ECONOMIC AND SOCIAL COMMISSION FOR WESTERN ASIA (ESCWA)

PROGRESS ACHIEVED BY ESCWA MEMBER COUNTRIES TOWARDS IMPLEMENTATION OF THE MONTERREY CONSENSUS

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Executive summary

This study examines the progress achieved by ESCWA member countries towards implementing the Monterrey Consensus of the International Conference on Financing for Development in 2002, which was reaffirmed at the Follow-up International Conference on Financing for Development in 2008. The study contains a review of the progress realized by those countries between 2006 and 2012, amidst the ongoing repercussions of the global financial crisis, global inflation, the economic recession, and popular movements in the Arab region.

While 2010 was, for ESCWA member countries, a year of recovery from the effects of the global financial crisis, the impact of the global economic contraction of 2011 on those countries varied based on how connected to the global economy they were on the one hand, and on the importance of the oil sector in and the effect of fluctuating oil prices on their own economies on the other hand. 2011 was also a year of many changes in the political, social and economic situations of a number of ESCWA member countries. The global economic recession and Arab popular movements led to a downturn in economic growth rates in most member countries in 2011.

With regard to mobilizing domestic financial resources for development, the rise in global oil prices led to growth in domestic liquidity in the banking sector of oil-exporting countries, which in turn had a favourable impact on the rise in the rates of loans and credit facilities. The private sector was able to increase its share of these loans in many member countries, while the Governments in other member countries looked to the domestic market for loans to fund the shortfall, leading to a rise in the domestic debt balance and an attendant negative impact on the growth of domestic savings.

Financial markets in ESCWA member countries managed to recover losses incurred as a result of the global financial crisis. However, in 2011 a significant downturn occurred as a result of the popular movements and attendant instability sweeping the entire region. Markets in the region lost a total of about 10 per cent of their market value and a 24 per cent decline in the number of shares traded.

Tax revenues showed growth as a result of the economic growth that most member countries enjoyed, but taxation systems in those countries are still in need of major reforms to lessen the tax burden placed on the poor and facilitate taxation procedures.

With regard to mobilizing international resources for development, in 2009, for the third year running, the flow of foreign direct investments to member countries declined, dropping by 41 per cent between 2009 and 2010. This decline is attributed to the continuing fallout from the global financial crisis, the economic recession and the European debt crisis and lack of investor confidence. On the other hand, several member countries made progress towards improving the business climate, especially as regards the establishment of businesses and updating laws. Moreover, workers remittances remained level and continue to play an important role in labour-exporting countries like Egypt, Jordan, Lebanon, the Syrian Arab Republic, the Sudan and Yemen.

In terms of their support for trade, member countries took positive yet slow steps towards trade liberalization. Minimal progress was made in creating conditions for breaking into markets and reforming internal systems that aim to increase competition, in regard of which little was achieved. Similarly, member countries made no real progress towards achieving regional integration among Arab countries, with inter-Arab trade remaining rather modest in comparison to Arab trade with other countries.

With regard to official development assistance (ODA) given by Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates, it remains very susceptible to fluctuating global oil prices. After reaching its peak of nearly 6.4 billion dollars in 2008, ODA declined in 2009 and 2010, falling to 4.3 billion dollars in 2010. However, despite the decline, ODA still accounts for roughly 0.4 per cent of the gross national product of these countries overall, exceeding the proportion of ODA allocated by developed countries, which have

not yet reached the levels of assistance that those countries committed to provide to developing countries. Palestine received the largest share of ODA given to member countries in 2009, followed by Iraq and the Sudan in second and third place, respectively.

With regard to external debt, expansionary policies adopted by several member countries in 2010 and 2011 have led to an increase in the deficit that, in turn, pushed countries to borrow in order to finance the deficit, raising the balance of external public debt in Egypt, Jordan, Oman, the Sudan and Yemen from 2009 to 2010. The trend is expected to persist through 2011 and 2012, especially given the eruption of the popular movement and the decline in growth in several member countries. External debt remains a heavy burden for indebted countries to bear, particularly those least developed countries such as the Sudan and Yemen, stoking fears of a debt burden too great to bear.

While member countries did achieve progress in several areas related to financing for development, there is more effort to be made in order to implement the Monterrey Consensus, stressing the importance of implementing its recommendations as an integrated package. It is therefore incumbent upon member countries to adopt a series of reforms, chief among them the following:

1. Support the banking sector and provide incentives to small and medium enterprises.

2. Reform the taxation system and lessening of the tax burden on the poor.

3. Improve the investment climate and encourage investors to invest in the poorest areas and in sectors that rely heavily on manual labour.

4. Provide incentives to encourage migrants to invest in their countries of origin and contribute by increasing their remittances of funds to those countries.

5. Address trade barriers, which have a particular impact on intraregional trade, such as those barriers relating to crossings, transport and standards.

6. Strengthen efforts to liberalize trade between Arab countries by using the available tools to that end.

7. Rationalize spending and finalize economic reforms (in the case of countries burdened by debt).

Introduction

2011 was a year of recovery from the effects of the crisis that shook the global economy in the fourth quarter of 2008 and whose severity intensified in 2009. After the economic contraction of 2009, estimated at roughly 0.6 per cent, the global economy registered growth estimated at around 5 per cent in 2010 and around 4 per cent in 2011.[1] Despite the global economy's recovery from the effects of the global financial crisis, it continues to suffer from the effects of the food crisis as well as the fuel crisis and its attendant inflation.

Owing to the nature of their ties to the global economy, ESCWA member countries were able to recover from some of the repercussions of the global economic crisis and register growth rates ranging from 2 per cent in Kuwait to 16.6 per cent in Qatar in 2010, as compared with the economic contraction of 2009, the worst instance of which occurred in Oman, where the economy contracted 4.6 per cent. It should be noted that the growth that member countries enjoyed was not employment-based. Unemployment rates continued to rise in 2012, accompanied by high inflation rates that led to social instability that, in turn, culminated in the popular movements that swept a number of ESCWA member countries in 2011.

2011 was an exceptional year for ESCWA member countries. The Gulf Cooperation Council (GCC) achieved a 5.7 per cent growth rate as a result of the rise in the average global price of oil, from US$77.5 a barrel in 2010 to US$107.5 a barrel in 2011.[2] Oil production declined in some countries and came to a halt in others, such as Libya, while still others were convulsed by popular movements and the attendant political instability, all of which had a significant impact on economic growth. Egypt experienced an economic slowdown of 1.8 per cent, while the economic contraction that struck the Syrian Arab Republic, the Sudan and Yemen reached a peak of 2.5 per cent in the latter country. The economic slowdown also had an impact on neighbouring countries such as Jordan and Lebanon.

As for 2012, the economic outlook is nebulous. The global economic contraction and the sovereign debt crisis in some European Union countries are expected to result in a decline in oil demand and a subsequent price drop. However, the political changes that have taken place in a number of Arab countries and that loom large in others have augmented the risks typically associated with the oil sector and are expected to lead to a rise in oil prices.

The rise in the global price of commodities was accompanied by a rise in the rate of inflation in member countries and a drop in the exchange rate of local currencies against the main currencies like the dollar in Egypt, the Syrian Arab Republic, the Sudan and Tunisia.

These challenges and changes have placed added pressure on member countries to implement the commitments set out in the Monterrey Consensus on financing for development, which was reaffirmed at the Follow-up International Conference on Financing for Development in 2008. The Monterrey Consensus focuses on financing for development in six main articles, namely, mobilizing domestic financial resources for development; mobilizing international resources for development: foreign direct investment and other private flows; international trade as an engine for development; increasing international financial and technical cooperation for development; external debt; and addressing systemic issues: enhancing the coherence and consistency of the international monetary, financial and trading systems in support of development.

This study examines the progress achieved by ESCWA member countries towards implementing these articles from 2009 to 2011. For a number of reasons, this progress varied from country to country, chief among them the global economic recession and the inflation that has persisted since 2010, in addition to the popular movements that have been active in the region since 2011.

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[1] International Monetary Fund, World Economic and Financial Surveys, "World Economic Outlook: Growth Resuming, Dangers remain", April 2012, table A1.

[2] Economic and Social Council, "Summary of the Survey of Economic and Social Developments in the Economic and Social Commission for Western Asia Region, 2011-2012", 13 April 2012, E/2012/20, table 1.

I. PROGRESS MADE BY MEMBER COUNTRIES TOWARDS MOBILIZING DOMESTIC RESOURCES FOR DEVELOPMENT

Under the Monterrey Consensus, the process of mobilizing domestic resources for development is considered a cornerstone of support for development and achieving sustainable development. This process paves the way for mobilizing international resources and improving the State's capacities to bear its debt burden and contribute to achieving economic growth that will, in turn, strengthen trade. Therefore, progress made towards mobilizing these resources directly helps to combat poverty and achieve the Millennium Development Goals, rendering the national economy immune to global economic fluctuations and to any crisis that may upset it.

This item focuses on the importance of several elements, including good governance, proper management of public finances, bolstering transparency, accountability, rationalization of expenses, support for private sector participation in achieving development, improving the business climate, providing investors with funding at various levels, supporting small and medium enterprises, adopting taxation reforms and tax policies that take into account the needs of the poor, supporting financial markets and the activities of commercial banks.

In contrast to 2009, in 2010 some member countries managed to minimize losses during the global financial crisis by adopting financial policies and also as a result of the rise in global oil prices, which enabled those countries to increase their public revenue and achieve growth.

However, with the onset of the popular movements in Tunisia and Egypt in early 2011, many other Arab countries adopted policies aimed at increasing public spending in order to avoid any popular movements that might reach them as well. Those Governments opted for expansionary policies that increased public spending, especially on higher wages, social support and the launch of new expansionary projects that would stimulate the economy, create job opportunities and foster growth.

Member countries adopted numerous measures, both temporary and long-term in nature. Bahrain issued a decree that stipulated the provision of financial assistance to families, while Kuwait declared that food rations would be distributed for 14 months. In Oman, a fund to provide job seekers with support was established. Saudi Arabia built 500,000 housing units and increased the public sector minimum wage by 19 per cent, in addition to supporting credit institutions so as to enable them to grant loans to the broadest segment of the citizen population. In Yemen, a decree issued in January 2011 provided for a wage increase and expansion of social coverage, extending it to 500,000 additional families, as well as exempting students from fees. In Egypt, a decree was issued that provided for a 15 per cent increase in wages and allocation of a greater portion of the budget to importing wheat. In Jordan, the Kingdom adopted a decree that increased allocations for social protection and reductions in taxes on fuel and food, in addition to raising the wages of workers in the civil service and those of retirees. In the Syrian Arab Republic, measures to increase public sector employees' allocations, remittances for the poor and minimum wage, in addition to extending health coverage to civil service retirees.[3]

A. THE BANKING SECTOR

Development efforts no longer have as their aim growth alone; instead, their objective has become inclusive growth that is centred on policies that promote sustainable development, help create additional jobs and increase the income of all social strata and remedy unemployment, housing problems and inflation. The private sector must support development efforts by providing the needed funding, especially to small and medium enterprises, in addition to supporting education, training, and efforts to improve the domestic market and its capacity to compete.

[3] International Monetary Fund, World Economic and Financial Surveys, "Regional Economic Outlook, Middle East and Central Asia", April 2011, table 1-1, pp. 24-25.

Member countries have been able to reduce their losses from the global financial crisis in 2008, losses that caused a significant decline in domestic liquidity growth rates (table 1). In Bahrain, domestic liquidity dropped from 18 per cent in 2008 to 6 per cent in 2009, while Oman's domestic liquidity dropped from 23 per cent in 2008 to around 5 per cent in 2009. However, these rates recovered and rose in 2010, reaching 11 per cent as a result of the rise in global oil prices and growth rates.

In the United Arab Emirates, Kuwait and Saudi Arabia, the domestic liquidity growth rate in 2010 dropped for the third consecutive year, owing to the global financial crisis. This decline can be attributed to the drop in oil production caused by the global economic contraction, from 2.6 million barrels a day in the United Arab Emirates in 2008 to 2.4 million barrels a day in 2010, and from 2.7 million barrels of oil a day to 2.3 million barrels in Kuwait, while the rate dropped from 9.2 million barrels a day to 8.4 million barrels in Saudi Arabia.[4] Kuwait and Saudi Arabia adopted expansionary financial policies, while the United Arab Emirates have not recovered from the Dubai debt crisis.

TABLE 1. ANNUAL GROWTH RATES OF DOMESTIC LIQUIDITY, 2006-2010
(*Percentage*)

Country	2006	2007	2008	2009	2010
Bahrain	14.87	40.83	18.40	5.81	10.51
Egypt	15.13	19.12	10.49	9.47	12.42
Iraq	43.55	27.88	29.54	30.12	32.92
Jordan	14.12	10.61	17.28	9.34	11.46
Kuwait	21.66	19.09	15.77	13.42	2.97
Lebanon	7.84	12.42	14.78	19.62	12.10
Oman	24.86	37.18	23.10	4.73	11.34
Qatar	39.63	39.54	19.69	16.89	23.08
Saudi Arabia	19.31	19.55	17.65	10.74	5.00
Sudan	29.67	10.31	16.32	23.47	25.37
Syrian Arab Republic	9.16	12.35	12.46	9.34	12.26
United Arab Emirates	23.21	41.68	19.20	9.83	6.18
Yemen	27.68	16.80	13.69	10.56	9.20

Source: Arab Monetary Fund, "Unified Arab Economic Report", 2011, Statistical Annex 7/1.

The decline in liquidity growth leads to a rise in interest rates on loans, which, in turn, adversely affects lending. The rise in inflation rates in many member countries led to a rise in interest rates. Some countries, like Qatar (twice in 2011) worked to lower the interest rate in order to provide incentives on loans.[5]

Table 2 illustrates the rise in loans and credit facilities in all member countries between 2009 and 2010, in percentages ranging from a low of 1.6 per cent in the United Arab Emirates to a high of 20.5 per cent in Qatar, with the exception of Iraq, which witnessed a significant increase of 103 per cent. On the other hand, the private sector increased its share of loans and credit facilities in all ESCWA member countries between 2009 and 2010, with the exception of the United Arab Emirates, where the private sector share decreased by a mere 0.45 per cent. The private sector share increased in other member countries by rates ranging from 0.8 per cent in Egypt to 25 per cent in Lebanon, and 83 per cent in Iraq.

The banking sector in member countries is adversely affected by the concentration of loans among a limited number of clients, which leaves small and medium enterprises with insufficient and inadequate loan opportunities.[6] Central banks in Iraq, Saudi Arabia and Yemen have resorted to publishing guidelines to remedy the concentration of credit, but such initiatives have not brought about the hoped-for improvements.

[4] International Monetary Fund, World Economic and Financial Surveys, "Regional Economic Outlook, Middle East and Central Asia", October 2011, Statistical Appendix, table 4.

[5] Ibid., p. 24.

[6] Ibid., figure 1.15.

Despite the increase in the private sector's share of total loans and facilities in most member countries between 2009 and 2010, this share remains lower than the increase in the public sector share in most member countries. With the exception of Kuwait, Lebanon, Qatar and Saudi Arabia, where the increase in the public sector share outpaced the increase in the private sector share, the public sector share of loans and facilities increased more than that of the private sector in most countries. The change can be observed in the decline in the private sector share of total loans and facilities (table 2). This can be attributed to the Governments' turning to the domestic market to finance the funding shortfall.

TABLE 2. TOTAL LOANS AND CREDIT FACILITIES, 2006-2010
(*Millions of dollars and as percentage*)

Country	2006	2007	2008	2009	2010	Private sector share			
						2007	2008	2009	2010
Jordan	15 432	20 084	24 131	25 414	27 361	77.15	73.13	70.24	69.98
Emirates	129 112	176 282	258 585	259 534	263 740	79.12	79.51	75.95	74.40
Bahrain	12 720	17 019	25 239	24 718	29 262	67.57	65.41	66.29	59.49
Syria	12 034	15 367	21 397	24 428	28 642	41.24	39.60	44.34	47.10
Sudan	6 366	7 067	8 406	9 680	10 396	81.07	73.67	71.55	69.21
Iraq	2 011	5 719	6 133	7 438	15 132	34.36	53.72	53.39	48.02
Oman	11 697	15 948	22 076	25 086	29 776	93.99	98.10	93.27	91.53
Qatar	29 182	44 413	65 382	78 858	95 044	74.46	72.20	78.14	78.32
Kuwait	63 337	86 682	99 460	87 560	89 731	91.94	92.77	107.61	109.23
Lebanon	36 009	39 260	46 477	53 321	59 631	45.22	45.22	45.50	50.84
Egypt	63 356	71 270	89 752	142 470	144 809	58.48	50.92	49.02	48.63
Saudi Arabia	178 453	212 514	268 962	244 416	264 024	72.51	72.83	80.11	78.35
Yemen	2 346	3 253	3 422	4 534	4 855	54.33	61.90	42.99	42.23
Total	562 055	714 878	939 422	987 457	1 062 403	73.24	72.77	73.34	72.49

Source: Arab Monetary Fund, "Unified Arab Economic Report", 2010 and 2011, Statistical Annex 7/7.

States' reliance on cross-borrowing, particularly from commercial banks, has an impact on the availability of financing for institutions and individuals, in addition to increasing the external public debt of States. During the 2009-2010 biennium, indebted member countries recorded a rise in the domestic public debt balance in amounts ranging from 48.7 per cent in Bahrain to 0.7 per cent in Kuwait (table 3). In Bahrain, Egypt, Jordan, Iraq and Yemen, the increase in the public sector share was larger than that accrued by the private sector because those countries resorted to domestic lending. In Yemen, the Government borrowed directly from the Central Bank of Yemen. Primary data for 2011 indicate that the increase continues in most countries for which data are available, especially Bahrain and Egypt, where political instability and a decline in growth in 2011 led to a widening fiscal deficit that drove the Governments to turn to domestic markets to borrow in order to narrow the gap. The domestic public gap increased by 78 per cent in Bahrain, and 13 per cent in Egypt (table 3).

TABLE 3. GROSS DOMESTIC PUBLIC DEBT OUTSTANDING
(*Millions of dollars*)

Country	2007	2008	2009	2010	2011
Bahrain	2 900	..	3 175	4 720	8 409
Egypt	111 535	120 973	151 366	166 122	187 832
Iraq	3 869	3 414	7 209	7 847	..
Jordan	5 211	7 115	9 994	11 255	12 574
Kuwait	8 395	7 720	7 055	7 106	7 079
Lebanon	20 811	25 876	29 835	32 019	32 780
Syria	8 826	8 947	10 257	10 514	..
Yemen	1 779	2 009	4 636	5 916	..

Sources: Arab Monetary Fund, "Unified Arab Economic Report", 2010 and 2011, Statistical Annex 6/11, and Quarterly Bulletin on the Performance of Arab Capital Markets, first quarter, 2012.

Two dots (..) indicate that data are not available.

The Governments of some member countries issued interest bonds at attractive rates in order to finance spending through domestic borrowing. However, this measure imperils the national economy by attracting domestic savings and adversely affecting investment, which then hinders medium-term economic growth and long-term efforts to combat unemployment and poverty. Between 2007 and 2010, the domestic public debt balance rose in Egypt, Jordan, Lebanon, the Syrian Arab Republic and Yemen, which experienced a decline in total savings as a percentage of gross domestic product during the same period (table 4).

TABLE 4. TOTAL SAVINGS AS A PERCENTAGE OF GROSS DOMESTIC PRODUCT
(*Percentage*)

Country	2006	2007	2008	2009	2010
Bahrain	38.2	42.7	43.5	..	..
Egypt	23.0	23.6	23.6	16.8	17.8
Jordan	18.6	10.0	15.0	10.9	9.1
Kuwait	64.7	57.3	58.9	..	..
Lebanon	11.6	16.5	10.7	11.4	12.0
Oman	39.6	36.5	37.9	..	..
Saudi Arabia	47.8	45.7	50.0	33.2	..
Sudan	15.5	19.2	19.0	12.8	17.8
Syrian Arab Republic	18.5	28.9	31.9	28.1	16.8
Yemen	17.5	10.2	10.8	3.3	9.1

B. THE FINANCIAL MARKETS

In 2010, Arab financial markets were able to recoup some of their losses from the global financial crisis that struck in the fourth quarter of 2008. Equity markets in Bahrain, Oman, Qatar, Kuwait and Saudi Arabia achieved market value growth rates ranging from 11 per cent in the Saudi market to 40 per cent in the Qatari market. The Egyptian and Beirut stock exchanges retained their 2009 levels. The number of traded shares declined significantly in 2010. After the major losses to investors in 2009, some of whom were able to recover part of those losses, market movement slowed significantly in 2010, with investors forgoing conservative investments in favour of safer, if less profitable, ones. During the 2009-2010 biennium, the number of traded shares in member countries dropped by 43 per cent, with Gulf Cooperation Council country markets experiencing the largest decline, ranging from 27 per cent in the Bahrain market and 54 per cent in the Abu Dhabi market.[7]

A major decline in the turnover rate was recorded in 2010, as compared with 2008 and 2009. GCC markets marked a noticeable decline in that rate, to 60 per cent in the Saudi Stock Exchange for 2010 compared to 106 per cent in 2009, and to 42 per cent in the Kuwait Stock Exchange for 2010 compared to 111 per cent in 2009, while the Dubai Financial Market dropped to 28 per cent in 2010 from 81 per cent in 2009 (table 5).

In 2011 the number of traded shares continued to decline, especially after the outbreak of popular movements in a number of Arab countries and the ongoing fluctuation in financial markets. Member countries experienced a 24 per cent drop in the number of traded shares, which had a significant impact on financial market activity in Dubai, Egypt, Jordan and Kuwait.

[7] Arab Monetary Fund, Arab Capital Markets Database, http://www.amf.org.ae/yearlyperformance.

TABLE 5. SHARE TURNOVER RATES
(*Percentage*)

	2006	2007	2008	2009	2010
Abu Dhabi Securities Exchange	23.8	39.4	91.7	23.4	11.4
Amman Stock Exchange	72.7	42.3	80.0	42.8	30.1
Bahrain Bourse	6.6	4.0	10.5	2.9	1.6
Saudi Stock Exchange	429.2	131.4	212.3	105.7	60.2
Kuwait Stock Exchange	56.4	100.0	184.5	111.2	42.1
Dubai Financial Market	109.0	74.8	131.7	81.3	28.5
Khartoum Stock Exchange	22.2	962.6	13.6	33.3	37.2
Palestine Exchange	39.1	33.0	58.2	21.1	19.4
Muscat Securities Market	17.0	22.6	57.4	25.0	13.2
Qatar Exchange	33.8	31.3	62.9	28.8	17.4
Beirut Stock Exchange	24.4	9.1	17.8	8.1	14.7
Egyptian Exchange	52.6	47.3	100.6	90.0	65.7

Source: Arab Monetary Fund, Unified Arab Economic Report, Various editions, fourth quarter, table 6.

2011 was also an exceptional year for financial markets in member countries after the year of the global financial crisis and the losses to financial markets, which were hurt by the instability that began to sweep the region in December 2010. The overall market value of equity markets in member countries dropped by roughly 10 per cent in 2011 (table 6). The Egyptian Exchange experienced the worst losses owing to the major impact of the popular movement that began in January 2011 and peaked in February of that same year, leading to an extended halt in exchange activity, which took place on a mere 26 days in the first quarter. The market value of the Egyptian Exchange dropped by about 43 per cent in 2011; however, some of those losses were recovered in the first quarter of 2012, with a 23 per cent rise in market value, though the Exchange failed to reach pre-revolution levels.

With the exception of the Qatar Exchange, which made a modest gain of 4 per cent, market value in all financial markets declined. The Saudi Stock Exchange was at the low end, with a 4 per cent decline, and the Egyptian Exchange registered the highest loss, 43 per cent of market value. In 2011 the Saudi Stock Exchange retained its first place ranking among Arab financial markets in terms of market value, followed by the Qatar Exchange, which beat out the Kuwait Stock Exchange for the first time. The results of the first quarter of 2012 were relatively strong, with an increase in market value for several financial markets. The Qatar Exchange achieved the most growth, at 39 per cent, followed by the Egyptian Exchange with 23 per cent and the Saudi Stock Exchange with 21 per cent (table 6).

TABLE 6. MARKET VALUE, 2006-2012
(*Millions of dollars*)

	2006	2007	2008	2009	2010	2011	2012 1st quarter
Abu Dhabi Securities Exchange	80 741	121 128	61 888	72 968	71 269	64 435	76 121
Amman Stock Exchange	29 729	41 233	35 984	31 985	30 995	26 999	27 415
Bahrain Bourse	21 122	27 016	19 955	16 141	19 903	16 513	16 721
Saudi Stock Exchange	326 869	518 984	246 810	318 785	353 419	338 791	410 529
Kuwait Stock Exchange	105 950	135 362	113 527	104 226	124 920	100 928	82 051
Dubai Financial Market	86 895	138 179	65 218	58 830	54 722	49 549	52 894
Damascus Securities Exchange	..	..	..	..	..	1 530	1 440
Khartoum Stock Exchange	4 624	4 931	3 804	3 033	..	..	3 004
Palestine Exchange	2 731	2 484	2 105	3 200	3 461	2 782	2 831
Muscat Securities Market	13 033	23 082	15 643	18 362	21 712	19 698	27 306
Qatar Exchange	60 913	95 518	76 657	78 932	123 317	128 439	127 260
Beirut Stock Exchange	7 304	10 894	14 789	17 298	18 210	16 406	10 838
Egyptian Exchange	93 496	138 828	83 185	86 267	85 726	48 679	60 011
Total	834 411	1 257 633	739 564	820 027	907 653	814 750	898 421

Source: Arab Monetary Fund, Arab Financial Market Database, http://www.amf.org.ae/yearlyperformance, Quarterly report on Arab capital market performance, first quarter of 2012.

Two dots (..) indicate that data are not available.

Several member countries, among them Bahrain, Egypt, Jordan, Oman, Saudi Arabia and the United Arab Emirates, introduced additional measures into capital markets in order to strengthen oversight and good governance of companies. There are 1,326 companies listed in the capital markets of member countries. The Muscat Securities Market has the most listed companies, followed by the Egyptian Exchange and the Saudi Stock Exchange, in that order (table 7). The Damascus Securities Exchange joined the Arab Monetary Fund index in 2010. That market listed 21 companies in 2011, with a combined market value of 1.53 billion dollars.

TABLE 7. NUMBER OF LISTED COMPANIES, 2007-2012

	2007	2008	2009	2010	2011	2012 1st quarter
Abu Dhabi Securities Exchange	64	65	67	64	67	67
Amman Stock Exchange	245	262	272	277	247	247
Bahrain Bourse	51	51	49	49	49	49
Saudi Stock Exchange	111	126	135	146	150	152
Kuwait Stock Exchange	196	204	205	214	216	216
Dubai Financial Market	55	65	67	65	62	61
Damascus Securities Exchange	..	..	..	20	21	21
Khartoum Stock Exchange	52	52	53	53	56	56
Palestine Exchange	35	37	38	49	46	46
Muscat Securities Market	125	122	120	119	130	130
Qatar Exchange	125	122	120	119	130	130
Beirut Stock Exchange	15	13	11	11	25	25
Egyptian Exchange	435	373	306	212	214	214
Total	1 424	1 413	1 368	1 313	1 325	1 326

Source: Arab Monetary Fund, Arab Capital Markets Database, http://www.amf.org.ae/yearlyperformance, Quarterly report on Arab capital market performance, first quarter of 2012.

Two dots (..) indicate that data are not available.

C. THE TAXATION SYSTEM

Taxation reform focuses on increasing tax revenue, taking into account the marginalized and vulnerable populations of society, by expanding the tax base, improving tax collection, updating taxation systems and curbing tax evasion.

Many countries, such as Jordan and the United Arab Emirates, which had intended to introduce the value added tax postponed that decision to a more appropriate moment because of the effects of the economic recession or of popular movements. However, all member countries must make greater efforts to improve their tax revenue management systems and collection, in addition to expanding the tax base.

Reducing the tax burden and simplifying the tax system may reduce tax evasion, curb the expansion of the informal sector, improve tax collection and expand the tax base, consequently increasing tax revenue.

The economic improvement and growth achieved by member countries in 2010 brought about an increase in tax revenue, albeit to varying degrees. This increase can be attributed to economic growth on the one hand and improved tax collection and an expanded tax base on the other hand. Tax revenue remains an important source of public revenue for member countries with diversified economies, accounting for 64 per cent of public revenue in Jordan, roughly 37 per cent in the Syrian Arab Republic and 83 per cent in Lebanon. On the other hand, tax revenue accounts for less than 9 per cent of public revenue in Iraq and Kuwait (table 8).

TABLE 8. TAX REVENUE, 2006-2010
(*In millions of dollars and as percentage of public revenue*)

Country	2006	2007	2008	2009	2010	percentage 2009	percentage 2010
Egypt	17 038	20 260	25 206	29 383	30 256	57.8	63.6
Iraq	806	989	817	2 838	1 291	6.0	2.2
Jordan	3 697	4 225	3 890	4 062	4 676	35.0	37.1
Kuwait	986	1 245	1 292	1 031	1 130	1.7	1.7
Lebanon	3 305	3 710	4 781	5 967	6 617	74.5	83.0
Oman	929	1 375	1 805	1 981	1 759	11.3	8.6
Palestine	565	1 495	999	1 314	1 657	41.5	48.4
Sudan	..	..	3 676	3 706	4 501	38.4	39.4
Syrian Arab Republic	5 166	..	2 451	3 954	4 676	35.0	37.1
Yemen	1 350.4	1 585.3	1 859	2 019	2 073	26.2	26.2

Source: Arab Monetary Fund, "Unified Arab Economic Report", 2011, Statistical Annex 6/4, and World Bank, Financial Databank, http://databank.worldbank.org/ddp/home.do.

Two dots (..) indicate that data are not available.

Tax revenue in countries with diversified economies grew to varying degrees, ranging from a low of 3 per cent in Egypt and Yemen to a high of 26 per cent in Palestine. There are several reasons for this modest growth in some countries, such as Egypt; those reasons include continued tax exemptions on the sale of some commodities and reductions on real estate sales tax and on the customs fees that apply to some basic food commodities. Tax revenue overall has risen because of the increase in revenue generated by the customs fees on imports, which are also on the rise, and tax revenues generated by the production and consumption that result from economic growth. This result is countered by the decline in revenues from income tax and company profits.

Jordan implemented a unified tax law that provided for an increase in tax exemptions on individual income and a reduction of income tax for companies, in addition to an increase in profits to large-scale farmers and in taxes on tobacco and its derivatives, beverages and cellular phones. This policy led to an increase in tax revenue from sales that outpaced the 2010 decline in revenue from income tax and profit. Tax revenue increased by approximately 4 per cent between 2009 and 2010. Jordan put in place a plan to annul the list of tax exemptions and pursue an austerity policy; however, its implementation was postponed or canceled due to the political situation and popular movements.

In Lebanon, the indirect tax on petroleum products was reduced by roughly 55 per cent, while taxes on food products and income were reduced in the Syrian Arab Republic.

In GCC member countries, taxes primarily target income from the profits made by foreign companies working in the oil, financial and banking sectors as well as customs fees. Unifying and reducing the income tax on company profits to 12 per cent in Oman led to a decline in tax revenue in 2010. The Government of Qatar replaced tax brackets to assess taxes on the profits earned by foreign companies active in the country with a single unified tax of 10 per cent.

Some GCC countries delayed taking action to impose a value added tax on account of the financial crisis, the economic burden borne by citizens, and rising unemployment. In some of those countries, it is difficult to oversee changes in tax revenue as the revenue from taxes imposed on companies in the oil sector is itself part of oil revenue and constitutes the largest portion of tax revenue.

II. PROGRESS MADE BY MEMBER COUNTRIES TOWARDS MOBILIZING INTERNATIONAL RESOURCES FOR DEVELOPMENT

A. FOREIGN DIRECT INVESTMENT

Foreign direct investment activity is affected by the global financial and economic situations, as the majority of foreign investment flows comes from economically advanced countries. Foreign direct investment rates in ESCWA member countries increased between 2002 and 2008; however, they suffered a major setback as a result of the global financial crisis. After foreign direct investment rates in ESCWA member countries peaked in 2008, reaching 86.605 million dollars, or approximately 4.4 per cent of total global investment flows, they would drop shortly thereafter, by 18.4 per cent, to 71.512 million dollars. Between 2009 and 2010, the rate dropped further, by 41.2 per cent to 50.961 million dollars as compared to 2008, accounting for 3.6 per cent of global investment flows in 2010.

TABLE 9. FOREIGN DIRECT INVESTMENT FLOWS IN THE ESCWA REGION, 2006-2010
(*Millions of dollars*)

Country	2006	2007	2008	2009	2010
Bahrain	2 914	1 756	1 793	257	155
Egypt	10 042	11 578	9 494	6 711	6 385
Jordan	3 544	2 622	2 826	2 426	1 701
Kuwait	121	11	5	1 113	90
Lebanon	2 674	3 375	4 333	4 803	4 279
Oman	1 596	3 332	2 951	1 509	2 332
Qatar	3 500	4 700	3 778	8 124	5 534
Saudi Arabia	18 317	24 333	39 455	36 457	21 560
Sudan	3 534	2 425	2 600	1 816	2 063
Syrian Arab Republic	659	1 241	1 465	2 569	1 469
Tunisia	3 270	1 531	2 638	1 595	1 400
United Arab Emirates	12 805	14 186	13 723	4 003	3 948
Yemen	1 121	917	1 554	129	55
Total, ESCWA region	64 097	72 107	76 605	71 512	50 961
Global total	1 596 358	2 354 521	1 955 875	1 385 682	1 430 438

Source: World Bank, Financial Databank, http://databank.worldbank.org/ddp/home.do.

Compared to 2008, foreign direct investment declined by 71.2 per cent in the United Arab Emirates, 91.4 per cent in Bahrain, and 45.4 per cent in Saudi Arabia. Qatar was the exception to the rule, recording a 115 per cent increase in the amount of foreign direct investment from 2008 to 2009, with these investments amounting to 8.1 billion dollars, or 10.4 per cent of Qatar's domestic product. The investments were mainly in the manufacturing and the liquefied natural gas sectors. Economic growth in ESCWA member countries was affected by the significant decline in the amount of direct investment flows to the region.

World Bank statistics show that total foreign direct investment flows in the ESCWA region amounted to 345.282 million dollars between 2006 and 2010. Saudi Arabia received the lion's share of those investments, with 40.6 per cent of total investment flows directed to that country, amounting to 140.122 million dollars, followed by the United Arab Emirates with 14.1 per cent of total investments, amounting to 48.665 million dollars and Egypt with 12.8 per cent of total investments, amounting to 44.210 million dollars. Kuwait received 0.4 per cent of foreign direct investment flows to the region, the Syrian Arab Republic 2.1 per cent, Yemen 1.1 per cent and Bahrain 2.0 per cent.

Despite the global financial crisis that struck financial markets in the summer of 2008, Saudi Arabia managed to attract 36.45 billion dollars in investments in 2009. Nevertheless, its total investments for the year did not exceed the 7.6 per cent mark, which they had attained in 2008. Saudi Arabia came in eighth globally in terms of foreign direct investments, with non-Arab investments in the country accounting for 67

per cent of total foreign direct investment. The United States of America ranked first among sources of investment with a total of 5.8 billion dollars invested, followed by France with 2.6 billion dollars and Japan with 2 billion dollars. In the Arab region, Kuwait ranked first among investors with a total of 4.3 billion dollars, followed by the United Arab Emirates with 3.8 billion dollars.[8] These investments were distributed among the following sectors: 13.7 per cent went to the petrochemical industry, 12.9 per cent to the real estate sector, 11.8 per cent to the oil sector and 10.1 per cent was split between the banking and insurance services sectors.[9]

In 2009, foreign investment in Egypt came from the following sources: 50.25 per cent from the European Union, 19.34 per cent from the United States of America, 14.66 per cent from the Arab countries and 15.75 per cent from other countries.[10] Arab Gulf countries' investments in Egypt were affected by the global financial crisis, dropping by half in comparison to 2008 investment levels. Nevertheless, the United Arab Emirates remained the largest investor in Egypt out of the Arab countries, accounting for 25 per cent of Arab investment in the country, followed by Saudi Arabia with 16 per cent and Jordan with 12 per cent.[11]

In 2009, non-Arab investments in Jordan declined by 27 per cent, while Arab investments in the country increased by 29 per cent. British investments in Jordan dropped from 333 million dollars in 2009 to 180 million dollars in 2010. Conversely, the rate of Arab investment rose, with Bahrain increasing its investment in Jordan to 40 per cent, followed by Saudi Arabia with 33 per cent, the United Arab Emirates with 18 per cent and Kuwait with 10 per cent. Gulf investments went to the following sectors: 95.5 per cent to the manufacturing sector, 2.2 per cent to the tourism sector, 2.01 per cent to the transport sector and 0.16 per cent to the agriculture sector.

In 2009, foreign direct investment in the Syrian Arab Republic totaled 2.57 billion dollars, an increase of 85 per cent over the previous year. Most foreign investments in the country were from Arab countries like Jordan, Iraq and Saudi Arabia and went to major cities such as Damascus, with 29.3 per cent of investment in the transport sector and 21.4 per cent in the banking sector.[12]

Yemen suffered from a sharp decline in foreign direct investment, with a reduction of 91.7 per cent taking place between 2008 and 2009. Data collected by the Arab Investment and Export Credit Guarantee Corporation indicates that most foreign investment in Yemen is from Arab countries, mostly Iraq, Libya, Qatar and Saudi Arabia. The service sector accounts for 90 per cent of investments, while the manufacturing sector receives 5.9 per cent, the tourism sector 4.2 per cent and the agriculture sector 0.41 per cent.[13]

In 2010, foreign direct investment flows made up roughly 40.25 per cent of total fixed capital in Jordan, 5.57 per cent in the United Arab Emirates, 34.64 per cent in Lebanon, 15.7 per cent in Egypt and 23.57 per cent in Saudi Arabia.[14] With regard to the ratio of foreign direct investment balances to the gross domestic product, Lebanon is in first place at 95 per cent. The rise in that percentage can be attributed to remittances of funds that have come into Lebanon and possibly contributed to the rise in real estate demand, while also creating a "bubble" in the Lebanese real estate market. Jordan came in second place at 87 per cent, and Kuwait was in last place at 5 per cent.

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[8] Economic and Social Commission for Western Asia (ESCWA), "Foreign Direct Investment Report 2011", 22 August 2011, E/ESCWA/EDGD/2011/Technical Paper.3, p. 12.

[9] Annual Report of Foreign Direct Investment into Saudi Arabia 2010, p. 10.

[10] ESCWA, op.cit., p. 14.

[11] Ibid., p. 15.

[12] Ibid., p. 19.

[13] Ibid., p. 22.

[14] World Bank DataBank, http://databank.worldbank.org/.

TABLE 10. SELECTED VARIABLES REGARDING THE BUSINESS ENVIRONMENT IN ESCWA MEMBER COUNTRIES, 2010

	Ease of doing business index		Starting a business			Enforcing contracts		Protecting investors	
Country	Arab ranking	Global ranking	Number of procedures	Time (days)	Cost (as per cent of individual income)	Number of procedures	Time (days)	Global ranking	Investor protection index* (as per cent)
Bahrain	4	38	7	9	1	48	635	4	5
Egypt	11	110	6	7	6	41	1010	4	5
Emirates	2	33	7	13	6	49	537	10	4
Jordan	8	96	7	12	14	38	689	10	4
Kuwait	7	67	12	32	1	50	566	2	6
Lebanon	10	104	5	9	67	37	721	6	5
Oman	6	49	5	8	3	51	598	6	5
Qatar	3	36	8	12	8	43	570	6	5
Saudi Arabia	1	12	3	5	6	43	635	1	7
Sudan	14	135	10	36	31	53	810	13	3
Syria	13	134	7	13	17	55	872	9	5
Tunisia	5	42	10	11	4	39	565	3	6
Yemen	9	99	6	12	84	36	520	12	4

Sources: World Bank and International Financing Corporation, *Doing Business 2012*, available from http://www.doingbusiness.org.

* The investor protection index is a composite indicator that measures the strength of minority shareholder protections against directors' misuse of corporate assets. The index ranges from zero (indicating nearly nonexistent investor protection) to 10 (indicating more investor protection).

The World Bank report, *Doing Business 2012*[15] indicates that 61 per cent of economies in the Middle East and North Africa region worked to improve the business environment by updating relevant legislation. Saudi Arabia, the United Arab Emirates and Qatar were the three highest-ranked countries in the Arab region in terms of the ease of doing business index, while Tunisia, Kuwait and Saudi Arabia had the strongest investor protection as measured by that index. Under the starting a business index, Saudi Arabia reduced the number of procedures required from four to three, a measure that had a positive impact on cost, which went down from 7.7 per cent of individual income in 2010 to 5.9 per cent in the 2012 report. Jordan also worked to reduce the number of procedures and days required to start a business, which, in turn, reduced the cost from 49.5 per cent in 2010 to 13.9 per cent in 2012. Lebanon and Egypt stayed the same with regard to the number of procedures and days required; however, the cost dropped from 16.1 per cent to 5.6 per cent in Egypt and from 78.2 per cent to 67.1 per cent in Lebanon. Under the enforcing contracts index, Yemen came in first, followed by the United Arab Emirates and Tunisia in terms of how quickly the contracts were enforced. The Syrian Arab Republic and Egypt came in last, with enforcement of contracts taking 872 days in the former and 1,010 days in the latter, hindering the development of a favourable business environment in those countries.

The report[16] noted that Egypt, Saudi Arabia, the United Arab Emirates and Yemen had put in place regulatory reform committees. Jordan took steps to facilitate the conduct of business by lowering the required amount of capital from 1,000 dinars to a single dinar. In order to expedite the process for investors, Oman has introduced a system for registering corporations on the Internet, while Saudi Arabia has helped facilitate registration of corporations by integrating the Department of Zakat and Income Tax and the Public Institution for Social Security under a single entity.

[15] World Bank, *Doing Business 2012*, p. 4.

[16] Ibid., pp. 9 and 28.

The Syrian Arab Republic has taken such steps as lowering the required amount of capital and the cost of registering a corporation. Over the past decade, these factors combined played an active role in attracting capital, despite the sharp decline that occurred after the global financial crisis.

The 2010 report on the investment climate in Arab countries published by the Arab Investment and Export Credit Guarantee Corporation notes the efforts made in 2010 by Arab countries to develop their legislation. Jordan is preparing a draft law amendment to encourage investment, while the United Arab Emirates is working to enact 14 laws, a mix of new and amended ones, that address several areas including foreign investments, industries, intellectual property, competition and arbitration. Discussion is under way on the use/introduction of electronic signature for all commercial and official transactions. Kuwait is attempting to adopt anti-corruption laws as well as legislation to encourage competitiveness and rein in monopolies. In Egypt, Lebanon and Yemen, the relevant authorities are making an effort to enact legislation that is in line with the goal of creating a climate conducive to investment.

The report also notes that, as at the end of May 2011, member countries had concluded 534 bilateral agreements aimed at fostering investment. Egypt had concluded 100 of those agreements, followed by Kuwait with 58 and Tunisia with 54. As at the end of May 2011, member countries had concluded 368 agreements to prohibit double taxation. Egypt, Kuwait and Morocco were the top ranked countries in that regard, each having signed 49 agreements, followed by the United Arab Emirates with 48 and Tunisia with 47.

The report addresses the number of available investment opportunities in Arab countries,[17] the cost of those opportunities and their related sectors. These opportunities are found in every sector – agriculture, manufacturing, health, electrical and hydropower, technology, oil, textiles and fabrics, education, tourism and transport. There are a total of 2,194 such opportunities, worth a combined sum of 884.3 billion dollars. In Jordan, for instance, there are 250 investment opportunities worth 8 billion dollars, while Egypt offers 136 investment opportunities worth 66 billion dollars. Iraq's 360 investment opportunities are worth a total of 180 billion dollars, and Saudi Arabia's 500 investment opportunities carry a value of 200 billion dollars.

B. REMITTANCES FROM NATIONALS WORKING ABROAD

Precise statistical data on the number of Arab migrants and their current domicile, whether within the Arab world or outside it, are not available. However, statistics provided by the Organisation for Economic Co-operation and Development show that migrants from the Middle East and North Africa amount to 1.98 per cent of the residents of these regions.

The development of means of communication has contributed to increasing financial remittances to the country of origin and strengthening the transfer of knowledge, urbanization and skills. In light of the Arab region's need of financing for sustainable development, job creation and poverty reduction, Arab workers' remittances – as a chief source of external financing – have taken on a particular importance among decision makers.

Remittances from nationals working abroad play a crucial role in the economies of the Arab region. In 2010, workers' remittances to Arab countries (with the exception of the Gulf countries) amounted to 4.8 per cent of overall national income, 16.2 per cent of exports, 10.6 per cent of service revenues, 44 per cent of agriculture sector revenues, 46 per cent of overall manufacturing sector, 71 per cent of foreign direct investment and 710 per cent of ODA.

Workers' remittances in member countries marked a slight increase of 2.7 per cent between 2009 and 2010, from 23.2 billion dollars in 2009 to roughly 23.8 billion dollars in 2010. Egypt ranked first among member countries that are recipients of workers' remittances, with the value of those remittances attaining 7.7 billion dollars in 2010, or 32.4 per cent of total workers remittances to ESCWA member countries, an 8 per cent increase over the previous year's figure. The World Bank report on foreign remittances notes that Iraq, Kuwait, Lebanon and Saudi Arabia are at the top of the list in terms of incoming remittances.

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[17] Arab Investment and Export Credit Guarantee Corporation, "Investment Climate in Arab Countries" 2010.

TABLE 11. WORKERS' REMITTANCES TO A SELECTED GROUP OF MEMBER COUNTRIES, 2006-2010
(*In millions of dollars and as percentage of domestic product*)

Country		2006	2007	2008	2009	2010
Jordan	Value of workers' remittances	2 883	3 434	3 794	3 597	3 640
	As percentage of gross domestic product	18.43	19.33	16.72	14.34	13.2
Syria	Value of workers' remittances	795	1 150	1 400	1 549	1 645
	As percentage of gross domestic product	2.39	2.85	2.66	2.87	2.78
Sudan	Value of workers' remittances	1 179	1 769	3 100	2 135	1 973
	As percentage of gross domestic product	3.24	3.8	5.34	3.91	3.18
Lebanon	Value of workers' remittances	5 202	5 769	7 180	7 558	7 558
	As percentage of gross domestic product	23.18	23.02	23.87	21.64	19.38
Egypt	Value of workers' remittances	5 329	7 655	8 694	7 149	7 725
	As percentage of gross domestic product	4.96	5.87	5.34	3.87	3.53
Yemen	Value of workers' remittances	1 283	1 322	1 410	1 160	1 239
	As percentage of gross domestic product	6.72	6.1	5.24	4.62	3.96
Total	Value of workers' remittances	16 730	21 160	25 637	23 199	23 826

Source: World Bank, Financial Databank, http://databank.worldbank.org/ddp/home.do.

In Lebanon, foreign remittances leveled out at 7.55 billion dollars in 2009 and 2010, after increasing 5 per cent from the 2008 total of 7.1 billion dollars, an especially positive indicator given the continuing repercussions of the global economic crisis. Despite the drop in the value of remittances relative to the gross domestic product, from 21.64 per cent in 2009 to 19.38 per cent in 2010, the proportion remains the highest for an Arab country. According to a May 2011 report published by Byblos Bank,[18] in 2009 incoming remittances from Gulf countries accounted for 58 per cent of total remittances, followed by remittances from Africa and Latin America, at 9.3 per cent and Australia and the United States of America at 6 per cent.

In 2010, workers' remittances to Jordan totalled 3.6 billion dollars, an increase of 1.2 per cent over the 2009 figure. Jordan relies on these remittances, as they stimulate the economy and provide its citizens with liquidity. In fact, over 600,000 Jordanian citizens work in the Gulf, roughly 10 per cent of the country's population.

Workers' remittances to the Syrian Arab Republic remained on the rise, reaching the 1.65 billion dollar mark in 2010, a 6.2 per cent increase over the previous year's figure, accounting for 2.78 per cent of the gross domestic product. Bank Audi Syria's 2009 annual report pointed out that the number of Syrians working in the Gulf countries was estimated at 1.5 million,[19] active in Kuwait, Saudi Arabia and the United Arab Emirates.

2010 workers' remittances to Yemen amounted to 1.2 billion dollars, a 6.8 per cent increase over the previous year's figure. Workers' remittances to the Sudan dropped by 7.5 per cent between 2009 and 2010, amounting to 1.9 billion dollars in the latter year.

The above numbers do not reflect the actual amount of incoming remittances; an International Monetary Fund study shows that actual remittances account for two to two and a half times the numbers in circulation because they include the remittances that are sent through informal channels. The study also points out that Sudanese migrant workers' remittances through informal channels account for 85 per cent of total remittances to the Sudan.[20]

[18] Byblos Bank SAL, Economic Research and Analysis Department, "In Focus", issue 1, pp. 1-2 and 7-8.

[19] Bank Audi Syria S.A. 2009 Annual Report, p. 19.

[20] Samuel Munzele Maimbo, "Migrant Labor Remittances in Africa: Reducing Obstacles to Development Contributions", Africa Region Working Paper Series No. 64, November 2003, p. 7.

III. PROGRESS MADE BY MEMBER COUNTRIES TOWARDS LIBERALIZATION OF INTERNATIONAL TRADE AS AN ENGINE FOR DEVELOPMENT

A. KEY DEVELOPMENTS IN THE LIBERALIZATION OF TRADE POLICIES

1. *In the global framework through the World Trade Organization*

The Monterrey Consensus stressed the importance of trade in development and the strong links between trade, development and financing, as well as the importance of a trading system based on international rules to guarantee competition and prevent discrimination. In recent years, ESCWA member countries have continued to adopt trade policies based on openness. While these countries had not taken protectionist measures, nor had they gone back on any of the measures already taken to promote greater openness and achieve trade liberalization, some found themselves forced to do so by the global financial crisis.

With regard to participation in the multilateral trading system through the World Trade Organization, it should be noted that some ESCWA member countries were founding members of the Organization since its establishment in 1994 (United Arab Emirates, Bahrain, Qatar, Kuwait and Egypt), while others acceded to the Organization after 1995 (Jordan, Oman and Saudi Arabia) and still others are on the path to acceding (Syrian Arab Republic, Sudan, Iraq, Lebanon and Yemen). Those countries that have become members since 1995 have already fulfilled the remaining requirements that they had agreed with WTO members to meet during the accession process, and the others continue to make efforts, to varying degrees, to accede to the Organization. Among the five countries that are currently on the path to accession, Yemen continues to advance towards full WTO accession, having recently held its last round of negotiations with WTO members in April 2012. Yemen is expected to become a full member in the coming months, while Iraq is making modest progress towards accession, having held its last meeting in 2008 and submitted some required documents in 2010. Lebanon continues to advance slowly towards WTO accession, having held its last meeting in 2009 but not done much since then. The Syrian Arab Republic has not made any progress towards accession since beginning the procedures in 2010, while Sudan's accession process has remained at a standstill since 2004 in light of the Government's decision to freeze the process until further notice.

ESCWA member countries' participation in the multilateral trading system is exemplified by their presence within the WTO framework, either as members or as observer Governments moving towards accession, a clear indication of the extent of ESCWA member countries' commitment to trade liberalization and their belief in the importance of trade in achieving development.

From 2000 to 2012, a periodic review of trading systems was conducted in Jordan, the United Arab Emirates, Bahrain, Oman, Qatar and Saudi Arabia, in line with WTO requirements.[21] The WTO report notes that these countries have achieved progress towards fulfilling their obligations to the Organization, a positive indication of the extent of ESCWA member countries' fulfillment of their relevant obligations and of their approach to trade liberalization.

2. *Regional framework established by the Greater Arab Free Trade Area*

At the regional level and within the Greater Arab Free Trade Area (GAFTA), ESCWA member countries continue to participate in liberalizing intra-Arab trade in commodities. Every ESCWA member country, with the exception of the Sudan and Yemen, has moved to lower customs tariffs by 100 per cent since 2005, while those two countries have begun to work towards fulfilling their obligations to do so by 2012. ESCWA member countries are also participating in negotiations on the establishment of a customs union within the Greater Arab Free Trade Area; however, their participation in the GAFTA, and in subsequent liberalization measures, is not yet full, but instead is limited to reducing customs tariffs and falls

[21] The World Trade Organization agreement stipulates that it is necessary to conduct periodic reviews of the trading systems of member countries in order to reveal any defects, distorted procedures or aspects of the trading system that are not in line with the WTO agreement and the member country's obligations.

short of addressing obstacles unrelated to customs. Member countries have also failed to meet the implementation benchmark of eliminating 55 per cent of those obstacles.[22]

As for trade in services, ESCWA member countries are participating in negotiations aimed at liberalizing trade in services within the GAFTA. However, those negotiations are proceeding slowly and to date, little has been achieved towards liberalizing trade, and ESCWA member countries' participation in this area remains limited to their activities within the WTO framework. The degree of trade liberalization of services varies based on whether the countries in question acceded to the Organization during the Uruguay Round (as was the case for the United Arab Emirates, Bahrain, Qatar, Kuwait and Egypt), or whether they did after the establishment of the WTO in 1995 (as did Jordan, Oman and Saudi Arabia). Countries that acceded after 1995 took on greater obligations than those that acceded during the Organization's establishment, while those countries that have not yet acceded to the Organization are not yet bound by measures to liberalize services at the international or regional levels.

B. Development of exports in ESCWA member countries

Exports have taken on greater importance due to their crucial role in achieving the well-being of peoples, financing development and combating poverty. Exports in the ESCWA region constitute a fundamental financial resource that contributes to financing development plans.

Intraregional Arab trade remains limited, accounting for under 9 per cent of total Arab trade.[23] This is in spite of the general trend towards rapprochement among ESCWA member countries and Arab countries in terms of the elements considered fundamental to increasing trade between them, such as language, consumption patterns and culture, and also in spite of elements that allow intraregional trade to flourish, chief among them proximity, market size, population density and distribution, similar characteristics among populations, and the predominance of youth and persons able to work (groups that also constitute the social class with the highest consumption habits).

Between 2005 and 2011, exports in ESCWA member countries developed significantly, marking an increase of 146 per cent (table 12).

TABLE 12. EXPORTS FROM ESCWA MEMBER COUNTRIES TO OTHER COUNTRIES BETWEEN 2005 AND 2011
(*In millions of dollars*)

Country	2005	2006	2007	2008	2009	2010	2011	Growth between 2005-2011
Bahrain	15 905	19 977	24 230	29 015	23 082	29 636	33 677	112
Egypt	10 646	13 720	16 168	26 233	24 088	26 603	36 028	238
Emirates	97 450	119 436	136 279	195 056	121 668	175 697	24 2230	149
Iraq	17 623	27 460	35 201	56 740	36 220	46 640	67 820	285
Jordan	4 301	5 204	5 535	6 243	5 041	5 939	6 771	55
Kuwait	35 779	46 915	54 369	78 792	47 634	61 660	84 074	135
Lebanon	2 129	2 475	2 813	3 472	3 480	4 249	4 139	90
Oman	18 462	21 462	23 480	35 100	23 931	32 667	44 388	140
Qatar	25 332	33 622	41 488	55 709	46 248	67 356	103 036	300
Saudi Arabia	154 721	195 698	208 984	303 924	172 516	232 240	329 674	110
Sudan	4 824	5 657	8 867	12 045	7 037	8 852	12 695	163
Syria	9 789	11 385	11 647	14 927	10 158	14 036	15 520	59
Total	402 613	509 702	575 857	826 886	525 987	713 639	990 494	146
Yemen	5 611	6 672	6 797	9 530	4 864	8 064	10 441	86

Source: International Monetary Fund Database, http://elibrary-data.imf.org.

[22] ESCWA, "Annual Review of Developments in Globalization and Regional integration in the Arab Countries 2006", Fourth quarter, Greater Arab Free Trade Zone, E/ESCWA/GRID/2006/3, 18 December 2006.

[23] Arab Monetary Fund "Joint Arab Economic Report", 2011, p. 103.

Exports from GCC countries achieved an overall growth of 141 per cent between 2006 and 2011. Qatar's exports grew 300 per cent during that period, the most of any GCC country, the remainder of which grew comparably.

Exports from other ESCWA member countries grew by over 165 per cent between 2006 and 2011 (table 12). Egypt ranked first among ESCWA member countries with 238 per cent, followed by Iraq with 285 per cent and the Sudan with 163 per cent. Lebanon came in last in terms of growth in exports with 55 per cent, followed by the Syrian Arab Republic with 59 per cent and Yemen with 86 per cent. It is worth noting that the countries that achieved the most growth count oil as one of their main exports and that these countries' growth in exports came about as a result of the rise in oil prices. Global exports grew 70 per cent between 2005 and 2010 and 20 per cent between 2000 and 2010.[24]

C. PROSPECTS FOR DEVELOPING TRADE BETWEEN ESCWA MEMBER COUNTRIES

Many studies have concluded that trade is a fundamental engine for the development process and that it supports growth, and reality bears out these conclusions. Such countries as China and India came to be counted among the major powers when they became able, in recent decades, to develop their trade in commodities and services, as well as to invest in infrastructure and in manpower by doubling their national product through commodities and services, and consequently their exports. They came to occupy an important position in the global economy and became very influential in the economic balance of power.

Countries that achieved strong results in international trade could not have done so without turning to investment in their human capacities and strengthening their competitiveness and productivity at the global level.

The 2012 Arab World Competitiveness Report points out that most of these countries are characterized by modest performance in terms of those factors that fundamentally determine competitiveness in the long term, namely, education, health, higher education, training, and in particular, technological preparation and innovation as the two most important factors that strengthen productivity. Using a number of indicators (institutions, infrastructure, macroeconomic environment, health, primary education, higher education and training, adequacy of the commodities market, adequacy of the labour market, development of the financial market, technological readiness, and market size) defined by the report as the basic indicators that determine competitiveness, ESCWA member countries were ranked in terms of competitiveness as shown in table 13.

TABLE 13. COMPETITIVENESS INDEX IN SOME ESCWA MEMBER COUNTRIES

Country	Ranking, 2010-2011	Ranking, 2011-2012
Bahrain	37	37
Egypt	81	94
Jordan	65	71
Kuwait	35	34
Lebanon	92	89
Oman	34	32
Qatar	17	14
Saudi Arabia	21	17
Syrian Arab Republic	97	98
United Arab Emirates	25	27
Yemen	..	138

Source: Arab World Competitiveness Report 2012.

Tow dots (..) indicate that data are not available.

[24] Central Intelligence Agency (CIA), The World Factbook, 4.

Table 13 shows that ESCWA member countries achieved differentiated advances in the competitiveness index from 2010 to 2012. Kuwait, Lebanon, Oman, Qatar and Saudi Arabia all achieved modest progress in the transparency index during this period, while Bahrain achieved none. In terms of performance, Egypt, Jordan, the Syrian Arab Republic and the United Arab Emirates all regressed significantly. There was not enough information available on the performance of the remaining ESCWA member countries.

IV. INCREASE IN GLOBAL FINANCIAL AND TECHNICAL COOPERATION FOR DEVELOPMENT: OFFICIAL DEVELOPMENT ASSISTANCE

ESCWA member countries can be split into two groups, namely, the group of countries that provide ODA and the group of countries that receive it. The GCC countries comprise the former group, while the latter group is made up of member countries with diversified economies.

A. Official development assistance from ESCWA member countries

ESCWA member countries that provide official assistance are counted among the most philanthropic countries in the world, having provided a cumulative amount of ODA of 272 billion dollars between 1973 and 2008,[25] and 4.4 billion dollars in 2010. The amount of Arab assistance in past decades has been affected by fluctuating oil prices and by mounting post-conflict reconstruction needs.

In July 2008, the price of oil peaked at US$147 a barrel, and oil-exporting countries were given additional ODA flows. However, in 2009, global oil prices dropped, which led to a drop in the revenue of chief donor countries and, consequently, to a clear drop in foreign assistance.

Spending on post-conflict reconstruction led to changes in the level of assistance granted by donor member countries, as was the case in Lebanon after the July 2006 war, in Yemen after the 2006 Consultative Group Meeting, and in the Gaza Strip after the 2009 military incursion.

Table 14. Official development assistance from ESCWA member countries, 2000-2010
(*In millions of dollars*)

Country	2000-2004	2005	2006	2007	2008	2009	2010
Kuwait	1 501	466	314	434	336	300	270
Oman	118	36	17	3	25	22	32
Qatar	408	138	515	462	225	187	309
Saudi Arabia	12 339	1 101	2 186	2 181	5 663	4 004	3 702
United Arab Emirates	804	137	231	464	114	46	47
Total	15 170	1878	3 262	3 508	6 363	4 550	4 360

Source: Arab Monetary Fund "Unified Arab Economic Report", 2011, Statistical annex 11/1.

In 2010, development assistance provided by GCC countries amounted to roughly 0.4 per cent of gross national product. This assistance compares favourably with the percentage of development assistance provided by member countries of the Development Assistance Committee of the Organisation for Economic Co-operation and Development, which amounted to 0.23 per cent in 2010. Saudi Arabia was ranked first among donor member countries, having contributed 85 per cent of total ODA from the region, 0.8 per cent of gross national product in 2010. Kuwaiti assistance amounted to 6.2 per cent of overall ODA during the same period and 0.2 per cent of gross national product.

Table 15. Ratio of official development assistance to national income in some donor ESCWA member countries

Country	2002	2003	2004	2005	2006	2007	2008	2009	2010
GCC countries	0.9	0.8	0.5	0.3	0.4	0.4	0.6	0.5	0.4
United Arab Emirates	0.1	0.2	0.1	0.1	0.1	0.2	0	0	0
Kuwait	1.4	0	0.6	0.5	0.3	0.3	0.2	0.3	0.2
Saudi Arabia	1.4	1.3	0.8	0.3	0.6	0.6	1.2	1.1	0.8

Source: Arab Monetary Fund, "Unified Arab Economic Report", 2011, Statistical annex 11/2.

[25] The World Bank, Middle East and North Africa Region, Concessional Finance and Global Partnerships Vice Presidency, "Arab Development Assistance – Four Decades of Cooperation", June 2010, p. 5.

The bulk of ODA is delivered in the form of endowments or loans directly to Governments or through international donor institutions or multilateral institutions, Arab financial development institutions, the Red Crescent and humanitarian non-governmental organizations. In 2000, assistance was delivered in the form of grants and later soft loans in order to meet the mounting needs of Governments to develop their infrastructure.

Countries that receive ODA can be found all around the world. In 2010, Arab countries received 53.6 per cent of overall assistance, as against 55.5 per cent in 2009. Asian countries received 31.2 per cent of overall aid in 2010, as against 22.6 per cent in 2009, while African countries received 13.2 per cent of overall aid in 2010, as against 17 per cent in 2009. Latin American countries received 0.9 per cent of aid in 2010, as against 3.5 per cent in 2009.[26] The Arab share of ODA has diminished over time as a result of the efforts made by Arab donor institutions to provide assistance within a wider geographic region and to new recipient countries.

Most ODA is used chiefly to finance infrastructure projects, in particular in the transport and communications sectors (31.3 per cent of overall ODA in 2010), the energy sector (28.4 per cent), the service sector (22.3 per cent), the water and sanitation sectors (11 per cent), and the agriculture sector (4.7 per cent).[27] Donor countries are expected to focus on the agriculture sector because of the food security issue, a priority in the Arab region.

Despite the sizable proportion of ODA allocated to support development projects, this assistance fluctuates and remains undefined, which limits its effectiveness. This can be attributed to geopolitical factors that have an impact on the decision-making process in donor countries, as well as to the link between the capacity of these countries to provide assistance with fluctuating oil and gas prices, and finally to their occasional conflict with domestic subsidy strategies.

B. Official development assistance received by ESCWA member countries

In 2005, ODA received by ESCWA member countries reached its peak (27.3 billion dollars), with most of it going to Iraq in the form of grants. Since then, the amount of assistance has dropped gradually to 11.4 billion dollars in 2009.

Most bilateral assistance to ESCWA member countries comes from GCC countries and from the member countries of the Organisation for Economic Co-operation and Development, such as Germany, European Union, France, the United Kingdom, the United States and Japan. Arab countries that have attracted development assistance have received 14.5 per cent of overall ODA between 1990 and 2009, as compared to 11.2 per cent in 2009.[28] During that same period, Iraq garnered the lion’s share of this assistance, 29.5 per cent of overall assistance, followed by Egypt with 19.2 per cent, Palestine with 8.9 per cent and the Sudan with 8.1 per cent. In 2009, the largest share of ODA was allocated to Palestine, 21.2 per cent, followed by Iraq with 19.6 per cent, the Sudan with 16.1 per cent, Egypt with 6.5 per cent and Jordan with 5.3 per cent.

Palestine has become the chief recipient of ODA, receiving 3 billion dollars in 2009, as compared to 2.6 billion dollars in 2008 and 1.5 billion dollars in 2006. The United States of America is Palestine’s chief donor country, with a contribution of 844 million dollars in 2009, followed by the European Union with 538 million dollars. The International Conference in Support of the Palestinian Economy for the Reconstruction of Gaza, (Sharm el-Sheikh, March 2009) which brought together representatives from 80 countries, international and regional financing institutions, the United Nations, the League of Arab States, garnered 3.5

[26] Arab Monetary Fund, “Joint Arab Economic Report”, 2010 and 2011, Statistical annex 11/3.

[27] Arab Monetary Fund, “Joint Arab Economic Report”, 2011, Statistical annex 11/4.

[28] Arab Monetary Fund, Joint Arab Economic Report, 2010 and 2011, Chapter 11: Arab development assistance, p. 222.

billion United States dollars in pledges from States and donor institutions; of that amount 1.8 billion dollars were pledged by Arab countries.[29]

TABLE 16. OFFICIAL DEVELOPMENT ASSISTANCE RECEIVED BY ESCWA MEMBER COUNTRIES
(*Millions of dollars*)

Country	2002	2003	2004	2005	2006	2007	2008	2009
Jordan	537	1 254	601	667	570	529	726	761
Syria	76	121	105	77	26	83	138	245
Sudan	343	613	992	1 823	2 044	2 112	2 384	2 289
Iraq	106	2 250	4647	22 046	8 870	9 185	9 880	2 792
Oman	41	38	55	5-	35	31-	32	212
Palestine	1 616	972	1 115	1116	1 450	1 873	2 560	3 026
Lebanon	254	226	264	242	706	956	1 085	641
Egypt	1 242	982	1506	994	873	1 107	1 344	925
Yemen	583	234	251	290	280	236	306	500
Total	4 798	6 690	9 536	27 250	14 864	16 050	18 455	11 391

Source: Arab Monetary Fund, "Unified Arab Economic Report", 2011, Statistical annex 11/7.

Since 2005, following the signature of the Comprehensive Peace Agreement that brought the civil war in Southern Sudan to an end, ODA to the Sudan rose from 1.8 billion dollars in 2005 to 2.3 billion dollars in 2009. The Sudan is ranked ninth on the 2009 list of ODA recipients. The bulk of ODA was given in the form of humanitarian assistance. In 2009, the Sudan received the largest share of assistance from the United States of America, which contributed 955 million dollars, followed by the United Kingdom, which gave 292 million dollars, and the European Union, which gave 226 million dollars.[30]

Arab countries are not among Sudan's main donors, their combined contribution amounting to 2.3 per cent of overall assistance received by the Sudan between 2000 and 2009.[31]

The Arab Fund for Economic and Social Development, the Kuwait Fund for Arab Economic Development, the Islamic Development Bank, the United Nations Development Programme and representatives from 43 States and 30 national, regional and international organizations participated in the International Donors and Investors Conference for East Sudan. The conference garnered 3.547 billion dollars in pledges from the Arab Fund for Economic and Social Development (210 million dollars), the Arab Investment and Export Credit Guarantee Corporation (300 million dollars), Britain (70 million dollars), China (35 million dollars), Italy (30 million dollars), and the European Commission (24 million dollars). Kuwait allocated half a billion dollars for the development of East Sudan.[32]

Historically, Yemen has not been among the chief recipients of ODA. From 2002 to 2009, Yemen received 2.7 billion dollars in ODA. In 2009, assistance to Yemen amounted to 500 million dollars, and it is expected to increase as a result of donor entities' concern about the humanitarian situation. That year, the United Arab Emirates was the largest donor to Yemen, providing assistance in the amount of 134 million dollars, followed by Germany with 85 million dollars.[33]

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[29] Arab Monetary Fund, Joint Arab Economic Report, 2010, Chapter 11, Arab development assistance, p. 236.

[30] www.aidflows.org is the product of a collaborative effort between the Organisation for Economic Co-operation and Development, the World Bank, the Asian Development Bank and the Development Assistance Committee of OECD. www.oecd.org.

[31] Development Initiatives, Sudan Aid Factsheet 1995-2009, p. 4.

[32] Arab Monetary Fund, Joint Arab Economic Report, 2011, Chapter 11: Arab development assistance, p. 224

[33] Development Initiatives, Yemen Aid Factsheet 1995-2009, p. 2.

In 2010, two donor conferences were held for Yemen (London, 28 January 2010; Riyadh, 27 February 2010). The Riyadh Conference concluded its work with a declaration by Saudi Arabia announcing its pledge of a billion dollars, the same amount it had previously pledged to deliver to Yemen at the London Conference in 2006. The Gulf Cooperation Council endorsed the allocation of roughly 3.2 billion dollars in support of Yemen.[34]

It is worth noting that countries that rely significantly on direct external official assistance or on the implementation of donor country programmes outperform other countries in terms of making optimal use of the assistance received. Despite the positive impact of ODA on national development programmes, its sustainability remains a matter of concern in recipient countries.

[34] Arab Monetary Fund, Joint Arab Economic Report, 2011, Chapter 11: Arab development assistance.

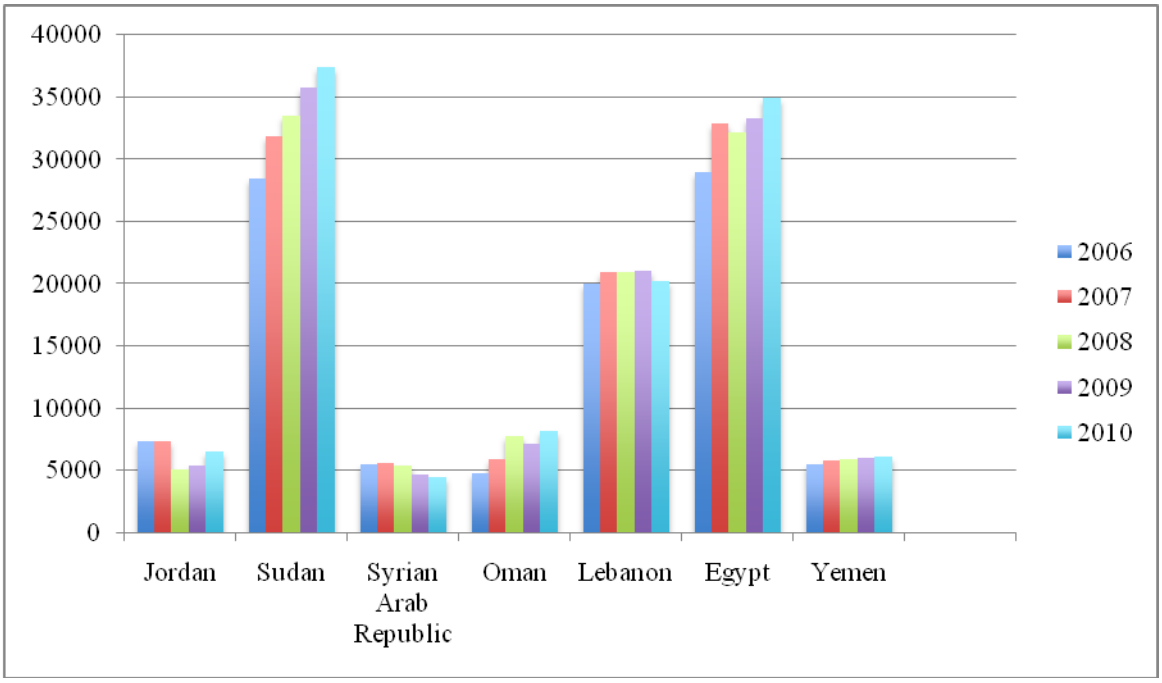
V. EXTERNAL DEBT AND DEBT MANAGEMENT

A. THE CURRENT STATE OF EXTERNAL PUBLIC DEBT

Much importance is attached to external debt management in the arena of financing for development since developing countries are confronted with difficulties in managing their debts, which have been on the rise, especially in recent years as a result of the global financial crisis and the economic recession.

From 2009 to 2010, total external public debt has risen in Jordan, the Sudan, Oman, Egypt and Yemen to varying degrees, ranging from 1.7 per cent at the low end in the case of Yemen to 19 per cent at the high end in Jordan. The rise in debt burden can be attributed to global inflation, the rise in food and fuel prices, the dollar's loss against main currencies, and States' resort to external loans to finance their shortfalls and the global financial crisis and its repercussions (figure I). The Governments of many ESCWA member countries have adopted expansionary financial policies during the outbreak of the global financial crisis. As a result, there has been an increase in government spending to stimulate domestic demand and combat the economic recession. However, these policies led to an increase in the deficit in public balances, with rising public indebtedness in 2010, which is expected to continue in 2011 and 2012. Thus, the reasons for the rising debt in ESCWA member countries can be traced to several different factors, including the allocation of a large portion of debt to raise wages instead of financing investment projects that will stimulate growth, as well as the issuing of treasury bonds, which eats up domestic savings and hinders the investment process.

Figure I. Total external public debt, 2006-2010
(*Millions of dollars*)



Source: Arab Monetary Fund, "Unified Arab Economic Report", 2011, Statistical annex 9/6.

Despite the increase in external debt from 2009 to 2010 in many ESCWA member countries, the amount of debt remained apace with its decline as a percentage of gross domestic product in Egypt, Oman, the Sudan and Yemen (table 17). This decline indicates that the percentage of the gross domestic product growth outpaced the percentage of increase in indebtedness; however, in Jordan it increased from 22.9 per cent in 2009 to 24.6 per cent in 2010.

TABLE 17. EXTERNAL DEBT, 2006-2010
(*In millions of dollars and as a percentage of gross domestic product*)

Country	2006	2007	2008	2009	2010	2011	As percentage of gross domestic product				
							2006	2007	2008	2009	2010
Egypt	28 958	32 840	32 123	33 287	34 993	..	27.0	25.2	19.8	17.7	16.0
Jordan	7 315	7 409	5 134	5 457	6 503	6 329	48.6	43.3	23.3	22.9	24.6
Lebanon	20 047	20 951	20 900	21 012	20 274	20 950	89.3	83.6	69.5	60.2	51.7
Oman	4 819	5 962	7 779	7 169	8 211	..	13.1	14.2	12.8	15.3	13.0
Sudan	28 457	31 873	33 542	35 785	37 450	38 600	62.6	60.3	56.3	61.4	51.6
Syria	5 481	5 637	5 372	4 677	4 469	..	16.4	14.0	10.2	8.7	7.6
Yemen	5 471	5 820	5 895	6 035	6 139	..	24.0	22.7	19.4	21.5	21.0

Source: Arab Monetary Fund, "Unified Arab Economic Report", 2011, Statistical annexes 9/6 and 9/8, and quarterly publication on the performance of Arab capital markets, first quarter 2012.

Sudan and Yemen, the two least developed ESCWA member countries, are expected to endure a shortfall of financial resources and an increase in debt in 2011 and 2012 as a result of the decline in oil revenues, the popular movement in Yemen and the secession of South Sudan. Growth is expected to be negative in 2011, estimated at approximately 0.2 per cent in the Sudan and 2.5 per cent in Yemen, and inflation rates are projected to reach 20 per cent in the Sudan and 19 per cent in Yemen, according to International Monetary Fund projections.[35]

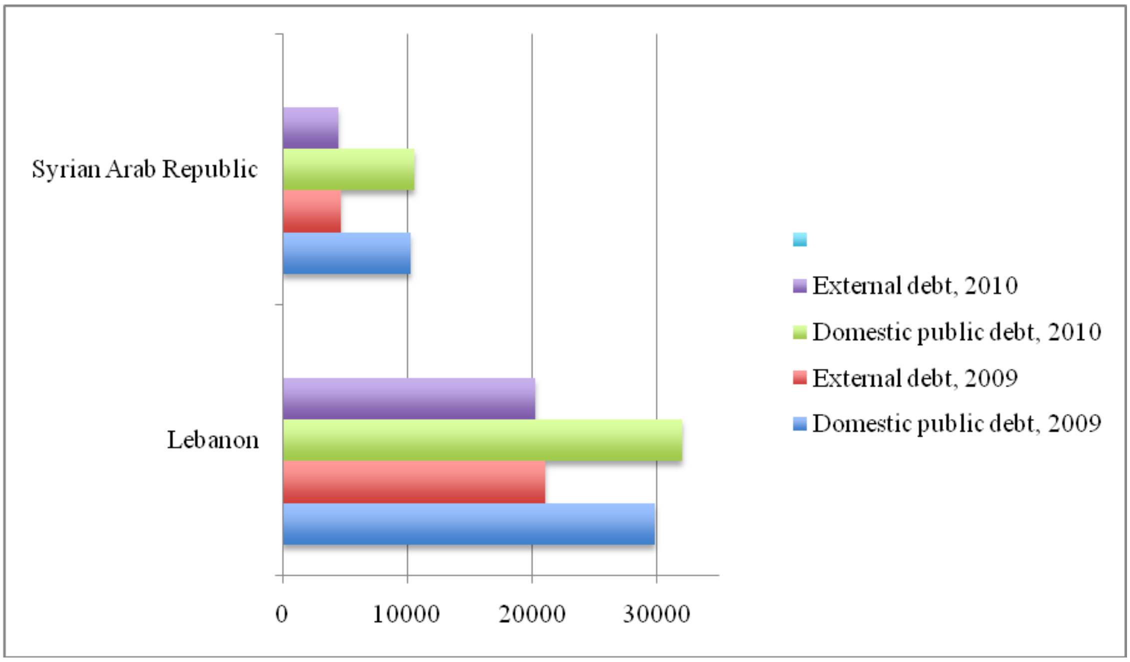
The secession of South Sudan in July 2011 had a major impact on the Sudanese economy. Losing South Sudan, which contains roughly 75 per cent of oil reserves in the country, adversely affected Sudan's gross domestic product and its growth. The Secession agreement provided that the Sudan would bear the brunt of the debt burden of both countries, making the Sudan one of the most indebted of least developed countries in the world. The country's debt burden significantly exceeds what it is able to bear, limiting its financial capacities.

Providing assistance to the Sudan and Yemen is imperative, as is lessening the debt burden or cancelling it altogether, through the Heavily Indebted Poor Countries Initiative, the Multilateral Debt Relief Initiative and the programme of the Paris Club of Industrial Country Creditors. In order to benefit from these initiatives, both countries must improve their internal management of their debts and their economy.

As for the Syrian Arab Republic and Lebanon, their total external public debt declined in 2011, as compared to 2009, while the domestic public debt increased by a larger proportion (figure II). In the Syrian Arab Republic, external debt declined by roughly 208 million dollars, and domestic debt rose by roughly 257 million dollars. In Lebanon, external debt dropped by 738 million dollars, while domestic debt rose by 2.2 billion dollars. External public debt in Lebanon, as percentage of gross domestic product, must be examined cautiously. While these figures dropped noticeably from 84 per cent in 2007 to 52 per cent in 2010, the external public debt balance remained at its estimated level of 21 billion dollars. However, domestic debt went up by about 11 billion dollars, or 54 per cent, between 2007 and 2010. In the absence of serious attempts to curb rising debt in general, external debt burden became domestic debt burden.

[35] International Monetary Fund, World Economic and Financial Surveys, "Regional Economic Outlook, Middle East and Central Asia", October 2011, p. 31.

Figure II. Changes in domestic and external debt during 2009 and 2010
(*Millions of dollars*)



Source: Arab Monetary Fund, "Unified Arab Economic Report", 2011, Statistical annexes 6/11 and 9/6.

B. EXTERNAL PUBLIC DEBT BURDEN ON THE ECONOMIES OF INDEBTED COUNTRIES

2011 witnessed a rise in government spending in Bahrain, Jordan, Kuwait, Lebanon, Oman, Saudi Arabia and the United Arab Emirates, namely in increased salaries in some of these countries, and investment in infrastructure projects in others, while still others provided support for their health and education sectors. The GCC countries are able to withstand these increases, and public debt is expected to rise in 2011 and 2012 in the remaining countries. Primary data from 2011 indicate modest changes in the external public debt balance in Jordan and Lebanon.

These expansionary policies helped contain the impact of the global financial crisis and speed along the economic recovery process. However, these policies are not sustainable in the future because of the rising public debt incurred by financing additional government spending by borrowing. With the rise in interest, debt service becomes a burden that cannot be borne for a prolonged period of time, as several member countries have allocated a large portion of their regular budgets to covering the cost of public debt service. In Lebanon, debt servicing still accounts for 23 per cent of exports in commodities and services. Debt service payable has doubled in the Sudan, from 265 million dollars in 2009 to 521 million dollars in 2010 (table 18).

TABLE 18. EXTERNAL PUBLIC DEBT SERVICE, 2006-2010
(*In millions of dollars and as percentage of exports*)

						As percentage of exports				
Country	2006	2007	2008	2009	2010	2006	2007	2008	2009	2010
Egypt	3 486	2 422	3 099	2 659	2 746	10.8	6.2	6.5	4.6	6.0
Jordan	836	872	2 756	551	634	10.3	9.4	22.4	5.0	5.2
Lebanon	4 162	4 069	4 240	4 443	4 188	23.1	28.1	23.8	23.5	22.6
Oman	310	626	541	480	469	1.0	2.6	1.5	1.9	1.3
Sudan	237	294	374	265	521	4.2	3.3	3.2	2.7	5.0
Syria	802	661	670	620	638	6.1	4.2	3.4	4.0	3.7
Yemen	227	266	278	253	255	2.9	3.4	2.7	4.1	2.8

Source: Arab Monetary Fund, "Unified Arab Economic Report", 2011, Statistical annexes 9/7 and 9/9.

The rise in the external public debt balances of member countries is expected to continue in 2011 and 2012. The popular movement that has been active since 2011 in some member countries, in addition to the increase in public spending adopted by many Arab countries, are all factors that help compound the growth of the debt in the medium term. Member countries are called to keep these debts from growing beyond what they can bear. Credit rating agencies play an important role in rating sovereign debts. The decline in a State's rating adversely affects its ability to borrow on global markets. In 2011, Bahrain and Egypt had their credit ratings drop as a result of the instability those countries faced that year.[36]

[36] The Guardian, Simon Rogers, Ami Sedghi & John Burn-Murdoch, "Credit ratings: how Fitch, Moody's and S&P rate each country", 8 June 2012, available from http://www.guardian.co.uk/news/datablog/2010/apr/30/credit-ratings-country-fitch-moodys-standard.

VI. SUMMARY AND RECOMMENDATIONS

A. SUMMARY

This study explored in detail the progress that ESCWA member countries have achieved towards the implementation of the Monterrey Consensus between 2006 and 2011, focusing on the mobilization of domestic and international resources for development, as well as international trade and cooperation and debt management, taking into account the challenges arising from the global economic situation and popular movements in the Arab region.

In 2010, ESCWA member countries were able to recover from some of the repercussions of the global financial crisis that broke out in the fourth quarter of 2008, achieving economic growth. However, the global economic recession and the popular movements in some Arab countries in 2011 had a direct impact on member countries' capacity to come up with resources to finance development, though the impact itself varied from country to country.

In terms of mobilizing domestic financial resources for development, domestic liquidity grew in the oil-exporting member countries, which in turn led to growth in loans and credit facilities. On the other hand, the domestic debt balance in other member countries rose, as a result of Governments' resort to borrowing from the domestic market to close the shortfall and finance expansionary policies they adopted, adversely affecting the growth of domestic savings. The popular movements active in the region since early 2011 led to a 10 per cent decline in market value and a 24 per cent drop in the number of shares traded. Tax revenue grew in 2010 as a result of economic growth, but the taxation system remains in need of major reforms.

With regard to mobilizing international resources for development, in spite of the progress achieved by many member countries towards improving the business environment in 2010 and 2011, foreign direct investment flows have dropped considerably for the third consecutive year, by 41 per cent in 2010 as compared to 2009. Conversely, workers' remittances are still considered the most stable external resource, as they have remained at the same level since 2010, continuing to play an important role in labour-exporting countries like Egypt, Jordan, Lebanon, the Sudan, the Syrian Arab Republic and Yemen.

With regard to providing support for international trade, the progress achieved in trade liberalization has not yet reached the desired level. Modest progress has been made in terms of breaking into markets and reforming internal systems to increase competition, while not much has been accomplished in the area of regional integration among Arab countries, with intra-Arab regional trade accounting for a mere 9 per cent of international Arab trade.

In terms of ODA provided by member countries, the United Arab Emirates, Oman, Qatar, Kuwait and Saudi Arabia gave a combined total of 4.3 billion dollars in 2010, after peaking at 6.4 billion dollars in 2008, directly affected by fluctuating global oil prices. Developed countries have not yet fulfilled their commitment to provide 0.5 per cent of their domestic product in ODA by 2010 and 0.7 per cent by 2015. Palestine remained the chief recipient of ODA in 2009, followed by Iraq.

Expansionary policies adopted by several member countries in 2010 and 2011 pushed Governments to borrow to close their shortfall, resulting in an increase in external public debt balance in Jordan, Sudan, Oman, Egypt and Yemen between 2009 and 2010. External debt service remains a major burden on indebted member countries and least developed countries like the Sudan and Yemen, especially with rising fears of debt exceeding manageable levels.

B. RECOMMENDATIONS

The current state of member countries in terms of progress achieved towards implementing the Monterrey Consensus on Financing for Development calls on these countries to hasten to make the necessary reforms in order to implement the recommendations more quickly. Member countries are called upon to implement all articles of the Monterrey Consensus as an integrated package in light of the following recommendations:

1. *With regard to mobilizing domestic resources for development*

(a) Conduct a study on how to develop the performance of the banking sector in order to enable that sector to take on a key role in financing development projects in the medium and long terms;

(b) Develop financing mechanisms that will enable the banking sector to take advantage of excess liquidity and fund labour-intensive small- and medium-scale projects;

(c) Restore confidence in the Arab stock exchanges by strengthening oversight and promoting transparency in the activities of capital markets and listed companies;

(d) Update and simplify taxation codes and lighten the tax burden on the vulnerable and poor classes, curb tax evasion and improve the tax collection procedure.

2. *With regard to mobilizing international resources for development*

(a) Implement investment policies that can promote investment in poorer areas and in labour-intensive sectors, and provide guidance to that end in the form of the recently proposed investment policy framework by UNCTAD;

(b) Improve the investment climate, equip it to promote foreign direct investment flows, and combat bureaucracy and corruption;

(c) Provide mechanisms that enable migrants to invest their savings in regional cooperative projects that serve the interests of labour-exporting countries and remittance-exporting countries in the Arab region;

(d) Address the reasons that drive migrant workers to send remittances via informal channels by lowering remittance fees and introducing exchange rates that are below market rates;

(e) Invest in technological infrastructure and establish the necessary legal environment to make available new means of remitting funds, by lowering costs, creating competition and encouraging the sending of remittances through formal channels.

3. *With regard to trade as an engine for development*

(a) Address trade barriers that affect intraregional trade such as issues related to border crossings, transport and standards;

(b) Strengthen partnerships within the private sector in various Arab countries in order to strengthen integration and specialization, based on relative advantages;

(c) Strengthen trade liberalization measures by using available tools and means;

(d) Strengthen capacities for competitiveness by addressing short- and long-term challenges.

4. *With regard to international financial and technical cooperation*

(a) Developed donor countries must fulfil their pledge to provide 0.7 per cent of their gross national product in ODA to developing countries by 2015;

(b) ESCWA member countries that are donors must cooperate with other countries to improve the quality of their assistance and increase its effectiveness in light of the ongoing economic and food crises in the Arab region;

(c) All donor countries and entities must coordinate their efforts and define opportunities for cooperation in specific countries and sectors in order to have a positive impact on growth in recipient countries and respond to the urgent need to create job opportunities, in addition to cooperating with recipient countries on putting in place development plans and objectives;

(d) All donor countries and entities must direct the bulk of their assistance to poor countries, allocating the largest share of their grants, loans to contribute to capacity-building of domestic human resources and achieving administrative reform.

5. *With regard to debts and the management thereof*

(a) Indebted member countries must rationalize spending, strengthen accountability and transparency and introduce an accounting system, in addition to improving management of public finances and finalize economic reforms;

(b) Creditor countries must provide assistance to indebted ESCWA member countries, especially the Sudan and Yemen, in order to lessen their external debt burden, either by debt rescheduling, forgiving their debt or converting a portion of the outstanding debts to investments in those countries.