and controlling inflation have been the core of the monetary policies being applied by the monetary authorities in the major industrialized countries. This policy has succeeded, so far, in controlling inflationary pressures in these countries, not only in those with moderate economic growth, such as France, Germany and Italy, but also in countries with strong economic growth, such as the United Kingdom and the United States (chart 3). One of the most important observations to be noted is the fact that this current world economic expansion has been free, so far, from any threats of rising inflation. Rates of inflation have been declining not only in the major industrialized economies but also in the developing countries.

Chart 3. Major industrialized countries
inflation rates, 1991-1997



Source: International Monetary Fund, *World Economic Outlook, October, 1997: EMU and the World Economy* (Washington, D.C., 1997), pp. 158-159.

In the United States, the rate of inflation at the consumer level has been falling, even with rising economic growth. Price stability in the United States has been maintained by an increase in labour productivity, which prevented wage pressures, cost-cutting by American corporations and the relatively strong dollar. The monetary authorities in the United States have also maintained a close watch on the economy, looking for any signs of building inflation. In March 1997, the monetary authorities, represented by the Federal Reserve Board, raised the short-term interest rate (the federal funds rate) to prevent the economy from overheating. Fiscal consolidation, reflected by the sharp reduction in the budget deficit in 1997, has also helped to reduce inflationary pressures in the United States, as the Government demand for credit to finance the deficit dropped, thus easing pressure on the interest rates. The average rate of inflation in the United States in 1997 is estimated to have dropped to 2.4 per cent, down from an average of 2.9 per cent in 1996 (table 5).

In the European Union, inflation rates on average were also kept under control in 1997, helped by both moderate economic growth in a large number of the countries in this group and fiscal consolidation policies adopted by several countries with large economies to meet the targeted budget deficit of 3 per cent of GDP. Inflation rates in this group of countries also remained under control because of the continued high unemployment rate in several major countries, in particular France, Germany and Italy. High unemployment reduced consumer confidence and thus kept consumer spending below expectations. The average inflation rate in this group of countries is estimated to have dropped to 1.9 per cent in 1997, the lowest rate for many years, down from an average of 2.5 per cent in 1996 (table 5).

In Japan, inflation remained under control during 1997, despite the slight rebound detected, compared with a disinflation registered in 1995. Inflation in Japan was kept under control by the continued sluggish economic growth, the decline in consumer confidence and the outflow of capital to other major industrialized economies to benefit from interest rate differentials.

In the developing countries, efforts to control inflation have continued to yield increasingly successful results. The average rate of inflation in this group of countries dropped from its peak of an average of 51.4 per cent in 1994 to an average of 10 per cent in 1997 (table 5). The inflation rate is estimated to have dropped in all groups of developing countries.

TABLE 5. CONSUMER PRICE INFLATION IN SELECTED COUNTRIES AND GROUPS, 1991-1997

	1991	1992	1993	1994	1995	1996	1997[a]
Advanced economies	4.7	3.5	3.1	2.6	2.5	2.4	2.2
Major industrialized countries	4.3	3.2	2.8	2.2	2.3	2.2	2.1
United States	4.2	3.0	3.0	2.6	2.8	2.9	2.4
European Union	5.1	4.5	3.8	3.0	2.9	2.5	1.9
Japan	3.3	1.7	1.2	0.7	(0.1)	0.1	1.6
Developing countries	36.2	38.7	46.8	51.4	22.7	13.2	10.0
Africa	24.6	32.1	29.5	38.7	33.1	25.0	14.8
Asia	7.8	7.1	10.3	14.8	11.9	6.6	5.8
Western hemisphere	129.1	153.2	212.5	213.9	41.7	20.5	13.5
Countries in transition	95.9	580.7	486.2	246.1	119.2	40.4	32.3

Source: International Monetary Fund, *World Economic Outlook, October, 1997: EMU and the World Economy* (Washington, D.C., 1997), pp. 158-159.

Note: ( ) indicates negative.

a/ Estimates.

In Africa, the average rate of inflation is estimated to have dropped to an average of 14.8 per cent in 1997, down from its 1996 level of 25 per cent. The fiscal consolidation and more prudent monetary policies being implemented in this group of countries, as part of their economic stabilization and reform programmes, are the main factors behind controlling inflation. In addition, the continued moderate rate of economic growth contributed to maintaining relatively subdued inflation rates. However, despite the success achieved, the average inflation rate in African counties remains higher than in other developing countries. More intensive efforts are necessary to reduce the average inflation rate to within a single digit.

In Asia, the average inflation rate remained relatively low by the standards of developing countries. In 1997, the average rate in this group of countries dropped further to 5.8 per cent, compared with an average of 6.6 per cent in 1996. Increased productivity along with prudent monetary policies being implemented by these countries are the main factors behind the success of this group in fighting inflation. This success was achieved during a period of continuing strong economic growth. The policy of pegging local currencies to the United States dollar in several countries of this group helped to reduce inflation rates during a period of a strong dollar. However, the severe financial crisis that hit several South-East Asian countries in 1997, which led, among other things, to a sharp depreciation of their currencies is expected to lead to an acceleration of the inflationary pressures, as the prices of several goods are expected to go up as part of the economic restoration programmes being implemented in cooperation with the international financing institutions. The financial crisis in this group of countries could change into an inflation crisis if the Governments are not able to control the rising price levels that emanated from, among other things, the sharp depreciation of the local currencies and from supply shortages.

In the western hemisphere, there has been significant success in the fight against inflation in the past few years. The average rate of inflation in this group of countries, which reached its peak of 213.9 per cent in 1994, is estimated to have dropped sharply in 1997 to 13.5 per cent. This was achieved while economic growth remained strong. Economic reform programmes that included fiscal consolidation, in addition to the prudent monetary policies adopted in the aftermath of the Mexican financial crisis of December 1994, contributed to the success in fighting inflation in this group of countries.

D. Interest rates

The environment of low short-term interest rates that prevailed in most of the major industrialized countries in the past few years is estimated to have continued in 1997. Short-term interest rates were kept low, not only in those countries with moderate or sluggish economic growth such as France, Germany and Japan, but also in countries such as the United States where GDP growth remained strong. This optimum environment for continued economic growth was achieved as a result of fiscal consolidation and the success of several major industrialized countries in containing their budget deficits. In addition, short-term interest rates were kept low in several EU member countries as part of their efforts to stimulate economic growth.

In the United States, the short-term interest rate was raised once in March 1997, as a preventive measure against inflation. However, despite this modest increase in the short-term interest rate, economic growth in the United States continued to be strong for the rest of 1997, and the Federal Reserve Board could have raised the short-term interest rate in late 1997 had it not been for the eruption of the financial crisis in South-East Asia. This crisis is expected to counteract the domestic pressures on the economy, which included high capacity utilization, high consumer spending and the creeping up of labour costs, by constraining exports.

In Japan, the short-term interest rate remained very low in 1997, as continued sluggish economic growth prompted the Government to lower interest rates as part of its efforts to stimulate economic growth. Despite the slight increase in the short-term interest rate in 1997 to 0.5 per cent, up from as low as 0.3 per cent in 1996, the short-term interest rate in Japan remained the lowest among the major industrialized countries.

In the EU, the picture for short-term interest rates is mixed. While in France, Germany and Italy short-term interest rates were on a downward trend, in the United Kingdom the short-term interest rate has been on the rise. The main factor behind these different trends in short-term interest rates is the fact that the United Kingdom is in an advanced stage of its economic cycle, in which economic growth has reached an unsustainable level; measures are therefore needed to cool down the economy to prevent the eruption of inflationary pressures. In other countries, economic growth remained low and in need of further stimuli, including an environment of low short-term interest rates. In addition, those countries were successful in reducing their fiscal deficits, therefore contributing to lowering short-term interest rates. Another factor that may have also contributed to the low short-term interest rates in these countries was reflected in the concern about the appreciation of the exchange rate of their currencies, which could negatively affect their exports and hence hamper their economic growth. This factor became more significant after the eruption of the financial crisis in South-East Asia.

Long-term interest rates in the major industrialized countries have also been on a downward trend for the past two years thanks to low inflation, fiscal consolidation and continued moderate economic growth in several countries of this group. Even in those countries with strong economic growth, such as the United States and the United Kingdom, long-term interest rates declined in 1997 compared with 1996.

In the United States, the downward trend in long-term interest rates is estimated to have continued in 1997, with the average for the year falling slightly to 6.3 per cent from its 1996 level of 6.4 per cent. Most of this drop came in late 1997, as the yield for the treasury bills dropped below 6 per cent, helped by a continued moderate inflation rate and the inflow of funds, particularly from Japan, to invest in the United States, mainly in treasury bills. The eruption of the financial crisis in the South-East Asian countries also helped to keep interest rates at low levels. The crisis is expected to have a constraining effect on economic growth in the United States and thus reduce the pressure on the Federal Reserve Board to raise the short-term interest rate to prevent the emergence of any inflationary pressures. One external factor that can lead to a surge in the long-term interest rate is the possible sudden outflow of Japanese funds invested in United States

treasury bills. If this takes place, it would lead to a drop in bond prices and increase the yield of long-term bonds.

In Japan, long-term interest rates have been on a steep decline in the past few years. They fell from 6.3 per cent in 1991 to 3.3 per cent in 1995, before dropping further to 3 per cent in 1996. In 1997, they were estimated to have declined further to 2.1 per cent, the lowest rate among the major industrialized countries. Continued sluggish economic growth and low inflation were the main factors behind the drop in the long-term interest rates in Japan. This situation encouraged Japanese investors to borrow from the local capital market and invest in the major industrialized countries to benefit from the interest rate differentials.

In the European Union, there has been a downward trend in the long-term interest rates in these countries, as economic growth remained moderate in most countries of this group, and inflation remained low. Even in the United Kingdom, where economic growth remained strong and short-term interest rates are on the rise, the long-term interest rate is estimated to have dropped in 1997 to 7.1 per cent, down from the 1996 level of 7.8 per cent. This can be attributed to the absence of any strong inflationary pressures, so far, in the economy. However, the monetary authorities may raise short-term interest rates if economic growth increases to an unsustainable level. This action, however, has to be considered together with the expected negative impact of the financial crisis in South-East Asia on the economy.

BOX 2. THE EUROPEAN ECONOMIC AND MONETARY UNION

The European Economic and Monetary Union (EMU), which will come into effect on 1 January 1999, will represent one of the most important changes in the international monetary system since the establishment of the Bretton Woods financial institutions. The EMU will replace not only the current local currencies of its member countries, but it will also take over their monetary policies. Therefore, it is expected to have a profound impact, not only on the economies of its member countries, but also on the global economy. The EMU, which represents the culmination of the EU efforts to achieve economic and monetary integration, was preceded by the establishment of the European Monetary System in 1979 together with the Exchange Rate Mechanism (ERM) and the establishment of the European Monetary Institute (EMI) in January 1994.

The most important impact on its member countries will be manifested in the control of the European Central Bank (ECB) over decisions concerning monetary policy. The formulation and implementation of monetary policy will be the responsibility of the European System of Central Banks (ESCB), which comprises the ECB and the National Central Banks (NCB) of member countries. However, the ECB Governing Council, which comprises its president, vice president and members of its executive board, will take the decisions on monetary policy. The ECB executive board will implement monetary policy, taking into consideration the directives from the Governing Council, and give the needed instructions to the NCBs of its member countries. To ensure as much independence as possible, the members of the ECB executive board will be appointed for eight-year non-renewable terms.

The main responsibilities of the ESCB are:

(a) To maintain price stability;
(b) To control inflation;
(c) To help to achieve sustainable economic growth;
(d) To contribute to achieving economic cohesion among its member countries.

The first group of countries that have qualified, by meeting the strict conditions, particularly in areas of fiscal deficit and national debt, includes Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Spain and Portugal. Other EU members, such as the United Kingdom, are not participating at this stage for political reasons, or because they have not been able to meet the strict economic conditions, particularly those related to fiscal deficit and national debt.

Box 2 (*continued*)

The main objectives of the single European currency, the Euro, are:

(a) To reduce transaction costs;
(b) To produce lower interest rates;
(c) To eliminate the exchange rate risk premium, which is usually associated with several EU local currencies;
(d) To boost investment.

Source: International Monetary Fund, *World Economic Outlook, October 1997: EMU and the World Economy* (Washington, D.C., 1997), chap. III.

TABLE 6. INDUSTRIALIZED COUNTRIES: INTEREST RATES, 1991-1997

	1991	1992	1993	1994	1995	1996	1997
Short-term interest rates[a/]							
Major industrialized countries	7.5	6.2	4.7	4.4	4.8	3.7	4.4
United States	5.4	3.4	3.0	4.2	5.5	5.1	5.6
Japan	7.0	4.1	2.7	1.9	1.0	0.3	0.5
Germany	9.2	9.5	7.2	5.3	4.5	3.3	3.2
France	9.7	10.5	8.4	5.8	6.6	3.8	3.3
Italy	12.7	14.5	10.5	8.4	10.7	8.3	6.5
United Kingdom	11.5	9.5	5.9	5.5	6.7	6.0	7.2
Canada	8.8	6.6	4.8	5.5	7.0	4.2	3.6
Long-term interest rates[b/]							
Major industrialized countries	8.3	7.4	6.2	6.7	6.3	5.8	5.5
United States	7.9	7.0	5.9	7.1	6.6	6.4	6.3
Japan	6.3	5.1	4.0	4.2	3.3	3.0	2.1
Germany	8.5	7.8	6.4	6.8	6.8	6.2	5.7
France	9.0	8.6	6.9	7.4	7.6	6.4	5.6
Italy	13.1	13.1	11.3	10.3	11.9	9.2	6.6
United Kingdom	10.1	9.1	7.5	8.2	8.2	7.8	7.1
Canada	9.4	8.1	7.2	8.4	8.1	7.2	6.0

Source: International Monetary Fund, *World Economic Outlook, October 1997: EMU and the World Economy* (Washington, D.C., 1997), p. 171.

a/ For the United States three-month certificates of deposit (CDs) in secondary market; for Japan, three-month CDs; for Germany, France and the United Kingdom three-month interbank deposits; for Italy, three-month treasury bills gross rate and for Canada, three-month prime corporate paper.

b/ For the United States, yield on 10-year treasury bonds; for Japan, over-the counter sales yield on 10-year government bonds with longest residual maturity; for Germany, yield on government bonds with maturity of 9 to 10 years; for France, long-term (7 to 10 years) government bonds yield; for Italy, secondary market yield on fixed-coupon (BTP) government bonds with 2 to 4 years residual maturity; for the United Kingdom, yield on medium-dated(10-year) government stock; and for Canada, average yield on government bonds with residual maturity of over 10 years.

E. THE DOLLAR'S EXCHANGE RATE

The United States dollar appreciated significantly against the currencies of other major industrialized countries in 1997. The dollar rate was boosted by tight monetary policies and the continued inflow of foreign capital to the equity markets, and gained from the financial crisis in South-East Asia. The dollar fluctuated sharply against the Japanese yen in 1997. It appreciated during the first half of 1997 to 127 yen to the dollar in April before declining to 110 yen in June. During the second half of 1997, the dollar appreciated again to 121 yen in September. The weak economic recovery in Japan, in addition to the eruption of the financial crisis in South-East Asia, led to a further appreciation of the dollar. In addition, the dollar acted as a safe haven currency during the time of the crisis. As an average for the first eight months of 1997, the dollar reached 117 yen, up from an average of 108.8 yen in 1996 (table 7 and chart 4). By early May 1998, the United States dollar was equivalent to more than 130 yen.

TABLE 7. THE UNITED STATES DOLLAR EXCHANGE RATE, 1991-1997

	1991	1992	1993	1994	1995	1996	1997[a]
Japanese yen	134.7	126.7	111.2	102.2	94.1	108.8	117.1
Deutsche mark	1.66	1.56	1.65	1.62	1.43	1.50	1.84
French franc	5.64	5.29	5.66	5.55	4.99	5.12	6.22
Italian lira	1 241	1 232	1 574	1 612	1 629	1 543	1 799
Pound sterling	1.76	1.76	1.50	1.53	1.58	1.56	1.63
Canadian dollar	1.15	1.21	1.29	1.37	1.37	1.36	1.39

Source: International Monetary Fund, *World Economic Outlook, October, 1997: EMU and the World Economy* (Washington, D.C., 1997), p. 172.

a/ August 1997.

The dollar, which lost ground against the deutsche mark in both 1995 and 1996, is estimated to have appreciated strongly against the deutsche mark in 1997, as the German monetary authority eased short-term interest rates to foster economic growth, while the United States raised short-term interest rates to cool down the economy. During the first eight months of 1997, the dollar is estimated to have averaged 1.84 deutsche mark, up from an average of 1.50 deutsche mark for 1996.

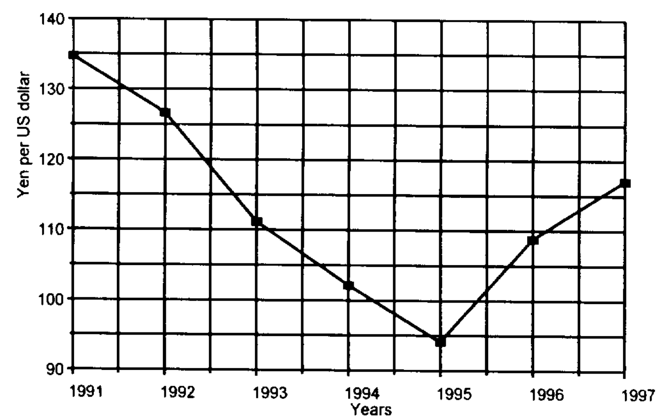
The dollar also appreciated against the currencies of other major industrialized countries, with the exception of the pound sterling. The different directions of the short-term interest rates in the United States and the United Kingdom on one side, and other major industrialized countries on the other, were the main factors behind the appreciation of the dollar and the pound sterling in 1997. Both the United States and the United Kingdom raised short-term interest rates in 1997 to moderate economic growth, while other major industrialized countries reduced short-term interest rates to stimulate economic growth. The dollar averaged 6.22 French francs, 1.39 Canadian dollars and 1,799 Italian lire during the first eight months of 1997, up from an average of 5.12, 1.36 and 1,543 French francs, Canadian dollars and Italian lire respectively in 1996.

In addition to the tightening of monetary policy, the appreciation of the United States dollar in 1997 was helped by the financial crisis in South-East Asia during the second half of 1997, as the dollar benefited from the inflow of capital taken out of those economies in the aftermath of the crisis. Any further tightening of the monetary policy in the United States could lead to a further outflow of capital from those economies which, in turn, would lead to a further appreciation of the dollar. This would further hurt the exports of the United States, and the outflow would further delay the economic recovery in South-East Asia.

The impact of the strong United States dollar has been positive on those ESCWA member countries that pegged their local currencies to the dollar. The appreciation of the dollar led to a reduction in the inflation rates in those countries, as it reduced the prices of imports from outside the United States market. In addition, it raised the purchasing power of their currencies against other currencies. However, for other ESCWA members, particularly the heavily indebted countries, the appreciation of the dollar increased their debt service burden on their dollar-denominated debts. In addition, the sharp depreciation of the currencies of South-East Asian countries, as a result of the financial crisis, may affect the direction of trade of ESCWA members in favour of imports from South-East Asia.

F. EXTERNAL DEBT OF THE DEVELOPING COUNTRIES

Chart 4. he dollar exchange rate
1991-1997



Source: International Monetary Fund, *World Economic Outlook, October, 1997. EMU and the World Economy* (Washington, D.C., 1997), p. 172.

The external debt of the developing countries is estimated to have increased in 1997 (table 8). This is the case among the different groups of countries, with the exception of Africa where it is estimated that the external debt dropped in 1997 to $283.3 billion, down from $292 billion in 1996. Despite this drop, the external debt in Africa remains about $40 billion higher in 1997 than its 1991 level of $244.8 billion. The debt burden in African countries remains a cause of concern to these countries as well as to the international community. Several initiatives have been introduced in the past few years to provide debt relief to these countries. The latest initiative was proposed in 1996 by both the International Monetary Fund and the World Bank, which provide debt relief to the heavily indebted poor countries, which include 41 developing countries, 35 of them in Africa. The main purpose of this initiative was to establish a trust fund with the World Bank to help those countries that have implemented sound economic policies to ease their debt burden. The Trust Fund was established and the first debt relief package was agreed upon for six countries, namely Bolivia, Burkina Faso, Côte d'Ivoire, Guyana, Mozambique and Uganda in 1997 and the first half of 1998.

In Asia, external debt is estimated to have increased in 1997 to $585 billion, up from its 1996 level of $574 billion (table 8). However, this estimation, which was made before the full evaluation of the financial crisis in South-East Asia, is expected to be revised upward once the crisis has been fully evaluated. The financial crisis is expected to worsen the debt situation in these countries, as it led to a sharp depreciation of the currencies of several countries in this group which, in turn, increases the cost of servicing their dollar-denominated debt and can lead to an increase in their external debt, as part of the bail-out packages agreed upon in cooperation with the IMF.

In the western hemisphere, external debt is estimated to have risen in 1997 to $699.4 billion, up from its 1996 level of $670.4 billion. Most of this increase came from the increase in the external debt owed to private sources, which has more than offset the slight drop in the external debt owed to official sources.

Debt service payments in the developing countries as a whole are estimated to have increased in 1997 to $273.9 billion, up from the 1996 level of $254.1 billion (table 8). Most of this increase is attributed to the rise in the debt service payments in the western hemisphere by about $10.9 billion. This increase came about mainly as a result of the increase in the debt service of privately owned debt.

Debt service payments as a percentage of the exports of goods and services in the developing countries were estimated to have stabilized at around 22.5 per cent during the past three years. This came about despite the estimated increase of debt service payments in Africa to 25 per cent in 1997, up from 22.1 per cent in 1996. The main factor behind this improvement in debt service payments as a percentage of the exports of goods and services has been the strong performançe of the export sector in both Asia and Latin America, on the one hand, and the relative stability in the debt service payments, on the other hand. However, the debt service payments in Asia are expected to be revised upward, reflecting the financial crisis in South-East Asian countries, and therefore it is expected that the total debt service payments in the developing countries, as a whole, will be revised upward. This, in turn, is expected to lead to an increase in the debt services payments as a percentage of the exports of goods and services of the developing countries.

As a percentage of GDP, the external debt of the developing countries is estimated to have dropped in 1997 to 32 per cent, down from 34.2 per cent in 1996 (table 8). This drop was a reflection of the drop in the debt/GDP ratio in all country groups, particularly in Africa where the debt/GDP ratio is estimated to have declined to 57.7, down from 62.8 in 1996. This estimated drop was a reflection of the strong economic growth achieved in 1997, as well as the drop in the external debt. In Asia, the estimated drop in the debt/GDP ratio for 1997 is expected to be revised upward, reflecting the impact of the financial crisis on the external debt of these countries and the expected drop in GDP growth for 1997.

TABLE 8. THE EXTERNAL DEBT OF THE DEVELOPING COUNTRIES, 1991-1997
(Billions of US dollars)

	1991	1992	1993	1994	1995	1996	1997[a/]
Developing countries	1250.8	1338.1	1451.0	1576.1	1698.0	1760.3	1790.8
Africa	244.8	241.8	249.1	271.7	289.0	292.0	283.3
Asia	365.8	404.2	450.1	501.3	543.3	574.0	585.0
Western hemisphere	459.1	500.2	543.7	586.2	641.6	670.4	699.4
Debt services payments (in billions of US dollars)							
Developing countries	151.3	173.4	180.1	200.8	232.4	254.1	273.9
Africa	32.1	32.7	25.9	24.0	24.4	27.9	33.4
Asia	39.3	47.7	52.6	58.6	70.4	75.8	80.7
Western hemisphere	61.0	70.4	77.7	86.7	105.4	121.7	132.6
Debt services payments as percentage of exports of goods and services							
Developing countries	22.7	23.7	23.6	23.1	22.6	22.5	22.5
Africa	32.2	32.2	26.4	24.0	21.2	22.1	25.0
Asia	17.3	18.1	17.8	16	15.7	15.6	15.2
Western hemisphere	37.5	41.1	42.8	41.7	43.5	45.0	45.9
External debt as percentage of GDP							
Developing countries	39.0	38.1	38.9	38.2	36.4	34.2	32.0
Africa	64.7	62.5	66.0	74.8	67.1	62.8	57.7
Asia	32.9	32.7	34.0	32.0	28.9	26.8	24.5
Western hemisphere	39.7	39.5	38.6	36.2	37.8	36.9	35.7

Source: International Monetary Fund, *World Economic Outlook, October, 1997: EMU and the World Economy* (Washington, D.C., 1997), pp. 206-212.

a/ Estimates.

G. SHORT-TERM OUTLOOK

The short-term outlook for the performance of the world economy will depend on the economic performance of the major industrialized countries, the impact of the financial crisis in South-East Asia, the developments in the international oil markets, and the economic performance in the developing countries.

Economic growth in the major industrialized countries is expected to be mixed. The United States and the United Kingdom are expected to continue enjoying the relatively strong economic growth that has prevailed during the past few years. The rebound of economic growth in France, Germany and Italy is expected to continue, probably at a higher rate. The right ingredients for strong economic growth in the major industrialized countries are in place: they include the relatively low inflation rate, low interest rates, high productivity, strong export sectors and, for several major European countries, the low exchange rates.

In Japan, the economic recession is expected to continue at least for the first few months of 1998. The stimulus packages introduced in 1997 did not boost economic growth in that year. In fact, it is expected that growth could even be negative during the first quarter of 1998. In addition, the financial crisis in South-East Asia is expected to have a negative impact on economic growth in Japan in 1998. The sharp depreciation of the currencies of several South-East Asian countries, which resulted in the crisis, will make their exports more competitive in the international markets, particularly with regard to Japanese goods. In addition, the drop in output in this group of South-East Asian countries is expected to reduce their demand for imports, including those from Japan. Moreover, several Japanese banks deal with the financial markets of these countries and are therefore exposed to the risk of incurring a high rate of unpaid loans and debt default.

In the United States, economic growth is expected to continue to be strong, albeit at a slower rate, in 1998, reflecting mainly the impact of the financial crisis in South-East Asia. The crisis has already hurt the exports of the United States as the trade deficit reached a new monthly record of $12.1 billion in February 1998.[8] However, if the impact of the crisis proved to be less than expected, the monetary authorities in the United States may consider raising the federal funds rate some time during 1998, to moderate economic growth to a sustainable level.

In the EU member countries, economic growth is expected to accelerate in 1998 in almost all countries, with the exception of the United Kingdom, where the monetary authorities are expected to pursue tight monetary policies to decelerate economic growth. However, the continued high unemployment rates in France, Germany and Italy may constrain economic growth by reducing consumer spending. The financial crisis in South-East Asia may also negatively affect economic growth in the EU member countries, by reducing demand for exports from the EU members and, at the same time, by leading to more effective competition from South-East Asian exports in international markets as these countries benefit from sharply depreciated currencies.

In the developing countries, economic growth is expected to decelerate in 1998, reflecting the ramifications of the financial crisis in South-East Asia. This would be despite the expected acceleration of economic growth in Africa. Several African countries are benefiting from the economic reform programmes put in place in the past few years. The expected acceleration of economic growth in the EU member countries, their main trading partners, is expected to boost economic growth, helped by a strong export sector.

The African countries are not expected to be seriously affected by the financial crisis in South-East Asia. They are not the main trading partners of the South-East Asian countries. There is even the possibility that the crisis may have a "spill-over" benefit for African countries, in the sense that part of the capital that

[8] *International Herald Tribune*, 18-19 April 1998, p. 13.

fled South-East Asian countries might be directed to several African countries, particularly those that implemented economic reform policies. The recent increasing attention given by the United States to several African countries might open the American market for the exports of these countries and might also lead to an acceleration of economic aid and inflow of capital to these countries.

In Asia, economic growth, which has been remarkably strong for the last decade, is expected to slow down sharply in 1998, reflecting the financial crisis that hit several countries, in particular Indonesia, Malaysia, the Republic of Korea and Thailand. The crisis has already led to a drop in output, higher inflation rates, higher external debt, a drop in public spending and sharp depreciation of the local currencies. Tight monetary policies and contractionary fiscal policies are expected to lead to a sharp drop in economic growth for these countries in 1998. In addition, a drop in aggregate consumer spending resulting from higher unemployment in these countries is also expected to constrain economic growth. Moreover, the outflow of foreign capital, which followed the eruption of the crisis and which in previous years had been a major factor in achieving the remarkable growth rate, will contribute to the expected slow-down in economic growth in 1998.

The unemployment rates in the advanced economies are expected to drop in 1998 with the exception of Japan, where the unemployment rate is expected to rise as a result of the drop in economic growth. However, despite the expected drop, unemployment is continuing to be a major problem in Germany, France and Italy, where the unemployment rates are expected to continue at double digit rates.

Inflation rates in the advanced economies are expected to pick up slightly in 1998, reflecting strong economic growth in both the United States and the United Kingdom and the acceleration of economic growth in Germany, France and Italy. In Japan, however, the inflation rate is expected to remain at its 1997 level as economic growth is expected to drop.

Short-term interest rates in the advanced economies are expected to pick up in 1998 owing to the expected continued strong economic growth in the United States and the United Kingdom and the acceleration of economic growth in Germany, France and Italy.

H. GLOBAL SOCIAL DEVELOPMENTS: LESSONS FROM THE ASIAN CRISIS

The currency crisis in South-East Asia was the single most spectacular event that caused the severe crisis in the economic and social development in that region. While it is too early to gauge the full impact of this crisis on existing social development programmes, the cascading of currencies, including the Indonesian rupiah, the won in the Republic of Korea, the ringgit in Malaysia, and the baht in Thailand, has provoked serious concern about their effect on employment, inflation, prices, poverty and political stability. There are growing fears that social unrest, which has already broken out in Indonesia, will have spill-over effects on the neighbouring countries of Malaysia, the Philippines, Singapore and Australia. For major trading partners such as the United States and the European Union, the crisis is affecting their export markets in the East Asian region, with consequences for unemployment. Japan, the largest investor in the region, is threatened with loan defaults. As East Asian economies attempt to service these debts, there will be a rise in transfer payments which will worsen the debt to GDP per capita ratio of these countries.

An assessment of the damage to these South-East Asian economies reveals that with a huge influx of foreign capital and surplus cash, there has been overinvestment in the private sector, including the flow of funds into extravagant projects as a matter of national pride. Plans include building national aircraft in Indonesia.[9] Such spending has been largely unchecked. Government sanctioning of these projects, with

9 "The Asian currency crisis: from Thailand to Japan, the domino effect leaves nations reeling", *Columbia East Asia Review*, fall 1997, p. 2.

dubious social cost-effectiveness, has also fuelled corruption practices. It is unfortunate that the lessons of the past have not been appreciated with regard to averting a banking crisis which carries huge fiscal costs.[10] Loan packages and measures from the IMF are bailing out several of these countries. There are consequences leading to higher unemployment and higher food prices in an environment ill-suited to counter both these effects.

1. *The impact on unemployment and the IMF package*

At the time of this writing, almost nine months after the eruption of the crisis, it is feared that the region will continue to experience another major drop in its industrial production, giving rise to greater unemployment. There are also cancellations of major projects funded by Governments in Indonesia, Malaysia and Thailand, adding to the unemployment problem in those countries.[11] The tourist industry is also expected to decline sharply in South-East Asia.[12] In Thailand alone, some 1.5 million persons lost their jobs in 1997 and the forecast for 1998 is that an overwhelming 2 million persons will lose their jobs. In the Republic of Korea, as hundreds of companies go out of business, unemployment, currently at 3 per cent in that country, is expected to rise to 9 per cent in 1998.[13] Governments in Singapore and Malaysia are repatriating guest workers in an effort to address unemployment in their own countries.

IMF measures have been proposed and introduced, but there is concern as to their suitability to address the current crisis, which was caused by the misuse of capital resources, including foreign resources, by the private sector.[14] In the Republic of Korea, the lack of access to private investment funds denied by IMF measures is hurting the profit-making sectors where jobs will be threatened, thus leading to further social unrest.[15] In Indonesia, the Government is hesitant to implement these measures, as it is feared this will cause further social unrest should subsidies on food prices be abolished. In some instances, these measures have brought some relief for the current account and debt-servicing of these countries, namely the Republic of Korea and Thailand. A growing trade surplus in the past six months in Thailand will mean that further borrowing from the IMF will not be necessary.

The rise of unemployment is almost immediately followed by a significant fall in household income—a common phenomenon exacerbated by an absence of social contracts that provide security. For the marginalized in the urban areas and the poor in rural sectors, there is almost instant income poverty, which is manifested in increased crime, drug abuse and other familiar social disorders. The recent rioting and looting of Chinese shops in Indonesia is an example of looming instabilities when social contracts and safety nets are not firmly entrenched in the economy and when economic disasters give rise almost immediately to unemployment and consequently to social unrest. IMF packages still do not adequately address issues of unemployment that affect mostly the worse-off. For instance, the unemployed in the affected Asian countries, mostly from the low-income and fledgling middle class, have watched their savings erode with the falling currencies: the Indonesian rupiah has declined by about 80 per cent; the Thai baht, the Republic of Korea won, the Malaysian ringgit and the Philippine peso all fell by between 35 and 50 per

---

10 "How government supervision averted financial disaster in Malaysia", *World Development Report 1997* (Oxford University Press, World Bank, 1997), p. 67.

11 Project activity hit by storms", *The Banker*, February 1998, p. 29.

12 "Tourism slips with economies of Asian countries", *The Houston Chronicle*, Travel Forum, 18 March 1998, p. 1.

13 "South Korea enters a 'dark IMF tunnel'", *The Banker*, February 1998, p. 27.

14 "Fixing the IMF remedy", *The Banker*, February 1998, p. 16.

15 Ibid., p. 18.

cent.[16] Forecasts for 1998 point to a steep rise in inflation, and in particular a 32 per cent rise in Indonesia. Prices of most foods are increasing, especially for imported items such as powdered milk, beef and even medicines. There has been much panic-buying of most basic foodstuffs, especially in Indonesia and Thailand. To add to its burdens, Indonesia, which is a traditional rice grower, has to import some 4.4 million tons of rice as a prolonged drought threatens to bring further disaster and unrest into the agricultural sector.[17]

The IMF bail-out packages will add to the debt burdens of most of these Asian economies. Indonesia alone has been allocated some $43 billion and its total foreign exchange debt is currently $82.6 billion, with a GDP of $191 billion since the time the crisis erupted in July 1997.[18] For the Republic of Korea, the IMF package is valued at $58 billion, total debts are at $155.7 billion, and GDP as of mid-1997 amounted to $433 billion. Malaysia and Thailand have borrowed less, but their total foreign debts were $44.6 billion and $88.1 billion, or 47 per cent and 58 per cent of GDP respectively as of mid-1997. There is rising debt-burden per capita as these countries attempt to service external debts at a time when their economies are not performing as miraculously as they did in the preceding years. There will be a decline in intra-trade within the region which will affect both employment and revenue. For Indonesia, an additional burden will be falling oil prices. This is a region known for its high spending on capital equipment and armaments. It will be useful to observe if lower revenues and investments affect spending on social programmes in this region, which traditionally relies heavily upon high savings and family values to mitigate the ill-effects of unemployment and poverty.

2. *The response from Governments*

In an effort to provide a safety net for the most vulnerable groups affected by the currency and economic decline, the Government of Thailand, in an unprecedented step, announced a social sector programme worth $500 million to provide welfare, counselling for those who experience trauma, and retraining for those who seek to acquire new skills.[19] In China, austerity programmes have been abandoned for domestic development, especially in public works and housing, which is expected to create jobs; however, the number of unemployed in the private sector is expected to exceed any job creation that the Government might be able to put together.[20] In Hong Kong (China), China and Singapore, the existence of medical programmes, pension schemes and emergency measures to cover the poor and aged has meant that those affected by the currency crisis have adequate security systems and safety nets, which should avert any hardships even with the crisis.

Emergency measures like those adopted in Thailand are not long-term and will be discontinued once the economy recovers. However, growth is forecasted to be lower in the coming years, and there is no guarantee that there will be further job creation or that the unemployed will be quickly absorbed. In Indonesia, the Government announced its intention to support a similar programme designed to improve the education and skills of the workforce, but so far no funds have been distributed for this objective. What is evident in Asia, however, is the existence of several socio-economic measures and programmes to combat poverty and improve education and health facilities—which have grown spectacularly over the past two decades—and the ability to create jobs. Since the early 1990s, for example, Indonesia has set itself the target of eradicating absolute poverty by the year 2010, and has allocated up to $200 million per year among the poorest villages to be used as seed capital for income-generating activities in agriculture.[21] The biggest

---

16 "East Asian economies", A Survey in *The Economist*, 7 March 1998, p. 3.

17 "Suharto's family values", *The Economist*, 14 March 1998, p. 67.

18 "Asia fights to survive", *The Banker*, February 1998, p. 26.

19 "Magic ingredients", A Survey of East Asian Economies in *The Economist*, 7 March 1998, p. 19.

20 "Can China avert crisis?", *Business Week*, 16 March 1998, p. 23.

21 "Reducing poverty in Indonesia--how social assistance complements broad-based growth", *World Development Report 1997*, p. 60.

challenge facing these Governments, in the absence of private capital funds and the adoption of IMF measures, seems to be the creation of jobs and job security.

3. *The impact on other regions*

The Asian currency crisis is already affecting other trading nations as far away as Latin America and raising concerns about the impact this will have on social development. For instance, Chile, which is poised to become a member of the Asia-Pacific Economic Cooperation (APEC), depends on revenues from East Asia covering 33 per cent of all its exports, including copper.[22] The implications for social spending are worrying as Chile, which is committed to spending more on health and education, is hampered by an archaic social distribution system and is consequently vulnerable to any revenue decline in its economy. China now faces competition as currencies of other Asian countries have been devalued, which makes their exports cheaper. Furthermore, China relies on other parts of Asia to provide about 80 per cent of foreign capital, and there is already a decrease in its foreign investment ventures.[23] The implications for employment are therefore significant: already some 20 million workers from State firms have been made jobless in a country where labour's mobility is severely curtailed and there is also an absence of social contracts to protect workers in times of unemployment.

In the oil-exporting countries, falling demand and lower prices will reduce earnings in the Middle East, which leads Governments to reduce spending as they did in the early 1980s. There is concern about the loss of jobs and shrinking employment opportunities, especially in the public sector which is the largest employer in this region. Even bilateral investments plans between some Asian and Middle Eastern countries have been shelved. For instance, Malaysia postponed investment plans to improve bilateral trade and invest in industrial ventures in Lebanon, and Indonesia has shelved plans to invest some $2 billion in projects in the Balai Oilfields in the Islamic Republic of Iran.[24]

In the Organisation for Economic Cooperation and Development (OECD) countries, the biggest threats are seen to be default on loans and shrinking trade. Japanese banks account for about 40 per cent of Thailand's foreign debt and the Association of South-East Asian Nations (ASEAN) States overall receive more than 10 per cent of Japan's total foreign direct investment (FDI). A shrinking export market in Asia will bring joblessness in several sectors in Japan. Falling demand will also reduce export markets in the United States, especially in its western States which sell 30 per cent of their exports to Asia. The State of California alone receives about $51.2 billion, or 52 per cent of its revenues, from exports to Asia which have now slumped.[25]

4. *The case for good governance*

As the South-East Asian economies recover slowly from the currency crisis, there is a growing awareness among their Governments that trends that worsen social exclusion must be anticipated. The problem does not seem to be a lack of commitment to social development. On the contrary, Governments

---

[22] "All good things must slow down", *The Economist*, 7 March 1998, p. 71.

[23] "China's economy", *The Economist*, 14 March 1998, p. 63.

[24] "Balai oilfield project falters as Bow Valley's Indonesian partner pares financial commitment", *Middle East Economic Survey*, 26 January 1998, p. A5.

[25] Martin Crutsinger, "Report says all states at risk from Asian crisis", Associated Press, 24 March 1998.

remain committed to achieving social harmony and cohesion.[26] However, it is the tone that a State sets that decides what its commitment will be to the fair distribution of public goods which will promote both economic and social development. In the South-East Asian experience, for instance, a lack of reliable legal systems, banking regulation, and supervision of capital funds led to indiscriminate investment decisions, which during a crisis brought about severe unemployment problems, mounting debt and social unrest in several countries. The necessity to maintain separate the relation between Government and the private sector in determining the flow and use of private capital has been ignored. This is evident in States where there are weak institutional and social regulations. How will these States continue to play their role of provider of public goods when both the economic and social environments keep changing constantly in today's world of globalization? The concept of the nation State is already endangered, especially when the very nature of this globalization means doom at the touch of a key which can easily take away large amount of funds, as witnessed in the huge pull-out of investments in South-East Asia. States with weak social institutions can be brought to their knees when market gains are eagerly sought without a clear understanding of the social costs of these ventures. Good governance would require States to be more responsive, and less interfering in market forces so that capital is adequately distributed in order to avert the risks that bring about social disorder. In the South-East Asian experience, this has been the case for countries where citizens are now asked to pay for these indiscriminate decisions through the selling of their household wealth (gold, for example) and through reducing their consumption of certain food items, such as sugar.[27]

The recent Asian-European summit (ASEM 2), held in London from 2 to 4 April 1998, promises to support measures aimed at reducing further economic decline and addressing immediate social problems by introducing a trust fund to combat poverty. This show of support reveals the important link between the two regions and the necessity of continuing to ensure both economic and social development to offset the ills of the currency crisis. While there is much to gain from trade and financial links, it is important to help the Asian States to strengthen their commitment to social development. This would also require targeting bilateral and other funds for sustainable human development and also improving the ability of States' institutions to cope with economic and social crises.

In the ESCWA region and the Middle East and North African (MENA) States, the threat of another Gulf war and the continuing regional instability overshadow the events of the past summer in South-East Asia. Furthermore, economic growth and investment opportunities have been modest and were not affected severely by the Asian crisis. However, poverty is still persistent in many countries in the region and demographic patterns point to increased numbers of young people joining the labour markets every year. Good governance continues to demand a democratic process designed to retain the national identities of individual societies while achieving a balance between economic efficiency and social justice.[28] While the Asian-European summit is striving towards that goal, it would be also a good idea to work on achieving such a balance in the ESCWA region, so that institutions in both the public and voluntary sectors can be strengthened in their efforts to ensure the public good of society.

---

[26] ESCAP, "Emerging issues and developments at the regional level: socio-economic measures to alleviate poverty in rural and urban areas; report of the Fifth Asian and Pacific Ministerial Conference on Social Development; note by the secretariat" (E/ESCAP/1096), 12 January 1998, para. 34.

[27] "Back from the brink", Survey of East Asian Economies in *The Economist*, 7 March 1998, p. 8.

[28] "Living standards and poverty alleviation in the countries of the Arab Mashreq", FORUM, Newsletter of the Economic Research Forum for the Arab Countries, Iran & Turkey, vol. 4, No. 3, December 1997-January 1998, p. 25.

II. OVERALL ECONOMIC PERFORMANCE AND POLICIES

A. ECONOMIC GROWTH AND REFORM POLICIES

Overall economic conditions improved in the ESCWA region[28] in 1997. The region's GDP, excluding Iraq, is estimated to have registered a growth rate of 3.4 per cent in real terms, as shown in table 9. Although this was below the 5.5 per cent growth rate achieved in 1996, it nevertheless resulted in a positive per capita GDP growth rate for the second consecutive year, as shown in table 10. There was, however, a marked difference in economic growth in the region between the GCC countries[29] and the more diversified economies.[30] While the combined GDP growth rate in the GCC countries declined from 5.9 per cent in 1996 to an estimated 3 per cent in 1997, it remained steady at an estimated 4.4 per cent rate in the more diversified economies.

TABLE 9. REAL GDP AND GROWTH RATES IN COUNTRIES OF THE ESCWA REGION AT CONSTANT 1992 PRICES, 1995-1998
(Millions of US dollars)

Country/area	1994	1995	1996	1997a/	1998b/	Growth rate (Percentage) 1995	1996	1997a/	1998b/
Bahrain	4 726	4 830	4 980	5 119	5 247	2.2	3.1	2.8	2.5
Kuwait	23 997	24 237	24 916	25 489	25 948	1.0	2.8	2.3	1.8
Oman	13 708	14 366	15 329	16 095	16 739	4.8	6.7	5.0	4.0
Qatar	7 569	7 675	8 443	9 751	10 482	1.4	10.0	15.5	7.5
Saudi Arabia	123 048	123 663	129 846	133 481	134 549	0.5	5.0	2.8	0.8
United Arab Emirates	35 888	38 436	42 241	42 579	42 366	7.1	9.9	0.8	(0.5)
GCC	208 936	213 207	225 754	232 514	235 331	2.0	5.9	3.0	1.2
Egypt	45 693	47 795	50 233	52 795	55 593	4.6	5.1	5.1	5.3
Jordan	5 873	6 278	6 604	6 934	7 281	6.9	5.2	5.0	5.0
Lebanon	8 742	9 310	9 682	10 021	10 322	6.5	4.0	3.5	3.0
Syrian Arab Republic	14 457	14 978	15 308	15 614	16 004	3.6	2.2	2.0	2.5
Yemen, Republic of	6 575	7 121	7 434	7 835	8 149	8.3	4.4	5.4	4.0
More diversified economies c/	81 340	85 482	89 261	93 199	97 349	5.1	4.4	4.4	4.5
ESCWA region c/	290 276	298 689	315 015	325 713	322 680	2.9	5.5	3.4	2.1

Sources: ESCWA, national and international sources.

Note: ( ) indicates negative.

a/ Preliminary estimates.

b/ Projections.

c/ Excluding Iraq owing to a lack of reliable data.

Real GDP growth rates also varied among the GCC countries and among the countries with more diversified economies. Bahrain's GDP, which registered a growth rate of 3.1 per cent, is estimated to have

28 The ESCWA members are Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Oman, Palestine, Qatar, Saudi Arabia, the Syrian Arab Republic, the United Arab Emirates and the Republic of Yemen.

29 Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates.

30 Egypt, Iraq, Jordan, Lebanon, the Syrian Arab Republic, the Republic of Yemen, and the West Bank and the Gaza Strip.

grown by 2.8 per cent in 1997. The Bahraini economy is the most diversified among the GCC countries. The banking sector was the most dynamic sector in Bahrain in 1997. After registering an estimated 2.8 per cent growth in 1996, Kuwait's GDP is estimated to have registered a 2.3 per cent growth rate in 1997. The second largest real GDP growth rate in the GCC countries in 1997 was registered in Oman. Following a 6.7 per cent GDP growth rate in 1996, Oman's economy is estimated to have grown by 5 per cent in 1997. Oman's economy has apparently benefited from the economic reform policies it introduced several years ago. Among the GCC countries and other ESCWA member countries, the highest real GDP growth rate in 1997 was in Qatar. After registering a real GDP growth rate of 10 per cent in 1996, Qatar's GDP is estimated to have registered a 15.5 per cent growth rate in 1997. These exceptionally high growth rates in both 1996 and 1997 were achieved mainly because of the tremendous growth recorded in the dominant oil sector and the contributions by the natural gas projects in the country. Qatar's oil production increased by 8.6 per cent and 27.2 per cent in 1996 and 1997 respectively. Saudi Arabia, which has the largest economy among all ESCWA member countries, accounting for 41 per cent of the region's real GDP in 1997, is estimated to have registered a 2.8 per cent real GDP growth rate in 1997, after recording a 5 per cent growth rate in the previous year. The United Arab Emirates real GDP growth rate is officially estimated at 0.8 per cent for 1997, following the high real GDP growth rates of 7.1 per cent and 9.9 per cent in 1995 and 1996 respectively.

TABLE 10. REAL PER CAPITA GDP AND GROWTH RATES IN COUNTRIES OF THE ESCWA REGION AT CONSTANT 1992 PRICES, 1995-1998

(US dollars)

Country/area	1995	1996	1997[a]	1998[b]	Growth rate (Percentage) 1996	1997[a]	1998[b]
Bahrain	8 671	8 762	8 826	8 865	1.0	0.7	0.4
Kuwait	14 333	14 309	14 216	14 054	(0.2)	(0.7)	(1.1)
Oman	6 509	6 670	6 726	6 718	2.5	0.8	(0.1)
Qatar	14 005	15 119	17 137	18 079	8.0	13.3	5.5
Saudi Arabia	6 774	6 878	6 836	6 663	1.5	(0.6)	(2.5)
United Arab Emirates	17 392	18 740	18 521	18 068	7.8	(1.2)	(2.4)
GCC	8 372	8 584	8 561	8 391	2.5	(0.3)	(2.0)
Egypt	770	794	820	847	3.2	3.2	3.4
Jordan	1 498	1 526	1 551	1 577	1.9	1.7	1.7
Lebanon	3 094	3 161	3 215	3 254	2.2	1.7	1.2
Syrian Arab Republic	1 055	1 051	1 045	1 045	(0.3)	(0.5)	(0.1)
Yemen, Republic of	474	477	485	486	0.6	1.6	0.3
More diversified economies[c]	868	886	904	923	2.1	2.1	2.1
ESCWA region[c]	2 409	2 479	2 500	2 492	2.9	0.9	(0.4)

Source: ESCWA, national and international sources.

Note: ( ) indicates negative.

a/ Preliminary estimates.

b/ Projections.

c/ Excluding Iraq and the West Bank and the Gaza Strip owing to a lack of reliable data.

As for the more diversified economies in the region, Egypt's GDP is the largest, accounting for 56.7 per cent of the aggregate GDP of this group, excluding Iraq, and 16.2 per cent of the total GDP of the ESCWA member countries, excluding Iraq, in 1997. Egypt's GDP is estimated to have registered a growth rate of 5.1 per cent in 1997, which is the same as that registered in 1996. Had it not been for the terrorist

attack on tourists in Luxor in November 1997, Egypt's real GDP would have registered an estimated 5.5 per cent growth that year. Economic conditions in Iraq remained poor in 1997, owing mainly to the United Nations-imposed economic sanctions. Jordan's GDP, after registering a growth rate of 5.2 per cent in 1996, is estimated to have registered a growth rate of 5 per cent in 1997. Lebanon's GDP growth rate has been declining during the past several years: following growth rates of 6.5 per cent and 4 per cent in 1995 and 1996 respectively, it is estimated to have registered a 3.5 per cent growth rate in 1997. The reasons behind the decline in growth rates in Lebanon may be partly attributed to the reduction in capital expenditures by the Government, coupled with a reduction in private sector investment, owing mainly to fairly high interest rates as well as to a poor performance by Lebanese exports in 1997. The banking sector performed exceptionally well in 1997, while the construction sector performed poorly. According to official sources, the real GDP of the Syrian Arab Republic is estimated to have provisionally registered a 2.24 per cent growth rate in 1996.[31] This growth rate was the lowest among the more diversified economies, with the exception of Iraq and the West Bank and the Gaza Strip in that year, as shown in table 9 above. In 1997, the Syrian Arab Republic's real GDP was provisionally estimated to have registered a 2 per cent growth rate, which was again the lowest among the region's more diversified economies. A 24 per cent decline in the Syrian Arab Republic's cereal output, coupled with a 3.4 per cent decline in the country's oil production in 1997, a year in which oil prices declined, as well as the reduction in tourism revenues, prevented the country from achieving a higher growth rate in that year. After registering a negative growth of 1.6 per cent in 1996, the real GDP of the West Bank and the Gaza Strip was estimated to have registered a 1.2 per cent growth rate in 1997. A major factor contributing to this modest turn-around was that the losses caused by the closure of the borders by Israel to the Palestinian workers were less in 1997 than in 1996, since the 57 closure days in 1997 were about one third fewer than in 1996. The Republic of Yemen, the region's least developed country, witnessed its GDP grow at 4.4 per cent in 1996 and was estimated to have achieved a 5.4 per cent growth rate in 1997.

GDP growth in the more diversified economies of the ESCWA region was not as adversely affected by the 7.9 per cent decline in oil prices in 1997 as was GDP growth in the GCC countries.

The main factors that contributed to the region's 3.4 per cent real GDP growth rate in 1997 included: (a) a significant increase in oil production in several countries, which helped to keep the region's total oil revenues at approximately the same level in 1997 as in the previous year, in spite of the falling oil prices; and (b) the initiation and acceleration of economic reforms in many countries of the region. The major factors preventing the member countries in the region from achieving a higher growth rate in 1997 included: (a) an estimated 7.9 per cent decline in international oil prices; (b) the periodic closure of the borders of the West Bank and the Gaza Strip; (c) the political instability caused by the stalling of the Middle East peace process; (d) terrorist attacks on tourists; and (e) the continued United Nations economic sanctions on Iraq (imposed since 1990).

As shown in table 11, there are wide disparities between the ESCWA members with respect to nominal per capita GDP. In 1997, nominal per capita GDP was estimated to be as high as US$ 19,985 for the United Arab Emirates, and as low as US$ 404 for the region's least developed country, the Republic of Yemen. Table 11 also shows that the six GCC countries were the six countries with the highest nominal per capita GDP in the ESCWA region in 1997. This has been the case for over two decades. In 1997, the lowest nominal per capita GDP among the GCC countries was estimated to be in Oman with US$ 6,935, while the highest nominal per capita GDP among the countries with more diversified economies was in Lebanon, with US$ 4,292. The relatively high per capita GDP of the GCC countries is primarily a result of the dominant contributions of the oil sector as well as the relatively small populations of these countries.

31 Syrian Arab Republic, Office of the Prime Minister, Central Bureau of Statistics, *Statistical Abstract*, 1997.

In addition to ranking ESCWA member countries according to their respective nominal per capita GDP, they may also be ranked by the human development index (HDI), which was designed by the United Nations Development Programme (UNDP). The HDI "is a composite index of achievements in basic human capabilities in three fundamental dimensions. . . Three variables have been chosen to represent these three dimensions—a long and healthy life, knowledge and a decent standard of living."[32] According to figures included in the UNDP Human Development Report 1997, Bahrain was ranked first among the ESCWA member countries with respect to the HDI. As shown in table 11, Bahrain's HDI ranking is better than its fourth-ranked position as gauged only by nominal per capita GDP. Five of the six GCC countries were among the six best HDI-ranked ESCWA member countries. Among the countries with more diversified economies, Lebanon was ranked first, although fifth in comparison with all ESCWA member countries. The Republic of Yemen was ranked eleventh among the ESCWA member countries with respect to both the HDI and nominal per capita GDP in 1997.

TABLE 11. NOMINAL PER CAPITA GDP AND UNDP HUMAN DEVELOPMENT INDEX OF COUNTRIES OF THE ESCWA REGION
1995-1997
(US dollars)

Country/area	1995	1996	1997[a/]	Ranking by per capita income	Human development index[b/]	Purchasing power parity[c/]
United Arab Emirates	18 123	19 790	19 985	1	2	1
Kuwait	15 737	17 794	18 058	2	3	..
Qatar	14 878	15 009	17 233	3	4	2
Bahrain	9 074	9 432	9 659	4	1	3
Saudi Arabia	6 862	7 203	7 459	5	6	4
Oman	6 232	6 625	6 935	6	9	5
Lebanon	3 695	4 271	4 292	7	5	6
Jordan	1 585	1 677	1 758	8	8	7
Syrian Arab Republic	1 145	1 176	1 296	9	7	8
Egypt	974	1 071	1 152	10	10	9
Yemen, Republic of	299	375	404	11	11	10
ESCWA region[d/]	2 563	2 766	2 896			

Sources: ESCWA, based on national and international sources.

Note: two dots (..) indicate that data were not available.

a/ Preliminary estimates.

b/ UNDP, *Human Development Report 1997;* the ranking is within the ESCWA region, excluding Iraq.

c/ Excluding Iraq owing to a lack of reliable data.

d/ Excluding Iraq and Kuwait since no data on purchasing power parity for these countries were available.

Another measure of the well-being of the inhabitants of a given country is the purchasing power parity (PPP) of the country. This measure takes into account the nominal GDP and the cost of living in the

32 UNDP, *Human Development Report 1997* (New York, Oxford University Press, 1997), p. 44.

country.

As shown in table 11, the GCC countries have the highest PPP among the ESCWA member countries, while the Republic of Yemen has the lowest. Egypt, while ranking tenth among the countries of the region with respect to both nominal per capita GDP and the HDI, improves its ranking to seventh when gauged by the PPP measure. Furthermore, the PPP measure places Egypt second among the region's more diversified economies, after Lebanon. Lebanon was ranked sixth when gauged by the PPP measurement, in comparison with seventh and fifth positions when gauged by nominal per capita GDP and the HDI respectively. However, Jordan's eighth-ranked position with respect to the PPP is identical to its ranking in the other two measurements, the nominal per capita GDP and the HDI.

Economic reform and structural adjustment programmes designed to correct internal and external imbalances as well as efficiency of performance, issues of crucial importance in the global economy, continued to be implemented in most of the more diversified ESCWA members in 1997. The trend of moving away from inward-looking economic development strategies continued, and Government dominance of the economy has been steadily declining in the region. There is now more emphasis on outward-looking development strategies which focus on the private sector as an engine of growth and development and as the major source of creating employment. The pace of economic reform varied widely from one ESCWA member to another. Reform efforts generally intensified in the more diversified economies, most notably in Egypt and the Republic of Yemen, but much of the momentum gained in 1995 was lost in the GCC countries, with the exception of Oman. The policy to broaden and diversify the tax base and further reduce subsidies on goods and services provided by the Government was generally suspended in 1996 and 1997 in several GCC countries. The gradual implementation of this policy must be sustained so that these countries can avoid abrupt and sharp reductions in government revenues whenever they are confronted with a significant decline in oil revenues.

The currently stalled Middle East peace process fuelled the political instability in the region. This, in turn, discouraged the inflow of capital and tourists in 1997. The economic conditions in the region deteriorated further in the West Bank and the Gaza Strip with Israel's closure of borders. The terrorist attack on tourists in Luxor, Egypt, in November 1997 dealt a severe blow to the rapidly growing tourism sector in that country. It has also affected the tourism sectors in neighbouring countries, in particular Jordan and Lebanon. Prior to the terrorist attack in Luxor, a record number of tourists were visiting Egypt. Tourism revenues exceeded US$ 3.8 billion in 1997,[33] and it is estimated that tourism and related activities provided employment for nearly 4 million Egyptians. The drastic decline in the number of tourists visiting Egypt in November and December 1997 undermined the country's efforts to achieve an economic growth rate higher than 5.1 per cent for that year. The economic sanctions imposed on Iraq by the United Nations continued to have an adverse effect on the economic conditions in Iraq and its major trading partners, in particular Jordan.

B. OIL REVENUES AND THEIR IMPACT ON THE REGION'S ECONOMY

With the considerable increases in oil production in Iraq and Qatar and the more modest increases in several other ESCWA member countries, the region's oil production is estimated to have reached an average of 17.35 million barrels per day (m/b/d) in 1997, as shown in table 12. This is slightly over 1 m/b/d more than the 16.27 m/b/d produced in 1996. Oil production in Iraq and Qatar in 1997 was estimated at 1,186,000 b/d and 655,000 b/d respectively, representing an increase of 95.7 per cent and 27.2 per cent over their respective 1996 production levels.

The importance of the oil sector in the economies of most ESCWA members is evident. Apart from Jordan, Lebanon and the West Bank and the Gaza Strip, which do not export any oil, the ESCWA members are all oil exporters, and oil revenues continue to play a significant role in their economies, government budgets and trade balances; this is particularly true in the GCC countries.

---

33 World Tourism Organization, *Tourism Market Trends, Expanded Middle East, 1988-1997* (Madrid, 1998).

TABLE 12. OIL PRODUCTION OF ESCWA MEMBER COUNTRIES: GROWTH FOR 1995-1998

	Oil production (Thousand barrels/day)			Growth rate (Percentage)	
Country/area	1995	1996	1997	1996	1997
Bahrain	40	104	110	160.0	5.8
Kuwait[a/]	2 027	1 991	2 044	(1.8)	2.7
Oman	864	889	903	2.9	1.6
Qatar	474	515	655	8.6	27.2
Saudi Arabia[a/]	8 081	8 043	8 267	(0.5)	2.8
United Arab Emirates	2 389	2 255	2 310	(5.6)	2.4
GCC	13 875	13 797	14 289	(0.6)	3.6
Egypt	917	920	930	0.3	1.1
Iraq	650	606	1 186	(6.8)	95.7
Syrian Arab Republic	603	580	560	(3.8)	(3.4)
Yemen, Republic of	345	370	380	7.2	2.7
More diversified economies	2 515	2 476	3 056	(1.6)	23.4
ESCWA region	16 390	16 273	17 345	(0.7)	6.6
OPEC total[b/]	26 281	26 584	28 163	1.2	5.9
World total[c/]	66 651	68 068	70 620	2.1	3.7

Source: *Petroleum Economist*, February 1998, p. 48.

Note: ( ) indicates negative.

a/ Including share of the Neutral Zone.

b/ Gabon excluded from OPEC total from June 1996.

c/ Adjusted to allow for OPEC natural gas liquids (not included in OPEC production figures).

BOX 3. WORLD OIL RESERVES AND PRODUCTION TRENDS, 1994-1997

Table A shows the estimated proven reserves and production of crude oil in the world for the period from 1994 through 1997. Worldwide crude oil production has increased faster than the proven reserves. The production grew from 61 million barrels per day (b/p/d) to 65 million b/p/d, or at 2.2 per cent, 2.8 per cent, and 1.4 per cent for the years 1995, 1996 and 1997 respectively, while the estimated reserves grew at 0.81 per cent, 1.10 per cent, and 0.09 per cent for the same period. From the regional perspective, the figures listed in the first line for each region below indicate that production has increased in each region, except Eastern Europe and the former Soviet Union. In contrast, the estimated proven oil reserves have been declining in the North American and Asian and Pacific regions and have remained at the same levels in Eastern Europe and the former Soviet Union.

BOX 3. (*continued*)

TABLE A

Region	Estimated proven reserves (Billions of barrels)				Oil production (Thousands of barrels per day)			
	1 Jan-95	1 Jan-96	1 Jan-97	1 Jan-98	1994	1995	1996	1997[a/]
North America	78.3	77.0	75.7	66.9	11 093	10 982	11 156	11 305
	7.83%	7.65%	7.43%	6.56%	18.19%	17.62%	17.42%	17.41%
Central and South America	78.3	78.9	79.1	86.2	5 059	5 481	5 963	6 220
	7.84%	7.83%	7.77%	8.45%	8.29%	8.79%	9.31%	9.58%
Western Europe	16.8	15.8	18.5	18.1	5 543	5 878	6 304	6 386
	1.68%	1.57%	1.82%	1.78%	9.09%	9.43%	9.84%	9.83%
Eastern Europe and former Soviet Union	59.0	59.0	59.0	59.1	7 131	7 018	6 918	7 086
	5.90%	5.85%	5.79%	5.80%	11.69%	11.26%	10.80%	10.91%
Middle East[b/]	660.3	659.6	676.4	677.0	18 669	18 979	19 195	19 786
	66.08%	65.47%	66.40%	66.40%	30.61%	30.45%	29.97%	30.47%
Africa	62.2	73.2	67.6	70.1	6 674	6 943	7 305	7 097
	6.22%	7.26%	6.64%	6.87%	10.94%	11.14%	11.40%	10.93%
Asia Pacific	44.5	44.0	42.3	42.3	6 824	7 050	7 212	7 060
	4.45%	4.36%	4.15%	4.15%	11.19%	11.31%	11.26%	10.87%
Total world	999.3	1 007.4	1 018.6	1 019.5	60 993	62 331	64 053	64 940
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: ESCWA, based on national and international sources.

a/ Estimates.

b/ Including the Islamic Republic of Iran and Israel. The estimated proven reserves and production of crude oil in the Islamic Republic of Iran make up around 14 per cent and 19 per cent of the Middle East region's totals respectively. Israel's estimated proven reserves and crude oil production figures are also included in the Middle East's total figures, but they are minimal.

The figures listed in the second line for each region are percentages in the world total. Two thirds of the world's total proven reserves lie in the Middle East, while this region has been producing less than a third of the total world crude oil. Approximately 7 to 8 per cent of the total proven reserves are in North America, Central and South America, and Africa. These regions have been producing more crude oil than their shares of the reserves.

TABLE B

Region	Reserves/production per year			
	1994	1995	1996	1997
North America	19.3	19.2	18.6	16.2
Central and South America	42.4	39.4	36.3	38.0
Western Europe	8.3	7.4	8.0	7.8
Eastern Europe and former Soviet Union	22.7	23.0	23.4	22.8
Middle East	96.9	95.2	96.5	93.7
Africa	25.5	28.9	25.4	27.0
Asia Pacific	17.8	17.1	16.1	16.4
Total world	44.9	44.3	43.6	43.1

BOX 3 *(continued)*

Table B shows the ratio of proven reserves over production level as a simple gauge for each region's ability to sustain oil supply. The Middle East has the largest reserves/production ratio, more than twice the world average, suggesting that it has the longest time left before the complete depletion of this valuable resource.

As shown in table 13 and charts 5 and 6, the crude oil basket price of OPEC averaged US$ 18.68 per barrel in 1997. This average oil price for 1997 represents a 7.93 per cent decline from the US$ 20.29 per barrel recorded in 1996, but it still represents an increase of 10.8 per cent over the US$ 16.86 per barrel price registered in 1995. The major factors that contributed to the decline in oil prices in 1997 included: (a) increases in oil production by non-OPEC countries; (b) production by some OPEC members at levels considerably higher than their respective quotas (Venezuela, for example, exceeded its OPEC production quota of 2,359,000 b/d by 935,000 b/d); (c) United Nations Security Council resolution 986 (1995), which allowed Iraq to export US$ 2 billion worth of oil every six months, starting in January 1997; (d) a warmer winter than usual in the northern hemisphere; and (e) the decline in demand caused by the economic crisis in South-East Asian countries.

After reaching US $19.54 a barrel in October 1997, the OPEC oil basket price declined in the last two months of 1997 and the first three months of 1998. For the first quarter of 1998, the OPEC oil price averaged US$ 13.40 a barrel, falling as low as an average of US$ 12.32 a barrel in the month of March. The oil price level in March 1998 was the lowest monthly level registered in nine years and US$ 8.68 a barrel (41.3 per cent) below the OPEC stated target oil price level of US$ 21 a barrel. To reverse the decline in oil prices, OPEC and non-OPEC members agreed to curtail oil production starting in April 1998. OPEC members, including those that are also ESCWA members, agreed to reduce oil production by a total of 1.245m/b/d, which represented a 2 per cent reduction in world oil output. Non-OPEC oil-exporting countries, namely Norway, Mexico, Egypt, Oman and the Republic of Yemen, pledged to curtail production by 270,000 b/d, for a total of 1.5 m/b/d in overall reductions.

Oil revenues in the region totalled an estimated US$ 99.05 billion in 1997, as shown in table 14. This is lower than the oil revenues in 1996 by only US$ 1.03 billion and is significantly higher than the 1995 oil revenues, which amounted to US$ 81.57 billion. The estimated 6.6 per cent increase in oil production by ESCWA member countries and the smaller declines in oil prices in individual ESCWA member countries, relative to the decline in the average OPEC crude oil basket price, were together sufficient to allow the region to maintain a high overall oil revenue level in 1997. The ESCWA region's total oil revenue for 1997 fell by only 1.03 per cent from its 1996 level. The latter was the highest level recorded in the region in more than a decade. In addition, the purchasing power of the ESCWA region's oil revenues was strengthened in 1997 by the 12 per cent appreciation of the United States dollar, in which oil prices are denominated, against other major currencies, and by its even larger appreciation against currencies of several other countries, including some South-East Asian countries.

TABLE 13. AVERAGE OPEC BASKET CRUDE OIL PRICE: 1970-1998 (US dollars/barrel)

	OPEC basket price
1970	1.67
1971	2.04
1972	2.3
1973	3.07
1974	10.77
1975	10.73
1976	11.51
1977	12.4
1978	12.7
1979	17.28
1980	28.67
1981	32.5
1982	32.38
1983	29.04
1984	28.2
1985	27.01
1986	13.53
1987	17.73
1988	14.24
1989	17.31
1990	22.26
1991	18.62
1992	18.44
1993	16.33
1994	15.53
1995	16.86
1996	20.29
1997	18.68
Jan-97	23.19
Feb-97	20.48
Mar-97	18.64
Apr-97	17.46
May-97	18.76
Jun-97	17.37
Jul-97	17.86
Aug-97	18.06
Sep-97	18.16
Oct-97	19.54
Nov-97	18.84
Dec-97	16.84
Jan-98	14.42
Feb-98	13.45
Mar-98	12.32

CHART 5. OPEC basket price (January 1997 - March 1998)

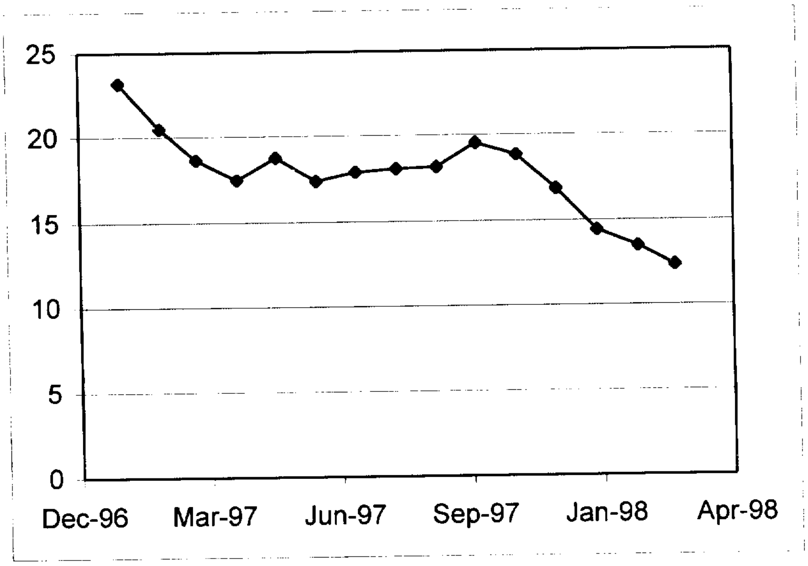
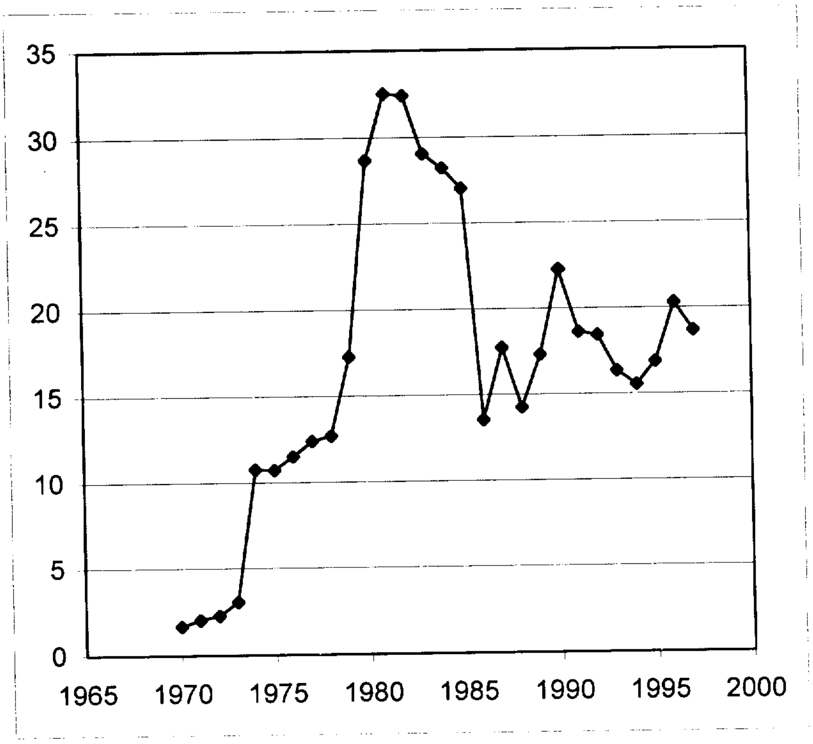


CHART 6. OPEC basket price (1970-1997)



Sources: *Arab Oil & Gas*, 16 January 1998, p. 9; *OPEC Bulletin*, February 1998, p. 34; and *Oil Market Intelligence*, March 1998, p. 4.

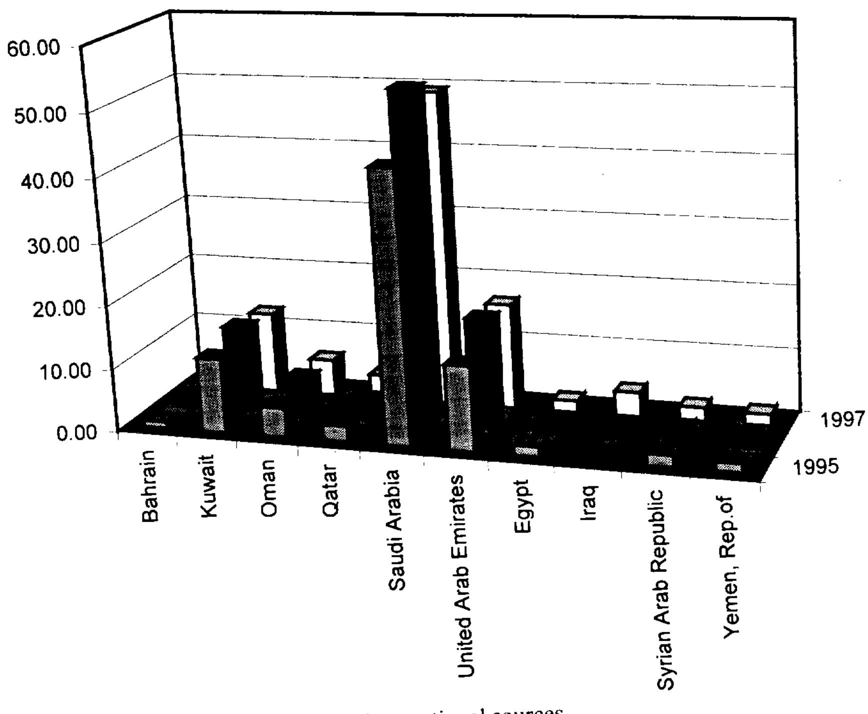
TABLE 14. VALUE OF OIL REVENUES IN ESCWA MEMBER COUNTRIES, 1995-1997
(Billions of US dollars)

	Bahrain	Kuwait	Oman	Qatar	Saudi Arabia	United Arab Emirates	Egypt	Iraq	Syrian Arab Republic	Yemen, Republic of	ESCWA region
1995	1.10	11.80	4.75	2.60	42.70	13.35	1.60	0.37	1.90	1.40	81.57
1996	1.32	13.62	6.00	3.18	52.14	17.28	1.89	0.54	2.31	1.80	100.08
1997[a]	1.20	12.80	5.75	3.80	49.50	16.60	1.75	3.80	2.10	1.75	99.05

Source: ESCWA, based on national and international sources.

a/ Preliminary estimates.

Chart 7. Values of oil revenues in ESCWA member countries, 1995-1997



Source: ESCWA. based on national and international sources.

C. THE UNEMPLOYMENT PROBLEM

The unemployment problem remained a formidable challenge in 1997 for many of the ESCWA members, in particular those with more diversified economies. This problem has been compounded over the years by the region's relatively high population growth and low economic growth rates and by overstaffing in the public sector. An increasing number of Governments are discontinuing the policy of being an employer of last resort, and new entrants to the labour force are facing greater difficulty in finding jobs. In Egypt, for example, the public sector was overstaffed by around 18 per cent; with the implementation of various structural adjustment and economic reform measures, the number of those employed in State-owned companies fell from 1,083,000 in June 1990 to 908,000 in June 1996 (mainly through attrition).

The annual economic growth rate of around 4.5 to 5 per cent achieved by the more diversified economies since 1995 may be perceived favourably, but it was not sufficient to reduce the high rates of unemployment to any significant degree in most of these countries. It is estimated that in Egypt and Jordan, for example, annual real GDP growth rates of between 7 and 8 per cent would be required to absorb the estimated 500,000 new labour force entrants in the former and the 50,000 new entrants in the latter every year. The West Bank and the Gaza Strip witnessed a decline in their unemployment rate to 21 per cent in 1997 from 24 per cent in 1996. This decline may be mainly attributed to the reductions in the number of days Israel closed its borders to Palestinian workers in 1997 compared with the previous year. The unstable political situation, which discouraged foreign and domestic private investment, and the high population growth rate in these areas prevented a greater decline in the unemployment rate. The unemployment rate in the Republic of Yemen appears to have remained at its 1996 level of 25 per cent of the labour force. The situation in the Republic of Yemen is not expected to improve significantly unless the private sector increases investment and employment considerably in the coming years. Annually, the country must be able to accommodate 200,000 new additions to the labour force and to absorb the 35,000 State employees who are expected to lose their jobs as the Government trims its bureaucracy. Jordan's unemployment rate declined from its 1991 high of 25 per cent and has remained at around 15 per cent over the past three years. This rate is considered high, especially in the light of the fact that real wages have generally remained stagnant during these years. The rate of unemployment in Egypt was officially estimated at less than 9 per cent in 1997. According to other sources, however, the country's unemployment rate was around 12 or 13 per cent. Although underemployment may have been a problem, the unemployment rate in the Syrian Arab Republic is estimated to have been in the single digits in 1997.

The GCC countries are also concerned about unemployment. This may appear inconsistent with their practice of providing employment opportunities for millions of expatriate workers, who account for most of their respective labour forces. Expatriate workers represent 61 per cent of the total labour force in Oman, 83 per cent in Kuwait, and 91 per cent in the United Arab Emirates. The private sector employs less than 10 per cent of the nationals working in the GCC countries. The problem is not only that the private sector is reluctant to employ nationals, but also that nationals themselves prefer to be employed in the public sector. The salaries in the latter are considerably higher and the fringe benefits are more generous. The problem in the GCC countries is that there are already a considerable number of redundant workers in the public sector, and new employment opportunities in this sector are expected to become increasingly scarce as the Governments ration their expenditures and limit their role in the economy. In addition, the oil sector, which is extremely important to the economies of the GCC countries (providing more than one third of total GDP), is also highly capital-intensive and thus provides fewer than 2 per cent of the jobs in these countries.

In most GCC countries, the indigenous labour force is growing at an annual rate of around 5 per cent. These countries have instituted indigenization policies with the aim of replacing foreign workers with their own nationals. In Saudi Arabia, for example, the "Saudi-ization" of the country's labour force is a main objective in the current five-year development plan. The Government plans to provide soft loans and contracts only to those private companies meeting the Saudi-ization targets. Companies must increase the number of Saudi Arabian workers they employ by 5 per cent a year or face sanctions. In October 1996, Saudi Arabia declared 13 professional categories closed to foreigners; in 1997, seven more categories were added to the list. In 1996, the United Arab Emirates expelled more than 180,000 expatriate workers whose papers were not in order and has since toughened its legislation on immigration. Other GCC countries, including Bahrain and Saudi Arabia, pursued similar policies in 1997. Bahrain and Oman have made some progress in indigenizing their respective labour forces; however, their achievements in this regard have remained limited and have been confined mainly to the public sector (in the private sector, the process has so far involved only certain managerial and clerical jobs). The Government of Kuwait has reportedly been considering plans to make the employment of foreign workers a less attractive prospect for private firms by obliging them to provide health care and by raising residence and entry fees. Kuwait is also considering "subsidizing" the salaries of the Kuwaitis in the private sector and linking the granting of facilities to private

businesses with the number of Kuwaitis employed. In the United Arab Emirates, a federal law compelling private companies to fill vacant posts with nationals was to be enforced as of 1 January 1998. The Government also plans to prevent the private sector companies from hiring expatriates for any posts that could be filled by qualified nationals. It is not yet clear whether private firms will be required to pay higher salaries to nationals, but the Government is considering providing incentives—including priority in awarding government contracts—to companies employing more nationals. It should be noted, however, that many of these ad hoc measures will interfere with the proper functioning of the labour market and may therefore be unsustainable. In some GCC countries, most notably Saudi Arabia, Governments must train the national labour force in areas of specialization for which there is private sector demand and for which salaries are relatively high (comparable with public sector salaries). In 1997, the Government of Saudi Arabia increased its budget allocation for education and training to US$ 11.1 billion, an increase of more than 50 per cent over its 1996 allocation of US$ 7.36 billion. Such investment should allow the indigenous population to acquire the education and technical skills it needs to meet labour market requirements in the twenty-first century.

Box 4. Tourism growth in the ESCWA region, 1993-1997

The tourism industry plays an important role in a country's overall economic development, especially in developing countries. It brings in foreign exchange, creates employment opportunities, and stimulates the advancement of economic infrastructure, such as transport facilities, communication networks, electricity, water, and financial services. The tourism industry also has a significant impact on the economic structure of ESCWA member countries, many of which rely heavily on revenues from crude oil exports, by providing an independent source for economic diversification. Thus, several ESCWA member countries have been actively promoting tourism development as part of their economic reform and development policies. The following table shows that the numbers of international tourist arrivals in the ESCWA region have increased faster than the worldwide average for the period 1993-1997. In particular, the numbers of international tourist arrivals in Lebanon and Qatar in 1997 were more than twice their respective equivalent numbers in 1993.

International tourist arrivals in the ESCWA region and growth rates: 1993-1997

Country/region	International arrivals (In thousands)					Growth rates (Percentage)			
	1993	1994	1995	1996	1997	1993/94	1994/95	1995/96	1996/97
ESCWA region	10 703	11 972	13 186	13 996	14 665	11.86	10.14	6.14	4.78
Bahrain	1 761	2 270	2 043	1 757	1 848	28.90	(10.00)	(14.00)	5.18
Egypt	2 291	2 356	2 872	3 528	3 657	2.84	21.90	22.84	3.66
Iraq	400	330	340	345	346	(17.50)	3.03	1.47	0.29
Jordan	766	858	1 074	1 103	1 127	12.01	25.17	2.70	2.18
Kuwait[a/]	73	73	72	33	35	0.00	(1.37)	(54.17)	6.06
Lebanon	266	335	410	424	554	25.94	22.39	3.41	30.66
Oman	256	283	279	349	361	10.55	(1.41)	25.09	3.44
Qatar	160	241	294	327	425	50.63	21.99	11.22	29.97

BOX 4 *(continued)*

INTERNATIONAL TOURIST ARRIVALS IN THE ESCWA REGION
AND GROWTH RATES: 1993-1997 *(continued)*

	International arrivals (In thousands)					Growth rates (Percentage)			
Country/region	1993	1994	1995	1996	1997	1993/94	1994/95	1995/96	1996/97
Saudi Arabia	2 869	3 229	3 325	3 458	3 594	12.55	2.97	4.00	3.93
Syrian Arab Republic	703	718	815	830	842	2.13	13.51	1.84	1.45
United Arab Emirates[b/]	1 088	1 239	1 601	1 768	1 792	13.88	29.22	10.43	1.36
Yemen, Republic of	70	40	61	74	84	(42.86)	52.50	21.31	13.51
Worldwide[c/]	518	550	564	595	613	6.18	2.55	5.50	3.03

Source: World Tourism Organization, *Tourism Market Trends, Exapnded Middle East 1986-1996* and *Tourism Market Trends, Expanded Middle East, 1988-1997* (Madrid).

Note: ( ) indicates negative.

[a/] The figures reported in the 1998 edition show large increases in 1992-1995, more than several times the figures in the 1997 edition. However, there is no explanation for such drastic change in the data.

[b/] Dubai only.

[c/] Figures given in millions.

D. DECLINING INFLATIONARY PRESSURES

Inflation rates were generally low in most ESCWA member countries in 1996 and fell even further in 1997, as shown in table 15. Inflation rates have traditionally been much lower in the GCC countries than in the countries with more diversified economies, and 1997 was no exception. The highest inflation rate in 1997 in the GCC countries was an estimated 2.8 per cent, registered in the United Arab Emirates, while the lowest inflation rate among the more diversified economies of the region was an estimated 4.7 per cent, recorded in Jordan, as shown in table 15.

In 1997, inflation rates were lower in most GCC countries than in most of the other developing, as well as developed, countries in the world. The rates were less than 1 per cent in Oman and Saudi Arabia and less than 3 per cent in the other GCC countries. The GCC countries continued to pursue prudent monetary policies in 1997. Furthermore, since all of the GCC countries' currencies are pegged to the United States dollar (with the exception of the Kuwaiti dinar, which is pegged to a basket of currencies), they appreciated along with the United States dollar in 1997 against the Japanese yen, all other currencies of countries in the Asian and Pacific region, and most currencies of the countries in Western Europe. As a result, the prices of

goods imported by GCC countries were lower. This helped to keep inflation rates down. It should be noted, however, that the strengthened fiscal position of the Governments of GCC countries apparently discouraged them from making any further reduction in subsidies on goods and services provided by the public sector in 1996 and 1997. This also helped to dampen prices.

TABLE 15. RATE OF INFLATION IN COUNTRIES OF THE ESCWA REGION, 1995-1997
(Percentage)

Country	1995	1996	1997[a]
GCC			
Bahrain	1.0	3.0	2.0
Kuwait[b]	2.1	2.4	1.2
Oman	1.3	0.3	0.5
Qatar	3.0	2.6	2.6
Saudi Arabia	4.9	0.8	0.7
United Arab Emirates	5.0	3.3	2.8
More diversified economies[c]			
Egypt[b]	8.3	7.3	6.2
Jordan	2.3	6.5	4.7
Lebanon	8.0	8.3	8.0
Syrian Arab Republic	10.3	8.8	6.5
Yemen, Republic of	55.0	29.0	10.0

Source: ESCWA, based on national and international sources.

a/ Preliminary estimates.

b/ Fiscal year begins 1 July and ends 30 June of the following year.

c/ Excluding Iraq owing to a lack of reliable data.

Among the more diversified economies, the highest inflation rate in 1997 was registered in the Republic of Yemen, the region's least developed country. The Republic of Yemen's estimated inflation rate of 10 per cent was, nevertheless, significantly lower than the 29 per cent recorded in 1996 and the 70 per cent recorded in 1994, before the country began implementing its economic reform programme in 1995. Similar progress was achieved in Egypt and Jordan, the other two ESCWA member countries implementing economic reform programmes under the auspices of the World Bank and the IMF. Egypt's inflation rate fell to an estimated 6.2 per cent in 1997, down from 7.3 per cent in the previous year and 21 per cent prior to the initiation of the reform programme in 1991. The inflation rate in Jordan was reduced to an estimated 4.7 per cent in 1997, down from 6.5 per cent in 1996 and 25.6 per cent prior to 1989. Lebanon's inflation rate, which was 14 per cent in 1995, declined to 9.5 per cent in 1996 and to 6.5 per cent in 1997. This trend reflects the institution of more conservative monetary policies by the country's Central Bank and the decline in the growth of economic activities. In the Syrian Arab Republic, the inflation rate decreased from 10.3 per cent in 1995 to 8.8 per cent in 1996, and preliminary estimates indicate that it dropped further to 6.5 per cent in 1997.[34] The relatively high liquidity in the banking system prevented a greater decline in the inflation rate in 1997. In the West Bank and the Gaza Strip, the inflation rate fell substantially from 25 per cent in 1995 to

[34] Preliminary official estimates (Central Bureau of Statistics, Syrian Arab Republic, March 1998), however, put the country's annual inflation rate at 1.7 per cent for the period up to November 1997.

around 12 per cent in both 1996 and 1997. An important reason behind this decline may have been the sharp decrease in the purchasing power of the Palestinian people during a period characterized by very high unemployment rates and a marked decline in the level of economic activity.

BOX 5. EXCHANGE RATES OF ESCWA MEMBER COUNTRIES AND THE UNITED STATES DOLLAR, 1995-1997

The currencies of most GCC countries (Bahrain, Oman, Qatar, Saudi Arabia and the United Arab Emirates) are tied to the United States dollar. The Kuwaiti dinar is pegged to a basket of currencies, 70 per cent of which are accounted for by the United States dollar. While currencies of other countries in the ESCWA region are not pegged to the United States dollar, changes in their values against the dollar have been minimal. The values of the Egyptian pound and the Jordanian dinar have remained almost the same against the dollar, which has steadily appreciated since the second quarter of 1995. The Lebanese pound appreciated against the United States dollar by 3 per cent and 2 per cent in 1996 and 1997 respectively. However, the Yemeni rial depreciated by 139 per cent and 8 per cent in 1996 and 1997 respectively, since it allowed the official exchange rate to reflect market conditions starting in late 1995.

	1995	1996	1997	
ESCWA members				
Bahrain	0.376	0.376	0.376	Dinars/US$
Egypt	3.391	3.392	3.389	Pounds/US$
Jordan	0.701	0.709	0.709	Dinars/US$
Kuwait	0.298	0.300	0.304	Dinars/US$
Lebanon	1 615.375	1 566.250	1 536.475	Pounds/US$
Oman	0.385	0.385	0.385	Rials/US$
Qatar	3.640	3.640	3.640	Riyals/US$
Saudi Arabia	3.745	3.745	3.745	Riyals/US$
United Arab Emirates	3.671	3.671	3.671	Dirhams/US$
Yemen, Republic of	50.040	119.403	128.360	Rials/US$
Other countries				
Brazil	0.936	1.013	1.087	Reais/US$
Chile	395.893	414.818	421.568	Pesos/US$
Venezuela	200.000	427.188	491.438	Bolivares/US$
Malaysia	2.506	2.517	3.021	Ringgit/US$
Philippines	25.960	26.236	31.650	Pesos/US$
Thailand	24.915	25.405	33.883	Baht/US$
Ghana	1 258.890	1 683.125	2 043.997	Cedis/US$
South Africa	3.631	4.382	4.621	Rand/US$

Source: Calculated from data in *International Financial Statistics*, February 1998 (Washington, D.C., International Monetary Fund, 1998).

Note: The exchange rates of the Iraqi dinar and the Syrian pound are excluded from the table owing to a lack of reliable data.

BOX 5. *(continued)*

Other countries in the world in general experienced depreciation of their currencies against the United States dollar during the period 1995–1997. While the purchasing power of these currencies is reduced as a result, exports from these countries have thus become more competitive in world markets, with a positive impact on the export-oriented sectors of each country. In contrast, the ESCWA member countries with exchange rates pegged to the United States dollar have witnessed deterioration in the price competitiveness of their exports in international markets. This may prove to be detrimental to the long-term economic growth of these countries.

E. SHORT-TERM OUTLOOK

In 1998, the real GDP in the ESCWA region is projected to grow by 2.1 per cent. This growth rate is below the 3.4 per cent growth rate estimated for 1997, and also lower than the region's population growth rate of 2.5 per cent. The region's real GDP per capita is projected to decline by 0.4 per cent in 1998.

The projected decline in the region's GDP growth rate in 1998 may be attributed entirely to the projected decline in the real GDP growth of the GCC countries. These countries, as a group, are expected to witness their combined real GDP grow by 1.2 per cent in 1998, down from the 3 per cent growth rate registered in 1997. However, the countries in the region with more diversified economies are expected to witness their combined real GDP grow by 4.5 per cent in 1998, slightly higher than the 4.4 per cent registered in 1997.

As illustrated in table 9, the GDP growth rate in every GCC country is projected to be lower in 1998 than in 1997. This is mainly due to the heavy dependence of these countries on developments in the oil sector. With oil prices projected to range between US$ 12 a barrel and US$ 15.5 a barrel on average for 1998,[35] after registering US$ 18.68 a barrel in 1997, oil revenues of all GCC countries are projected to decline, and in some cases sharply, from their 1997 levels. Consequently, the oil sectors, which are the major contributing sectors to GDP in the GCC countries, are expected to register negative growth rates in 1998. Simultaneously, the decline in oil revenues may be expected to oblige Governments to curtail expenditures, which will, in turn, adversely affect economic growth in this group of countries. The projected real GDP growth in 1998, however, differs among the GCC countries.

Bahrain, which has the most diversified economy among the GCC countries, is projected to experience the lowest relative decline in its GDP growth. Its real GDP growth rate is projected at 2.5 per cent in 1998, which is only slightly below the 2.8 per cent rate registered in 1997. Bahrain's GDP will continue to benefit from contributions from the banking and tourism sectors as well as its light industry sector, particularly aluminium. The Government is not expected to curtail significantly its planned expenditures as a reaction to falling oil prices, and thus public sector investments will continue as planned and thereby contribute to the growth of the country's GDP. Kuwait's real GDP is projected to grow by 1.8 per cent in 1998, after achieving an estimated 2.3 per cent growth rate in 1997. Kuwait is heavily dependent on oil. Nevertheless, the country has accumulated foreign assets and investments abroad, which are estimated to provide the country with revenues that exceed the expected oil revenues in 1998. Kuwait is expected to

[35] The OPEC average price for 1998 could fall to $12 a barrel if (a) OPEC countries maintain the 10 per cent increase in their production quotas; (b) Iraq manages to produce enough oil to collect $5.2 billion in six months; (c) Venezuela and non-OPEC countries produce oil up to their respective production capacities; (d) the crisis in South-East Asia continues to dampen oil demand; and (e) major oil-importing countries decide to reduce their oil inventories. However, if none of the above takes place, the upper oil price level of an average of $15.5 a barrel may be reached for 1998.

expedite the implementation of its privatization strategy in 1998, for the dual purpose of enhancing efficiency and simultaneously acquiring additional funds that may be used to finance planned government expenditures. Oman's economy is expected to continue to benefit from the economic reform measures it has implemented during the past several years. Oman's real GDP is projected to increase by 4 per cent in 1998, which, although lower than the estimated growth rate of 5 per cent in 1997, remains the second highest growth rate expected to be achieved among the GCC countries in 1998. Qatar's real GDP growth rate is projected to decline in 1998; nevertheless, it is expected to register a solid 7.5 per cent growth rate. This remains the highest rate among the GCC countries, and the other ESCWA member countries. Qatar's economy is expected to benefit from the large gas projects that were established during the past few years. Qatar may also be expected to continue to produce oil at levels above its OPEC set quota, and thereby reduce the impact of declining oil prices on the country's oil revenues in particular, and on the economy in general. Projections for 1998 indicate that Saudi Arabia will register a modest, yet positive, 0.8 per cent real growth in that year, mostly owing to the fall in oil revenues and an expected curtailment of government expenditures. Saudi Arabia plans to balance its budget by the year 2000, and thus falling revenues may be expected to result in a cut in planned expenditures. Given the heavy dependence on the oil sector, which contributes about 38 per cent of GDP, and the projected marked decline in oil prices in 1998, the real GDP of the United Arab Emirates is projected to register a negative 0.5 per cent growth rate in 1998.

For the countries with more diversified economies in the ESCWA region, the real GDP growth rate is projected to be not significantly different in 1998 from 1997. Nevertheless, the GDP growth rates of these countries will continue to vary from one country to another. Egypt's GDP is projected to grow by 5.3 per cent in 1998, slightly higher than the 5.1 per cent growth rate achieved in 1997. The decision to expand the oil-for-food agreement to allow Iraq to export oil worth US$ 5.2 billion, instead of the current US$ 2 billion every six months, will most likely help to improve economic conditions in Iraq during the second half of 1998. Furthermore, it will also contribute positively to the exports and GDP growth in some other ESCWA member countries, in particular Egypt, Jordan, Lebanon and the Syrian Arab Republic. Jordan's real GDP is projected to grow in 1998 at the same rate registered in 1997, namely 5 per cent. According to Government officials, Lebanon's real GDP is expected to grow by 5 per cent in 1998.[36] However, given the relatively high interest rates, which are discouraging private sector investment, coupled with Government policies aimed at curtailing public expenditures, Lebanon's real GDP growth rate is projected by ESCWA to decline to 3 per cent in 1998, down from 3.5 per cent in 1997. The Syrian Arab Republic's real GDP is projected to register a growth rate of 2.5 per cent in 1998, which is higher than the 2 per cent growth rate estimated for 1997. The Syrian economy should benefit from a marked increase in agricultural output in 1998. The Republic of Yemen's real GDP is projected to grow by 4 per cent in 1998, significantly less than the 5.4 per cent growth rate estimated for 1997, owing mainly to declining oil prices and an apparent slow-down in the implementation of the IMF-sponsored economic reform programme.

In conclusion, the GDP growth of the more diversified economies of the ESCWA region was not as adversely affected, by the 7.9 per cent decline in oil prices in 1997, as was the GDP of the GCC countries. The greater projected decline in oil prices in 1998 will again have less of an adverse impact on the growth of the more diversified economies of the region than that of the GCC countries. The efforts to further diversify the economies, as well as the tax revenue base, of the GCC countries should be intensified to meet the challenges of volatile oil price fluctuations in the international markets.

The oil revenues of the ESCWA region are projected to decline significantly in 1998. The average price of OPEC basket crude oil is projected to range between US$ 12 and US$ 15.5 per barrel in 1998, depending mainly on the oil-exporting countries' reactions to the prevailing oversupply in the international oil markets. Assuming the upper limit of US$ 15.5 a barrel proves to be the actual OPEC price average for 1998, this would be 17 per cent below the US$ 18.68 a barrel average for 1997. Oil production in the

---

36 *The Daily Star (*Beirut*)*, 9 May, 1998, p. 9.

ESCWA region may be expected to increase by no more than 7 per cent from its 1997 level (otherwise oil prices would be heading towards the lower end of the projected oil price range for 1998). The projected increase in oil production is not expected to counterbalance the projected decline in oil prices, and hence the ESCWA region's oil revenues are expected to decline in 1998. The extent of an increase in oil production will differ among ESCWA member countries, and hence so will the corresponding changes in their respective oil revenues. The decline in oil revenues will be reflected in a deterioration in the balance of trade accounts as well as widening government budget deficits, mostly in the GCC countries.

The unemployment problems affecting the countries of the region and the West Bank and the Gaza Strip are expected to continue in 1998 and for at least a few more years into the twenty-first century. The unemployment rates are expected to remain relatively high in most of the ESCWA members with more diversified economies, with some progress possibly taking place in Egypt as that country undertakes the implementation of large development projects in the Sinai and in Upper Egypt. The labour indigenization policy pursued by most GCC countries, as well as the more restrictive labour immigration policies being implemented by many developed countries, will continue to limit the opportunities of workers from the more diversified economies to find employment abroad.

The GCC countries will continue to witness relatively lower unemployment rates in 1998 than will the countries with more diversified economies. Nevertheless, the policy of replacing foreign workers with nationals may be expected to be applied more rigorously in 1998 and beyond, as the new national job seekers enter the labour markets in numbers not previously witnessed.

Economic reforms are expected to continue in both the GCC countries and the countries with more diversified economies. It has become clear to the decision makers in the region that economic reforms and enhanced economic efficiency are urgently needed in a time of globalization and more intense competition in the world markets. Privatization will accelerate in 1998, particularly in Egypt (among the more diversified economies) and Kuwait (among the GCC countries).

Inflation is expected to remain under control in most countries of the ESCWA region in 1998. As has been the case for many years, the inflation rates in the GCC countries will be among the lowest in the world. Two GCC countries, namely Oman and Saudi Arabia, may even witness deflation in 1998. This projection relies on the combined effects of: (a) a strong United States dollar to which the currencies of these countries are tied; (b) the sharp depreciation in the currencies of several South-East Asian countries; (c) the prudent fiscal policies pursued by these two countries, which aim at achieving a balanced budget by the year 2000; and (d) the general decline in the growth of economic activities. The first two factors are expected to lower the cost of imports to local consumers and prevent local producers from raising prices, while the other two factors are expected to dampen growth in demand. Among the economies with more diversified economies, inflation is projected to be highest in the Republic of Yemen, and lowest in Jordan. Projections by Lebanese Government officials that the inflation rate in Lebanon may be reduced from an estimated 8 per cent in 1997 to 6 per cent in 1998[37] seem on target, given the tight monetary conditions and the slower economic growth anticipated in 1998. The inflation rate in Lebanon, however, would jump to double digit figures if the Lebanese currency is devalued to a significant extent.

---

[37] Ibid.

BOX 6. MOODY'S CREDIT RATINGS OF ESCWA MEMBERS' SECURITIES

Moody's ratings intend to measure long-term risk based on fundamental factors that will drive each issuer's long-term ability to meet debt payments through the next economic cycle or longer. The main emphasis throughout the rating analysis is on understanding strategic factors likely to support future cash flow. In general, the greater the predictability of an issuer's cash flow and the larger the cushion supporting anticipated debt payments, the higher the rating will be. In addition, Moody's short-term debt ratings are assessments of the ability of issuers to repay punctually debt obligations. These obligations have an original maturity not exceeding one year, unless explicitly noted.

	Bonds and notes		**Bank deposits**	
	Long-term	***Short-term***	***Long-term***	***Short-term***
Bahrain	Ba1	Not Prime	Ba2	Not Prime
Egypt	Ba1	Not Prime	Ba2	Not Prime
Jordan	Ba3	Not Prime	B1	Not Prime
Kuwait	Baa1	Prime-2	Baa1	Prime-2
Lebanon	B1	Not Prime	B2	Not Prime
Oman	Baa2	Prime-2	Baa2	Prime-2
Qatar	Baa2	Prime-2	Baa2	Prime-2
Saudi Arabia	Baa3	Prime-3	Baa3	Prime-3
United Arab Emirates	A2	Prime-2	A2	Prime-2

Source: Moody's Investors Service, Sovereign Ceilings for Foreign Currency Ratings, 16 March 1998.

Moody's employs the following rating classifications, all judged to be investment grade, to indicate the relative repayment ability of rated issuers:

Long-term

Aaa: Bonds that are rated Aaa are judged to be of the best quality. They carry the smallest degree of investment risk and are generally referred to as "gilt edged." Interest payments are protected by a large or by an exceptionally stable margin and principal is secure. While the various protective elements are likely to change, such changes as can be visualized are most unlikely to impair the fundamentally strong position of such issues.

Aa: Bonds that are rated Aa are judged to be of high quality by all standards. Together with the Aaa group, they comprise what are generally known as high-grade bonds. They are rated lower than the best bonds because margins of protection may not be as large as in Aaa securities or fluctuation of protective elements may be of greater amplitude or there may be other elements present which make the long-term risk appear somewhat larger than the Aaa securities.

A: Bonds that are rated A possess many favorable investment attributes and are to be considered as upper-medium-grade obligations. Factors giving security to principal and interest are considered adequate, but elements may be present which suggest a susceptibility to impairment some time in the future.

Baa: Bonds that are rated Baa are considered as medium-grade obligations (neither highly protected nor poorly secured). Interest payments and principal security appear adequate for the present but certain protective elements may be lacking or may be characteristically unreliable over any great length of time. Such bonds lack outstanding investment characteristics and in fact have speculative characteristics as well.

Ba: Bonds that are rated Ba are judged to have speculative elements; their future cannot be considered as well-assured. Often the protection of interest and principal payments may be very moderate, and thereby not well safeguarded during both good and bad times over the future. Uncertainty of position characterizes bonds in this class.

BOX 6 *(continued)*

B: Bonds that are rated B generally lack the characteristics of a desirable investment. Assurance of interest and principal payments or of maintenance of other terms of the contract over any long period of time may be small.

Caa: Bonds that are rated Caa are of poor standing. Such issues may be in default or there may be present elements of danger with respect to principal or interest. Bonds that are rated Ca represent obligations which are speculative to a high degree. Such issues are often in default or have other marked shortcomings.

C: Bonds that are rated C are the lowest rated class of bonds, and issues so rated can be regarded as having extremely poor prospects of ever attaining any real investment standing.

Note: Moody's applies numerical modifiers 1, 2, and 3 in each generic rating classification from Aa through Caa. The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates a ranking in the lower end of that generic rating category.

Short-term

Prime-1: Issuers rated Prime-1 (or supporting institutions) have a superior ability with regard to repayment of senior short-term debt obligations. Prime-1 repayment ability will often be evidenced by many of the following characteristics:

Leading market positions in well-established industries.
High rates of return on funds employed.
Conservative capitalization structure with moderate reliance on debt and ample asset protection.
Broad margins in earnings coverage of fixed financial charges and high internal cash generation.
Well-established access to a range of financial markets and assured sources of alternate liquidity.

Prime-2: Issuers rated Prime-2 (or supporting institutions) have a strong ability with regard to repayment of senior short-term debt obligations. This will normally be evidenced by many of the characteristics cited above but to a lesser degree. Earnings trends and coverage ratios, while sound, may be more subject to variation. Capitalization characteristics, while still appropriate, may be more affected by external conditions. Ample alternate liquidity is maintained.

Prime-3: Issuers rated Prime-3 (or supporting institutions) have an acceptable ability with regard to repayment of senior short-term obligations. The effect of industry characteristics and market compositions may be more pronounced. Variability in earnings and profitability may result in changes in the level of debt protection measurements and may require relatively high financial leverage. Adequate alternate liquidity is maintained.

Not Prime: Issuers rated Not Prime do not fall within any of the Prime rating categories.

III. DEVELOPMENTS IN INTERNATIONAL TRADE AND PAYMENTS

Owing to the fall of oil prices, it was not expected that the region's international trade sector would be able to duplicate its good performance of 1996 in either 1997 or 1998.

A. OVERALL TRADE PERFORMANCE

1. *Exports*

Total trade in the ESCWA region (excluding Iraq and the West Bank and the Gaza Strip) amounted to US$ 239.7 billion in 1996, accounted for 2.3 per cent of total world trade, and represented an increase of about 11 per cent over 1995. The region's trade is estimated to have decreased by only 1.5 per cent in 1997, and is expected to decline by 6.9 per cent in 1998, owing mainly to the expected decrease in exports.[38]

In 1996, the region's total exports, which amounted to US$ 134.6 billion, increased by 14.5 per cent owing primarily to the rise in oil prices in that year. In 1996, oil exports increased by 17.7 per cent while non-oil exports increased by 4.7 per cent. In 1997, total exports are estimated to have decreased by 4.5 per cent as a result of the decline in oil prices. Projections for 1998 estimate that the region's total exports will decline by 14.4 per cent from their 1997 levels, owing mainly to the sharp decline in oil prices.

In the GCC countries, where oil accounts for more than three quarters of exports, total exports amounted to US$ 122 billion in 1996, accounted for 91 per cent of the ESCWA region's total exports, and represented an increase of 14.5 per cent compared with their level in 1995, as shown in table 16. It is estimated that total exports of the GCC countries decreased by 4.8 per cent in 1997, as a result of the 8 per cent drop in oil prices. For 1998, it is projected that the total exports of the GCC countries will decrease by 15.8 per cent compared with their 1997 level.

The more diversified economies in the ESCWA region have for many years registered large deficits in their trade balances. Oil exports of these countries accounted for about 65 per cent of total exports for three countries in 1996, namely Egypt (about 45 per cent), the Syrian Arab Republic (54 per cent) and the Republic of Yemen (90 per cent). For the countries with more diversified economies, non-oil exports, especially cotton lint, textiles, and fresh vegetables and fruits, are currently facing many constraints and stiff competition in the world markets. Total exports of this group of countries amounted to US$ 12.6 billion in 1996, representing a 9.1 per cent increase over their level in 1995. It is estimated that the total exports of the more diversified economies decreased by 1.4 per cent in 1997; they are projected to decline by 1.8 per cent in 1998.

On the country level, Saudi Arabia is the largest exporting country in the ESCWA region. Total exports of Saudi Arabia amounted to US$ 57.6 billion in 1996, and accounted for 47.2 per cent and 42.8 per cent of the GCC countries and the ESCWA region's total exports respectively. Saudi Arabia's exports in 1996 were about 13.4 per cent more than their 1995 level. Saudi Arabia's oil exports increased by about 15.4 per cent in 1996. With regard to non-oil exports, the bulk of which contain petrochemicals, construction materials and agricultural, animal and food products fell by 0.6 per cent. Among these, exports of petrochemicals recorded an increase of 2.6 per cent. Exports of construction materials rose by 9.5 per cent, but exports of agricultural, animal and food products declined by 15.5 per cent. Exports of other commodities (excluding re-exports) declined by 4.2 per cent, compared with their 1995 level.[39] Total exports from Saudi Arabia are estimated to have decreased by 6.3 per cent in 1997, and are projected to fall by 18 per cent in 1998. A sharp decline in exports from Saudi Arabia in 1998 is expected, given that oil

---

[38] See International Monetary Fund, *International Financial Statistics*, February 1998 and Saudi Arabian Monetary Agency, Thirty-third Annual Report, 1418 H (1997).

[39] See Saudi Arabian Monetary Agency, Thirty–Third Annual Report, pp. 100-101.

accounts for about 88.6 per cent of the country's total exports, and that oil prices are projected to be at least 20 per cent below their 1997 levels.

TABLE 16. ESCWA REGION: OVERALL TRADE FLOWS, 1995-1998
(Millions of US dollars)

	Exports (f.o.b.)				Variation (percentage)		
	1995	1996	1997[a]	1998[b]	1995-1996	1996-1997	1997-1998
ESCWA region	118 060	134 600	128 543	110 032	14.5	(4.5)	(14.4)
GCC countries	106 550	122 045	116 187	97 875	14.5	(4.8)	(15.8)
Bahrain	4 102	4 687	4 607	4 089	14.3	(1.7)	(11.2)
Kuwait	12 757	14 910	13 926	11 252	16.9	(6.6)	(19.2)
Oman	6 057	7 330	7 600	6 800	21.0	3.7	(10.5)
Qatar	3 614	4 275	4 053	3 445	18.3	(5.2)	(15.0)
Saudi Arabia	50 791	57 620	53 990	44 300	13.4	(6.3)	(18.0)
United Arab Emirates	29 229	33 223	32 011	27 989	13.7	(3.6)	(12.6)
More diversified economies	11 510	12 555	12 379	12 157	9.1	(1.4)	(1.8)
Egypt	3 355	3 535	3 920	4 100	5.4	10.9	4.6
Jordan	1 370	1 464	1 470	1 500	6.9	1.0	2.0
Lebanon	923	1 017	890	1 010	10.2	(12.5)	13.4
Syrian Arab Republic	3 950	4 350	4 069	3 860	10.1	(6.4)	(5.1)
Yemen, Republic of	1 912	2 189	2 030	1 687	14.5	(7.2)	(6.9)
	Imports (c.i.f.)						
ESCWA region	98 400	105 154	107 548	109 765	7.0	2.3	2.1
GCC countries	68 950	72 249	74 742	75 713	4.8	3.5	1.3
Bahrain	3 716	4 093	4 216	4 270	10.1	3.0	1.3
Kuwait	7 660	8 374	8 709	8 883	9.3	4.0	2.0
Oman	4 117	4 517	4 968	5 067	9.7	10.0	2.0
Qatar	2 165	2 382	2 453	2 490	10.0	3.0	1.5
Saudi Arabia	28 070	27 765	28 042	28 333	(1.1)	1.0	1.0
United Arab Emirates	23 222	25 873	26 354	26 670	11.4	2.0	1.2
More diversified economies	29 500	32 905	32 806	34 052	11.5	(0.3)	3.8
Egypt	11 760	13 035	13 204	13 865	10.8	1.3	5.0
Jordan	3 610	4 320	4 130	4 254	19.7	(4.4)	3.0
Lebanon	7 268	7 590	7 575	7 800	4.4	(0.2)	2.9
Syrian Arab Republic	4 632	5 398	5 258	5 389	16.5	(2.5)	2.5
Yemen, Republic of	2 230	2 562	2 639	2 744	15.0	3.0	4.0

Source: ESCWA, based on various national and international sources.

Note: ( ) indicates negative.

a/ Estimates.

b/ Forecasts.

The United Arab Emirates, the second largest exporting country, depends not only on oil exports as do other GCC countries, but also on re-exports and exports from the free trade zone. Total exports, which amounted to US$ 33.2 billion in 1996, have increased by 13.7 per cent compared with their 1995 level. Oil exports, which accounted for about 44 per cent of total exports, increased by 21.1 per cent in 1996, while non-oil exports increased by 8.4 per cent. Re-exports totalled US$ 10.1 billion in 1996 and accounted for

30.5 per cent of total exports, after increasing by 6.1 per cent in that year. In 1996, free zone exports (from the Jebel Ali free zone) increased by 21 per cent, and other exports increased by 4.3 per cent compared with their 1995 level.[40] In 1997, total exports are estimated to have increased by only 3.6 per cent. In 1998, total exports are projected to decrease by 12.6 per cent, which is the smallest decline among the GCC countries, owing to the positive contribution of non-oil exports and re-exports.

Kuwait's exports increased by 16.9 per cent in 1996. Oil exports, which amounted to US$ 14.2 billion, accounted for about 95 per cent of total exports, and represented an increase of 17.6 per cent compared with the 1995 level. Non-oil exports rose by 4.3 per cent. The share of exports of chemicals and manufactured goods declined by 15.5 per cent, and 10 per cent respectively. Re-exports amounted to US$ 247 million. This represented an increase of 7.2 per cent[41] over the previous year, 1.7 per cent of total exports. It is estimated that total exports decreased in 1997 by 6.6 per cent, and they are expected to decrease by another 19.2 per cent in 1998.

The performance of Omani exports was good in 1996, and the total value of exports recorded US$ 7.3 billion in 1996. This is 21 per cent more than the level in 1995, representing the largest percentage increase among the GCC countries. Oil exports represented about 80 per cent of total exports, which is an increase of 23.1 per cent over the previous year. Non-oil exports increased by 13.4 per cent. Oman's re-exports, which amounted to US$ 1 billion in 1996, accounted for 13.7 per cent of total exports, which represented an increase of 20.2 per cent. Other exports, which include fishery, mineral and agricultural products, declined by 4.9 per cent. The exports of fishery products are estimated to have increased by 3.4 per cent compared with their level in 1995.[42] In 1997, the total Omani exports are estimated to have increased by 3.7 per cent, registering the largest percentage increase among the GCC countries. For 1998, total exports are projected to decline by 10.5 per cent.

The exports of Bahrain, 67 per cent of which consist of crude oil, increased by 14.3 per cent in 1996, and reached US$ 4.7 billion. Oil exports are estimated to have increased by 28.6 per cent, while non-oil exports declined by 7 per cent. Re-exports, which amounted to US$ 48 million, have diminished by 15.4 per cent. Exports from the bonded area have reached US$ 344 million, and decreased by 5.9 per cent compared with the 1995 level.[43] Total exports in 1997 are estimated to have decreased slightly by 1.7 per cent. In 1998, Bahrain's total exports are projected to decline by 11.2 per cent.

Qatar's exports, of which oil accounts for 74.4 per cent, increased by 18.3 per cent in 1996 compared with these levels in 1995. Oil exports rose by 22.3 per cent, while non-oil exports increased by 8 per cent. Owing to the fall in oil prices, exports in 1997 were estimated to have decreased by 5.2 per cent, and projected to decline by 15 per cent in 1998.

---

40 Central Bank of the United Arab Emirates, *Statistical Bulletin*, Quarterly, April-June 1997, p. 47.

41 Central Bank of Kuwait, Economic Research Department, *Quarterly Statistical Bulletin*, July-September, 1997, vol. 23, No. 3, p. 68.

42 See Central Bank of Oman, Department of Research and Statistics, *Quarterly Statistical Bulletin,*, September 1997, vol. 23, No. 3, p. 33; and *Al-Markazi*, a bimonthly publication of the Central Bank of Oman, July/August 1997, vol. 22, No. 4, p. 28.

43 Bahrain Monetary Agency, *Quarterly Statistical Bulletin*, September 1997, p. 28.

Among the ESCWA member countries with more diversified economies (excluding Iraq and the West Bank and the Gaza Strip),[44] Egypt made considerable progress in the area of exports in 1997. Total exports, which amounted to US$ 3.92 billion, increased by 10.9 per cent, against a 5.4 per cent increase achieved in 1996. This was mainly due to an increase of non-oil exports by 21 per cent from their 1996 level. Exports of textile products increased by 21.7 per cent, raw cotton by 19.9 per cent, medical products by 38 per cent, fertilizers by 40 per cent, frozen vegetables by 60 per cent, and carpets by 4.6 per cent. Some other non-oil exports declined, such as raw materials (potatoes, tomatoes, oranges and nuts) by 13 per cent, compared with their level in 1996. Egyptian oil exports, which accounted for 45 per cent of total exports, decreased slightly by 1.8 per cent.[45] It is projected that Egyptian exports will continue to increase in 1998, but by a rate lower than that achieved in 1997. This decline was caused primarily by the fall in oil prices.

The Syrian Arab Republic's exports, 54 per cent of which are oil exports, increased by 10.1 per cent in 1996, and reached US$ 4 billion. Oil exports rose 10 per cent, while non-oil exports increased slightly by 1.4 per cent. Exports of food and live animals rose by 34 per cent, exports of raw materials declined by 20.6 per cent, and exports of manufactured goods dropped sharply by 50.3 per cent, compared with the levels in 1995.[46] Total exports in 1997 are estimated to have decreased by 6.4 per cent. In 1998, Syrian exports are projected to decrease by 5.1 per cent from the 1997 level.

Jordan's exports, which are mainly non-oil exports, increased by 6.9 per cent in 1996. Exports of food and live animals increased by 61 per cent. Exports of vegetables increased by 21 per cent, and exports of fruits and nuts increased by 16.7 per cent. Exports of raw materials increased by 9.8 per cent, including phosphate which increased by 20.3 per cent, and potash which increased by 3.3 per cent. Exports of manufactured goods increased by 22.9 per cent. However, exports of machinery and transport equipment decreased sharply by 46.6 per cent compared with their 1995 level.[47] Total exports are expected to increase by 1 per cent in 1997 and 2 per cent in 1998.

Lebanon, like Jordan, depends solely on non-oil exports. Total exports in 1997 are estimated to have declined by 12.5 per cent, against an increase of 10.2 per cent achieved during 1996. This was the result of stiff competition against Lebanese exports in the world markets, particularly in fresh vegetables and fruits. It is projected that total exports will increase by 13.4 per cent in 1998, as a result of the establishment of the Arab Free Trade Zone (AFTZ), and the expected increase of exports to other Arab countries and the European Union .

Exports of the Republic of Yemen, of which crude oil represents 90 per cent, achieved a significant increase of 14.5 per cent in 1996, compared with 1995. Oil exports, which amounted to US$ 1.976 billion in 1996, increased by 13.9 per cent, while non-oil exports rose by 19.8 per cent. Among the non-oil exports, fish and fish products increased sharply by 186.3 per cent, vegetables and fruits by 217.5 per cent, and raw materials by 79.8 per cent; however, beverage and tobacco exports declined by 6.7 per cent.[48] Total exports are estimated to have decreased by 7.2 per cent in 1997, and are projected to decrease by 16.9 per cent in 1998, which will affect economic development.

---

[44] Comprehensive data and information were not available during the preparation of the Survey.

[45] See National Bank of Egypt, *Economic Bulletin*, vol. XXXXX, No. 2, 1997 (Cairo), p. 107; and *Al-Ahram* (Cairo), 19 January 1998, 20 January 1998, 8 March 1998, and 11 March 1998.

[46] Central Bank of Syria, *Quarterly Bulletin 1995-1996*, vol. XXXIII-XXXIV, No. 1- 2- 3- 4, p. 63.

[47] Central Bank of Jordan, *Monthly Statistical Bulletin*, vol. 33, No. 12, December 1997, p. 62.

[48] Central Bank of Yemen, *Financial Statistical Bulletin*, vol. 8, No. 3, p. 42.

2. *Imports*

The total value of the ESCWA region's imports registered US$ 105.1 billion in 1996, and rose by 7 per cent compared with the 1995 level. In 1997, the region's imports are estimated to have increased by 2.3 per cent. In 1998, the region's total imports are projected to increase by 2.1 per cent, as a result of the expected decrease of export revenues required to finance imports.

The GCC countries are considered as major markets for commodities and goods produced in the developed market economies. Their imports amounted to US$ 72.2 billion in 1996, accounting for 68.7 per cent of the total ESCWA region imports, and have increased by 4.8 per cent compared with the level in 1995. When oil exports are considered the main component of export revenues, there is a positive correlation between exports and imports. The imports of the GCC countries are estimated to have increased by 3.5 per cent in 1997. The growth rate in 1998 is projected to be 1.3 per cent, significantly lower than the increase registered in the previous year.

The more diversified economies in the ESCWA region depend on capital goods and food commodities as a major component of their imports. The total imports of this group (excluding Iraq and the West Bank and the Gaza Strip), which amounted to US$ 32.9 billion in 1996, rose by 11.5 per cent compared with the 1995 level. The imports of the more diversified economies are estimated to have decreased slightly by 0.3 per cent in 1997, owing partly to the notable increase in food production by some countries and the implementation of an import substitution policy of many manufactured goods. It is projected that imports of those countries will increase by 3.8 per cent in 1998.

On the country level, among the GCC countries, Saudi Arabia is the largest importing country in the ESCWA region. The total imports of Saudi Arabia accounted for 38.4 per cent of the GCC countries' total imports, and 26.4 per cent of the total imports into the ESCWA region in 1996. Saudi Arabia succeeded in reducing its imports from US$ 28.1 billion in 1995 to US$ 27.8 billion in 1996, or by 1.1 per cent. This reduction can be attributed to an increase in domestic substitutes for imports, especially agricultural and food products. Some import items recorded high percentage increases in 1996; they included motor vehicles (40 per cent), foodstuffs (22 per cent), construction materials (10 per cent), and appliances (7 per cent). However, imports of clothing and machinery declined by 0.7 per cent and 2 per cent respectively.[49] Total imports in 1997 are estimated to have increased by 1 per cent and are projected to rise by 1 per cent again in 1998.

Total imports of the United Arab Emirates, which amounted to US$ 25.9 billion in 1996, increased by 11.4 per cent compared with their 1995 level. This value of imports does not reflect net imports since it includes imports that are re-exported, which represented about 40.7 per cent of total imports in 1996. Total imports are estimated to have increased by 2 per cent in 1997. Total imports of the United Arab Emirates are projected to rise slightly, by 1.2 per cent, in 1998.

Kuwait's imports registered a 9.3 per cent increase in 1996 against 1995. Consumer goods, which accounted for 40.3 per cent of total imports in 1996, rose by 7.1 per cent compared with their 1995 level. The imports of intermediate goods increased by 8.6 per cent. Imports of capital goods, which include machines and equipment, as well as cars, increased by 5.8 per cent.[50] Total imports in 1997 are estimated to have increased by 4 per cent, and are projected to increase by 2 per cent in 1998.

Oman recorded a 10 per cent increase in imports in 1997, against 9.7 per cent in 1996. Imports of machinery and transport equipment, which accounted for 41.5 per cent of total imports in 1996, increased by 13.8 per cent compared with 1995. Imports of manufactured goods rose by 12.8 per cent. Imports of food

[49] Saudi Arabian Monetary Agency, Thirty-third Annual Report, p. 106.

[50] Central Bank of Kuwait, *Quarterly Statistical Bulletin*, vol. 23, No. 3, p. 72.

and live animals increased by 1.8 per cent, while imports of beverages and tobacco, and animals and vegetable oil and fats declined by 15.1 and 30.4 per cent respectively.[51] It is projected that Oman's total imports will increase by 2 per cent in 1998.

Total imports of Qatar increased by 10 per cent compared with 1995. These imports are estimated to have increased by 3 per cent in 1997, and are projected to increase by 1.5 per cent in 1998. Total imports of Bahrain increased by a relatively high rate of 10.1 per cent in 1996. This was mainly due to the fact that oil imports, which accounted for 41.8 per cent of total imports in 1996, registered an increase of 34.1 per cent compared with the previous year. Non-oil imports rose by 4.3 per cent, while total imports of the bonded area declined by 5.1 percent.[52] Total imports of Bahrain are estimated to have increased by 3 per cent in 1997, and are projected to increase by 1.3 per cent in 1998.

Among the more diversified economies, Egypt is the major importer within this group. Egypt's imports represent about 40 per cent of the combined imports of this group. However, the country has succeeded in decreasing its imports. In 1997, total imports into Egypt amounted to about US$ 13.2 billion, a 1.3 per cent increase over 1996; in contrast, imports increased by 10.8 per cent in 1996 compared with the previous year. The decrease was mainly due to a sharp reduction in wheat imports, which are estimated to be about US$ 354 million, a decrease of about 25 per cent compared with 1996. Imports of crude wool, crude iron, tobacco, and maize declined by 31.3 per cent, 9.8 per cent, 15.2 per cent and 3.2 per cent respectively. The imports of intermediate goods, animal fats, and fertilizers decreased by varied percentages. However, imports of capital goods and consumer goods increased by 11.1 per cent each.[53] It is expected that Egyptian imports will increase by 5 per cent in 1998, as a result of an expected increase in capital goods required for the massive projects being established in Egypt, on which work started in 1997.

The imports of the Syrian Arab Republic increased by a high rate of about 16.5 per cent in 1996. Manufactured goods, and machinery and transport equipment, represented together about 63.5 per cent of the total imports in 1996. Their shares increased by 14.1 per cent and 14.6 per cent respectively. The Syrian Arab Republic's imports of food and live animals rose by 2.2 per cent, while imports of crude material went down by 13 per cent compared with the 1995 level.[54] Syrian total imports are estimated to have decreased by 2.5 per cent in 1997, and are projected to increase by 2.5 per cent in 1998.

Jordan's imports, which recorded the highest growth rate within the more diversified economies, of about 19.7 per cent in 1996, were estimated to have decreased by 4.4 per cent in 1997. Imports of food and live animals and machinery and transport equipment, which together represented about 48.5 per cent of the total imports in 1996, increased by 63.6 per cent and 24.4 per cent respectively. Imports of manufactured goods rose by 1.7 per cent, while the animal and vegetable oil and fat imports declined by 22.2 per cent.[55] It is projected that Jordan's total imports will increase by 3 per cent in 1998.

In 1997, Lebanon's total imports, which amounted to US$ 7.5 billion, decreased slightly by 0.2 per cent in contrast to an increase of 3.5 per cent in 1996. This could be attributed to the fact that the Government had completed the major part of rehabilitation of the essential infrastructure, or the fact that the world prices of some imported items declined. For 1998, it is projected that total imports will increase by only 2.9 per cent.

---

51 Central Bank of Oman, *Quarterly Statistical Bulletin*, vol. 23, No. 3, p. 31.

52 Bahrain Monetary Agency, *Quarterly Statistical Bulletin*, September 1997, p. 23.

53 *Al Ahram*, 20 January 1998.

54 Central Bank of Syria, *Quarterly Bulletin 1995-1996*, vol. XXXIII-XXXIV, No. 1-2-3-4.

55 Central Bank of Jordan, *Monthly Statistical Bulletin*, vol. 33, No. 12, December 1997, p. 64.

Total imports of the Republic of Yemen recorded an approximately 15 per cent increase in 1996 compared with 1995. The imports of food and live animals, and machinery and transport equipment, representing about 62 per cent of total imports in 1996, increased by 33 per cent and 29.4 per cent respectively. Imports of crude materials rose sharply by 179.1 per cent, while imports of manufactured goods declined by 14.8 per cent.[56] Total imports were estimated to have increased by 3 per cent in 1997, and are projected to increase by about 4 per cent in 1998.

The ESCWA region's trade balance, which experienced a surplus, will continue on this track but at lower rates. In 1996, the trade balance of the ESCWA member countries achieved a surplus estimated at about US$ 29.4 billion; that is, the surplus increased by 49.8 per cent compared with its 1995 level. As a result of the decrease in export revenues and the increase in imports, the trade balance in 1997 is estimated to have had a surplus which was 28.7 per cent lower than the one achieved in 1996. For 1998, it is projected that the surplus of the ESCWA region's trade balance will decrease by more than 90 per cent compared with the 1997 level.

The GCC countries' trade balance, which registered a US$ 49.8 billion surplus in 1996, is estimated to have decreased by 16.8 per cent in 1997, and is projected to decrease by 46.5 per cent in 1998. The more diversified economies' trade balance experienced a deficit of US$ 20.4 billion in 1996, and is estimated to have decreased slightly by 0.4 per cent in 1997; however, it is projected to increase by 7.2 per cent in 1998.

3. *Export/import ratio*

The export/import ratio, which reflects the ability of countries to finance their imports from export revenues, reached 1.28 in the region as a whole in 1996, compared with 1.19 in 1995, as shown in table 17. This ratio is estimated at 1.19 for 1997, and is projected to decline further to 1.00 in 1998. For the GCC countries, this ratio improved in 1996, and recorded 1.68 compared with 1.54 in 1995: it is estimated to have declined to 1.55 in 1997, and is projected to decline further to 1.02 in 1998. For the more diversified economies, this ratio remained at around 0.38 during the period 1995-1998.

The ESCWA region's export/import ratio increased in terms of 1995 imports, from 1.19 in 1995 to 1.37 in 1996, and decreased to 1.30 in 1997, and is projected to be 1.12 in 1998. For the GCC countries, this ratio improved from 1.54 in 1995 to 1.77 in 1996, and decreased slightly to 1.68 in 1997; it is projected to be 1.42 in 1998. For the more diversified economies, the export/import ratio increased from 0.39 in 1995 to 0.42 in both 1996 and 1997 and is projected to be 0.41 in 1998.

TABLE 17. ESCWA REGION: EXPORT/IMPORT RATIOS, 1995-1998

	1995	1996	1997	1998
ESCWA region				
Current imports	1.19	1.28	1.19	1.00
1995 imports	1.19	1.37	1.30	1.12
GCC countries				
Current imports	1.54	1.68	1.55	1.02
1995 imports	1.54	1.77	1.68	1.42
More diversified economies				
Current imports	0.39	0.38	0.37	0.36
1995 imports	0.39	0.42	0.42	0.41

Source: ESCWA, based on various national and international sources.

56 Central Bank of Yemen, *Financial Statistical Bulletin*, vol. 8, No. 3, pp. 48-50.

B. DIRECTION OF TRADE

1. *Direction of exports*

(a) *Regional level*

The developed market economies are the largest export outlets of the ESCWA member countries. In 1997 (January – June only), the share of the developed market economies in the ESCWA region's total exports increased to 51.1 per cent, compared with 48.2 per cent in 1996, but this figure was still lower than the 1995 level, which was 54.1 per cent, as shown in table 18. In 1997, the major countries importing from the ESCWA member countries were Japan (accounting for 23.4 per cent of the ESCWA region's exports), the EU members (16.2 per cent), and the United States of America (9.6 per cent). The developing countries' share increased significantly, from 32.4 per cent in 1995 to 42.3 per cent in 1996 and 43.1 per cent in 1997. Most of the exports from the ESCWA region to the developing countries went to Asian developing countries, with a total of 34 per cent of the total ESCWA region's exports in 1997, and especially to India, Indonesia, the Republic of Korea, Malaysia, Pakistan, the Philippines, Singapore and Thailand. China's share of the ESCWA region's exports is very low, and has remained around 2 per cent since 1995. The shares of Africa and Eastern Europe (including the former Soviet Union) are about 2.5 per cent and 2.9 per cent respectively. The share of Latin America and the Caribbean remained low at around 1.5 per cent during the period 1995-1997.

The exports of ESCWA member countries to the developed market economies have been decreasing since 1990. Their exports to the developing countries, however, have increased. This can be attributed to the trend to diversify the world markets of the region's exports. This tendency is very useful, but there are some defects in the distribution of exports. For example, the ESCWA region's exports to China, Eastern Europe and Latin America and the Caribbean still remain very low. This may be explained by the composition of the exports. Most of the ESCWA region's exports are oil exports (about 75 per cent), and there is high demand from the developed market economies and Asian countries. ESCWA member countries should aim at greater diversification of their export markets by establishing trade partnerships with the potential Chinese market, as well as with African and Latin American markets.

(b) *Country level*

Since 1996, about 49 per cent of exports from the GCC countries in 1997 have been exported to the developed market economies. The GCC countries' exports to the developing countries remained around 43 per cent in 1997, not showing any significant change. However, the GCC countries' exports to the EU decreased significantly from 15.4 per cent in 1996 to about 12 per cent in 1997 (as shown in table 19).

Bahrain is the only country among the GCC members that exports a limited share of its exports to the developed market economies; this amounted to about 20 per cent of the country's total exports in both 1996 and 1997. Bahrain is also the only country among the GCC countries that exported a relatively high percentage of its exports to the Eastern European countries in comparison with other GCC countries; Bahrain's exports to Eastern Europe totalled 11.6 per cent of its total exports in 1996 and decreased to 9.1 per cent in the first half of 1997. About two thirds of Bahrain's total exports were sold to the developing countries, in particular the Asian countries, which received more than 50 per cent of Bahrain's total exports. The other ESCWA members constitute Bahrain's second export partner, accounting for 13.3 per cent of its total exports in 1996, and 14.6 per cent in 1997.

About 51 per cent of Kuwait's total exports were sold to developing countries in 1996,[57] of which about 47.5 per cent went to Asian countries, in particular India, the Republic of Korea and Singapore. The

[57] Currently, there are no comprehensive data on 1997 for Kuwait.

exports to the developed market economies reached 47.6 per cent, of which 21.4 per cent went to Japan, 13.4 per cent to the EU, and 12 per cent to the United States.

TABLE 18. ESCWA REGION: DIRECTION OF TRADE, 1990, 1995, 1996 AND 1997
(Percentage share)

	Exports				Imports			
	1990	1995	1996	1997[a/]	1990	1995	1996	1997[a/]
ESCWA region	10.9	8.1	7.9	8.7	9.1	8.1	9.2	10.0
Other developing countries	29.3	32.4	42.3	43.1	21.9	28.3	28.5	30.5
Asia (excluding ESCWA region)	20.4	23.6	34.3	34.0	14.1	18.5	15.5	20.2
Africa (excluding Egypt)	2.7	4.4	2.5	2.5	1.1	3.7	1.3	1.4
Eastern Europe and FSU[b/]	4.0	2.9	2.9	3.0	5.1	4.3	6.0	6.3
China	0.2	1.9	2.2	2.1	2.1	2.8	2.7	2.6
Latin America and the Caribbean	2.2	1.6	1.6	1.5	1.2	1.9	1.4	1.1
Developed market economies[c/]	55.7	54.1	48.2	51.1	65.7	61.0	60.8	58.3
European Union	17.3	16.8	17.9	16.2	33.4	35.7	35.0	30.5
United States	14.0	10.7	9.4	9.6	12.6	13.6	14.3	14.6
Japan	22.1	24.2	22.0	23.4	11.0	7.0	7.1	7.6
Rest of the world	4.1	5.3	0.0	0.0	3.3	2.6	0.1	0.1

Source: ESCWA compilations based on International Monetary Fund, *Direction of Trade Statistics Yearbook*, various issues.

Note: Figures do not necessarily add up to 100 per cent owing to rounding.

a/ Figures for 1997 are for January to June only as available in international sources.

b/ FSU refers to the former Soviet Union.

c/ This includes developed market economies not included in the categories below, such as Australia, New Zealand and Sweden.

The trend to diversify exports to the world markets continued in Oman. Exports to the developed market economies decreased from 37.5 per cent in 1996 to about 33 per cent in 1997, and the exports to developing countries increased from about 60 per cent in 1996 to 64.5 per cent in 1997, of which the exports to Asian countries as a first partner had considerably increased from 54.7 per cent to about 58 per cent, especially with regard to the Republic of Korea and Thailand. Oman is the only country in the GCC countries exporting a significant share of its exports to China, which was the third export partner for Oman. Oman increased its exports to China from 11.8 per cent in 1996 to 15.2 per cent in 1997. Oman's exports to Africa increased from 2.8 per cent to 3.6 per cent in 1997. However, Oman's exports to Eastern Europe and Latin America are very low and need to be encouraged.

Qatar is the only country in the ESCWA region that has a very low percentage of exports to the EU, estimated at only around 1 per cent in both 1996 and 1997. Qatar is also the only country that exports a very high percentage of its total exports to Japan (51.6 per cent in 1996 and 50.4 per cent in 1997). Japan is Qatar's first export partner. Exports from Qatar to the developed market economies decreased from 58.7 per cent to 57.3 per cent, of which the exports to the United States also decreased from 3.4 per cent in 1996 to 2.3 per cent in 1997. Exports to the developing countries increased from 35.8 per cent in 1996 to 37.4 per

TABLE 19. ESCWA REGION: SHARE OF THE THREE LEADING INTERNATIONAL EXPORT PARTNERS,[a/] 1996 AND 1997

(Percentage)

	1996						1997[b/]					
	1st partner		2nd partner		3rd partner		1st partner		2nd partner		3rd partner	
GCC countries	Asia	36.2	Japan	24.7	E.U.	15.4	Asia	35.7	Japan	25.3	E.U.	11.9
Bahrain	Asia	50.6	ESCWA	13.3	Europe	11.6	Asia	51.3	ESCWA	14.6	Japan	10.6
Kuwait	Asia	47.5	Japan	21.4	E.U.	13.4		..		...		..
Oman	Asia	54.7	Japan	27.7	China	11.8	Asia	57.9	Japan	25.2	China	15.2
Qatar	Japan	51.6	Asia	34.8	ESCWA	5.3	Japan	50.4	Asia	36.0	ESCWA	15.2
Saudi Arabia	Asia	32.5	E.U.	23.3	Japan	16.3	Asia	35.7	Japan	18.4	E.U.	17.7
United Arab Emirates	Japan	43.1	Asia	32.5	ESCWA	7.8	Japan	41.2	Asia	32.7	ESCWA	7.6
More diversified economies	E.U.	35.4	ESCWA	18.0	Europe	7.5	E.U.	38.4	ESCWA	16.0	Asia	12.4
Egypt	E.U.	52.7	Europe	10.6	ESCWA	9.9	E.U.	51.4	Europe	11.7	ESCWA	11.2
Jordan	ESCWA	48.5	Asia	22.6	E.U.	9.1	ESCWA	43.5	Asia	18.6	E.U.	12.4
Lebanon	ESCWA	58.2	E.U.	20.1	Europe[c/]	8.7	ESCWA	56.8	E.U.	21.3	Europe	5.3
Syrian Arab Republic	E.U.	59.1	ESCWA	17.1	Europe[c/]	15.1	E.U.	57.5	ESCWA	19.5	Europe[c/]	14.9
Yemen, Republic of	Asia	53.8	China	20.5	LAC[d/]	11.3	Asia	48.6	China	17.6	LAC	15.1

Source: ESCWA compilations based on International Monetary Fund, *Direction of Trade Statistics Yearbook, 1997*, and *Direction of Trade Statistics Quarterly, December 1997*.

Note: Two dots (..) indicate that data were not available.

a/ Regions, blocs and countries.
b/ For (January – June only) owing to lack of data.
c/ Refers to Eastern Europe and the former Soviet Union.
d/ Refers to Latin American and Caribbean countries.

cent in 1997, most of it (36 per cent) exported to Asian countries, in particular Singapore and the Republic of Korea. The exports to Africa, China, Eastern Europe and Latin America and the Caribbean remained very low (varying from 0.1 to 1 per cent).

Saudi Arabia's exports to the United States are considered the largest among ESCWA member countries, with 14.4 per cent of the country's total exports in 1996 and 14.7 per cent in 1997. Saudi Arabia's exports to developed market economies rose from 51 per cent in 1996 to 53.1 per cent in 1997, and particularly to Japan, from 16.3 per cent to 18.4 per cent. Exports to the EU, the second partner, declined significantly from 23.3 per cent to 17.7 per cent in 1997. The exports to developing countries have increased considerably from 39.8 per cent to 42.6 per cent, particularly to Asian countries, such as the Republic of Korea, Singapore, India and the Philippines. Saudi Arabia's exports to Africa, Eastern Europe, and Latin America and the Caribbean were very low (around 2 per cent), and the country's exports to China amounted to only 1 per cent.

For the United Arab Emirates, the geographical distribution of its exports did not show significant changes between 1996 and 1997. The country's exports to developed market economies remained at about 52 per cent of its total exports, most of which went to Japan, its first partner. However, Japan's share declined from 43.1 per cent in 1996 to 41.2 per cent in 1997, while exports to both the EU and the United States increased from 4.6 per cent and 2 per cent respectively in 1996 to 5.2 per cent and 3.8 per cent respectively in 1997. There is no change in the share of exports to developing countries, (around 40 per cent) or in the share of exports to Asian countries (about 32.5 per cent). The percentage of exports to Africa, China, Eastern Europe, and Latin American and Caribbean countries remained very low and without changes during the period 1996-1997. The exports of the United Arab Emirates should be diversified, as they should be in the other GCC countries.

To summarize, Asian countries—in particular the Republic of Korea, Singapore, India, Pakistan and Thailand—are the first export partners for the GCC countries. The main export items are oil and re-exports. Japan, the second export partner, obtained one quarter of the GCC countries' exports, mostly oil. The third partner of the GCC countries as a group is the EU countries. However, there are some differences in the second and third partners among individual GCC countries. Other ESCWA member countries have occupied the place of second partner of Bahrain, with Eastern Europe as the country's third partner. China is the third partner of Oman, and other ESCWA members constitute the third partner of both Qatar and the United Arab Emirates.

For the more diversified economies in the ESCWA region, the direction of their exports seems to be different from the GCC countries. The exports to developed market countries increased from 42.2 per cent in 1996 to 47.6 per cent in 1997. Within this group of countries, the exports to the EU increased from 35.4 per cent to 38.4 per cent, and to the United States from 4.2 per cent to 5.1 per cent, while the exports to developing countries declined from 36.4 per cent to 33.7 per cent. The exports to the ESCWA region (intra-export) decreased from 18 per cent to 16 per cent. However, the exports to Asia have witnessed a considerable increase, from 5.3 per cent to 12.4 per cent. These changes can be attributed to several factors, including the fact that export items in the more diversified economies include oil, crude materials, foodstuffs, particularly vegetables and fruits, and manufactured goods. This variety of exports led to diversification of the export markets. The EU is attempting to establish a Free Trade Zone with the Mediterranean countries in the light of partnership agreements with those countries, which led to an increase in trade flows to the EU. Some of the more diversified economies still have strong trade relations with Eastern Europe, and are increasing their exports to those countries as a means of payment of old debts.

Most of Egypt's exports went to developed market economies: about 67 per cent in 1996 and 64 per cent in 1997. The EU, Egypt's first export partner, receives more than half of the country's total exports, but this share decreased from about 53 per cent in 1996 to 51 per cent in 1997. Meanwhile, exports to the United

States and Japan increased from 3.6 per cent and 1.2 per cent respectively in 1996 to 9.4 per cent and 3.2 per cent respectively in 1997. Egypt's exports to developing countries increased slightly from 23.3 per cent to 24.4 per cent, of which exports to Eastern Europe increased from 10.6 per cent to 11.7 per cent. Egypt's exports to the rest of the ESCWA region, its third partner, increased from 9.9 per cent to 11.2 per cent. However, Egypt's exports to Asian countries declined significantly, from 9.1 per cent in 1996 to 5.2 per cent in 1997. There are some reasons for these changes in the direction of Egyptian exports: (a) the increase of exports percentage to developed market economies, mainly due to the signing of some trade agreements with the United States and some countries in the European Union; (b) the effective role played by the Egyptian private sector in the area of trade relations with the private sector in developed market economies; (c) the recent Government measures to facilitate export procedures; (d) the decreased percentage of exports to Asian countries, which was due mainly to the high competition from some Asian countries, particularly Thailand and Indonesia, as a result of the sharp currency depreciation in those Asian countries in 1997.

In Jordan, a significant portion of the country's exports was sold in the ESCWA region, whose share decreased from 48.5 per cent in 1996 to 43.5 per cent in 1997. Jordan's exports to Asian countries, which mainly include phosphates and potash, decreased considerably from 22.6 per cent in 1996 to 18.6 per cent in 1997, but Asian countries still represented the second partner for Jordan's exports. Jordan's exports to developed market economies rose from 13.6 per cent in 1996 to 19 per cent in 1997. In particular, the share of Jordan's exports to the EU increased from 9.1 per cent to 12.4 per cent, and to the United States from 1.4 per cent to 2.8 per cent. These developments may be partly attributed to increases in Jordan's exports of clothing and of exports of some vegetable and fruit exports to those countries as a result of new trade agreements.

Most of Lebanon's exports were sent to the other ESCWA member countries, its first trading partner, which received 58.2 per cent of Lebanon's total exports in 1996: this figure decreased slightly to about 57 per cent in 1997. Exports to the EU, Lebanon's second trading partner, increased from 20.1 per cent to 21.3 per cent, owing to increased exports of clothing and foodstuffs. Lebanon's export share to Asia is relatively low compared with other ESCWA member countries. Although Lebanon's exports to Eastern Europe decreased from 8.7 per cent in 1996 to 5.3 per cent in 1997, Eastern Europe remained Lebanon's third export partner.

The Syrian Arab Republic is the only country in the ESCWA region which has a significant share (estimated at 15 per cent in both 1996 and 1997) of its exports directed to Eastern Europe. This may be attributed to debt repayments by the Syrian Arab Republic to these countries, particularly the former Soviet Union. Exports to developed market economies accounted for the major part of Syrian exports, particularly to the EU countries, which reached 57.5 per cent in 1997 against 59.1 per cent in 1996. The Syrian Arab Republic is the only country in the region that has a very limited share of exports to Asian countries.

The Republic of Yemen is the only country in the region that has a significant percentage of its total exports directed to China, which is the Republic of Yemen's second export partner. China accounted for 20.5 per cent of the Republic of Yemen's exports in 1996, and about 18 per cent of its exports in 1997. More than two thirds of the Republic of Yemen's exports went to developing countries, particularly Asian countries, amounting to about 48.6 per cent in 1997 versus 53.8 per cent in 1996.

In conclusion, the EU countries are the first export partners of the countries with more diversified economies in the ESCWA region, owing to the variety of export items and strong trade linkages. The other ESCWA member countries occupied the place of second export partner, owing mainly to the exports of fresh vegetables and fruits. The low percentage of exports from the more diversified economies to Asian countries is due to the stiff competition from the Asian countries' exports with the exports of the more diversified economies.

BOX 7. EGYPT – THE EU PARTNERSHIP: DIFFERENCES ABOUT EGYPTIAN AGRICULTURAL EXPORTS

The Egyptian–EU partnership was proposed in order to build a general framework of trade relations, investments and regional cooperation to protect intellectual property rights and to strengthen political relations. The main objective of the partnership between the EU and the Mediterranean countries is to establish a large Free Trade Zone by 2010. For this purpose, two conferences have been held: the first in Barcelona, Spain, on 27 and 28 November 1995, and the second in Valetta, Malta, on 15 and 16 April 1997. Several rounds of negotiations between Egypt and the EU have been held to arrive at a draft partnership agreement. The two parties agreed upon most articles contained in this draft, excluding those related to Egyptian agricultural exports to the EU.

Egypt removed agricultural subsidies, as a part of the economic reform programme which is being implemented in cooperation with the World Bank and the IMF. Meanwhile, the EU agricultural sector still enjoys subsidies, which amounted to about US$ 60 billion annually. The Egyptian customs duties imposed on EU foodstuffs and agricultural imports do not exceed 10 per cent, while the EU imposes very high customs duties, which reached 300 per cent on Egyptian rice and 200 per cent on orange exports. Nevertheless, the EU is Egypt's first export and import partner: almost half of Egypt's exports are sold to the EU and 40 per cent of the country's imports are purchased from the EU.

The EU position is based on the following points. (a) The EU proposes a duplication of the quota granted to Egypt under the 1977 cooperation agreement, which implies that rice exports will increase to 100,000 tons (whereas production reached about 3.6 million tons), that orange exports will increase to 10,000 tons (while production exceeded 2 million tons) and that exports of potatoes will increase to 250,000 tons. However, these suggested quotas for exports from Egypt do not exceed 1 per cent of EU consumption, and amount to less than 20 per cent of Egyptian export capabilities. (b) The EU offered quotas for new exports, in particular flowers, amounting to 2,000 tons. Several countries in the EU are opposing the granting of additional facilities for Egyptian agricultural exports: they include France and Germany with regard to potatoes, Italy with regard to rice, Spain and Portugal with regard to oranges, and the Netherlands and Germany with regard to flowers, as a measure to protect their local production.

The position of the Egyptian Government is based on the following points. (a) Egypt proposes increasing the quota for potatoes from the current level of 110,000 tons to 750,000 tons, for orange exports from 7,000 tons to 300,000 tons, for rice from 22,000 tons to 475,000 tons, and 30,000 tons of flowers instead of 2,000 tons. (b) The value of Egyptian exports should reflect the increased quota of goods permitted to the EU.

The two parties continue to negotiate these differences, and the negotiations are aimed at achieving a fair agreement for both sides. The conclusion of a partnership agreement will be useful, as it will be reflected positively not only in trade flows, but also in overall economic development.

Sources: National Bank of Egypt, *Economic Bulletin*, vol. XXXXX, No. 2, 1997 (Cairo); *Al Ahram*, 17 March 1998; and IMF, *Direction of Trade Statistics Quarterly, December 1997.*

2. *Direction of imports*

(a) *Regional level*

Most of the imports of the ESCWA region originate in the developed market economies, although the share of their imports in the total decreased slightly from 61 per cent in 1995 to 60.8 per cent in 1996, and to 58.3 per cent in 1997. The EU contribution, although down to 30.5 per cent in 1997 compared with 35.0 per cent in 1996, still constitutes the major part of ESCWA members' imports. This can be attributed to the kinds of goods imported. The ESCWA region imports mainly capital goods (machinery and transport equipment) from the developed market economies. Foodstuffs, particularly dairy products and red meat, come second. Most imports of consumer goods are from Asian countries, amounting to 15.5 per cent of the total ESCWA members' imports in 1996 and increasing to 20.2 per cent in 1997. The share of China in the ESCWA region's imports still remains low, at about 2.7 per cent and 2.6 per cent in 1996 and 1997 respectively. The imports from Eastern Europe and the former Soviet Union are estimated to have increased from 4.3 per cent in 1996 to 6 per cent in 1997. The shares of Africa and Latin America and the Caribbean were still very low, at about 1.4 per cent in 1997.

(b) *Country level*

The first import partner of the GCC countries is the EU, which supplied to the GCC countries about one third of their imports. Asian countries supply about 20 per cent of the GCC countries' imports, and the United States supplies about 15 per cent, as shown in table 20.

Imports into Bahrain originate in the rest of the ESCWA region, which is considered its first partner (with more than a 50 per cent share), and the developed market economies (with about a one third share). These developed market economies are comprised mainly of the EU countries, and Asian countries. The imports from the ESCWA region, which include crude oil from Saudi Arabia, increased from 50.2 per cent in 1996 to about 52 per cent in 1997. This percentage of imports from the ESCWA region is the highest one among the ESCWA member countries. Imports from the EU countries, which include capital goods, foodstuffs, and manufactured goods, with almost the same percentage, amounted to about 22 per cent in both 1996 and 1997. The imports from Asian countries, which contain consumer goods, increased from 7.3 per cent in 1996 to 8 per cent in 1997, while the share of Eastern Europe remained unchanged.

The main source of Kuwait's imports is the developed market economies, which accounted for about 79 per cent of the country's total imports in 1996. Approximately 35.5 per cent of Kuwait's imports came from the EU countries, the country's first partner, while 26.5 per cent came from the United States, and 11.5 per cent from Japan. Imports from those countries consist of capital goods, manufactured goods, and consumer goods. Imports from the developing Asian countries, which include consumer goods and clothing, accounted for about 10.4 per cent of total imports. The share of imports from the ESCWA region was very low and did not exceed 1.4 per cent in 1996.

Oman's first import partner is the EU countries, whose share of Oman's total imports was 34.3 per cent in 1996 and 35.2 per cent in 1997. Imports from the United States constituted about 5 per cent of Oman's total imports, which was the lowest percentage among the GCC countries, while Oman's imports from Japan, which reached 15 per cent, consitutted the highest percentage in the GCC countries. More than one quarter of Oman's imports were from the ESCWA region, and the share of imports from the ESCWA region increased from 27.5 per cent in 1996 to 28.9 per cent in 1997. These imports included fresh vegetables and fruits and manufactured goods. Oman purchased about 9 per cent of its total imports, which included consumer goods and clothing, from Asian countries. The shares of the total imports from Africa, China and Eastern Europe were very low, with less than 1 per cent.

More than two thirds of Qatar's imports were from developed market economies. The imports from the EU represented 47.2 per cent of Qatar's total imports in 1996, and increased to 49.2 per cent in 1997. The imports from the ESCWA region, the second partner, represented 15.4 per cent in 1996, and rose to about 16 per cent in 1997. Asian countries had a share of 8.2 per cent in 1996, and this increased to 10.3 per cent in 1997. Imports from Japan, which was the second partner of Qatar in 1996, amounted to 9.5 per cent of total imports in 1996 and increased to 10.2 per cent in 1997.

Saudi Arabia, the largest importing country in the ESCWA region, imports more than 70 per cent of its total imports from developed market economies. The EU countries are the first partner of Saudi Arabia, with a share of 40 per cent in 1997. The share of the United States decreased slightly, from 21.5 per cent in 1996 to 20.7 per cent in 1997. Imports from Asian countries were about 15 per cent in both 1996 and 1997, and imports from the ESCWA region represented 5.6 per cent in 1996 and then decreased to 4.9 per cent in 1997.

More than 50 per cent of the United Arab Emirates' imports are from developed market economies. The imports from the EU, the second partner, increased from about 30 per cent in 1996 to 31.6 per cent in 1997. Imports from Asian countries, the first partner, make up the highest percentage among the ESCWA member countries. The increase in the percentage of imports from the EU, Asia and the United States were due to the traditional approach of the United Arab Emirates, which depends on re-exports. Imports from China, which reached about 4 per cent of the United Arab Emirates' total imports, made the United Arab Emirates the largest importer of Chinese goods among the ESCWA member countries. The ESCWA region's share of imports into the United Arab Emirates increased from 7.6 per cent in 1996 to 8.4 per cent in 1997.

Like the GCC countries, the more diversified economies in the ESCWA region depend on the developed market economies for the purchase of more than 60 per cent of their imports. The EU countries are the first import partners of the more diversified economies. This is due to the strong trade linkages with imports of capital and manufactured goods. The percentage of imports from Eastern Europe to the more diversified economies is more than the percentage to the GCC countries, but imports from Asian countries to the more diversified economies are less than the percentage to the GCC countries.

Egypt obtains about 42 per cent of its imports from the EU countries, its first import partner, and in particular from France, Germany and Italy. Imports from those countries include capital and consumer goods, as well as food commodities, especially dairy products. After the United States, the second partner, Asian countries constitute Egypt's third import partner, although these countries' share decreased from 13.7 per cent of Egypt's total imports in 1996 to 12.3 per cent in 1997. The share of Eastern Europe was about 9 per cent in both 1996 and 1997. The share in Egypt's total imports, for both the ESCWA region and China, was around 2.3 per cent for each, and remained unchanged between 1996 and 1997. The share of Africa still remained around 1.4 per cent. The results highlight the need for Egypt to diversify its import markets.

Jordan's imports from the EU countries totalled one third of the country's total imports in 1997. The ESCWA region and Asian countries also have a significant share of Jordan's imports; the ESCWA region's share was estimated at 23.8 per cent in 1996, and decreased to 15 per cent in 1997. The Asian share rose from 13 per cent to 15.8 per cent. This implies that Jordan's imports are in the process of diversification.

Lebanon's first import partner is represented by the EU countries, with a share of 43 per cent in 1996, which increased significantly to about 54 per cent in 1997, in particular from France, Germany, Italy, and the United Kingdom of Great Britain and Northern Ireland. Imports from the Eastern European countries decreased slightly, from 15.8 per cent to 15 per cent, and imports from the United States decreased from 10.8 per cent in 1996 to 8.4 per cent in 1997.

TABLE 20. ESCWA REGION: SHARE OF THE THREE LEADING INTERNATIONAL IMPORT PARTNERS,[a] 1996 AND 1997
(Percentage)

	1996						1997[b]					
	1st partner		2nd partner		3rd partner		1st partner		2nd partner		3rd partner	
GCC countries	E.U.	33.7	Asia	20.4	USA	15.0	E.U.	35.7	Asia	21.8	USA	13.8
Bahrain	ESCWA	50.2	E.U.	22.5	Asia	7.3	ESCWA	51.7	E.U.	22.1	Asia	8.0
Kuwait	E.U.	35.5	USA	26.5	Japan	11.5		...		..		..
Oman	E.U.	34.3	ESCWA	27.5	Japan	15.4	E.U.	35.2	ESCWA	28.9	Japan	14.9
Qatar	E.U.	47.2	ESCWA	15.4	Japan	9.5	E.U.	49.2	ESCWA	15.8	Asia	10.3
Saudi Arabia	E.U.	38.6	USA	21.5	Asia	14.6	E.U.	39.7	USA	20.7	Asia	15.0
United Arab Emirates	Asia	34.9	E.U.	29.9	USA	9.2	Asia	34.5	E.U.	31.6	USA	8.9
More diversified economies	E.U.	38.7	Asia	14.2	USA	13.0	E.U.	41.8	USA[c]	13.1	Europe	12.8
Egypt	E.U.	41.7	USA	18.4	Asia	13.7	E.U.	42.3	USA	19.4	Asia	12.3
Jordan	E.U.	33.4	ESCWA	23.8	Asia	13.0	E.U.	38.3	Asia	15.8	ESCWA	15.0
Lebanon	E.U.	43.0	Europe[d]	15.8	USA	10.8	E.U.	53.7	Europe[d]	15.0	USA	8.4
Syrian Arab Republic	E.U.	33.6	Europe[d]	25.4	Asia	17.1	Europe	31.7	E.U.	31.4	Asia	16.7
Yemen, Republic of	E.U.	26.7	Asia	23.5	ESCWA	19.6	E.U.	34.4	ESCWA	21.5	Asia	20.2

Source: ESCWA compilations, based on the International Monetary Fund, *Direction of Trade Statistics Quarterly, December 1997*, and *Direction of Trade Statistics Yearbook, 1997*.

Note: Two dots (..) indicate that data were not available.

a/ Regions, blocs and countries.

b/ For January – June only, owing to lack of data.

c/ Same percentage as that of Asia.

d/ Refers to Eastern Europe and the former Soviet Union.

Imports by the Syrian Arab Republic from the EU countries, the Syrian Arab Republic's first import partner, decreased from 33.6 per cent in 1996 to 31.4 per cent in 1997, but the imports from developing countries totalled 51.3 per cent in 1997. Imports from Eastern Europe (especially imports from the Ukraine, Turkey, Romania, and the Czech Republic), with a share of 25.4 per cent in 1996, rose to 31.7 per cent in 1997. Imports from Asian countries remained unchanged at 17 per cent between 1996 and 1997.

The Republic of Yemen's imports from the EU countries increased significantly, from 26.7 per cent in 1996 to 34.4 per cent in 1997. In contrast, the imports from Asian countries decreased from 23.5 per cent to 20.2 per cent. The share of imports from China was low, registering 4 per cent in 1997, although China is a major destination for Yemen's exports. Imports from the ESCWA region increased from 19.6 per cent in 1996 to 21.5 per cent in 1997.

The above survey of the direction of the ESCWA region's imports indicates that the region's imports came mainly from the EU countries, with a significant percentage from Asian countries and the ESCWA region. The imports from the rest of the world were very small and should be increased so as to diversify the import sources in order to avoid any pressure or crisis in the future.

3. *Intraregional trade*

(a) *Intraregional exports*

The increase of intraregional trade was one of the significant concerns of the political and economic decision makers in the ESCWA region and the Arab world as a whole. Intraregional trade made up around 8 per cent of total ESCWA region trade in 1995 and 1996. As shown in table 21, the percentage of intra-exports achieved some improvement in 1997 (January-June only), reaching 8.7 per cent of the ESCWA region's total exports, compared with 7.9 per cent in 1996 and 8.1 per cent in 1995, but still less than the level achieved in 1990, which was 10.9 per cent.

Intraregional exports in the GCC countries also increased in 1997 to 7.1 per cent, from 6.2 per cent in 1996. Bahrain is the only country that had a high percentage of intra-exports, which were estimated to have increased from 13.3 per cent of Bahrain's total exports in 1996 to 14.6 per cent in 1997. Kuwait exported a very limited percentage of its total exports to the ESCWA member countries, with about 0.7 per cent in 1996, owing mainly to the kind of exports, since Kuwait's exports are mainly oil exports. During the period 1995-1997, the intraregional exports of Oman did not change and remained around 2.4 per cent of its total exports. The percentage of intraregional exports of Qatar was the same in both 1996 and 1997, at an estimated 5.2 per cent of the country's total exports. Saudi Arabia and the United Arab Emirates have a similar percentage of intraregional exports, estimated at 7.4 per cent and 7.6 per cent of their total exports respectively in 1997.

Exports from the GCC countries are mainly oil and re-exports. The intraregional exports of those countries could be increased through the diversification of economic activities, which will be reflected directly in the exports. The GCC countries have the ability to diversify, particularly in the industrial field.

The more diversified economies in the ESCWA region have a relatively high share of intraregional exports, which totalled 18 per cent of their total exports in 1996 and decreased to 16 per cent in 1997. Egypt's intraregional exports increased from 9.9 per cent in 1996 to 11.2 per cent in 1997. Egypt's intra-regional exports include fresh and frozen vegetables and fruits, clothing, and intermediate and consumer goods. Jordan and Lebanon had very high percentages of intraregional exports, which were estimated at 48.5 per cent and 58.2 per cent respectively of their total exports in 1996, owing mainly to increasing exports of fresh vegetables and fruits to neighbouring countries, particularly GCC countries. The intraregional exports of the Syrian Arab Republic were estimated to have increased from 17.1 per cent of the country's total

exports in 1996 to 19.5 per cent in 1997; these exports comprised mostly clothing, vegetables and fruits, and live animals, particularly to Saudi Arabia. The Republic of Yemen, whose exports are mostly oil, has a very low percentage of intraregional exports compared with the other diversified economies in the region; the Republic of Yemen's intraregional exports were estimated at 3.1 per cent of the country's total exports in 1996 and at 6 per cent in 1997.

TABLE 21. ESCWA REGION: SHARE OF INTRAREGIONAL TRADE IN TOTAL TRADE, 1990, 1995, 1996 AND 1997
(Percentage)

	Exports				Imports			
	1990	1995	1996	1997[a/]	1990	1995	1996	1997[a/]
ESCWA region	10.9	8.1	7.9	8.7	9.1	8.1	9.2	10.0
GCC countries	10.4	6.4	6.2	7.1	9.9	8.1	9.8	10.5
Bahrain	5.7	11.6	13.3	14.6	53.3	44.9	50.2	51.7
Kuwait	5.7	1.0	0.7	..	0.0	0.1	1.4	..
Oman	59.3	2.2	2.4	2.5	26.7	27.7	27.5	28.9
Qatar	5.7	5.6	5.3	5.2	11.6	10.9	15.4	15.8
Saudi Arabia	9.2	7.7	7.0	7.4	3.7	5.0	5.6	4.9
United Arab Emirates	17.0	7.6	7.8	7.6	5.0	4.1	7.6	8.4
More diversified economies	15.3	17.8	18.0	16.0	7.1	8.1	8.0	7.0
Egypt	6.8	8.4	9.9	11.2	1.3	2.5	2.3	2.3
Jordan	40.3	45.0	48.5	43.5	25.2	23.2	23.8	15.0
Lebanon	42.9	35.0	58.2	56.8	0.0	7.9	7.2	8.2
Syrian Arab Republic	17.0	22.8	17.1	19.5	5.0	5.4	5.9	6.7
Yemen, Republic of	1.0	11.2	3.1	6.0	19.3	31.1	19.6	21.5

Source: ESCWA compiled from data in IMF, *Direction of Trade Statistics Quarterly, December 1997*, and *Direction of Trade Statistics Yearbook, 1997*.

a/ Figures for 1997 are for January to June only as available in international sources.

(b) *Intraregional imports*

Intraregional imports of the ESCWA region increased and represented 10 per cent of the region's total imports in 1997, compared with 9.2 per cent in 1996 and 8.1 per cent in 1995. This upward trend in intraregional imports can be noted in the GCC countries, whose intraregional imports totalled 10.5 per cent in 1997, up from 9.8 per cent in 1996.

Bahrain is the only country in the ESCWA region that has a very high percentage of intraregional imports. This trade has been increasing since 1990 and reached a record 52 per cent of the country's total imports in 1997. This was due mainly to the considerable oil imports from Saudi Arabia and traditional imports of vegetables and fruits. The intraregional imports of Kuwait, like its intraregional exports, are very small and estimated at 1.4 per cent in 1997. More than one quarter of Oman's total imports are intraregional imports from the other ESCWA member countries, and the percentage reached about 29 per cent in 1997,

compared with 27.5 per cent in 1996. The imports from the ESCWA region to Oman include food commodities, manufactured and consumer goods. The Omani example of increasing its imports from the other ESCWA member countries will help to increase intraregional trade and will encourage the establishment of the Arab Free Trade Zone. Qatar has a significant percentage of intraregional imports, which were estimated at 15.4 per cent of total imports in 1996 and increased slightly to 15.8 per cent in 1997. Although the value of Saudi Arabia's intraregional imports is relatively large (about US$ 1.6 billion in 1996), it represented only 5.6 per cent of the country's total imports in 1996 and decreased to 4.9 per cent in 1997. These imports include live animals, fresh vegetables and fruits, and manufactured and consumer goods. The United Arab Emirates has the largest intraregional imports among the ESCWA member countries, with an amount totalling about US$ 2.3 billion in 1996, accounting for about 7.6 per cent of the country's total imports; this increased to 8.4 per cent in 1997. The United Arab Emirates seaports, in particular the port of Dubai , have contributed to the increase in the country's intraregional imports.

The more diversified economies in the ESCWA region have a smaller percentage of intraregional imports than the GCC countries. The percentage amounted to 8 per cent in 1996 and 7 per cent in 1997. Egypt has a low percentage of intraregional imports, amounting to about 2.3 per cent of the country's total imports. This low percentage may be attributed to the fact that Egypt's economy has a variety of activities. Nevertheless, Egypt should encourage the increase in intraregional imports of many commodities. Jordan has a significant percentage of intraregional imports, which reached 23.8 per cent in 1996 and decreased considerably to 15 per cent in 1997. The imports into Jordan include some food commodities and intermediate goods. Lebanon's intraregional imports increased from 7.2 per cent in 1996 to 8.2 per cent in 1997. They include some vegetables, textiles and manufactured goods. The intraregional imports of the Syrian Arab Republic, which include rice, sugar and manufactured goods, increased from 5.9 per cent in 1996 to 6.7 per cent in 1997. The Republic of Yemen had a considerable percentage of intraregional imports, amounting to 20 per cent in 1996 and 21.5 per cent in 1997. The imports into the Republic of Yemen include manufactured and consumer goods.

(c) *Participation in intraregional trade*

The participation of the ESCWA member countries in overall intraregional trade, as shown in table 22, indicates that the GCC countries' share of intraregional exports represented most of the ESCWA region's intraregional exports, and it continued to increase from about 71 per cent in 1995 to 72 per cent in 1996, and to about 74 per cent in 1997. These exports included oil (to non-oil-producing countries), food commodities, especially poultry and dairy products, and petrochemical products. Bahrain's share of intraregional exports reached about 5 per cent of total intraregional exports. Three GCC countries, namely Kuwait, Oman and Qatar, have very low shares of intraregional exports, estimated at 1 per cent, 1.6 per cent and 2.5 per cent respectively in 1997. Saudi Arabia has the largest share of intraregional exports, which totalled about 43 per cent of the total ESCWA region's intraregional exports in 1996, and rose to 44 per cent in 1997, owing to Saudi Arabia's exports of oil and related products, particularly to Bahrain, as well as table eggs and dairy products to the other GCC countries, and food products such as vegetable oils and juice, in addition to petrochemical products. The United Arab Emirates, which is characterized by an increasing percentage of re-exports and has the second largest percentage of intraregional exports, estimated at about 20 per cent of the total ESCWA region's intraregional exports. The intraregional exports of the United Arab Emirates include re-exports of manufactured and consumer goods, some food commodities, and clothing, in addition to petrochemical products.

The countries with more diversified economies account for more than one quarter of the total intra-regional exports. Egypt has about 6 per cent of total intraregional exports, and its exports include fresh vegetables and fruits, frozen vegetables, textiles and clothing, and manufactured goods. Jordan and Lebanon have almost the same percentages of intraregional exports, about 6 to 7 per cent, which are concentrated mostly in fresh vegetables and fruits. The exports of the Syrian Arab Republic, which has a share of 7 per

cent of intraregional exports, include live animals, fresh vegetables and fruits. The Republic of Yemen has a very low share, estimated at about 2 per cent, of intraregional exports.

TABLE 22. ESCWA REGION: PARTICIPATION IN INTRAREGIONAL TRADE
1990, 1995, 1996, AND 1997
(Percentage)

	Exports				Imports			
	1990	1995	1996	1997[a/]	1990	1995	1996	1997[a/]
ESCWA region	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
GCC countries	85.4	70.7	72.4	73.9	77.7	69.2	71.7	75.7
Bahrain	2.2	4.5	4.7	5.0	32.6	21.0	18.0	18.6
Kuwait	4.5	1.5	1.0	..	0.0	0.8	1.1	..
Oman	27.6	1.4	1.5	1.6	12.0	15.4	11.9	12.9
Qatar	1.8	2.6	2.4	2.5	3.2	3.6	4.2	4.7
Saudi Arabia	40.1	37.6	43.1	44.1	14.7	15.7	14.9	15.8
United Arab Emirates	9.2	23.2	19.6	20.4	15.2	12.7	21.6	23.7
More diversified economies	14.6	29.3	27.6	26.2	22.3	30.8	28.3	24.3
Egypt	1.7	5.7	5.6	6.3	2.0	5.0	4.0	4.0
Jordan	3.7	7.4	6.8	5.2	10.8	9.3	9.5	5.2
Lebanon	1.9	3.8	6.7	5.7	0.0	7.3	5.0	5.3
Syrian Arab Republic	7.0	9.7	6.9	7.2	1.9	3.7	3.1	3.1
Yemen, Republic of	0.3	2.7	1.6	1.7	7.6	5.5	6.5	6.7

Source: ESCWA, compiled from data in IMF, *Direction of Trade Statistics Quarterly, December 1997*, and *Direction of Trade Statistics Yearbook, 1997*.

a/ Figures for 1997 are for January to June only as available in international sources.

For intraregional imports, the GCC countries also account for most of the intraregional imports in the ESCWA region, with more than three quarters of the region's total intraregional imports. With this percentage, the GCC countries are considered the major outlets for exports from the ESCWA member countries. Bahrain had a considerable share, about 19 per cent, of the ESCWA region's total intraregional imports in 1997. In contrast, Kuwait had a very low share of intraregional exports, at about only 1.1 per cent in 1996. Oman, contrary to its intraregional exports share, had a significant interregional import share of about 13 per cent. Although Qatar had a low intraregional exports share, its intra-regional imports share was greater, at about 5 per cent. Saudi Arabia, which was the largest contributor of intra-regional exports, had only 16 per cent of intraregional imports. The United Arab Emirates had a share of intraregional imports estimated at about 24 per cent in 1997.

The more diversified economies in the ESCWA region account for almost one quarter of total intraregional imports, similar to their share of intraregional exports. Egypt has a share of 4 per cent, which should be increased to at least its level of intraregional exports. Jordan and Lebanon had the same share in 1997, which was estimated at 5 per cent. The share of the Syrian Arab Republic in intraregional imports in 1997 was less than half of its share of intraregional exports, while the Republic of Yemen had a significant share of about 7 per cent of total intraregional imports in 1997.

(d) *The major intraregional trade partners*

A review of the major intraregional trade partners of the ESCWA member countries, as shown in table 23, indicates that some countries are considered as the first partner of many ESCWA member countries. For intraregional exports in 1996, Saudi Arabia was the first partner of four countries, namely, Bahrain, Egypt, Jordan, and Kuwait. The United Arab Emirates was the first partner of both Lebanon and Qatar. Bahrain is considered a traditional partner of Saudi Arabia. Lebanon is the first partner of the Syrian Arab Republic. Oman is the major partner of the United Arab Emirates, while Egypt is the first partner of the Republic of Yemen. Jordan is the first partner of Iraq.

For intraregional imports in 1996, Saudi Arabia is also the first partner of four countries, namely Bahrain, Egypt, Qatar, and the United Arab Emirates. Lebanon is the first partner of Kuwait, and the Syrian Arab Republic is the traditional major partner of Lebanon. The United Arab Emirates is the first partner of three ESCWA member countries, namely Oman, Saudi Arabia and the Republic of Yemen. Jordan is again the first partner of Iraq in that country's intraregional imports.

The ESCWA members' intraregional trade is a very low percentage of their total trade; it was estimated at 8 per cent of total trade in 1996 and 9 per cent in 1997, compared with about 65 per cent of the EU members' total trade. This low level of intraregional trade can be attributed to certain economic factors, such as: (a) the similarity of the commodities produced in the ESCWA member countries as a result of the import substitution policies adopted in many countries; (b) a lack of the advanced technologies and know-how, which must be imported from outside the region, particularly from the developed market economies; (c) a lack of the investment required in some ESCWA member countries to establish large-scale industries for export; (d) the high degree of competition from the developed countries' commodities; and (e) political considerations, which play a role in international trade.

BOX 8. NEW TRADE AGREEMENT BETWEEN LEBANON AND THE SYRIAN ARAB REPUBLIC

Lebanon and the Syrian Arab Republic have made several attempts to establish some form of economic integration during the past decades, reflecting mainly the geographic proximity and the close political and social relations between the two countries. In February 1998, the two Governments signed an agreement to abolish the customs duties on local industrial products over a four-year period, through the reduction of tariff rates by 25 per cent annually, starting at the beginning of 1999. There is no doubt that the implementation of this agreement will enhance trade flows, in addition to strengthening political and security relations.

In 1996, the value of Syrian exports to Lebanon amounted to about US$ 280 million, while the value of Lebanese exports to the Syrian Arab Republic amounted to US$ 72 million. In 1997, the value of Lebanese imports from the Syrian Arab Republic reached about US$ 326 million (of which US$ 162 million were oil imports), in exchange for US$ 38 million of Syrian imports from Lebanon. The trade balance surplus for the Syrian Arab Republic is significant, owing to the trade policy applied by the two countries. In Lebanon, the main feature is trade liberalization with low tariff levels, while in the Syrian Arab Republic the trade sector has certain characteristics, such as protection of local products either through prohibiting the importation of similar products or through a high rate of tariffs on other imports.

The new agreement has concentrated on industrial goods, while agricultural goods will be under revision and investigation. This means that Lebanese manufactured goods will find their way to a relatively big market in the Syrian Arab Republic (which has a population of about 16 million). These goods include food industries, glass industries, cement, chemicals, and paper products. Consequently, Lebanon's exports to the Syrian Arab Republic will increase from their current level of about 6 per cent of total exports. The Syrian exports to Lebanon will be concentrated in oil, textiles and clothing. The fear that some Lebanese imports could enter the Syrian market as a result of low tariff rates would be avoided by certificates of origin. The difference in wages between the two countries implies that the Syrian products will be cheaper than the Lebanese products, but this situation will lead to increased competition.

BOX 8. *(continued)*

The two countries are not members of the World Trade Organization (WTO). This agreement, and another agreement on joining the Arab Free Trade Zone, will play an effective role in improving trade policies, and consequently in helping these countries to gain access to the WTO, as a necessary step to increase interaction with world markets. Moreover, the two countries are undertaking informal negotiations to develop a trade partnership with the EU; they must coordinate their efforts to ensure the best possible agreement on a partnership with the EU.

Sources The Syrian Arab Republic, Office of the Prime Minister, 1998; IMF, *Direction of Trade Statistics Quarterly, December 1997*; and *Al Hayat*, 10 March 1998.

For the purpose of increasing intraregional trade, the ESCWA member countries, as well as other Arab countries, have joined the Arab Free Trade Zone, which was established in 1997 and which started to be implemented in January 1998. The AFTZ agreement includes the reduction of tariffs by 10 per cent annually for 10 years. The serious implementation of this agreement will lead to solid trade cooperation and an increase in intraregional investment, which will be reflected positively in economic development in the region as a whole.

BOX 9. A NEW ERA OF ECONOMIC INTEGRATION BETWEEN ARAB COUNTRIES

The establishment of the Arab Free Trade Zone, which was ratified by the Arab Summit, held in Cairo in June 1996, and implemented in January 1998, is considered to be the realization of an old dream, which began in 1945 with the birth of the Arab League, and with repeated unsuccessful attempts to establish an Arab common market. However, some Arab countries have succeeded in building a Free Trade Area. Furthermore, six Arab Gulf countries attempted to move towards a customs union through the unification of tariff rates. In addition, effective trade agreements have been signed at the bilateral level.

The world has witnessed the emergence of economic blocs, such as the EU, which includes 15 countries, and the endeavour to expand European integration by a free trade agreement with the European Free Trade Association (EFTA), as well as a partnership agreement with the Mediterranean countries. Other economic blocs around the world include the North American Free Trade Agreement (NAFTA), the Association of South-East Asian Nations (ASEAN), the Southern Cone Common Market (MERCOSUR), and regional trade agreements in West and Central Africa. This means that the world's countries will be classified into regional economic and political blocs, and those countries that have not joined any bloc are expected to be marginalized. Under this new trade regime, and with the establishment of the WTO and the consequent globalization, the Arab countries should implement seriously the agreement on the establishment of the Arab Free Trade Zone to ensure their role in the global economy.

The criteria for successful implementation should be based on the idea of "Lessons to be learned". The Arab League and all Arab countries know the main causes of failure from past experience. In addition to the political issues, which should be isolated from economic activities, there were other factors, such as exceptional lists of reduction of tariff rates, non-tariff barriers, insufficient trade infrastructure, a lack of skilled labour, and a shortage of data and information. The Arab policy makers should take these problems into account in the future. They should also work to attract back the capital invested abroad so that it can be invested in Arab countries. Finally, the establishment of an Arab Free Trade Zone is considered a challenge to all Arab countries to exert all possible efforts to achieve this goal.

Eighteen Arab countries and areas approved the Arab Free Trade Zone, and eight of these countries and areas started to reduce tariffs by 10 per cent up to April 1998; these were Egypt, Iraq, Jordan, Kuwait, Morocco, Saudi Arabia, Tunisia and the West Bank and the Gaza Strip.

Sources: The General Union of Chambers of Commerce, Industry and Agriculture for Arab Countries, Economic Papers, September 1997, No. 13; and *Al-Ahram*, 2 April 1998.

TABLE 23. ESCWA REGION: CUMULATIVE SHARE OF THE THREE LEADING INTRAREGIONAL IMPORT/EXPORT PARTNERS, 1996

(Percentage)

	EXPORTS						Cumulative share	IMPORTS						Cumulative share
	1st partner		2nd partner		3rd partner			1st partner		2nd partner		3rd partner		
Bahrain	Saudi Arabia	52.0	United Arab Emirates	27.0	Qatar	8.5	87	Saudi Arabia	92.5	United Arab Emirates	4.1	Jordan	1.4	80
Egypt	Saudi Arabia	43.5	Jordan	15.7	Syrian Arab Republic	12.3	71	Saudi Arabia	63.4	Yemen	17.8	Lebanon	6.4	87
Jordan	Saudi Arabia	28.7	Iraq	21.3	United Arab Emirates	10.8	61	Iraq	49.8	Saudi Arabia	14.2	Syrian Arab Republic	13.8	78
Kuwait	Saudi Arabia	82.2	Yemen	9.9	Lebanon	6.9	99	Lebanon	73.7	Jordan	26.3	-		100
Lebanon	United Arab Emirates	37.5	Saudi Arabia	21.9	Kuwait	12.2	71	Syrian Arab Republic	55.5	Saudi Arabia	20.3	Egypt	9.9	86
Oman	Bahrain	41.1	Saudi Arabia	36.9	Yemen	9.2	87	United Arab Emirates	82.0	Saudi Arabia	13.1	Bahrain	1.6	97
Qatar	United Arab Emirates	55.2	Saudi Arabia	29.9	Bahrain	3.7	89	Saudi Arabia	39.7	United Arab Emirates	34.6	Bahrain	9.3	84
Saudi Arabia	Bahrain	40.1	United Arab Emirates	34.1	Egypt	6.4	80	United Arab Emirates	26.5	Bahrain	17.2	Egypt	17.0	61
Syrian Arab Republic	Lebanon	39.2	Saudi Arabia	30.2	Jordan	15.2	85	Jordan	23.9	Saudi Arabia	23.9	Egypt	22.8	71
United Arab Emirates	Oman	50.7	Saudi Arabia	19.4	Yemen	14.1	84	Saudi Arabia	66.6	Lebanon	11.5	Bahrain	5.8	84
Yemen, Republic of	Egypt	44.6	Saudi Arabia	32.5	United Arab Emirates	14.6	92	United Arab Emirates	41.9	Saudi Arabia	37.0	Egypt	7.5	86
Weighted average		45		26		10	81		62		15		8	82

Source: Compiled by the ESCWA secretariat from IMF, *Direction of Trade Statistics Yearbook*, 1990-1996, and *Direction of Trade Statistics Quarterly, December 1997*.

C. BALANCE OF PAYMENTS DEVELOPMENTS

Data on the balance of payments for the year 1996 are available for six countries in the ESCWA region, namely Kuwait, Oman, Saudi Arabia, Egypt, Jordan, and the Syrian Arab Republic, as shown in table 24. The balance on trade in goods of the ESCWA region continued to record a surplus, and reached US$ 3.1 billion in 1996, compared with US$ 23.4 billion in 1995. The GCC countries' balance on trade in goods, which experienced a surplus, improved in 1996 and recorded a surplus of US$ 41.3 billion, compared with US$ 32.6 billion in 1995, an increase of 26.6 per cent, owing mainly to an increase of export revenues as a result of the rise in world oil prices. For the countries with more diversified economies, their trade balance deficit increased from US$ 9.3 billion in 1995 to US$ 10.6 billion in 1996, or by 14.4 per cent, owing to an increase in import payments and a decrease in export revenues.

The balance on trade in services in the ESCWA region as a whole continued to record a deficit, the magnitude of which increased by 13 per cent in one year, from US$ 16.2 billion in 1995 to about US$ 18.3 billion in 1996. For the GCC countries, the deficit in net services increased by 15.8 per cent and reached US$ 23 billion in 1996: only Bahrain achieved a surplus in its trade in services. For the countries with more diversified economies, the balance on services was positive and recorded a surplus estimated at US$ 4.7 billion in 1996, 22.7 per cent higher than the 1995 level. Egypt had the largest surplus in its balance on services in the ESCWA region, and registered a surplus of about US$ 4.2 billion in 1996, an increase of 12.6 per cent compared with the level in 1995. Jordan also had a surplus in its balance on services, which reached US$ 284.5 million, up from US$ 94.2 million in 1995. Although the Syrian Arab Republic had a surplus in its 1996 balance on services, the 1996 balance of US$ 278 million represented a 37.1 per cent decrease compared with 1995. The increase in the balance of services among this group of countries was due mainly to an increase in tourism revenues and remittances.

TABLE 24. ESCWA REGION: BALANCE OF PAYMENTS,[a] 1990, 1995 AND 1996
(Millions of US dollars)

	1990	1995	1996
A) Current account			
ESCWA region	*3 543.5*	*(957.9)*	*5 434*
GCC countries	*1 084.9*	*(995)*	*6 773*
Bahrain	244.9	557.0	..
Kuwait	3 886	4 574	6 773
Oman	1 106	(801)	(265)
Saudi Arabia	(4 152)	(5325)	215
More diversified economies	*2 458.6*	*37.1*	*(1 289)*
Egypt	185	(254)	(192)
Jordan	(227.1)	(258.6)	(221.9)
Syrian Arab Republic	1 762	367	285
Yemen, Republic of	738.7	182.7	..

TABLE 24 *(continued)*

	1990	1995	1996
1) Balance on goods			
ESCWA region	*23 760.0*	*23 382.4*	*30 723.9*
GCC countries	*29 373.1*	*32 651.6*	*41 333*
Bahrain	420.1	768.6	..
Kuwait	3 179	5 478	7 034
Oman	2 885	2 015	2 954
Saudi Arabia	22 889	24 390	31 345
More diversified economies	*(5 613.1)*	*(9 269.2)*	*(10 609.1)*
Egypt	(6 379)	(7 597)	(8 390)
Jordan	(1 236.9)	(1 518.2)	(2 001.1)
Syrian Arab Republic	2 094	(143)	(218)
Yemen, Republic of	(91.2)	(11.0)	..
2) Balance on services			
ESCWA region	*(20 174.1)*	*(16 185.7)*	*(18 335.5)*
GCC countries	*(21 928.5)*	*(20 027.8)*	*(23 049.0)*
Bahrain	224.5	464.2	..
Kuwait	(2 080)	(3 917)	(3 494)
Oman	(690)	(972)	(1 024)
Saudi Arabia	(19 383)	(15 603)	(18 531)
More diversified economies	*(1 754.4)*	*3 842.1*	*4 713.5*
Egypt	2 183	3 717	4 187
Jordan	179.3	94.2	248.5
Syrian Arab Republic	(19)	442	278
Yemen, Republic of	(588.8)	(411.1)	..
3) Balance on goods, services and income.			
ESCWA region	*16 412.5*	*12 126.4*	*19 623.4*
GCC countries	*22 362.3*	*19 275.4*	*25 874.0*
Bahrain	60.3	779.4	..
Kuwait	8 837	6 236	8 457
Oman	1 980	669	1 394
Saudi Arabia	11 485	11 591	16 028

TABLE 24 *(continued)*

	1990	1995	1996
More diversified economies	*(5 949.8)*	*(7 149.0)*	*(6 250.6)*
Egypt	(5 218)	(4 285)	(3 858)
Jordan	(1 272.1)	(1 702.8)	(2 053.6)
Syrian Arab Republic	1 674	(240)	(339)
Yemen, Republic of	(1 133.7)	(921.2)	..
B) Net capital flows			
ESCWA region	*(13 488.3)*	*(1 100.0)*	*(12 190.1)*
GCC countries	*(901.8)*	*938*	*(11 638)*
Bahrain	407.2	(83.0)	..
Kuwait	413	(5 502)	(9 836)
Oman	(498)	(19)	190
Saudi Arabia	(1 224)	6 542	(1 992)
More diversified economies	*(12 586.5)*	*(2 038.0)*	*(552.1)*
Egypt	(11 039)	(1 845)	(1 459)
Jordan	572.7	230.0	233.9
Syrian Arab Republic	(1 836)	396	673
Yemen, Republic of	(284.2)	(819.0)	..
C) Net errors and omissions			
ESCWA region	(5 644.4)	*1 045.0*	*2 841.1*
GCC countries	*(5 748.4)*	*854.1*	*3 320.0*
Bahrain	*(78.4)*	(375.9)	..
Kuwait	(5 196)	842	3 056
Oman	(474)	388	264
Saudi Arabia	..	..	..
More diversified economies	*104.0*	*190.9*	*(478.9)*
Egypt	630	272	(74)
Jordan	75.4	(339.9)	(357.9)
Syrian Arab Republic	110	97	(47)
Yemen, Republic of	(711.4)	161.8	..

TABLE 24 *(continued)*

	1990	1995	1996
D) Overall balance of payments			
ESCWA region	(15 599.2)	*(796.6)*	*(2 572.2)*
GCC countries	*(5 565.3)*	*796.2*	*(1 596)*
Bahrain	*573.7*	98.2	..
Kuwait	(897)	(87)	(7)
Oman	135	(432)	189
Saudi Arabia	(5 377)	1 217	(1 778)
More diversified economies	*(10 033.9)*	*(1 592.8)*	*(976.2)*
Egypt	(10 234)	(1 827)	(1 725)
Jordan	421.0	(171.3)	(188.2)
Syrian Arab Republic	36	880	937
Yemen, Republic of	(256.9)	(474.5)	..

Source: Compiled from data in IMF, *Balance of Payments Statistics Yearbook, Part I, 1997.*

Notes: ( ) indicates negative value; two dots (..) indicate that data were not available; no entry indicates a zero value.

a/ Coverage includes Bahrain, Kuwait, Oman, Saudi Arabia, Egypt, Jordan, the Syrian Arab Republic and the Republic of Yemen according to the availability of data.

The current account balance improved in 1996 for the ESCWA region as a whole; the region achieved a surplus estimated at US$ 5.4 billion, versus a deficit in 1995 which was estimated at US$ 0.96 billion. The surplus in the current account balance was a result of the surplus in the trade balance on goods, which compensated for the deficit in the balance in trade on services. In the GCC countries, the current account balance recorded a surplus estimated at US$ 6.8 billion in 1996, compared with a deficit of approximately US$ 1 billion in 1995. In the more diversified economies, the current account balance moved from positive in 1995 to negative in 1996 and recorded a deficit of US$ 1.3 billion.

Net capital flows in the ESCWA region were generally negative in 1996, both among the GCC countries and among the more diversified economies. Three ESCWA member countries achieved positive results, namely Oman, Jordan and the Syrian Arab Republic. The ESCWA member countries need to improve the investment climate in order to attract more foreign direct investment, which would alleviate many economic problems.

The overall balance of payments in the ESCWA region was negative in 1996, registering a deficit estimated at US$ 2.6 billion, against about US$ 0.8 billion in 1995. Only two countries in the ESCWA region recorded a positive balance of payments in 1996, namely Oman and the Syrian Arab Republic.

D. INTERNATIONAL RESERVES

Total international reserves (minus gold) have improved significantly in the ESCWA region during the past two years. The available data for the period up to September 1997 covered the ESCWA region (excluding Iraq, the West Bank and the Gaza Strip, and the Syrian Arab Republic), as shown in table 25. In 1997 (September), these reserves reached US$ 52.3 billion, compared with US$ 48.6 billion in 1996, and US$ 46.9 billion in 1995. The international reserves of the GCC countries amounted to US$ 23.1 billion in September 1997, an increase of 3 per cent compared with the 1996 level, and accounted for 44.3 per cent of the region's total reserves. The United Arab Emirates and Qatar are the only countries in this group that recorded increases—12.9 per cent for the United Arab Emirates and 6 per cent for Qatar—in international reserves in 1997.

TABLE 25. ESCWA REGION: INTERNATIONAL RESERVES AND RESERVES/IMPORTS COVERAGE 1995, 1996 AND 1997

	International reserves (Millions of US dollars)			Percentage change		Reserves/imports (months)		
	1995	1996	1997[a]	1995-1996	1996-1997	1995	1996	1997[a]
ESCWA region	46 870	48 592	52 291	4.6	7.6	5.9	5.8	6.1
GCC countries	23 564	22 486	23 140	(4.6)	2.9	3.9	3.6	3.8
Bahrain	1 280	1 318	1 269	3.0	(3.7)	4.1	3.7	3.5
Kuwait	3 561	3 515	3 328	(1.3)	(5.3)	5.5	5.0	4.6
Oman	1 138	1 389	1 353	(22.0)	(2.6)	3.2	3.7	3.2
Qatar	1 492	1 415	1 500[b]	(5.2)	6.0	6.7	5.7	5.8
Saudi Arabia	8 622	8 794	6 598	2.0	(25.0)	3.7	2.9	2.8
United Arab Emirates	7 471	8 055	9 092	7.8	12.9	3.8	3.7	4.0
More diversified economies	23 306	26 106	29 151	12.0	(11.7)	11.2	11.5	12.6
Egypt	16 181	17 398	19 079	7.5	9.7	16.5	16.0	15.6
Jordan	1 973	1 759	2 040	(10.8)	16.0	6.4	4.9	6.8
Lebanon	4 533	5 932	6 844	30.9	15.4	7.4	7.8	10.9
Yemen, Republic of	619	1 017	1 188[c]	64.3	16.8	3.4	4.9	5.4

Sources: International Monetary Fund, *International Financial Statistics,* February 1998; and The Economist Intelligence Unit (EIU), Country Report 4th quarter 1997, Bahrain and Qatar.

Notes: ( ) indicates negative; two dots (..) indicate that data were not available.

a/ In September 1997.
b/ Estimation.
c/ In June 1997.

The more diversified economies have 55.7 per cent of the ESCWA region's total reserves. Egypt has the largest international reserves among the ESCWA member countries. These reserves totalled US$ 19.08 billion in September 1997, an increase of 9.7 per cent over the 1996 level. The international reserves held by the ESCWA member countries were sufficient to finance the region's imports for 6.1 months. In the GCC countries, reserves were sufficient for 3.8 months, in the more diversified economies for about 12.6 months, and in Egypt for 15.6 months.

E. DEVELOPMENTS IN TRADE POLICY

In 1997 there were some changes in trade policy in the ESCWA member countries. Several countries made tangible progress in their trade liberalization through the trade policy reforms that were the major feature of the economic reform in 1997. The ESCWA member countries have implemented the required official procedures to join the AFTZ, the implementation of which, as noted above, started in January 1998 and is to be completed by the year 2007. Five ESCWA member countries are members of the WTO, namely Egypt, Bahrain, Kuwait, Qatar and the United Arab Emirates. Three countries have made some progress on accession to the WTO, namely Jordan, Saudi Arabia and Oman. These countries expect to become members of the WTO by the year 2000. Three other countries are preparing their economies through reform policies in line with the official procedures for accession to the WTO, and are expected to be ready for membership by 1998 or 1999; these countries are the Syrian Arab Republic, Lebanon and the Republic of Yemen.

For the GCC countries, the unification of tariff rates towards the establishment of a customs union was the cornerstone of the 1997 trade negotiations between these countries. The EU decided to renew an old trade agreement with the GCC countries. Saudi Arabia made appreciable efforts regarding its accession to the WTO, particularly in the area of multilateral negotiations. In October 1997, the Government of Saudi Arabia adopted measures to reduce imports of some agricultural products through an agricultural calendar, in order to protect the local production, in particular vegetables and fruits.[58] Oman continued its efforts for accession to the WTO, and made some progress in that regard.

In the more diversified economies, Egypt made considerable progress in its trade policy: the Government completed its commitments to the WTO in 1997 by abolishing the prohibition on imports of poultry and textiles, which had been exempted as a measure to protect the local production of those commodities. Egypt continued its negotiations with the EU to resolve the problems facing Egyptian agricultural exports to the EU. During 1997, the Government took several measures to increase its exports, particularly non-oil exports (see box 10).

BOX 10. EGYPTIAN EFFORTS TO PROMOTE EXPORTS

Egypt's success in the implementation of its economic reform programme led to the stabilization of the exchange rate of the Egyptian pound, reforms of fiscal polices, an increase in international reserves, successful implementation of the privatization policy, and significant reform of trade policy. Egypt's strategy now is to gain access to the global economy by increasing its exports, especially since it is a member of the WTO and has built a solid base of cooperation with trading blocs around the world. In 1997, the Government aimed at achieving an annual increase in exports by 20 per cent, particularly in non-oil exports. To achieve this objective, the Government undertook several measures, such as: (a) allowing the private sector to provide several major services inside Egyptian ports, which include freight, discharge, ship provisioning and maintenance work, in competition with the public sector; (b) the immediate repayment of customs and sales taxes imposed on raw materials included in exported goods to exporters; (c) allowing the private sector to establish airports in the light of the privatization process; (d) the establishment by the Government of a "Commodity Council" to work as a link between producers and exporters, and to coordinate trade and production policies; and (e) the construction of two large-scale Free Zones during the next five years, the first in Port Said at Shark El-Tafrea, and the second in the north-western Gulf of Suez. These measures are in addition to the customs exemption in the investment law.

The Egyptian Government adopted a new policy in 1997, aimed at the diversification of trade partners and traded goods. The main objectives of this policy were: (a) to increase exports, through different outlets; (b) to ensure better tenders on imports; and (c) to avoid any pressure in world markets. In this regard, the Government has signed trade agreements with several countries in Africa, Asia and Latin America. Egypt has established a joint committee, headed by the Prime Minister, with several Arab

[58] *Middle East Monitor*, vol. 7, No. 11, November 1997.

Box 10. *(continued)*

countries to strengthen and enhance trade relations and investment through joint projects. Currently, Egypt has trade deals with Saudi Arabia, Tunisia, Jordan, the Syrian Arab Republic, the Libyan Arab Jamahiriya, Morocco and the Republic of Yemen.

The above measures and policies are expected to lead to a shift in the value of exports over the next few years. Nevertheless, these measures should be accompanied by a continuous revision of operations of trade and marketing institutions. The Government should also continue to encourage an increase in local production and the improvement of products for export, especially non-traditional exports, which should be compatible with the needs and specifications of world markets.

Sources: Al Ahram, 8 January 1998 and 2 February 1998.

Jordan signed a partnership agreement with the EU in 1997 and complied with the required official procedures for accession to the WTO. The Government of Jordan aims at increasing Jordanian exports to the Arab markets and the EU through trade agreements.. The Syrian Arab Republic undertook a comprehensive study in 1997 to evaluate the partnership agreement with the EU, and the official negotiations are expected to be started in April 1998; there were no developments in 1997 concerning the country's accession to the WTO. The Syrian Arab Republic unified the multiple exchange rates of its local currency for the general budget by Ministerial Decree No. 2163 of 1997. At the new unified rate, which was to enter into force in January 1998, 45 Syrian pounds (LS) equal US$ 1. The Government will apply the same measure to unify the exchange rate for imports during 1998. Lebanon is still studying the advantages and disadvantages of joining the partnership with the EU and the accession to the WTO. The Republic of Yemen has taken the necessary steps towards trade liberalization in 1997, in the light of the application of the economic reform policies recommended by the World Bank and the IMF.

F. SHORT-TERM OUTLOOK

The outlook for international trade in the ESCWA region is negative for 1998, owing to the expected fall in oil prices. These prices are projected to be less than 1997 prices by about 20-30 per cent. Several reasons justify this expectation, including: a low demand for oil, particularly from Asian countries, the agreement between the United Nations and Iraq relating to "Oil For Food", which will allow Iraq to sell its oil for an amount equivalent to US$ 5.2 billion every six months, and the high levels of oil stocks. It is projected that the ESCWA region's exports will decrease by 14.4 per cent in 1998 compared with the 1997 level. This means that the region is expected to receive US$ 18.5 billion less in export revenues in 1998 compared with 1997. In another development, the direction of trade in the ESCWA region in 1998 is expected to change as a result of the Asian crisis. The exports (particularly oil) to Asian countries are expected to decrease, but imports from those countries are expected to increase as a result of the depreciation of their currencies. The international reserves of the ESCWA member countries are also expected to decrease, particularly in the oil-exporting countries, as a result of the drop in oil prices which will be reflected in the export revenues.

For 1999 and 2000, international trade in the ESCWA region is expected to improve for the following reasons: (a) the decision of the ESCWA member countries to increase their trade and economic relations through the AFTZ and bilateral agreements; (b) the tendency towards diversifying economic activities and exports which will lead, in the long run, to lower dependency on oil exports; and (c) the expected increase in non-oil exports, particularly in the more diversified economies, especially in the light of the WTO agreements.

The ESCWA member countries must make significant efforts to increase intraregional trade. The success of the AFTZ requires commitments from its members to remove tariff and non-tariff barriers. The bilateral trade agreements between ESCWA member countries—Lebanon and the Syrian Arab Republic, and Egypt, Jordan and Saudi Arabia—should be encouraged. The partnership agreement with the EU is a high priority issue because the EU is considered the major trade partner of the ESCWA region, and collective negations are required to avoid any negative gaps in the future, especially when the AFTZ has been completely implemented. Trade liberalization in the Republic of Yemen should be applied gradually to avoid negative social effects. International labour standards and human rights considerations related to international trade, which have been propoased by some developed countries members of the WTO, will have negative effects on the developing countries, including those in the ESCWA region, and will be a major constraint on trade flows. These proposals should therefore be further examined.

IV. MONETARY, FISCAL AND FINANCIAL DEVELOPMENTS

A. MONETARY DEVELOPMENTS

The monetary policies in ESCWA member countries continued in 1997 to be essentially targeted at maintaining the stability of the exchange rates. These policies contributed to ensuring relatively low and stable rates of inflation and maintained private sector confidence.

The effectiveness of the monetary policies was enhanced by the reform of the financial sector in most ESCWA members. These reforms, which began in the early 1990s, were aimed at improving the mobilization and allocation of financial resources and at strengthening the system of monetary control. To this end, the role of market forces in determining the interest rates and credit allocation was enhanced. Significant progress was made in liberalizing the interest rate structure, initially focusing on deposit rates, and on reducing the scope of preferential rates, especially for public sector enterprises. Moreover, the variety of assets available to domestic savers was broadened through the introduction of new financial instruments with market-determined rates. These instruments included certificates of deposit, negotiable treasury bills and commercial papers. Most ESCWA members also made significant progress in strengthening their financial systems through recapitalization of financial institutions and improvements through prudent regulation and supervision.

To enhance monetary control policies, especially in the context of financial liberalization, the indirect monetary control, which was introduced in 1996 by most ESCWA members to replace quantitative credit restrictions, began to take shape in 1997. Several countries made rediscount mechanisms more sensitive to market conditions, and the sale and purchase of central bank papers and treasury bills were used more widely in the management of liquidity. Moreover, reserve requirements were made more uniform across financial institutions. Box 11 shows the monetary instruments used by the monetary authorities of ESCWA members in the management of their monetary policies.

In the GCC countries, the de facto pegging of these countries' currencies to the United States dollar required the domestic interest rates to follow closely the movements of interest rates on the dollar. In the process of maintaining stable priorities in line with the dollar, the GCC countries also established fixed cross rates between their currencies. By eliminating inflationary finance and creating a stable monetary environment, the exchange rates of the currencies of this group of ESCWA member countries are considered to have been instrumental in encouraging the repatriation of financial resources from abroad. The financing of the current account deficits of these countries was mainly through repatriated capital.

The following is a summary of monetary developments in a number of ESCWA member countries.[59]

BOX 11. ESCWA REGION: PRIMARY INSTRUMENTS OF MONETARY POLICY[a/]

	Discount rate	Open market operations	Foreign exchange market operations	Reserve/ liquidity asset requirements	Credit ceilings	Moral suasion
GCC countries						
Bahrain	x	x	x	x		
Kuwait	x	x		x	x	x
Oman	x	x	x	x	x	
Qatar	x	x	x	x	x	x
Saudi Arabia	x	x	x	x		x
United Arab Emirates	x	x		x		x

[59] The selection is based primarily on the availability of information.

BOX 11 *(continued)*

	Discount rate	Open market operations	Foreign exchange market operations	Reserve/ liquidity asset requirements	Credit ceilings	Moral suasion
Other ESCWA member countries and areas						
Egypt	x	x	x	x		x
Jordan	x	x	x	x		x
Lebanon	x	x	x	x		
Syrian Arab Republic	x				x	
West Bank and Gaza					x	x
Yemen	x	X		x		x

a/ Excluding Iraq owing to lack of information.

1. *Egypt*

Money supply M_1 amounted to 37.1 billion Egyptian pounds (LE) at the end of March 1997, up by around 5.7 per cent (LE 2 billion) over the level of end-June 1996 (LE 35.1 billion) and 10.1 per cent (LE 3.4 billion) over the level of end-March 1996 (LE 33.7 billion). This development was attributed to the rise in the two components of M_1, namely currency in circulation by LE 1.2 billion, and demand deposits by LE 0.8 billion, as of end-March 1997 (table 26).

Domestic liquidity, which in Egypt comprises money supply M_2 and foreign currency deposits, recorded LE 182.4 billion at the end of March 1997, rising by LE 14.4 billion over the end of June 1996 and LE 20.6 billion over the end of March 1996. The main factor behind this rise is the significant increase in local currency time and savings deposits by 14.8 per cent (LE 14 billion) and 20.6 per cent (LE 18.5 billion) respectively.

Regarding the factors affecting money supply (counterpart assets), the main factors behind the significant rise in domestic liquidity have been the LE 6.1 billion increase in net foreign assets and the LE 18.3 billion expansion in net domestic credit. In contrast, the net other items had a contractionary effect of LE 10 billion on domestic liquidity. Within the context of Egypt's economic reform and structural adjustment programme, the freeing of the domestic interest rates led the private sector to repatriate funds from abroad to pay for its domestic debt, which suddenly became expensive. Domestic interest rates, it should be noted, rose to between 15 and 20 per cent in the first two years of the programme. The higher interest rates and the advent of local treasury bills coincided with the relatively low dollar rates and a commitment by the Central Bank of Egypt (CBE) to maintain a stable US$/LE exchange rate. Indeed the US$/LE exchange rate remained stable (at around US$1=LE 3.33-LE 3.35) from 1991 until the beginning of 1994, when it started to slip down to its current level of around US$1=LE 3.38-LE 3.39 on the bid side and almost US$1=LE 4 on the ask side. The Egyptian currency could have appreciated by an estimated margin of between 20 and 25 per cent, had the CBE not consistently intervened in the market to "mop up" excess dollar liquidity at the end of trading days.

Table 26 shows that the CBE gradually lowered the deposit and lending rates during the past two years to 9.3 per cent for the former and 12.25 per cent for the latter. This took place in conjunction with the

decline in the rate of inflation from around 8.3 per cent in fiscal year 1995/96 to approximately 4.8 per cent in fiscal year 1996/97.[60]

TABLE 26. EGYPT: MONEY SUPPLY AND INTEREST RATE DEVELOPMENT, 1994-1997

A. MONEY SUPPLY

(*Billions of Egyptian pounds*)

	1994		1995		1996		1997
	March	June	March	June	March	June	March
Currency in circulation	18.5	19.1	21.0	21.5	23.0	23.6	24.8
+ Demand deposits	8.0	9.2	9.2	10.2	10.7	11.5	12.3
= Money supply (M_1)	26.5	28.3	30.2	31.7	33.7	35.1	37.1
+ Time and savings deposits (quasi-money)	74.3	76.6	80.0	82.2	89.9	94.4	108.4
= Money supply (M_2)	98.8	104.9	110.2	113.9	123.6	129.5	145.5
+ Foreign currency deposits	31.3	32.0	36.7	38.2	38.2	38.5	36.9
= Overall domestic liquidity	130.1	136.9	146.9	152.1	161.8	168.0	182.4

B. FACTORS AFFECTING MONEY SUPPLY (COUNTERPART ASSETS)

Net foreign assets	43.7	45.3	48.4	47.4	47.0	47.6	53.7
Net domestic credit	115.1	119.4	129.4	133.2	150.7	155.8	174.1
Net other items	(26.8)	(27.8)	(31.0)	(28.6)	(35.9)	(35.3)	(45.3)

C. INTEREST RATE DEVELOPMENT[a/]

(*Percentage*)

	June	Dec.	June	Dec.	June	Dec.	Mar.	June
Deposit rate	10.3	9.8	9.6	10.25	9.8	9.7	9.5	9.3
Lending rate	16.0	16.0	14.0	14.0	13.5	13.0	12.75	12.25

Source: For money supply, Central Bank of Egypt, *Economic Review*, vol. XXXVII, No. 3, 1996/97; for interest rate development, National Bank of Egypt, *Economic Bulletin*, vol. XXXXX, No. 3, 1997.

Notes: Figures are rounded; exchange rate: US$1=LE 3.38-LE 3.39; ( ) indicates negative.

a/ The Egyptian pound interest rate was liberalized on 31 January 1991, with the Egyptian banks being authorized to fix their own interest rates on deposits and loans.

2. *Kuwait*

Money supply M_2 amounted to 7,558.3 million Kuwaiti dinars (KD) in 1997, up by around 3.1 per cent over 1996 (KD 7,330.8 million) (table 27). Most of the increase was due to the rise in time and savings deposits, from KD 6,088.2 million to KD 6,368.5 million. The significant increase in time and savings deposits indicates a further rise in banking awareness, as well as a change in the banking habits of the Kuwaiti population, and consequently a deepened trust in the monetary policy of the authorities. The drop in M_1 (money supply in its narrow definition), which comprises currency in circulation and demand deposits,

60 Measured by the consumer price index at the end of June every year.

from KD 1,242.6 million in 1996 to KD 1,189.8 million in 1997, does not affect the above conclusions, since the drop in M_1 is usually either a seasonally adjusted development or a switch from ready cash (M_1) to term or quasi-money (time and savings deposits).

An analysis of the factors affecting changes in money supply shows that in 1997 there was an increase of KD 752.7 million in net domestic assets and a decrease of KD 525.2 million in net foreign assets, compared with an increase of only KD 14.1 million in the former and a decrease of only KD 58.1 million in the latter in 1996. The developments in net domestic assets in 1997 show an increase by KD 1,235.1 million in bank claims on the private sector and a decrease by KD 212.8 million in bank claims on the Government; the latter was significantly higher than in the previous year. This resulted from the redemption of a higher portion than in 1996 of the domestic bank portfolio of debt purchase bonds and from the decreased holdings of public debt instruments by the banks. The decrease in net foreign assets was mainly due to the decrease in net foreign assets of the local banks by KD 510.8 million. The decrease in net foreign assets of the Central Bank of Kuwait amounted to only KD 14.4 million.[61]

TABLE 27. KUWAIT: MONEY SUPPLY, 1994-1997
A. MONEY SUPPLY
(Millions of Kuwaiti dinars)

	1994	1995	1996	1997
Currency in circulation	351.3	311.5	350.1	345.3
+ Demand deposits	774.7	873.5	892.5	844.5
= Money supply (M_1)	1 126.0	1 184.9	1 242.6	1 189.8
+ Time and savings deposits (quasi-money)	5 616.9	6 189.8	6 088.2	6 368.5
= Money supply (M_2)	6 742.9	7 374.7	7 330.8	7 558.3

B. FACTORS AFFECTING CHANGE IN MONEY SUPPLY

Change in net domestic assets	346.1	410.9	14.1	752.7
Change in net foreign assets	0.3	221.0	(58.1)	(525.2)

Source: Central Bank of Kuwait, *Quarterly Statistical Bulletin*, October-December 1997.

Note: ( ) indicates negative.

3. *Jordan*

In June 1997, the Central Bank of Jordan (CBJ) formally ended all controls on the flow of foreign exchange in and out of Jordan. The CBJ made the Jordanian dinar (JD) fully convertible for commercial transactions. Both measures permit Jordanian citizens and foreign investors alike to hold freely any amount of deposits in foreign currencies and to withdraw and transfer unlimited funds free from government controls. This development did not make a great difference, since free holding and making use of significant amounts of foreign currency deposits by Jordanians as well as foreigners had long been permitted by the CBJ; the measures, however, underline a commitment by the CBJ to a strategy of dinar convertibility and foreign exchange liberalization.

[61] Central Bank of Kuwait, *Quarterly Statistical Bulletin*, October-December 1997.

In an effort to increase the sophistication of monetary instruments, the CBJ started in 1997, under the World Bank's guidance, to issue variable interest rate certificates of deposit (CDs). In the first auction under this (variable rate) system, the CBJ offered JD 70 million (US$ 100 million) worth of CDs; the offering was oversubscribed by around 11 per cent. The CBJ expects that the variable interest rate CDs will add to the effectiveness of the control of the money supply in Jordan, in addition to stimulating a secondary market in CDs and other financial instruments. The CDs were first offered by the CBJ in 1993 on a weekly basis, and the new fortnightly system was introduced in April 1997.

The CBJ continued its efforts in 1997 to build up a cushion of foreign exchange reserves to meet the IMF demand. This requires that the reserves be sufficient to cover three months of imports, which amounted to around US$ 1.5 billion in 1997. At the end of September 1997, foreign currency reserves were estimated at around US$ 900 million, increasing to around US$ 1.6 billion by November and US $1.7 billion by December. The CBJ aims at increasing the reserves to over US$ 2 billion by the end of 1998. The reserve policy is a central feature of the CBJ monetary policy, which is committed to the objectives of JD convertibility and exchange rate stability. Moreover, the policy is aimed at purging the system of all aspects of dollarization. The trauma of the devaluation of the Jordanian dinar by 50 per cent in 1988 has made most Jordanian citizens reluctant to hold large deposits in dinars, despite the significantly higher interest rates provided compared with deposits in dollar accounts.

The monetary policy of the CBJ, however, continues to be directed towards sustaining an "acceptable" rate of inflation and maintaining a healthy external sector performance with a special emphasis on the reserve levels and domestic credit requirements.

The lowering of the required reserve ratio on foreign currency deposits from 35 per cent to 14 per cent was aimed at encouraging more activity in the financial market and reducing the gap between the cost of foreign capital and domestic lending rates. Moreover, in 1997 the CBJ eased the requirements on domestic deposits, allowing 20 per cent of such reserves to be used for liquidity management. Both moves were expected to increase domestic credit, lower domestic interest rates and sustain demand for local currency at stable levels of the dinar exchange rate.

Money supply M_1 increased by around 6.7 per cent, from JD 1,539.2 million in 1996 to JD 1,642.4 million in 1997 (table 28). The increase in M_1 resulted from an increase in both its components, namely currency in circulation and demand deposits, with the former rising by around 3.7 per cent, from JD 952.2 million to JD 987.6 million and the latter by around 11.6 per cent, from JD 587 million to JD 654.8 million. The observed trend in time and savings deposits during the past few years reflects improved banking awareness and banking habits of the Jordanian population: in 1997, time and savings deposits (JD 3,934.2 million) were around 8.2 per cent over 1996 (JD 3,636.1 million), and over 27 per cent higher than in 1994 (JD 3,095.3 million). This development was reflected in a rise by 7.8 per cent in money supply M_2 from JD 5,175.3 million in 1996 to JD 5,576.6 million in 1997.

The significant rise in money supply M_2 appears to have been the result of the expansionary effect of the change in net foreign assets, which increased by JD 498.9 million in 1997 over 1996. The increase in net foreign assets more than compensated for the contractionary effect of the drop in net domestic assets in 1997, which amounted to JD 97.6 million, compared with JD 72 million in 1996.

Interest rates on bank deposits as well as loans are market-determined in Jordan. The CBJ does not interfere in determining the rates, but merely supervises their development and makes certain that they do not exceed the agreed higher or lower limits. The rates are announced on a daily basis by the licensed banks themselves. The rate on one-year savings deposits was raised from 7.5 per cent in 1996 to 8 per cent in 1997.

The rate remained unchanged during the past three years. In contrast, the rate on one-year time deposits dropped from 10.1 per cent to 10 per cent. The rate, however, was still higher than it was in the previous few years.

In its efforts to make more use of its financial resources domestically, to encourage the investors' involvement in the economy, the banking sector reduced significantly its rate for loans of over three years, from 9.75 per cent in 1996 to 8 per cent in 1997. The rates for one-year as well as three-year lending were also marginally reduced, the former from 15.5 to 15 per cent and the latter from 16 to 15.75 per cent. However, Jordanian banks usually charge borrowers a 1 per cent commission in addition to the loan rate.

TABLE 28. JORDAN: MONEY SUPPLY AND INTEREST RATE DEVELOPMENT, 1994-1997

A. MONEY SUPPLY

(Millions of Jordanian dinars)

	1994	1995	1996	1997
Currency in circulation	1 072.6	1 050.9	952.2	987.6
+ Demand deposits	673.6	694.7	587.0	654.8
= Money supply (M_1)	1 746.2	1 745.6	1 539.2	1 642.4
+ Time and savings deposits (quasi-money)	3 095.3	3 414.2	3 636.1	3 934.2
= Money supply (M_2)	4 841.5	5 159.8	5 175.3	5 576.6

B. FACTORS AFFECTING CHANGE IN MONEY SUPPLY

Change in net domestic assets	257.4	122.2	(72.0)	(97.6)
Change in net foreign assets	102.3	196.1	87.5	498.9

INTEREST RATE DEVELOPMENT

(Percentage)

Deposit rates (maximum)				
One-year savings deposits	7.50	7.50	7.50	8.00
One-year time deposits	8.75	9.25	10.10	10.00
Lending rates (maximum)				
One-year lending	14.00	14.00	15.50	15.00
Three-year lending	15.00	15.00	16.00	15.75
More than three-year lending	9.00	9.50	9.75	8.00
Commission rate	1.00	1.00	1.00	1.00

Source: Central Bank of Jordan, *Monthly Statistical Bulletin*, December 1997.

Notes: ( ) indicates negative; exchange rate: JD 1=US$ 1.40; US$ 1=JD 0.70.

4. *Saudi Arabia*

The monetary policy of the Saudi Arabian Monetary Agency (SAMA—the Central Bank of Saudi Arabia) in 1997 continued to be guided by the objectives of encouraging the expansion of private sector economic activities in addition to maintaining price stability and the stability of the exchange rate of the Saudi Arabian riyal (SRls). This policy was executed by undertaking measures that ensured that growth in domestic liquidity was generally in line with the availability of goods and services, and that the banking system was endowed with adequate liquidity to meet the credit demands of all economic sectors.

Table 29 shows that money supply development in 1996 and the first three quarters of 1997 (no full-year data are available) reflected the impact of increased domestic expenditures of the Government and the growth in private sector economic activities. This development was, in turn, a reflection of the increase in the oil prices (and consequently oil revenues) and the repayment of arrears by the Government; the latter contributed to a lower private sector demand for bank credit in 1997 than in 1996 and to a reduction of non-performing bank loans, thus helping to improve the banks' profitability.

Money supply M_2 which increased sharply in 1996, registering an increase of 9.9 per cent (SRls18.3 billion) over the previous years, continued this trend in the first nine months of 1997. This is reflected in the rise by 5.9 per cent over the end of 1996, thereby confirming the acceleration of growth in this broad measure of money supply since 1994. The acceleration in the rate of monetary expansion was in conjunction with the improvement in economic activity of the private sector. This is shown by the market pick-up in the non-oil private sector real GDP growth rate, estimated at around 3 per cent during the past two years. Consequently, the rise in money supply M_2 was absorbed by the Saudi Arabian economy without putting any significant pressure on prices.

TABLE 29. SAUDI ARABIA: MONEY SUPPLY, 1992-1997 (SEPTEMBER)
(*Billions of Saudi Arabian riyals*)

	1992	1993	1994	1995	1996	1997 (Sept.)
Currency in circulation	43.8	42.6	45.0	43.1	43.0	45.5
+ Demand deposits	81.7	78.9	80.7	81.4	89.9	96.7
= Money supply (M_1)	125.5	121.5	125.7	124.5	132.9	142.2
+ Time and savings deposits (quasi-money)	46.3	47.9	51.4	61.2	71.1	71.8
= Money supply (M_2)	171.8	169.4	177.1	185.7	204.0	216.0

CHANGE YEAR ON YEAR
(*Percentage*)

	1992	1993	1994	1995	1996	1997 (Sept.)
Money supply (M_1)	4.1	-3.2	3.4	-0.9	6.7	7.0
Time and savings deposits (quasi-money)	3.8	3.4	7.3	19.1	16.2	3.8
Money supply (M_2)	4.1	-1.4	4.5	4.9	9.9	5.9

Source: Saudi Arabian Monetary Agency, Thirty-third Annual Report, 1997.

5. *United Arab Emirates*

Money supply in its narrow (M_1) as well as broad definition (M_2) has been on the rise during the past few years in the United Arab Emirates. While M_1 increased from 19.18 billion UAE dirhams (Dh) in 1994 to Dh 22.27 billion in 1996 and to Dh 24.41 billion at the end of June 1997 (no full-year data were yet available), M_2 increased from Dh 73.88 billion to Dh 86.99 billion and to Dh 89.90 billion (table 30). The table shows that the trend towards ready cash, which was the major indicator of monetary development in the United Arab Emirates during the 1980s and the early 1990s, appears to have been abandoned in favour of time and savings deposits. The new trend was reflected in the increase by around Dh 11 billion in time and savings deposits during the period from 1994 to mid-1997, more than double the increase in M_1 (ready cash).

The development of the monetary indicators in the United Arab Emirates could be derived from the development of the factors affecting change in money supply, namely net foreign assets and net domestic credit of the banking sector as well as net other factors. The impact of net foreign assets on domestic

liquidity during the first half of 1997 was contractionary by Dh 3.34 billion. This impact was in line with that of 1996 when net foreign assets dropped by Dh 0.46 billion. While the impact of net foreign assets on domestic liquidity was contractionary, the impact of net domestic credit was expansionary. The latter increased by Dh 9.63 billion above the level of 1996. Actually, the impact of net domestic credit was expansionary during the past few years. Regarding the impact of net other factors on domestic liquidity, it appears that the impact continued to be contractionary during the first half of 1997, as this item deteriorated further from Dh 54.74 billion to Dh 58.12 billion.

Interest rates on deposits and loans in the United Arab Emirates assumed their downward trend between the end of 1996 and mid-1997. The former dropped from 4.79 per cent to 3.65 per cent, and the latter from 7.55 per cent to 7.48 per cent. However, with the drop in the interest rate on deposits being higher than that on loans, the spread was widened from 2.76 per cent to 3.83 per cent.

TABLE 30. UNITED ARAB EMIRATES: MONEY SUPPLY AND INTEREST RATE DEVELOPMENT, 1994-1997 (JUNE)

A. MONEY SUPPLY
(*Billions of UAE dirhams*)

	1994	1995	1996	1997 (June)
Currency in circulation	6.03	6.40	6.77	6.94
+ Demand deposits	13.15	14.42	15.50	17.47
= Money supply (M_1)	19.18	20.82	22.27	24.41
+ Time and savings deposits (quasi-money)	54.70	60.58	64.72	65.49
= Money supply (M_2)	73.88	81.40	86.99	89.90

B. FACTORS AFFECTING CHANGE IN MONEY SUPPLY

Net foreign assets	57.47	63.89	63.43	60.09
Net domestic assets	65.18	69.91	78.30	87.93
Net other factors	(48.77)	(52.39)	(54.74)	(58.12)

C. INTEREST RATE DEVELOPMENT
(*Percentage*)

Average rate on deposits	4.89	5.02	4.79	3.65
Average rate on lending	7.61	7.59	7.55	7.48

Source: Central Bank of the United Arab Emirates, *Economic Bulletin*, June 1997.

Notes: Figures are rounded; ( ) indicates negative.

B. FISCAL DEVELOPMENTS

Fiscal developments in the GCC countries in 1997, in particular Saudi Arabia and Kuwait, indicate that these countries have eliminated most of the fiscal ramifications of the Gulf crisis and war of 1990-1991. The rise in oil revenues over 1995 levels has further reduced their budget deficits. In fiscal year 1997, most of these countries financed their budget deficits mainly by domestic borrowing, through the issuance of government bonds and treasury bills, rather than by drawing on their foreign reserves or resorting to external borrowing, as was the case during most of the past few years. Total expenditures of the GCC countries were

budgeted at around US$ 82 billion in 1997, up by around 5 per cent from 1996 (US$ 78 billion), whereas total revenues were expected to amount to US$ 72 billion, an increase of around US$ 4 billion over 1996, resulting in a combined budget deficit of around US$ 10 billion. During the past few years, the ratio of budget deficit to GDP was on a downward trend for this group of ESCWA member countries, except for Qatar, where it increased from 3.9 per cent in 1996 to an estimated 8.4 per cent in 1997 (table 31). In Kuwait and the United Arab Emirates, the budget deficit/GDP ratio is expected to turn into a budget surplus/GDP ratio in the light of a preliminary actual budget surplus of around KD 60 million (US$ 204 million) for Kuwait and a surplus of around Dh 1 billion (US$ 272 million) for the United Arab Emirates.

The cost-cutting measures introduced by most GCC countries during the past few years concentrated mainly on project spending, while current expenditures, particularly expenditures on wages and salaries, remained untouched. Consequently, the aggregate ratio of capital expenditures to GDP for these countries dropped from an average of around 24 per cent during the period 1981-1985 to an average of around 7 per cent only during the period 1992-1996, while the aggregate ratio of current expenditures to GDP increased from around 29 per cent to around 39 per cent.

There has been a growing awareness in the GCC countries of the need for greater fiscal discipline in order to reduce dependence on the volatile oil revenues. The latter have on average constituted around 80 per cent of the budget revenues. The government decisions in a number of these countries to raise prices of some public services is seen not only as an indicator that it is planned for domestic budget revenues to play an important role in financing budget expenditures, but also as a long-term fiscal policy aimed at establishing a more diversified domestic revenue base. Consideration has also been given to putting a halt to the rise of domestic indebtedness, the ensuring of macroeconomic stability, and the maintaining of confidence in the domestic financial system. In the light of these goals, most GCC countries have set themselves the objective of reaching a balanced budget by the year 2000.

The 1997 budgets of most ESCWA member countries with more diversified economies continued to be deflationary, with expenditures rising at a rate below that of inflation, thus reducing expenditures in real terms. This group of ESCWA members, however, continued in 1997 to look for alternative means to reduce their budget deficits, either by increasing domestic revenues through a reform of revenue-raising measures or by reducing expenditures through cutting on subsidies or debt service payments. While most of these countries also resorted to domestic borrowing, a number of them, including Jordan and Lebanon, looked for additional funds through external borrowing.

Following is a summary of the fiscal developments in selected ESCWA member countries.[62]

TABLE 31. GCC COUNTRIES: RATIO OF BUDGET SURPLUS/ (DEFICIT) TO GDP, 1992-1997
(*Percentage*)

	1992	1993	1994	1995	1996	1997[a/]
Bahrain	(4.41)	(3.67)	(7.12)	(3.44)	0.30	(0.60)
Kuwait	(27.00)	(22.32)	(24.39)	(16.25)	(4.00)	(12.00)
Qatar	(2.26)	(10.96)	(4.00)	(5.30)	(3.90)	(8.47)
Oman	(13.30)	(11.20)	(10.87)	(6.30)	(4.50)	(4.10)

[62] The selection is based primarily on available information.

TABLE 31. (*continued*)

	1992	1993	1994	1995	1996	1997[a/]
udi Arabia	(9.40)	(10.47)	(8.89)	(5.75)	(3.34)	(1.10)
ited Arab Emirates	(1.60)	(1.11)	(1.05)	(0.86)	2.93	(0.78)

Source: Based primarily on *Al-Hayat* daily (in Arabic), 19 March 1998.

Notes: Except for Bahrain and the United Arab Emirates in 1996, budgets of the GCC countries were in deficit during the riod under review. However, the preliminary actual figures for the Kuwaiti budget in fiscal year 1996/ 97 and for the United Arab nirates in fiscal year 1997 indicate that the former recorded a budget surplus of around KD 60 million (US$ 204 million) and the tter a budget surplus of around Dh 1 billion (US$ 272 million), thus turning the budget deficit/ GDP ratio into a budget surplus/ DP ratio.

( ) indicates negative.

a/ Preliminary.

1. *Kuwait*

Provisional actual figures for the 1996/97 Kuwaiti budget show that revenues are expected to be KD .39 billion (US$ 4.7 billion) higher than originally budgeted, owing to higher than expected oil revenues, vhich usually constitute between 85 and 90 per cent of budget revenues (table 32). The higher than foreseen budget revenues, coupled with a reduction in expenditures by 7.6 per cent from the KD 4.21 budgeted to an ictual KD 3.891, resulted in turning the projected budget deficit of KD1.51 billion into a surplus of around KD 60 million. This was the first recorded budget surplus in Kuwait in 15 years.

It is worth noting, however, that the Kuwaiti budgets usually do not record or reveal government revenues from Kuwait's foreign investment. Prior to the Gulf crisis in 1990-1991 (for example, in 1988 and 1989) government revenues from these investments exceeded oil revenues and were more than enough to cover the budget deficit. Indeed, a statement made by Kuwait's Minister of Finance in early November 1997 showed that revenues from Kuwait's foreign investments exceeded, for the first time since the Gulf crisis, the projected oil revenues of KD 2.55 billion in fiscal year 1996/97.[63]

The 1997/98 budget projects total expenditures of KD 4.38 billion. This is around 4 per cent higher than the level projected in 1996/97 (KD 4.21 billion), but up by around 12.6 per cent over the actual level (KD 3.89 billion). The projection of revenues has also been conservative. It increased at a rate close to that of the projected expenditures. The increase is expected to be mainly in non-oil revenues, while oil revenues would remain at almost the same projected level for 1996/97. This is considered to be mainly due to a conservative oil price assumption of US$ 13 per barrel in fiscal year 1997/98. However, the Kuwaiti Government indicated in early 1998 that the planned expenditures in the 1997/98 budget would be cut by around 25 per cent during the remaining period of the fiscal year. The cut would turn the projected budget deficit of KD 1.58 billion into a surplus. Preliminary actual figures for the first half (July-December) of the 1997/98 fiscal year already show a budget surplus of around US$ 1.5 billion.[64]

63 *Middle East Economic Survey*, 10 November 1997.

64 National Bank of Kuwait, *Economic and Financial Quarterly*, iv/1997.

TABLE 31. (*continued*)

	1992	1993	1994	1995	1996	1997[a/]
Saudi Arabia	(9.40)	(10.47)	(8.89)	(5.75)	(3.34)	(1.10)
United Arab Emirates	(1.60)	(1.11)	(1.05)	(0.86)	2.93	(0.78)

Source: Based primarily on *Al-Hayat* daily (in Arabic), 19 March 1998.

Notes: Except for Bahrain and the United Arab Emirates in 1996, budgets of the GCC countries were in deficit during the period under review. However, the preliminary actual figures for the Kuwaiti budget in fiscal year 1996/ 97 and for the United Arab Emirates in fiscal year 1997 indicate that the former recorded a budget surplus of around KD 60 million (US$ 204 million) and the latter a budget surplus of around Dh 1 billion (US$ 272 million), thus turning the budget deficit/ GDP ratio into a budget surplus/ GDP ratio.

( ) indicates negative.

a/ Preliminary.

1. *Kuwait*

Provisional actual figures for the 1996/97 Kuwaiti budget show that revenues are expected to be KD 1.39 billion (US$ 4.7 billion) higher than originally budgeted, owing to higher than expected oil revenues, which usually constitute between 85 and 90 per cent of budget revenues (table 32). The higher than foreseen budget revenues, coupled with a reduction in expenditures by 7.6 per cent from the KD 4.21 budgeted to an actual KD 3.89l, resulted in turning the projected budget deficit of KD1.51 billion into a surplus of around KD 60 million. This was the first recorded budget surplus in Kuwait in 15 years.

It is worth noting, however, that the Kuwaiti budgets usually do not record or reveal government revenues from Kuwait's foreign investment. Prior to the Gulf crisis in 1990-1991 (for example, in 1988 and 1989) government revenues from these investments exceeded oil revenues and were more than enough to cover the budget deficit. Indeed, a statement made by Kuwait's Minister of Finance in early November 1997 showed that revenues from Kuwait's foreign investments exceeded, for the first time since the Gulf crisis, the projected oil revenues of KD 2.55 billion in fiscal year 1996/97.[63]

The 1997/98 budget projects total expenditures of KD 4.38 billion. This is around 4 per cent higher than the level projected in 1996/97 (KD 4.21 billion), but up by around 12.6 per cent over the actual level (KD 3.89 billion). The projection of revenues has also been conservative. It increased at a rate close to that of the projected expenditures. The increase is expected to be mainly in non-oil revenues, while oil revenues would remain at almost the same projected level for 1996/97. This is considered to be mainly due to a conservative oil price assumption of US$ 13 per barrel in fiscal year 1997/98. However, the Kuwaiti Government indicated in early 1998 that the planned expenditures in the 1997/98 budget would be cut by around 25 per cent during the remaining period of the fiscal year. The cut would turn the projected budget deficit of KD 1.58 billion into a surplus. Preliminary actual figures for the first half (July-December) of the 1997/98 fiscal year already show a budget surplus of around US$ 1.5 billion.[64]

[63] *Middle East Economic Survey*, 10 November 1997.

[64] National Bank of Kuwait, *Economic and Financial Quarterly*, iv/1997.

TABLE 32. KUWAIT: BUDGET, 1994/95 - 1997/98[a/]
(Billions of Kuwaiti dinars)

	1994/95	1995/96	1996/97		1997/98
	A	A	B	PA	AB
Revenues	3.10	3.47	3.00	4.39	3.11
Oil revenues	2.78	3.20	2.55	3.94	2.56
Non-oil revenues	0.32	0.27	0.45	0.45	0.55
Expenditures	4.19	4.13	4.21	3.89	4.38
Net (deficit)/ surplus	(1.09)	(0.70)	(1.21)	0.50	(1.27)
Allocation for RFFG[b/]	0.31	0.30	0.30	0.44	0.31
Gross (deficit)/ surplus	(1.39)	(1.00)	(1.51)	0.06	(1.58)

Source: Central Bank of Kuwait, *Quarterly Statistical Bulletin*, October-December 1997.

Notes: Figures are rounded; A: Actual; B: Budget; PA: Provisional actual; AB: Approved budget; Exchange rate: KD 1=US$ 3.40; US$ 1=KD 0.29.

a/ The Kuwaiti fiscal year starts on 1 July and ends on 30 June of the following year.
b/ Reserve Fund for Future Generations.

2. *Lebanon*

Actual figures for the 1997 budget show that neither revenues nor expenditures came close to the sums budgeted. While the revenues of 3,753 billion Lebanese pounds (LL) turned out to be lower by around 8.4 per cent than the LL 4,100 billion budgeted, or around US$2.45 billion, expenditures (LL 9,155 billion) were 43 per cent higher than the LL 6,400 billion planned (table 33). This development resulted in a budget deficit of LL 5,402 billion, which was more than twice the amount projected (LL 2,300 billion) and 46 per cent higher than the actual deficit in 1996 (LL 3,693 billion). The actual budget deficit in 1997 represented around 59 per cent of budget expenditures, compared with a budgeted ratio of 35.9 per cent. The ratio of budget deficit to expenditures was 16 per cent over the 43 per cent target set by the Lebanese Parliament in the 1995 budget law. The target ratio of budget deficit to expenditures was not achieved again in 1996

Lebanon's budget for fiscal year 1998 projects revenues of LL 4,600 billion, around 12.2 per cent (LL 500 billion) higher than in 1997 (LL 4,100 billion). With expenditures planned to increase by around 24 per cent, from LL 6,400 billion to LL 7,920 billion, the budget deficit would rise by around 44 per cent, from LL 2,300 billion to LL 3,320 billion.

In issuing the 1998 budget, the Government indicated its commitment to a sound fiscal policy and an end to the waste of public funds. With this objective in mind, the Government intends not to approve any allocation for additional spending unless the necessary funding can be raised.

The revenues in the 1998 budget are expected to come from taxes (70 per cent) and non-tax sources (30 per cent). To finance the 1998 budget deficit, the Government plans to resort to foreign borrowing by converting a US$ 2 billion domestic debt to external debt. The Government intends to issue foreign currency bonds with maturities of up to 30 years and to purchase with part of the bonds zero-coupon United States treasury bills as collateral for the US$ 2 billion debt.

Current expenditures account for over 90 per cent of total expenditures in the 1998 budget. Around 40 per cent of the current expenditures are allocated to service the country's debt, compared with 42 per cent in the 1997 budget; 38 per cent is for wages and salaries and related posts and the rest for diverse government agencies. Capital expenditures are expected to constitute only around 8.8 per cent of total budget expenditures. For the first time ever, the Government has incorporated the allocation of LL 600 billion (US$ 390 million) for extrabudgetary expenditures, as a precautionary measure to ensure that actual expenditures do not exceed budgeted expenditures and contribute to a rise in the planned budget deficit.[65]

To establish a balanced budget in the coming years, the Government plans to introduce a number of measures to reduce expenditures and raise revenues. On the expenditures side, the measures include streamlining the government administration by reducing the number of ministries and the size of the civil service in the public sector. On the revenues side, the measures include the introduction of a sales tax and the improvement of the tax collection methods. At the time of this writing, the Government was discussing the introduction of a 1 per cent "business tax", which is a tax to be levied on the turnover of businesses. A plan to raise the tariff by a 2 per cent across the board rate was also under discussion.

TABLE 33. LEBANON: BUDGET, 1995-1998
(Billions of Lebanese pounds)

	1995	1996		1997		1998
	A	B	A	B	A	B
Revenues	3 150	4 022	3 532	4 100	3 753	4 600
Expenditures	5 630	6 450	7 225	6 400	9 155	7 920
Deficit	2 480	2 428	3 693	2 300	5 402	3 320
Memoranda (%)						
Deficit/expenditures	44.0	37.6	51.1	35.9	59.0	41.9
Revenues/expenditures	56.0	62.4	48.9	64.1	41.0	58.1

Source: For 1995 and 1996, Banque du Liban, *Quarterly Bulletin*, No. 74, 1997; for 1997 and 1998, *Middle East Economic Survey*, 2 February 1998.

Notes: Exchange rate: US$ 1=LL 1,530; A = Actual; B = Budgeted.

3. *Oman*

Investment expenditures are the main beneficiary of the 1998 Omani budget, issued by a Royal Decree on 1 January 1998. The overall picture, however, has not changed much from the projected budget for fiscal year 1997. Current expenditures and total revenues are projected to change only slightly from the level of 1997 (table 34). Investment expenditures, which are planned to increase by around 21 per cent, from 398 million rials Omani (RO) in 1997 to RO 482 million in 1998, would actually be the main factor behind the projected rise by around 12 per cent in the deficit, from RO 263 million to RO 295 million.

The 1998 budget was published within the guidelines of Oman's Five-Year Development Plan (1996-2000). The Plan has been based on the assumption of an oil price of US$ 15 per barrel. Oil revenues continue to be the major source of financing for the Omani economy, constituting around 75 per cent of the budget revenues. The 1998 budget projects oil revenues of RO 1,497 million, lower by around 0.3 per cent than those projected in 1997 (RO 1,502 million). Other current revenues (for example, customs duties and taxes and receipts from government utilities), which are usually considered as being the funding source to compensate for drops in other areas of the budget revenues, increased by around 3 per cent, thus

[65] *Middle East Economic Survey*, 2 February 1998.

compensating, in effect, for the drop in oil revenues and resulting in a slight rise in total budget revenues, from RO 2,003 million to RO 2,012 million.

Although current expenditures in the 1998 budget are set lower, by around 1 per cent, than those projected in 1997, their ratio to total expenditures should remain high, at around 78 per cent. In 1997 and 1996, the ratios were 80.1 and 81.5 per cent respectively. In terms of the ratio of the budget deficit to budget expenditures, the ratio has been projected at around 12.8 per cent, compared with around 11.6 per cent and 11.7 per cent in 1997 and 1996 respectively.

The ratio of budget deficit to GDP declined gradually during the past few years, from 6.3 per cent in 1995 to 4.5 per cent in 1996 and 4.1 per cent in 1997. However, the projected increase in the deficit in 1998 would interrupt this trend in the budget deficit/GDP ratio. The ratio is expected to be around 5 per cent in 1998.

A breakdown of current expenditures indicates that defence and security expenditures averaged around 39 per cent of current expenditures and around 31 per cent of total expenditures during the period 1994-1997, although defence and security expenditures were declining during that period. In contrast to this, current expenditures by civilian ministries were on the rise, from RO 809.6 million in 1994 to RO 890.9 million in 1996 and to RO 898 million in 1997. In 1998, current expenditures by civilian ministries are projected to rise by around 3.8 per cent to RO 932 million.

Interrupting the trend established during the past few years, development expenditures for civilian ministries are set to increase owing to the increase in investment expenditures. It is planned to increase allocations for this area by around 49 per cent, from RO 158 million in 1997 to RO 235 million in 1998.

Budget deficits in Oman are usually financed by drawing from reserves and through government development bonds. During the past three years, however, the financing of the budget deficit was mainly accomplished by drawing on reserves. The developments in 1998 do not appear to deviate from this trend. The Government plans to finance the RO 295 million budget deficit almost exclusively by drawing on reserves.

TABLE 34. OMAN: BUDGET, 1994-1998
(Millions of rials Omani)

	1994	1995	1996	1997	1998
Revenues	**1 757.4**	**1 851.6**	**1 990.2**	**2 003.0**	**2 012.0**
Oil revenues	1 311.5	1 372.7	1 473.0	1 502.0	1 497.0
Non-oil revenues	445.9	478.9	517.2	501.0	515.0
Expenditures	**2 252.9**	**2 331.0**	**2 253.7**	**2 266.0**	**2 307.0**
Current expenditures	1 777.3	1 859.5	1 837.7	1 815.0	1 796.0
Defence and national security	779.3	776.1	736.8	698.0	655.0
Civilian ministries	809.6	878.1	890.9	898.0	932.0
Others	188.4	205.3	210.0	219.0	209.0
Investment expenditures	458.9	456.9	403.6	398.0	482.0
Development expenditures by civilian ministries	282.7	278.1	209.7	158.0	235.0
Others	176.2	178.8	193.9	240.0	247.0

TABLE 34. (*continued*)

	1994	1995	1996	1997	1998
Participating in and support for private sector activities	16.7	14.6	12.4	53.0	29.0
Deficit	495.9	479.4	263.5	263.0	295.0

Source: *Middle East Economic Survey*, 26 January 1998.

Note: Exchange rate: RO 1=US$ 2.598.

4. *Saudi Arabia*

Saudi Arabia's 1998 budget projects increases of around 8.5 per cent and 8.3 per cent in revenues and expenditures respectively over the 1997 projected budget. These are lower than the actual figures recorded in 1997, by 12.7 per cent for the former and 6.7 per cent for the latter, resulting in a deficit of SRls 18 billion (US$ 4.8 billion), which is only around 6 per cent higher than the deficit budgeted in 1997 (SRls 17 billion) but 200 per cent higher than the actual turnout (table 35). The 1997 budget estimate was based on an average oil price of US$ 16 per barrel. The average oil price of around US$ 19 per barrel during 1997 earned Saudi Arabia additional revenues of SRls 40 billion (around US$ 11 billion). The actual figures for Saudi Arabia's budget for 1997 indicate that the budget deficit of SRls 6 billion (US$ 1.6 billion) was far lower than the budgeted figure (SRls 17 billion). This is because the rise of around 16 per cent (SRls 29 billion) in expenditures was outstripped by the higher than budgeted revenues.

The Saudi Arabian authorities appear to be concerned about the overexpenditure of SRls 29 billion in 1997, and about the ability to maintain the target expenditure of SRls 196 billion in 1998 against the unforeseen fall in oil prices. The 1998 budget statement, however, indicates that overexpenditures in the 1997 budget, as reflected in its actual figures, were the result of significant payments of arrears to contractors and farmers. It is estimated that a total of SRls 12.5 billion-SRls 15.5 billion (US$ 3.3 billion-US$ 4.1 billion) has yet to be cleared.

Saudi Arabia's fiscal policy, as reported in the country's Sixth Development Plan (1995-2000), is aimed at eliminating the budget deficit by the year 2000 through increases in non-oil revenues and containment of expenditures (box 12). The price increases, initiated for a number of public sector goods and utilities during the past few years, were intended to be part of Saudi Arabia's fiscal policy of establishing a domestic revenue base and providing stability in budget revenues, rather than an immediate contribution to budget revenues of a current fiscal year.

TABLE 35. SAUDI ARABIA: BUDGET, 1995-1998
(*Billions of Saudi Arabian riyals*)

	1995		1996		1997	1998
	A	B	A	B	A	B
Revenues	135.0	131.5	177.0	164.0	204.0	178.0.0
Expenditures	150.0	150.0	194.0	181.0	210.0	196.0.0
Deficit	15.0	18.5	17.0	17.0	6.0	18.0.0

Source: For 1995 and 1996 (budget), see *Survey of Economic and Social Developments in the ESCWA Region, 1996-1997* (United Nations publication, Sales No. E.97.II.L.5); for 1996 (actual) - 1998, see *Middle East Economic Survey*, 5 January 1998.

Notes: B: Budgeted; A: Actual; exchange rate: US$ 1=SRls 3.75; SRls 1=US$ 0.27.

TABLE 36. (*continued*)

	1994	1995	1996	1997	1998
	B	B	B	B	B
Defence and security	17.7	31.3	25.1	55.0	61.0
Other current expenditures	3.3	9.6	12.4	88.0	n.a.
Capital expenditures	15.1	15.9	63.1	81.0	56.6
Deficit	31.9	36.0	25.5	13.0	13.5

Source: For 1994-1997, see *Survey of Economic and Social Developments in the ESCWA Region, 1996-1997* (United Nations publication, Sales No. E.97.II.L.5); for 1998, see *Middle East Economic Survey,* 12 January 1998, and ESCWA calculations based on various international sources.

Notes: Exchange rate: 1994: US$ 1=YRls 101.0; 1995: US$ 1=YRls 127.6; 1996: US$ 1=YRls 126.9; 1997: US$ 1=YRls 133.0. The 1998 budget was issued based on the exchange rate of 1997.

C. BANKING

As the reform of the financial sector continued and the region's financial markets became increasingly more developed, the easing of the relatively tight banking conditions in the region continued in 1997, resulting in a strong banking performance. In the GCC countries, the growing confidence, backed by significantly improved financial results in the banking sector in 1997, produced a brighter outlook for 1998. In Egypt and Lebanon, the increase in international activities by a number of banks, namely in the form of well-received sovereign and bank issues, is expected to further improve the profile of both countries as well as their banking sectors.

ESCWA members have entered a new era of financial opportunities for banks. Governments in the region are supporting the efforts of the private sector, and banks are expected to play a significant role in financing economic activities. Financing big projects does not seem to be the only area in which major financial opportunities exist. The servicing of the smaller domestic corporate sector, which was relatively neglected until recently, has been receiving considerable support.

As the privatization process gathered momentum and companies increased their domestic financial capabilities, the trend towards development of investment banking facilities continued in most ESCWA members in 1997. In addition to investment banking services, a number of banks in the region began providing improved asset management services and competing with foreign banks in the region in 1997.

The banks in the region are considered to have been significantly involved in private sector activities in 1997. For example, lending to private sector businesses in trade, construction and personal finance is estimated to have constituted around 65 per cent of the banks' total lending in 1997, compared with around 52 per cent in 1996.

To help to increase bank assets in general and bank credit facilities (bank lending) in particular, the bank capital base is estimated to have increased by around 15 per cent, from approximately US$ 67 billion in 1996 to nearly US$ 77 billion in 1997. Nevertheless, compared with major international banks, the capital base of most banks in the region remained low. The ratio of bank capital base to deposits, however, was significantly higher in 1997 than in 1996: around 22 per cent compared with around 17 per cent. Bank reserves are considered to have increased by over 23 per cent, from US$ 32.4 billion in 1996 to around US$ 40 billion in 1997.