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SURVEY OF ECONOMIC AND SOCIAL  
DEVELOPMENTS IN THE ECWA REGION  
1970-1978

A Summary  
of  
the Fourth Biennial Review and Appraisal of Progress  
in the Implementation of the International Development Strategy  
for the Second Development Decade in the ECWA Region

79-2524

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The seventies witnessed accelerated growth in most ECWA countries, as the transition to the new conditions created by the oil boom was being effected. Although overall economic performance surpassed the envisaged targets, it remained below attainable potential. This situation can be explained mainly by the existence of various constraints which tended to limit the absorptive capacity in several countries.

#### 1. Main Characteristics of the Region's Economy

A striking feature of the economy of many ECWA countries is the dominance of the oil sector. Oil revenues are the mainstay of several member countries and underlie the region's expanding role in the world economy. The contribution of the oil sector to economic activity has, so far, been felt mainly through the spending of revenues accruing to governments. As a result, direct linkages between the oil sector and the rest of the economy are limited.

Another feature of the region's economy is the high degree of "openness" which makes it vulnerable to external forces and influences. The region continues to be a predominantly primary commodity exporting area with oil representing by far the largest export item. At the same time, the region imports most of its requirements of capital and consumer goods. The present decade witnessed great efforts by member countries to industrialize and diversify their economies in order, inter alia, to reduce their external dependence.

The public sector's involvement in economic life has increased during the seventies at an accelerated pace in both the oil and non-oil economies. The sizable inflow of oil revenues and the ensuing adoption of massive development programmes in the oil countries, on the one hand, and the shift towards State control and management in some non-oil economies, on the other hand, contributed to this tendency.

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Despite the many conditions which imply the contrary, the region's economy remains segmented, thus offering great opportunities for beneficial cooperation. Furthermore, political instability, including armed conflicts, has had high economic costs, causing the diversion of substantial resources to reconstruction and defence.

## 2. The Region and the World Economy

During the 1970s, the ECWA region emerged as a significant entity on the international economic scene. The establishment of national control over domestic energy resources was the main force behind this ascent in economic power. The magnitude of the region's global economic weight is demonstrated by the heavy dependence of the rest of the world on the supply of oil from the area which accounted in 1976-1977 to 54 per cent of world crude oil exports.

The events of the 1970s, notably the oil boom, confronted the region, not only with unprecedented development opportunities, but also with important challenges and problems. The region is still, and will probably remain, for many years to come, preoccupied with the consequences of these events. While its efforts and responses have, by and large, been sensible, they have often lacked the necessary perspective at the regional level. For example, a sizable portion of the surplus funds continues to be invested in short-term financial instruments in the international financial markets. These responses, however, can be better understood when one considers the constraints whether domestic, regional or international, which limit the choices available to the region.

Nevertheless, the surge in the region's economic wealth generated a spending boom unparalleled in its history. The newly acquired financial wealth prompted development planners to revise upward their growth targets and to embark on massive investment programmes. Domestic spending was, in certain cases, so intense that it led to serious inflation and bottlenecks. Restraining measures to moderate the pace of spending became necessary to avoid serious economic dislocations.

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The impact of the oil boom was not limited to the region's oil-exporting countries but spread though in varying degrees, to the other countries. It was transmitted mainly through financial flows from the surplus oil-economies to the resource deficit non-oil countries. This provided the region with perhaps the first real opportunity for the realization of the long aspired for economic co-operation and integration. What is still wanting is a greater sense of mutual trust, coupled with determination and commitment, in an atmosphere of improved political stability.

The region has endeavoured, as the major supplier of oil, to adjust production to world requirements. At the same time, it channelled back the bulk of its oil revenues to the rest of the world through large imports, aid to developing countries support to multilateral aid-giving and financial institutions, and investment in the international financial markets. The ploughing back of oil revenues provided the world economy with a welcome stimulus. Furthermore, the region has helped achieve a greater sense of solidarity and co-operation among the developing countries, and in the pursuit of a more serious dialogue with the developed market economies towards the establishment of the new international economic order.

The increased wealth of the region cannot be said to have been matched by a commensurate development strategy. Ambitious development plans aside, the responses of the region to the new situation have been more or less in the form of isolated short-term reactions to domestic and external influences, rather than actions concerned within the framework of a new and long-term development strategy. The region is in effect passing through a transitional period. Member countries are still feeling their way regarding their priorities and the means of achieving them, as well as the nature, extent and direction of the relations to

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be established with the rest of the world.

The newly acquired wealth, or more precisely the conversion of non-renewable natural resources into financial resources has created problems of an economic, social and cultural nature. For example, the depreciation of some of the currencies in which these financial resources accrue and are held, has been eroding accumulated surplus funds. Domestically, the high spending rates created in some cases strong inflationary pressures which, among other things, have accentuated the problem of income distribution. The sudden opulence is still associated with a relatively low economic performance, underdevelopment, and concentration of wealth.

### 3. The Region's Broad Economic Goals

Although a clearly defined development strategy is lacking in the region, development efforts during the seventies suggest a number of underlying broad goals and objectives:

- (a) Accelerated growth and diversification of the economy. Most countries have committed themselves to ambitious growth targets in aggregate and per capita income.<sup>1/</sup> Considerable stress is laid on capital formation and economic diversification through industrialization to achieve these targets.
- (b) Balanced development. The emphasis on balanced development is discernible in almost all development plans and programmes. The objective here is to achieve, inter alia, a more equitable distribution of income; a balanced geographical distribution of development projects and sectoral development among the main branches

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<sup>1/</sup> GDP is planned to grow at an average annual rate ranging between 8 and 12 per cent in the non-oil countries, and between 10 and 17 per cent in the oil countries (Oman is a notable exception, where GNP is planned to grow at 3 per cent annually).

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of the economy or between the private and the public sector and a balanced agro-industrial mix of development projects. Less attention, however, has been paid to the proper phasing of projects or to the optimum mix of labour and capital.

- (c) Oil strategy. Oil production, export and, to a lesser extent, pricing have so far been very much the result of the forces and influences of the world market, which do not necessarily coincide with the producing countries' interests. Within these international constraints, national efforts have concentrated on the proper utilization of petroleum, including natural gas, the use of oil as an industrial input, and on the effective, management of oil revenues. Individual country strategies converge on a common regional approach more than in any other field, mainly through the efforts of the Organization of Arab Petroleum Exporting Countries (OAPEC).
- (d) Regional co-operation. Member countries are becoming increasingly aware that economic co-operation constitutes the most viable path for realizing the economic potential of the region. With the accumulation of surplus capital the issue of co-operation is taking on new dimensions. The new oil era seems to be creating a sense of solidarity and cohesiveness among member countries. Important manifestations of this phenomenon appear in the fields of finance, labour and industrialization. The juxtaposition of capital-surplus and capital-deficit countries within the region has put increased pressure on both capital and labour mobility which has been in the interest of both groups. Meanwhile, it can be argued that a regional approach to industrialization is a prerequisite if the region is to embark on capital intensive industries, and reap the advantages of economics of scale and larger markets. The process will also help avoid duplication in national industrialization efforts.

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(e) Manpower and Employment. The main aim is to develop the region's human resources in a way consistent with its socio-economic objectives. In the oil-economies, the objective is to meet the rising demand for labour from domestic sources and to gradually replace expatriate workers. In the non-oil economies, the objective is not only the satisfaction of domestic requirements but also to give due consideration to labour needs of neighbouring oil-economies.

#### 4. Growth Performance

The growth achieved in the ECWA region, measured by gross domestic product (GDP) at constant prices, during the seventies, is well above the minimum target rates set for the developing countries in the Second Development Decade. Available data, covering up to 1977, show that for the majority of member countries annual growth rates ranged between 7 and 12 per cent. The oil-economies generally attained higher growth rates than the non-oil economies especially since 1973.<sup>1/</sup>

This performance compares very favourably with that achieved by the developed and developing countries, as well as with the region's past experience. Judged, however, by the region's resource base and potential, and by its development requirements, the achieved growth cannot be considered as exceptionally high. Furthermore, if we were to agree with the view that oil should be treated as a depletable asset, then we would arrive at income estimates considerably lower than conventional national accounting procedures indicate.

When valued in monetary terms, the growth performance was much higher reflecting the high pace of inflation which characterized all the economies of the region. Both internal and external inflationary

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<sup>1/</sup> When viewed in terms of gross national product (GNP), the performance of the non-oil economies in contrast to that of the oil economies improves significantly on account of net factor income receipts, particularly workers' remittances. However, the rapidly growing investment income accruing to the latter countries is steadily increasing their GNP/GDP ratio which exceeded one in Kuwait (1975) and Iraq (1976).

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pressures have been at work producing annual price increases of up to 20 and 30 per cent.

Income disparities between and within the countries of the region remain very high. The region includes countries which enjoy a level of per capita income among the highest in the world, while other members belong to the group of least-developed countries. In addition, sharply skewed income distribution at the country level still prevails.

The relative contribution of the agricultural sector to gross output deteriorated significantly in the 1970s, especially after 1973. With the exception of the Syrian Arab Republic and the two Yemens, it amounted to no more than 12 per cent of total output during the period, and to one per cent or less in the oil-economies. This situation can be attributed to, inter alia, recurring unfavourable weather conditions, the surge in the relative importance of the oil sector and the comparatively modest emphasis the agricultural sector has received in development efforts. However, the importance of the agricultural sector as a source of food and raw materials, as well as its central role in the rural economy cannot be overstressed. Agricultural development is again coming to the forefront prompted by the preoccupation with food security and encouraged by the great agricultural potential of the region.

The acceleration of the industrial process since the mid-1970s is yet to have its full development impact, partly because of the relatively long gestation period associated with large-scale industrial projects. Oil refining, fertilizers and petrochemicals head the list of major industries in the oil-economies, while food processing and textiles are the major industrial activities in Jordan, Lebanon and the Syrian Arab Republic.

The contribution of mining and quarrying to output rose significantly during the period. In the oil economies, this contribution exceeded

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70 per cent in recent years, except in Iraq where it was below 60 per cent. In some non-oil economies, such as Jordan and the Syrian Arab Republic, phosphate contributed significantly to the sector's output.

In the non-oil and relatively more diversified economies, services, particularly trade, figure more prominently in the composition of output. Trade contributed, during the 1970s, between 17 per cent and 20 per cent to GDP. The share of other services (dwellings, finance, public administration and defence), ranged between 17 per cent and 40 per cent.

The share of consumption in total output ranged between 23 per cent and 60 per cent in the oil economies, and between 86 per cent and 122 per cent in the non-oil group. Exports absorbed the bulk of output in the oil-economies, but represented only a small fraction of the non-oil economies' gross product. In contrast, the share of imports, while expanding in all the countries, was lower in the former.

The share of investment in total output grew sharply during the seventies in both groups of countries and ranged between 23 and 41 per cent. Domestic savings were generally by far more than sufficient to finance investment in the oil-economies, while shortfalls in the case of the non-oil economies were met by sizable capital inflows, particularly from the former group of countries.

##### 5. Population

Population growth rates in the ECWA region averaged between 2.4 and 4.7 per cent per annum, compared with an estimated world average of 2 per cent.

The region's population is characterized by high birth rates and low to moderate death rates; a young age structure, with 45 per cent of the population under 15 years; relatively low population density but with wide inter-country variations; high levels of urbanization, with growing pressure on primate cities; and significant labour migration.

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These characteristics imply, inter alia, high population growth rates and dependency ratios, serious manpower shortages in some countries and inadequate basic facilities such as housing, education, medical services and utilities, especially in the expanding urban areas.

The region is experiencing slow but significant changes in life expectancy which currently ranges from a low 38.3 years in Yemen to 70 years in Kuwait.

While the ECWA countries (excluding Egypt) cannot be considered over populated, spatial maldistribution of the population and the swelling of urban areas represent major problems, as few countries have any population policy.

#### 6. Employment and Manpower Development

During the present decade considerable progress was made in the ECWA region in increasing the proportion of the working population engaged in modern activities, reducing significantly unemployment and, to some extent, orienting educational programmes to serve development needs.

The overall growth of employment between 1970 and 1975 was above world levels. Reported open unemployment tended to decrease in the majority of ECWA countries mainly as a result of the rapid expansion in intra-regional labour migration. Underemployment, is still rife particularly in the "informal sector" of the cities, while disguised unemployment prevails in the rural areas. Sectoral changes in employment while limited, have favoured services and, to a lesser degree, industry. However, in Iraq and the Syrian Arab Republic, agriculture has maintained its share in the total.

In general, the academic qualifications of the labour force improved in the ECWA countries. The number of illiterates and those with less than primary education dropped significantly, whereas substantial

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increases were recorded in the other categories, particularly holders of intermediate education certificates and university graduates. Similarly, the occupational structure of the labour force improved substantially, reflecting the relative increase in the highly qualified occupational groups. Thus, in the oil economies the proportion of the professional and technical groups is relatively high, reflecting a high imported component. In the non-oil economies, this proportion, while still low by international standards, almost doubled. Another important change worth noting is the increase in women's participation rate in economic activity. This is particularly true of women who have obtained vocational and technical diplomas.

Nevertheless, manpower development through education and training is still inadequately incorporated in member countries' development programmes. The impressive expansion in education over the past ten years was the result of general social demand rather than a response to the requirements of the development process. This has caused structural imbalances between occupational supply and demand for labour.

So far, employment in the region has not been treated as a basic goal of development. Very few projects, if any, stress the creation of jobs. Employment generation is still viewed as a by-product in the development process. Greater efforts are, therefore, needed to improve manpower utilization through employment planning at both the national and the regional levels.

#### 7. Agriculture

The agricultural resources of the ECWA region are both unevenly distributed and exploited, with 75 per cent of total production taking place in three countries only. The region's total agricultural production increased at an average annual rate of 2.5 per cent - a rate slightly higher than that achieved during the first development decade but lower than the 4 per cent envisaged under the International Development

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Strategy for the Second Development Decade. Moreover, growth rates varied widely among member countries.

Non-food production has virtually stagnated as emphasis shifted to food production, reflecting the increasing concern with long-term food security and the need to match the increases in food demand which has been growing at an average of 4.5 per cent a year.

Improvements in the management of food supplies are needed to cope with unstable agricultural production and the increasing reliance on imports of food stuffs. Crop production, particularly of cereals, needs to be stabilized. More food aid should be sought and the size of national buffer stocks should be increased to meet the growing unpredictability in international grain markets.

Fluctuations in livestock output was considerably reduced during the period reviewed in most countries of the region. However, inadequate supply of feed concentrate and fodder remains a major obstacle to livestock development. Expansion of fodder production in the 1980s will require measures to encourage farmers to introduce the desired changes in cropping patterns.

Although forestry production is limited in most ECWA countries, a significant development has been the establishment of a paper and paper board industry. Growing demand for wood products has increased import dependency, but has also revived interest in forestry development.

The region's nominal fish catch increased at a moderate rate during the seventies. There is potential, however, for the development of a fish industry in the southern parts of the region.

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Improved methods and technological innovations will have to be exploited to increase land productivity which, in real terms, improved only slightly. Moreover, a general rise in the low levels of labour productivity is necessary to increase per capita income in agriculture. This requires increased farm investment, better implementation of development schemes, such as drainage networks and local irrigation systems, and production projects.

Apart from the provision of basic rural infrastructure, heretofore neglected, direct government intervention in the form of incentives is needed to raise farm productivity and incomes. Heavy subsidization of key food commodities implies low farm prices and therefore, little incentive to boost production. Incentive farm prices should, therefore, be set for key commodities and minimum farm prices should be enforced for other commodities.

Labour outflow from agriculture to other economic activities increased the demand for mechanization, although proper training for and utilization of mechanized methods remains problematic. Properly applied mechanization should be instrumental in increasing per capita income in agriculture.

Whereas non-oil exporting countries rely heavily on the agricultural sector, most oil countries consider it a marginal sector and only in the latter part of the decade has a dramatic change in attitudes taken place. However, attempts to provide cheap agricultural credit, subsidized fertilizer and price support could prove to be costly.

#### 8. Industry

The sharp increases in oil revenues, coupled with the desire to enhance industrialization permitted increased investment allocations to be made to the manufacturing sector in almost all ECWA countries.

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Remarkable growth in the sector was recorded as a result, attaining in monetary terms an average annual rate of about 30 per cent. However, the growth in manufacturing was below that recorded in some other major sectors, with the result that the share of manufacturing in gross output either stagnated or declined to account in recent years for around 8 to 9 per cent. The exclusion of oil refining reduces this share considerably.

The composition of output reflects the fact that industrialization is still at an early stage of development in most member countries. Such traditional industries of food, textiles and clothing continue to dominate manufacturing activities. Changes, however, in favour of intermediate and heavy industry, are taking place. Faster growth and a larger share in gross output are two main objectives of current development plans. On a regional level, duplication of projects and competition for skilled labour seem to adversely affect the competitiveness of industrial projects. The manufacturing sector will continue for some time to suffer from shortages of skilled labour, distorted wage - price relations and maldistribution of industries within individual countries.

#### 9. Transport, Communications and Tourism

The most spectacular development in the field of transport has been the expansion and improvement of port infrastructure, particularly in the Gulf area. This was mainly a response to the problem of port congestion which resulted from the substantial growth in imports following to the oil price boom. Due consideration has also been given to the expansion and improvement of road and railway networks. Connections with neighbouring countries have been improved and some previously abandoned sections rehabilitated.

Another major development was the expansion of national shipping fleets, especially in Kuwait, Iraq and Saudi Arabia. However, none of the ECWA countries has so far become a contracting party to the Code of Conduct for Liner Conferences that was adopted by the United

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Nations Conference of Plenipotentiaries, which was held in Geneva in April 1974.

Despite some significant developments in the field of telecommunications, particularly in Bahrain and Kuwait, telephone communications within the region and with the outside world, remain unsatisfactory. Current development plans - of which the most ambitious is that of Saudi Arabia - aim at the expansion and modernization of the telecommunication system. As for tourism, efforts have been mostly directed towards the expansion and improvement of hotel accommodations.

#### 10. Fiscal and Monetary Developments

The ECWA region has<sup>a</sup> generally underdeveloped monetary and fiscal systems. Given the prevailing limits of monetary instruments, fiscal policy remains the major economic policy tool.

Government revenues increased sharply, particularly in the oil-economies where they at least tripled between 1970-1976 mainly on account of increased oil revenues. Indirect taxes, especially customs duties, are the major non-oil source of revenue in these countries, but their amount has been small and they have constituted a declining share in total revenues. These taxes along with direct taxes could, however, be used more effectively to increase efficiency in resource allocation and to achieve a more equitable income distribution.

In the non-oil economies, government revenues rose as a result of higher tax earnings, except in the Syrian Arab Republic where larger transfers from public sector enterprises were the major source of expansion. Indirect taxes, mainly customs duties, are not only a major source of revenue but are also used as important allocation and stabilizing devices. However, as currently applied within the overall tax system, they are considerably regressive. Despite the improvements in

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the tax system, the income elasticity of taxes remains low, necessitating heavy domestic and foreign borrowing to finance growing capital expenditures. The need to improve domestic revenue sources is particularly acute in the two Yemens. Improved tax structures and administration have been rewarding in Jordan as evidenced by the improved income elasticity of taxation.

Government expenditures have been increasing faster than revenues in all the non-oil economies. The resulting deficits have often been financed by foreign borrowing with the consequence that some countries have serious debt servicing problems. For example, debt servicing represents 58 per cent of Yemen's export earnings. Although development expenditures have been growing at a faster rate than ordinary ones, the latter are still dominant in total expenditures.

Increased budgetary outlays have aimed at achieving more equitable income distribution. Wage increases have been linked with movements in the cost of living index. Subsidies covering health services, education, housing and basic food commodities have also been instituted.

The money supply has risen sharply, mainly through the expansion of credit in the non-oil economies, and a growing volume of savings and time deposits in the oil economies. The increase in public spending and in saving deposits, together with sharply rising volume of foreign financial assets, have resulted in a high liquidity position which has exerted strong inflationary pressures.

#### 11. The Role of the Public Sector

The size of the public sector, measured in terms of total public consumption and capital formation, has been rapidly expanding in all ECWA countries. The expansion of the role of the public sector was encouraged and made possible by the substantial flow of financial resources to both oil and non-oil countries, and by changes in the economic system of

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several member countries in favour of increased Government involvement in economic activity. In the state managed economies, the aim has been to achieve higher rates of growth and to diversify the economy. In the free enterprise type of economies, the objective has been to provide the economy with the necessary infrastructural base for the efficient functioning of the private sector.

At the sectoral level, general services still claim the highest share of government outlays followed by economic, social and community services. Public sector investment allocations, while varying both among countries and within each country, increased steadily for the agricultural, the natural resources and the industrial sectors. Investment in the transport and communications has been mostly a public sector domain, mainly because of the magnitude of financial resources involved. In a number of countries, governments have been able to achieve extensive ownership and control of some of the sectors.

With respect to social development, the public sector involvement has been strongest in education and health but much less effective in other areas such as care for the aged and assistance to needy children. The proportion of total government expenditures allocated to education has been stable in recent years at between 10 and 15 per cent in most countries. In the area of science and technology the efforts of the public sector have been inadequate.

Increased public sector involvement in economic activity, while contributing significantly to enhance the development process, has suffered from many weaknesses and inefficiencies which resulted from, inter alia, bureaucratic procedures, centralization of decision making and shortages of qualified personnel.

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## 12. Trade and Payments

The external sector plays a central role in the economies of the region, both as a generator of income and as a source of raw materials, consumption and capital goods and modern technology. Moreover, some countries, notably the oil-producers of the Gulf, rely heavily on expatriate labour. The vulnerability of the countries of the region implied by their high, and in several cases extreme, dependence on the external sector is accentuated by the highly concentrated commodity structure of their exports and the uneven geographical distribution of their trade.<sup>1/</sup>

The region's aggregate dollar value of exports rose at an average annual rate of about 47 per cent during the first six years of the current decade, reaching over \$73 billion in 1976. The growth in exports was far from being evenly distributed, either over time or among member countries. It was heavily concentrated in 1974, when exports increased by 256 per cent in the oil economies and by 129 per cent in the non-oil economies.<sup>2/</sup> Inter-country differences are illustrated by the wide spread in the rates of growth over the 1970-1976 period, with such countries as Democratic Yemen and Lebanon realizing average annual rates of only 9.3 and 12.4 per cent, respectively, compared with rates of between 56 and 58 per cent for Saudi Arabia, Oman and the United Arab Emirates.

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<sup>1/</sup> Illustrated by the overwhelming dominance of crude oil and few other primary commodities in export trade, heavy dependence on food imports, concentration of trade with the developed market economies and the relative insignificance of intra-regional trade.

<sup>2/</sup> In 1975, the value of exports declined by 8.5 per cent for the oil economies and by 20.2 per cent for the non-oil economies, whereas exports of the former group showed increases of 22 and 6.6 per cent in the following two years, exports of the latter stagnated.

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The rapid expansion in the region's exports is largely explained in terms of higher prices, notably that of oil, and of non-petroleum exports whose average prices almost doubled between 1970 and 1976.

The two major influences affecting the volume of exports from the region have been, and will continue to be, the level of crude oil production and agricultural output. The volume of crude oil produced and exported remained depressed during the last few years and until the latter part of 1978. At the same time, the wide fluctuations in agricultural output have entailed a reduction in exportable surpluses in several countries.

The average annual growth rate of the dollar value of imports in the region accelerated from 6.4 per cent during the first development decade to 38 per cent in the period 1970-1976, with an 83 per cent increase recorded in 1974. Imports of the oil economies have expanded, on the average, more than twice as fast as those of the non-oil economies, with growth rates varying between 32 per cent in Kuwait to 84 per cent in Oman. The rise in the volume of imports has been, on the average, significantly greater than that of prices. It should be stressed, however, that there was a substantial rise in import prices which has adversely affected the purchasing power of exports. Whereas the value of exports increased by about nine-fold between 1970 and 1976, the purchasing power of exports improved by three and a half times only.

The sharp expansion in the region's imports has been made possible mainly by the overall improvement in member countries' payments situations as a result of oil price increases which have also benefited the non-oil economies. While the flow of imports has generally been governed by the import financing ability of the non-oil economies, it was constrained by the limitations of absorptive capacity in the oil economies.

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The overall trade surplus of the oil economies increased from an average of \$8.99 billion in 1971-1973 to \$48.32 billion in 1974-1976, while the deficit in the non-oil economies widened from \$1.16 billion to \$2.43 billion.

Intraregional exports fell from 5.6 per cent of aggregate exports in 1971 to 4.2 per cent in 1976, notwithstanding an average annual growth rate of over 40 per cent. The proportion of non-oil economies' exports absorbed within the region dropped from about one-third to somewhat above one-fifth, reflecting a declining share for all countries except Yemen. The share of the oil economies in intraregional exports declined slightly from 3.8 to 3.6 per cent between 1971 and 1976. In contrast, the share of imports originating in the region improved slightly, rising from 13.9 to 14.8 per cent over the same period.

The explanations put forward for the relatively poor performance of intraregional trade include: shortages and inadequacies in trade financing and payments arrangements; prevalence of and/or preference for bilateral trade and payments arrangements; institutional differences in trade organization; strong and more favourable trade relations with countries outside the region; existence of non-tariff obstacles to trade in some countries mainly in the form of import licensing, quantitative restrictions and limitations on foreign exchange allocations; transport bottlenecks; lack of harmonization of customs nomenclature and trade formalities; and unstable political relations.

It should be stressed, however, that these factors are mainly symptoms of more deep-rooted structural tendencies and characteristics of the economies of member countries which limit the scope of intraregional trade.

In its efforts to overcome these obstacles, the activities of the Council of Arab Economic Unity have, in recent years, emphasized the

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establishment of joint ventures and the co-ordination and harmonization of the development plans of its member states.

The oil boom has strongly affected the balance of payments of the oil-producing countries. It accentuated some of the already existing features, such as trade surpluses and the accumulation of reserves and led to departures from the pre-boom payment patterns in other instances. Sizable transfer payments and capital outflows confirmed the oil-producing member countries as major aid donors on the international scene.

The payments situation in the non-oil economies, continued to be characterized by the existence of large and persistent trade deficits which have widened sharply after 1973. The economic boom in the oil-producing countries has attracted labour in large numbers from other parts of the region, notably Jordan, Lebanon and Yemen, thus generating sizable factor income flows into these countries.

### 13. Regional Co-operation and Integration

Trade liberalization constituted the cornerstone in regional co-operation efforts for some two decades, beginning in the early nineteen fifties. The achievements, however, have remained far below expectations. While the formation of a common market remained a major aim, the current decade has witnessed a definite shift in emphasis in favour of co-operation in production and finance. This shift reflected a change in attitude towards the priorities of regional co-operation which coincided with the accumulation of surplus financial resources that opened up a wide spectrum of co-operation possibilities.

The need to develop the production capabilities of member countries along complementary lines highlighted the importance of co-ordinating and harmonizing national development plans, a task which the Council of Arab Economic Unity has set to achieve by 1981.

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Several issues emerged during the period reviewed, where regional co-operation could be fruitful. These include food security, the development of an indigenous technology and issues related to transfer of technology, the development of manpower resources and the establishment of a sound statistical base. The notion of co-operation at the subregional and sectoral levels also gained wider acceptance.

Financial co-operation has constituted the more salient aspect of regional co-operation in recent years. It has become increasingly motivated by a sense of moral commitment to overall regional prosperity and the reduction of disparities among its members. Moreover, member countries have been major contributors to international efforts designed to help developing countries and maintain economic and monetary stability.<sup>1/</sup>

Financial flows from ECWA countries, members of the Organization of Petroleum Export Countries (OPEC), started to rise rapidly in 1973 attaining a level of over \$6 billion by 1975, and \$5.25 billion in 1977.<sup>2/</sup> In terms of GNP, these flows have largely surpassed the one per cent target laid down by the international community for official development assistance flows. They compare very favourably with the aid performance of the countries members of the Development Assistance Committee (DAC) of the Organization for Economic Co-operation and Development (OECD).

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<sup>1/</sup> The region's concern with international economic and monetary stability has been amply illustrated in the stands taken by member countries in international fora on major issues such as economic recession in the industrialized countries and the energy problem. Moreover, the manner in which these countries have managed their financial surpluses has been a major stabilizing factor in the turbulent money and exchange markets.

<sup>2/</sup> Saudi Arabia, the United Arab Emirates and Kuwait have come to occupy, by 1976, the second, sixth and eleventh positions in the list of world donors of concessional assistance in absolute terms.

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The share of concessional aid channelled multilaterally has also risen substantially during the mid-decade. An increasing share of bilateral concessional assistance has gone to non-Arab countries.

There is virtually no documented information on private capital flows within the region. Significant amounts are believed to have been invested in real estate, industrial and commercial ventures, but the volume of these investments remain unimportant compared with private investments outside the region or with official capital flows.

Sufficient time has not elapsed for a proper assessment of the impact of financial co-operation on the process of development in the region. This co-operation, which was stimulated by the sudden rise in financial resources, come as a spontaneous response to the new circumstances. It did not represent a development within a well-defined framework to promote regional co-operation. Nevertheless, the period reviewed witnessed a number of favourable developments in this respect. The establishment of a network of development funds, the increased multilateralization of aid, and the formation of a number of joint ventures provide the necessary mechanism for more effective co-operation. Steps have also been taken recently to accelerate the process of project identification and preparation and to co-ordinate activities among some of the major development funds. Important bottlenecks such as the lack of trained manpower to staff the newly established institutions, and the inability to generate sufficient projects for financing however remain.

#### 14. Operations of Transnational Corporations in the Region

The growing importance of the transnational corporations (TNCs) on the international economic scene has prompted the world community to consider steps to monitor, examine and regulate their operations.

The activities of TNCs in the ECWA region have traditionally been in the field of oil. Their role, however, in non-oil sectors such as

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construction, trade, banking and tourism is expanding. During the 1970s, the climate for foreign investment in the region has been bolstered by large development programmes, requiring significant inputs of technical and administrative skills, and by the liberalization of foreign investment policies. Several ECWA countries have gone a long way to attract TNCs to participate in their development efforts.

The involvement of TNCs in the region has been mainly in the form of joint ventures, with equity participation usually limited to 49 per cent. TNCs, however, have increasingly resorted to a wide variety of non-equity arrangements with oil TNCs taking the lead.

Preliminary information on TNC activities in the region show limited direct investment in the manufacturing sector but increased involvement in management and technical services. The significance of TNCs in these fields is reflected in the promulgation of many new laws and regulations to govern their operations.

A significant development during the 1970s was the growth in transnational banks. Although many of these banks operated from Lebanon for many years before mid-1970s, the Gulf became recently a cluster area for transnational bank operations with Bahrain emerging, in 1977, as its centre.

The countries of the region lack a comprehensive legal and regulatory framework to control the operations of transnational corporations. In their dealings with these corporations, therefore, the ECWA countries should work in closer co-operation. This should increase their bargaining power and reduce undue competitiveness in attracting TNCs involvement.

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### 15. Natural Resources

Solid mineral resource availability varies greatly between the relatively well endowed countries such as Iraq and Saudi Arabia and those with negligible resources including Kuwait, Bahrain and Qatar. Considerable progress towards developing these resources has taken place during the decade involving increased geological mapping, preparation of feasibility studies and rapidly rising mining output. Survey and exploration work has been handicapped by inadequate professional cadres and in some countries by poor mining codification and regulations. Development has, however, been spurred by governments with the active support of concerned regional and international bodies.

While mining has been dominated by oil related activities and, to a much lesser extent, by the mining of phosphate rock, significant mineral discoveries made during the current decade are expected to have a major economic impact in the 1980s.

During the 1970s the demand for water resources, throughout the ECWA region, has been increasing under the impact of rapid socio-economic development. The process of development could be jeopardized by problems of water availability, as current water exploitation patterns have adversely affected the quantity and quality of available supplies. The seriousness of the problem has led to formulation of policies with respect to the exploration, utilization, management and distribution of water resources.

A major preoccupation has been the surveying of potentially usable water supplies. On the other hand, little has been achieved in the co-operative management of the region's water resources.

Water resource development has suffered from a shortage of skilled personnel, though training programmes were established in several countries during the 1970s. Kuwait and Saudi Arabia have

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acquired a high level of expertise in desalination since the 1960s. Desalination plant capacity has continuously risen over the period. Community water supplies and sewage treatment facilities were greatly improved, but with rapid population growth, industrialization, and increased urbanization much remains to be accomplished.

As to energy, the importance of the region which provides 47 per cent of the world crude oil needs can hardly be exaggerated.

The region's production of crude oil during 1970-1977 surpassed the cumulative output prior to 1970. A small fraction of this output, however, is processed locally with the rest being shipped in crude form. Although the region's proven oil reserves have continued to increase during the decade, rising the reserves to production ratio has fallen from 70:1 in 1967 to 50:1 in 1977.

The region is a relatively small oil consumer. Natural gas, thermal and solar energy are potential sources of energy for the region.

#### 16. Social Development and Human Settlements

The problems associated with social development and human settlements in the ECWA region are similar to those encountered by most developing countries. They include poverty, unemployment, deficiencies in education and health, substandard housing, inadequate sanitation, urban congestion and rural isolation. Efforts to alleviate these problems have been constrained by political, cultural, infrastructural and, in some cases, economic factors. Domestic political instability as well as armed conflicts in the area have caused, among other things, the unsettlement and displacement of large numbers of people.

However, progress has been made as governments have come to realize that the improvement of social conditions is not only important in itself but is also necessary for the success of economic development. Sizable

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financial resources were accordingly allocated to meet the rapidly growing social requirements.

Education received the greatest attention. Although the goal of universal education was not achieved during the decade, there has been massive growth in school enrolment. Progress was also made in integrating the female population in the process of education and in revising curricula to reflect actual needs. However, waste in educational resources, poor teaching methods and the young age structure of the population continue to burden educational efforts.

The region's progress in the field of health has been reflected in a rising life expectancy. Although the emphasis is still on curative medicine, there has been growth in public programmes aimed at contagious and degenerative diseases. Furthermore, health planning which is now practiced in most member countries, has strengthened local health services and contributed to preventive medicine.

In the area of social welfare services, the traditional "charity" approach continues to prevail, despite growing interest in and increased expenditures on these services. Private welfare agencies for the care of children, the aged and the handicapped have increased in number. The emphasis has remained on traditional family and community care.

Among the most serious problems arising from the rapid economic growth and population resettlement is the increased demand for housing. There has been undue emphasis on high-cost housing which made housing starts fall far behind needs. Availability of credit and innovative financing together with the application of alternative technologies should help alleviate the problem.

In general, it is safe to conclude that despite the many problems which continue to plague the region's social systems, substantial progress was made during the present decade.

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### 17. Science and Technology

Despite some improvement in the area of technology transfer during the present decade, the region remains inadequately equipped to collect, classify and analyse technological information. Hence, heavy reliance has been placed on foreign expertise and know-how.

The function of research and development (R&D) is far from being adequately appreciated, as illustrated by poor budgetary allocations, inadequate facilities and obscure orientation. Member states fail to incorporate technology as an element in development planning and to formulate a development plan for technology itself. The acquisition of new technology through the import of capital equipment has placed excessive pressure on the limited local supply of technical and scientific personnel. Shortages, however, are most acute at the technician level; the ratio of qualified scientists and engineers to technicians is approximately 2:1. The minimum target must be to reverse this ratio. Country shortages have been temporarily and, often inadequately, met by importing foreign skills. Meanwhile, concerted efforts through education and training are being made to overcome these shortages. Closer regional co-operation should facilitate the selection, transfer and adoption of technologies appropriate to the region's needs.

### 18. Statistics

Steady development of statistics has been a common feature in most ECWA countries. The pace at which this development has proceeded varied widely from one country to another, depending on the particular constellation of historic, political, economic and social factors. Some ECWA countries (Iraq, Jordan, Kuwait, Lebanon, Saudi Arabia and the Syrian Arab Republic) have more developed national statistical organizations which cover a broad range of statistical activities and issues. In Saudi Arabia, the activities of the Central Department of Statistics have been developing quite

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rapidly, especially with respect to industry; in Lebanon, the situation since 1975 has brought to a standstill all statistical activities. Other ECWA countries such as Bahrain, Oman, Yemen and the United Arab Emirates have relatively diversified statistical activities, but still have to depend on technical assistance from other countries or from international organizations. Other member countries have elementary statistics which are scattered in reports published by different government ministries and departments.

Despite the progress made throughout the seventies in the national statistical systems, statistical services in the region still suffer from various deficiencies in terms of coverage, timeliness and standardization. This has been attributed, among other things, to the ad hoc approach to statistical data collection as well as to the limited statistical expertise. Remedial efforts should include the establishment of effective and durable statistical infrastructure with permanent survey-conducting machinery and the strengthening of national and regional training facilities.