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REPORT OF THE EXECUTIVE SECRETARY ON THE ACTIVITIES OF THE COMMISSION

PROGRESS MADE DURING 1998 IN THE IMPLEMENTATION OF THE PROGRAMME OF WORK FOR THE BIENNIUM 1998-1999

Report on

survey of economic and social developments in the ESCWA region, 1998-1999
Summary

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EXECUTIVE SUMMARY

1. The overall economic performance of ESCWA members'[1] was dismal in 1998. Preliminary estimates indicate that the combined real gross domestic product (GDP) of the region, excluding Iraq owing to a lack of reliable data, increased by only 1.0 per cent on average. This represents a significant decline from the annual growth rates of 3.7 per cent in 1996 and 3.4 per cent in 1997. With the region's high population growth rate of 2.5 per cent, real GDP per capita in the region registered a negative 1.5 per cent growth. The 1998 combined real GDP of the Gulf Cooperation Council (GCC) countries[2] as a group contracted by 0.02 per cent compared with its 1997 level, while the combined real GDP among the more diversified economies[3] registered a positive 3.6 per cent annual growth rate in 1998. Thus, the more diversified economies were not as adversely affected by a 34 per cent decline in oil prices and a 29 per cent decline in oil revenues as were the GCC countries. Nevertheless, repercussions of the dismal economic performance among the GCC countries were felt in some of the more diversified economies.

2. For a number of reasons, no major lasting improvement in oil prices is expected in 1999. These reasons include the currently high levels of oil inventories, the expected increases in production in Iraq and Central Asia, and depressed oil demand in the economies of East and South-East Asia. Thus, the ESCWA region's oil revenues are expected to increase only moderately in 1999.

3. Unemployment, a chronic problem facing the region's more diversified economies, worsened in 1998 mainly because the economic growth in the member countries was not sufficient to generate employment opportunities adequate to absorb the rapidly increasing labour supply. In addition, the economic slow-downs or contractions in the traditionally labour-receiving GCC countries reduced the demand for expatriate workers, therefore exacerbating the problem. The GCC countries themselves are now facing unemployment problems caused by a rapidly increasing indigenous labour force. These countries are now considering how to adopt appropriate policies to secure employment opportunities for their nationals. The problem of unemployment in the ESCWA region is expected to get worse in 1999.

4. Inflation rates in the ESCWA region had been declining in recent years and were estimated to have fallen further across the board in 1998. The currencies of all the GCC countries are pegged to the United States dollar. One exception is the Kuwaiti dinar, which is pegged to a basket of currencies, although 70 per cent of the basket is accounted for by the dollar. The GCC currencies appreciated along with the dollar against the Japanese yen and the currencies of most other Asian and Western European countries. The currencies of the countries with more diversified economies, excluding Iraq and the Syrian Arab Republic, have also generally remained stable against the United States dollar. Therefore, the prices of goods imported by ESCWA member countries from most of their trading partners declined significantly, pushing down inflation rates.

5. Owing to the steep decline in oil prices and export revenues, the total value of the ESCWA region's exports, excluding the West Bank and the Gaza Strip, in 1998 was estimated to have been US$ 97.1

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

[2] The Gulf Cooperation Council members are Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates.

[3] This group includes the following countries and areas: Egypt, Iraq, Jordan, Lebanon, the Syrian Arab Republic, and the Republic of Yemen, as well as the West Bank and the Gaza Strip.

billion, representing a drop of 21.7 per cent from the 1997 level. The values of the region's total imports are also estimated to have declined below the 1997 level as a result of the fall in oil revenues, the major source of financing imports, and a significant decline in commodity prices in the world markets. Although the trade balance in the ESCWA region as a whole achieved a surplus of US$ 14.5 billion in 1997, it was estimated to have recorded a deficit of US$ 9.4 billion in 1998 and is projected to remain in deficit in 1999.

6. As of May 1998, international reserves, minus gold, in the ESCWA region, excluding Iraq and the Syrian Arab Republic owing to a lack of data, increased by 1.3 per cent compared with the 1997 level, reaching US$ 53.7 billion. The GCC countries' international reserves, accounting for 45.2 per cent of the ESCWA region's total reserves, increased by 3.2 per cent in 1998 over 1997, while the reserves of the more diversified economies in 1998 amounted to US$ 29.4 billion in 1998, representing a contraction of 0.2 per cent.

7. The fiscal position of ESCWA member countries deteriorated in general in 1998 and their budget deficits as percentages of GDP increased considerably compared with the preceding two years. Only Lebanon managed to decrease its budget deficit, from 23.5 per cent of GDP in 1997 to 15.0 per cent in 1998. Egypt maintained its budget deficit relative to GDP at basically the same level previously achieved: 1 per cent. As a result, the GCC countries introduced significant budgetary restraints in fiscal year 1999, with a reduction in the pace of growth of capital expenditures. The more diversified economies, faced with declines in the level of foreign aid and the spillover effect from the GCC countries, also pursued tight fiscal policies in 1998, restricting the growth of both current and capital expenditures.

8. While most ESCWA member countries are blessed with large oil and natural gas reserves, the region lacks two other critical natural resources, namely productive land and accessible renewable water resources. The region's accelerated economic growth and development, as well as the urbanization during the past decades, have evidently been putting significant pressures on its limited natural resources and stressing the environment. In the absence of integrated national conservation strategies, soil and water abuses have led to soil degradation, the loss of fresh non-renewable water reserves, and a deterioration in water quality.

9. The population of the ESCWA member countries grew from 87.8 million in 1978 to 157.6 million in 1998, an average annual increase of 2.9 per cent. The population in the region as a whole will reach 166 million by the end of this century and 210 million in the year 2010, accounting for 5.0 per cent of the population in Asia. The urban population has been growing faster than either total or rural population in the region as a whole. While about 47 per cent of the region's total population lived in urban areas in 1975, this number increased to 53 per cent in 1985 and to 57 per cent in 1995 and is expected to reach about 60 per cent by year 2000. The ESCWA region's population is young, with a large proportion of its inhabitants under the age of 15. In 1998, about 41 per cent of the population were below 15 years of age, while only 4.0 per cent were older than 65. The large number of new entrants into the labour force makes a quality education to prepare them with adequate technical skills mandatory.

10. In spite of the considerable progress made in the status of Arab women in the ESCWA region over the past decades, the gender gap in socio-economic status persists in most countries of the region. The continued inadequate participation in education by girls and adult women has seriously negative implications for their skills development and thus their employment opportunities, and increases the difficulties for women to gain access to income-generating economic activities.

I. AGGREGATE ECONOMIC PERFORMANCE

11. The overall economic growth in the ESCWA region was dismal in 1998. Preliminary estimates indicate that real GDP of ESCWA member countries, excluding Iraq owing to a lack of reliable data, increased only by 1.01 per cent on average. This figure represents a significant decline from the annual growth rates achieved in previous years: 3.69 per cent in 1996 and 3.37 per cent in 1997. Furthermore, given the region's high population growth rate of 2.5 per cent, real GDP per capita in 1998 registered a negative 1.49 per cent growth.

12. Real GDP growth rates varied significantly between the GCC countries and the rest of the ESCWA members with more diversified economies, and among the countries within each group. The 1998 combined real GDP of the GCC countries as a group grew only by 0.02 per cent over 1997. Saudi Arabia and the United Arab Emirates were estimated to have registered negative real GDP growth rates, 0.6 per cent and 1.0 per cent respectively. The major reason for such low annual growth rates was a sharp decline in oil prices and government revenues. Prices of Saudi Arabian petrochemical products in 1998 were estimated to have been lower than the prices in the previous year by more than 40 per cent. Saudi Arabia's economy was further adversely affected by the reduction in its government expenditures. The United Arab Emirate's real GDP was officially estimated to have contracted, suffering not only from a sharp drop in oil export revenues, but also from a decline in its re-export trade, which was hampered by economic slow-downs in the country's neighbouring trading partners. The economic growth of Kuwait's economy was also adversely affected because of large reductions in planned government expenditures and structural economic imbalances. However, according to preliminary official estimates, it registered a positive 1.0 per cent annual growth. The 1998 economic performance of the other three GCC countries was also below that of 1997, while the economies of Bahrain, Oman, and Qatar were all estimated to have experienced positive growth. The economy of Bahrain is the most diversified economy among the GCC countries and thus benefited from the positive contributions by its non-oil sectors at a time of sharply falling oil revenues. Bahrain's GDP growth rate is expected to have registered 2.2 per cent. Oman benefited from the fruits of its economic reform policies introduced by the Government several years ago. Despite the adverse impact of the sharp decline in oil prices, Oman's GDP was estimated to have grown by 2.5 per cent in 1998. Qatar's economy was estimated to have achieved a real GDP growth rate of 4.4 per cent, the highest among the GCC countries but considerably lower than the 15.5 per cent it achieved in 1997. A major contributing factor to Qatar's economic growth was the 10.5 per cent increase in oil production, coupled with a rapidly rising return on the investment in its liquefied natural gas project.

13. The combined real GDP among the more diversified economies registered a positive 3.58 per cent annual growth rate in 1998. In contrast to the GCC countries, this group was not as adversely affected by the decline in oil prices since late 1997. Nevertheless, repercussions of the dismal economic performance by the GCC countries were felt among some of the more diversified economies. As was the case with the GCC countries, each country experienced a lower growth rate than in 1997. Egypt, the largest economy in this group, is estimated to have grown at 4.7 per cent. This was slightly lower than the 1997 growth rate but none the less the largest among the countries with more diversified economies and also in the entire ESCWA region. Despite the lower oil revenues, greater competition to its non-oil exports, and lower tourism revenues, the Egyptian economy performed remarkably well in 1998 as a result of the economic reform programme the Government had been implementing since 1991 under the guidelines of the International Monetary Fund and the World Bank. Lebanon's economy was estimated to have grown at an annual rate of 3.8 per cent in 1998, close to the rates registered in the previous two years. This was the second highest economic growth rate in this group. The country's real GDP benefited from the expansion in its construction sector which helped to reverse the slow-down that had began in early 1996, and from the rising profits in its banking sector which continued to benefit from the rather high interest rates. After registering high growth rates of over 5 per cent in 1996 and 1997, the economy in the Republic of Yemen

was preliminarily estimated to have slowed to 2.0 per cent in 1998. Given the country's relatively high population growth rate of 3.7 per cent, its real GDP per capita contracted by 1.7 per cent. Among the factors that contributed to the decline were the sharp fall in oil prices and export revenues, the curtailment of Government expenditures in an attempt to prevent the budget deficits from increasing, the poor performance of the industrial sector, and a considerable rise in interest rates on the Yemeni rial owing to the monetary authority's attempt to maintain the exchange rate stability between the Yemeni rial and the United States dollar. Jordan's real GDP, after registering an annual growth of 2.2 per cent in 1997, was estimated to have registered an even smaller rate of 1.7 per cent in 1998. As the country's population is growing at a high rate of 3.3 per cent, its real GDP per capita continued to contract, at a rate of 1.6 per cent in 1998. The deterioration in the economic performance in the GCC countries and the financial crisis in the South and East Asian countries negatively affected Jordan: its exports to these markets significantly declined. The Syrian Arab Republic was estimated to have experienced the smallest economic growth among the more diversified economies in 1998. A number of factors have been attributed to this low 1.5 per cent real GDP growth rate. They included sharp declines in oil prices and revenues since late 1997, falling prices of the country's cotton exports, cut-backs in aid from GCC countries and, as a result, a shrinkage in public investment projects. As for Iraq, its poor economic conditions remained unchanged in 1998 with the continuation of the economic sanctions imposed since 1990. Despite the oil-for-food deal agreed by the Security Council in February 1998 which raised the ceiling of Iraqi oil sales up to more than double the original to US$ 5.26 billion for six months, the country's oil production capability had declined so drastically that it was not able to produce at the allowed maximum, in particular at the time of low oil prices. In the West Bank and the Gaza Strip, real GDP growth was preliminarily estimated to have registered a positive 2.1 per cent in 1998, indicating faster economic growth than in 1997 when the annual growth rate was 1.0 per cent. A reduction in the number of days in which the borders were closed by Israeli authorities might have contributed to this improvement. However, given the population growth rate of 3.1 per cent, real GDP per capita declined by 1.0 per cent.

14. Ten out of the 13 ESCWA members are oil exporters. Changes in oil prices and revenues have a great impact on government revenues, expenditures, budget deficits, economic growth, employment opportunities, intraregional aid and trade, and expatriate workers' remittances. The annual average crude oil basket price of the Organization of Petroleum Exporting Countries (OPEC) in 1998 was estimated to have been US$ 12.3 per barrel, a 34 per cent decline compared with the 1997 annual average. This was the lowest annual average during the past 21 years. Moreover, in real terms, when inflation is accounted for, it was equivalent to the level prevailing before the first major increase in oil prices in 1974. As for oil production, the total output in the ESCWA region increased by 1 million barrels per day in 1998 to 18.3 million barrels per day, compared with the 1997 level. However, this 8 per cent increase in output did not sufficiently counterbalance the 34 per cent decline in prices. Preliminary estimates indicate that oil revenues in the ESCWA region as a whole totalled US$ 67.7 billion in 1998, declining by 28.6 per cent from the 1997 level of US$ 94.8 billion. This was only 37.7 per cent of the peak oil revenues recorded in 1980, US$ 179.7 billion, and resulted in considerable negative effects on economic growth and development in the entire ESCWA region.

15. Oil prices continued to decline in the last quarter of 1998, reaching a monthly average of US$ 9.69 per barrel in December. For a number of reasons, no major lasting improvement is expected in 1999. The reasons include the currently high levels of oil inventories, the expected increases in production in Iraq and Central Asia, and depressed oil demand in the economies of East and South-East Asia, particularly Japan. In spite of the possibility that OPEC prices may remain below US$ 10 per barrel on average in 1999, the prices are projected to average above their 1998 level, although not significantly exceeding US$ 14 per barrel. For the OPEC basket price to increase to an annual average of US$ 14 per barrel in 1999, production by major OPEC members, including those that are also ESCWA members, must be reduced to below their

1998 levels, negating some of the increases in oil revenues owing to higher prices. As a result, the ESCWA region's oil revenues are expected to increase only moderately in 1999. Meanwhile, gas revenues are more likely to increase substantially in several ESCWA member countries, particularly in Oman and Qatar.

16. In addition to the developments in the oil sector, which constitute the crucial factor affecting real GDP growth of the ESCWA region as a whole, the region's economic outlook will also depend on several other factors: the speed and success of the implementation of economic reforms, progress in the Middle East peace process, and developments pertaining to the United Nations economic sanctions on Iraq. The ESCWA region's real GDP is expected to grow by 2.41 per cent in 1999. While this is an improvement upon the 1998 performance, it remains below the region's average annual population growth rate of 2.5 per cent. Thus, real GDP per capital will contract slightly. While two groups within the ESCWA region, the GCC countries and the countries with more diversified economies, will both grow at rates above the 1998 levels, real GDP is expected to grow faster among the latter group (4.32 per cent) than among the former (1.64 per cent). However, on an individual country basis, the highest real GDP growth rate is expected in Qatar, which is projected to achieve a rate of 6.0 per cent. The country will benefit not only from a small rebound in the oil sector, but also from the considerable increases in its natural gas production. Oman is expected to grow at 3.0 per cent, the second highest growth rate among the GCC countries, owing to the benefit from its economic reform policies, encouragement of foreign investment, and rising returns from liquefied gas projects. The economies of Saudi Arabia and the United Arab Emirates are also expected to rebound and their real GDP growth is projected to register a positive 1.5 per cent and 1.3 per cent respectively. Real GDP of Bahrain and Kuwait will also grow in 1999, albeit at smaller percentages. As for the more diversified economies, they are all expected to grow faster in 1999 than they did in 1998. The real GDP of Egypt is projected to accelerate by 5.1 per cent, the highest among this group and the second highest among all ESCWA members. The enhanced performance of privatized companies and an increase in Egypt's non-oil exports through bilateral trade agreements will drive the country's rapid economic growth. Lebanon's real GDP is expected to grow by 4.5 per cent in 1999. It is expected that the combination of declining interest rates and a moderate depreciation of the Lebanese pound, as well as a significant increase in the number of tourists, will stimulate the Lebanese economy. The economies of the Republic of Yemen and the Syrian Arab Republic will benefit from higher oil revenues and enhanced performance by the private sectors. The West Bank and the Gaza Strip are also expected to witness an improvement in economic growth, owing in part to expected financial and technical support from donor communities.

17. Unemployment has been a chronic problem confronting the region's more diversified economies. The situation worsened in 1998 as economic performance failed to generate employment opportunities sufficient to absorb the rapidly increasing labour supply. In addition, the economic slow-downs or contractions in the traditionally labour-receiving GCC countries resulted in decreasing the demand for expatriate workers, which further exacerbated the problem. The Republic of Yemen and Jordan were estimated to have recorded the highest unemployment rates in 1998 in the ESCWA region, with preliminary estimates of 27 per cent and 21 per cent respectively. The fiscal and monetary policies of the Republic of Yemen were both highly contractionary: a sharp drop in the oil revenues forced the Government to curtail its expenditures, and interest rates were raised significantly for the purpose of stabilizing the Yemeni rial against the United States dollar. These factors collectively constrained domestic economic growth, thus raising the level of unemployment. Jordan also pursued restrictive monetary and fiscal policies, and suffered from the decline in employment opportunities in the GCC countries. With its high labour growth rate of approximately 5 per cent, coupled with a large number of foreign workers in the country, the Government of Jordan began implementing a crack-down policy on around 300,000 foreign workers who did not have valid work permits. The Government of Egypt estimated its unemployment rate in 1998 to be slightly below 10 per cent, while other sources, including the International Labour Organization, estimated it at 17 per cent. The economy of Egypt would be required to grow by an average annual rate of 7 per cent for at least five years in order to accommodate the new entrants–450,000 workers a year –into the labour market

and still reduce the overall unemployment rate by five percentage points. In Lebanon, official estimates indicate that the size of the Lebanese labour force in 1998 was 1.36 million, 1.22 million of whom were employed, thus making the unemployment rate around 10 per cent. Unemployment in the Syrian Arab Republic was officially registered as 5 per cent in 1998. However, private estimates indicate significantly higher unemployment rates. The relatively high Syrian population growth of 3.5 per cent at a time of economic slow-down in the country must have significantly increased the unemployment rate or at least under-employment. As for the West Bank and the Gaza Strip, the unemployment rate was preliminarily estimated to have declined from 20.9 per cent in 1997 to 15.6 per cent in 1998. The reduction in the number of days of border closings was the primary reason for such a significant decline.

18. The unemployment problem in the GCC countries is different from that in the more diversified economies. The former have been typically labour-receiving countries in which millions of expatriates work. However, the rapidly increasing indigenous labour force in the GCC countries, which is growing by an average annual rate of 5 per cent, in addition to a combined population growth rate estimated at 3.3 per cent annually, has forced these countries to investigate policies that will create adequate employment opportunities for their own nationals. The current economic slow-down and the reduction in government revenues, however, limited the capacity of these countries to employ more of their own nationals in the private sector in 1998. At the same time, most employed nationals of the GCC countries work in the public sector, in which both salaries and fringe benefits are much greater than in the private sector. Therefore, tremendous difficulties have been encountered in efforts to encourage indigenous workers to move from the public to the private sector. Most GCC countries have now taken concrete measures to increase training opportunities for their nationals and to make the private sector more attractive with better fringe benefits and a guaranteed minimum wage. They also intensified efforts in 1998 to have their nationals replace expatriate workers whenever possible, by giving incentives to private companies to employ nationals or levying penalties on those companies that do not meet a recommended quota of employed GCC nationals in their workforce. Such indigenization policies are being enforced with varying degrees of success. Bahrain has been the most successful. Its public sector has the highest level of local employees among the GCC countries, estimated at around 90 per cent, while in the private sector Bahrainis account for 66 per cent, 38 per cent, and 14 per cent of employees in the banking and finance, manufacturing, and construction sectors respectively. Oman has also achieved some success, to a limited degree, in its Omanization endeavour in the banking and finance sector.

19. Unemployment in the ESCWA member countries is expected to increase in 1999. The Governments of the GCC countries and Jordan are expected to apply more forcefully the policy of replacing expatriate workers with their own nationals and to continue with the policies of expelling illegal workers. Such enforcement will, in turn, add to the difficulties within Egypt, Lebanon, the Syrian Arab Republic, and the Republic of Yemen, which have traditionally been the labour-sending countries in the region.

20. The inflation rates had been declining in the ESCWA region in recent years. They are estimated to have fallen further in 1998 in most countries, except the Republic of Yemen. Most GCC countries had lower inflation rates than the more diversified economies, with the exception of Qatar. The latter was estimated to have witnessed moderate inflation of 3.5 per cent, which was higher than the 2.5 per cent inflation rate in Jordan. Preliminary estimates indicated that four GCC countries, namely Bahrain, Kuwait, Oman, and Saudi Arabia, experienced deflation in 1998. As the currencies of all the GCC countries are pegged to the United States dollar, with the exception of the Kuwaiti dinar which, as noted above, is pegged to a basket of currencies, these currencies appreciated along with the dollar against the Japanese yen, and the currencies of most other Asian and Western European countries. Consequently, the prices of goods imported into the GCC countries from most of their trading partners declined significantly. In addition, given the traditionally prudent monetary policies and the considerable reductions in government

expenditures in the countries concerned, inflation rates were pushed further down to record low levels. At the individual country level, following a small deflation rate of 0.2 per cent in 1996 and a small inflation rate of 0.2 per cent in 1997, Bahrain was estimated to have registered 0.5 per cent deflation in 1998. The inflation rates in Kuwait came down from 3.6 per cent in 1996 to 0.7 per cent in 1997, and finally plunged to a negative 1.3 per cent in 1998. While the Kuwaiti dinar is pegged a basket of currencies, the United States dollar is still dominant in the basket. Thus, a relatively high share of imported goods in the Kuwaiti market resulted in a general decline in prices in 1998. Oman is estimated to have registered a deflation rate of 0.5 per cent in both 1997 and 1998. Qatar's inflation has been higher than that of any other GCC country in the last three years, and was the only rate that was higher than 1 per cent in 1998. While it fell from 7.4 per cent in 1996 and 6.2 per cent in 1997, the 1998 inflation rate still amounted to 3.5 per cent. One contributing factor was that the Government of Qatar pushed for completing the construction of the natural gas projects in the country, and maintained expenditures at planned levels. Inflation rates in Saudi Arabia were 1.2 per cent in 1996, 0.1 per cent in 1997, and moved to a negative 0.8 per cent in 1998. Saudi Arabia curtailed government expenditures significantly in 1998 and also benefited from sharp declines in import prices and weaker upward pressure of wages given the country's economic slow-down. The inflation rate in the United Arab Emirates, as in Qatar, did not turn negative in 1998 since the Government apparently maintained its planned level of expenditures. Nevertheless, the inflation rate fell below the levels in previous years, 4.0 per cent in 1996 and 2.8 per cent in 1997, to 1 per cent in 1998.

21. Among the more diversified economies in the ESCWA region, the Republic of Yemen was estimated to have witnessed the highest inflation rate, at 12.2 per cent in 1998. Owing to its macroeconomic stabilization policies under the ongoing economic reform programmes carried out since 1995, the Republic of Yemen succeeded in reducing its high inflation of 30.2 per cent in 1996 to a more moderate level of 5.4 per cent in 1997. The rate, however, has been on an upward trend owing partly to the depreciation of the Yemeni rial against the United States dollar and partly to the Government policy seeking complete elimination of price subsidies on basic commodities. The Syrian Arab Republic managed to reduce inflation rates gradually, from 8.2 per cent in 1996, to 8.3 per cent in 1997, and to 4.9 per cent in 1998. Curtailed government expenditures, lower prices of imported goods, and slower economic growth resulted in the continued reduction of inflation in 1998. Inflation in the West Bank and the Gaza Strip has also come down steadily since 1996, with a substantial decline from 25 per cent in 1995 to 8.4 per cent in 1996 and 6.1 per cent in 1997. It was preliminarily estimated to have declined to 4.1 per cent in 1998. A sharp decline in the purchasing power of the Palestinian people in the face of high unemployment and low economic growth may explain these changes. The Lebanese pound continued, albeit slightly, to appreciate against the United States dollar, contributing to lowering the prices of imports from Japan and other Asian countries in 1998. This was despite the 2 per cent across-the-board tariffs introduced during that year. Preliminary estimates indicated that inflation in Lebanon was 3.8 per cent in 1998, 4.0 per cent lower than the 1997 level. The currencies of both Egypt and Jordan are basically pegged to the United States dollar and thus appreciated along with the dollar against the currencies of their trading partners in East and South-East Asia. Thus, both countries benefited from the falling import prices. Inflation rates in Egypt came down from 7.2 per cent in 1996 and 4.6 per cent in 1997 to 3.6 per cent in 1998. Jordan also witnessed a gradual decline in its inflation rates, from 6.5 per cent in 1996 to 3.0 per cent in 1997, and to 2.5 per cent in 1998, at a time of reduced government expenditures, tight monetary policies, and a slow-down in economic activities.

22. Most ESCWA members are expected to experience upward-edging inflation rates in the coming years, as import prices are expected to recover and government subsidies are either reduced or eliminated as part of the economic reforms carried out by some member countries.

23. The fiscal positions of Governments in the ESCWA region deteriorated in general in 1998 and the budget deficits as percentages of GDP increased considerably compared with the preceding two years. Among the ESCWA member countries, only Lebanon managed to decrease its budget deficit, from 23.5 per

cent of GDP in 1997 to 15.0 per cent in 1998, while Egypt maintained its budget deficit relative to GDP at basically the same level previously achieved: 1 per cent. All other member countries have registered widening deficit gaps, primarily owing to the steep decline in oil prices and hence oil export revenues. Particularly hard hit were the GCC countries. These countries are usually known to be conservative in estimating oil revenues for budget planning purposes, and used estimated oil prices of between US$ 13 and US$ 15 per barrel in their planned budgets for 1998. In other words, the Governments of the GCC countries predicted that 1998 oil prices would be 20 to 30 per cent lower than the 1997 average OPEC price of US$ 18.7. However, 1998 oil prices turned out to be 34 per cent below the 1997 levels, resulting in a 5 to 18 per cent divergence from the initial conservative estimates made. As a result, these countries were set back, at least temporarily, from achieving the previously set objectives of eliminating the budget deficits by the year 2000. Kuwait had, in fact, registered a budget surplus of 11.4 per cent of GDP in 1997, but is estimated to have ended 1998 with a deficit equivalent to 4.0 per cent of GDP.

24. Qatar's budget deficit in 1998 was estimated to have been 9.5 per cent of GDP, the highest ratio among the GCC countries. In order to complete its large-scale natural gas project, the Government of Qatar failed to curtail expenditures below initially planned levels. Government expenditures were not curtailed significantly in the United Arab Emirates either, and thus that country's budget deficit was estimated to have amounted to 7.5 per cent of GDP in 1998, an increase of 3.9 per cent over 1997. All other GCC countries curtailed government expenditures as oil prices continued to fall throughout 1998 to levels significantly below those planned, and thus their budget deficits remained at relatively small percentages of GDP: 4.0 per cent for Bahrain and Kuwait, and 5.0 per cent for Saudi Arabia. Oman was estimated to have registered the lowest budget-to-GDP ratio among the GCC countries in 1998, at 2.8 per cent, although it was above the 1997 ratio of 0.7 per cent. Not only were Oman's initial budget revenue estimates among the most conservative; government expenditures were also reduced by more than 10 per cent during 1998. Moreover, the country benefited from its economic reform and revenue diversification policies, while its liquefied gas exports increased in 1998, contributing more than 10 per cent of government revenues.

25. The significant decline in Lebanon's budget deficit relative to GDP in 1998 may be attributed to an improved tax collection system, a 2 per cent across-the-board tariff on imported goods and much higher percentages on luxury imports, a 5 per cent service surcharge on hotel and restaurant services, and increased tax revenues from gasoline. Lebanon would have recorded a budget surplus for the first time in many years had it not been for the country's heavy debt service obligations, which accounted for about half of the government revenues. Although Egypt is an oil-exporting country, its economy is fairly diversified and oil revenues do not account for a dominant part of the total government revenues. In addition, the country's accelerated privatization endeavour during 1998 brought in sufficient government revenues. Therefore, Egypt managed to maintain the ratio of budget deficit to GDP at 1 per cent, the lowest among all ESCWA member countries. In the rest of the more diversified economies, namely, Jordan, the Syrian Arab Republic, and the Republic of Yemen, the budget deficit as a percentage of GDP was estimated to have increased in 1998 to 9.3 per cent, 3.6 per cent, and 4.0 per cent respectively, after declining in 1997 from the 1996 levels. Despite the curtailment of government expenditures at a time of dismal economic conditions in the ESCWA region, the sharp drops in government revenues in these countries were too large to be compensated.

26. Budget deficits to GDP ratios of ESCWA member countries are expected to decline in 1999, reversing the 1998 results, as member Governments will better adjust expenditures to expected revenues. Significant increases in non-oil revenues among some members in the region will also help.

II. MONETARY, FISCAL AND FINANCIAL DEVELOPMENTS

27. During the past few years, deceleration in the growth of money supply was particularly pronounced among the GCC countries. This development was matched by a similar deceleration in the growth of bank credit to the private sector. Contributing factors included changes in the composition and level of government expenditures and the restraints on bank credit which were exercised through changes in interest rates, reserve or liquidity ratios, and credit ceilings. In addition, morale suasion was applied for the purpose of directing bank credit to preferred areas, encouraging the sale of treasury bills, notes and bonds, and increasing outflow of liquidity in the form of current and capital transfers for import financing and investment. For example, in Egypt, Jordan, Kuwait, Lebanon, Oman and the United Arab Emirates, a series of measures were undertaken to regulate liquidity and improve monetary management. Such measurements included: (a) the introduction of a system to allow for a variety of liquidity ratios in the bank deposit structure; (b) the allocation of bank current accounts in cash, in time and savings deposits with the central banks, or in current deposits with other local banks at specific rates; (c) currency swap arrangements among local banks to minimize the risk of foreign exchange fluctuations; (d) issuance by the central banks of bills and notes to the account of the finance ministries in order to lay the basis for "open-market operations"; and (e) inter-bank operations involving bank holding deposits and certificates of deposit.

28. Until 1998, there was no proper definition of aggregate money supply in the ESCWA region. No definition existed that would take into account money, credit and financial market instruments, nor include these instruments in the respective money supply aggregates. Consequently, the composition of money supply remained unclear, and a misleading interpretation of the growth rates and movements in money supply resulted. Therefore, the relationships between measures of money supply and economic performance have not been emphasized in any ESCWA member country, nor have money growth targeting procedures been established. Inevitably, the task of stimulating the economy was left entirely to budgetary policies.

29. The monetary policies of most ESCWA member countries have changed fundamentally during the past few years. This is particularly clear with respect to enlarging the availability of financial resources according to the level of economic development. To enhance the effectiveness of monetary policies, the functions of the financial system itself were changed, with a resulting improvement in the process of mobilizing and allocating financial resources and the stronger monetary control mechanism. Achieving these objectives, in turn, necessitated enhancement of the role of market forces in the determining of rates of return and credit allocation. A number of ESCWA members, most notably, Egypt and Jordan, where economic structural adjustment programmes were implemented, made progress during the first half of the 1990s in liberalizing the structure of interest rates, especially those on deposits, and in reducing the scope of preferential rates, particularly for public-sector enterprises.

30. Despite the significant drops in the oil revenues of the GCC countries in 1998 noted above, oil revenues continued to contribute a high percentage, between 70 and 90 per cent, of the total budget revenues of these countries. Owing to such heavy dependence on oil exports, the drop in oil revenues in 1998 affected all aspects of economic activities in the GCC countries, inducing urgent and immediate changes in economic and financial policies. As a result of reassessing their financial and development programmes, the GCC countries introduced significant budgetary restraints in fiscal year 1999. The 1999 budgets of most of these countries represent a cut or a slow-down in the pace of growth in capital expenditures. Moreover, no new development projects seem to have been introduced in these budgets. Capital spending will most probably be limited to small projects or to those already initiated under previous commitments. However, current expenditures, which comprise mainly defence, wages and salaries, subsidies and services, proved more difficult to curtail. The inevitable budget deficits of the GCC countries were financed partly by drawing on their reserves and partly by debt instruments such as government bonds and treasury bills and notes, in the second half of 1998. This pattern is expected to continue in the coming years, as the GCC

countries are expected to face difficulties in establishing a balanced budget in the light of the recent developments in world oil markets. Drops in oil revenues in 1998 also forced the GCC countries to pay more attention to the escalating costs of subsidies and the justification for sustaining their budgetary burden. This has been particularly true of subsidies on water and electricity, which are offered at prices not covering even a fraction of their production costs. In 1999, the Governments of the GCC countries are expected to continue curtailing expenditures while encouraging the private sector's more active involvement in the economy.

31. The ESCWA members with more diversified economies shared three main common characteristics with respect to their budget revenues in 1998: (a) increased shares of domestic revenues in current expenditures and part of capital expenditures; (b) declines in the level of foreign aid and the negative spillover from the GCC countries; and (c) rising levels of domestic public debts. Like the GCC countries, this group also pursued tight fiscal policies in 1998, restricting the growth of both current and capital expenditures. Efforts were made in most of these countries, particularly in Egypt and Jordan, to reduce the amount of subsidies relative to total current expenditures. Improvement in the efficiency of tax collection and public administration in most of these countries during the past few years also contributed to a rise in their domestic revenues. Nevertheless, their taxation systems do not play an effective role in mobilizing available domestic financial resources. The economic reform programmes currently under way in some of these countries are expected to make marked changes in resource allocation within the next few years. Moreover, unlike the GCC countries, which can finance their short-term budget deficits by drawing on their foreign reserves, most of the more diversified economies may have to look for alternative sources to reduce their budget deficits. An increase in budget revenues through a reform of revenue-raising measures, improvements in tax collection methods, and a reduction in the growth rate of budget expenditures through reducing subsidies or debt service payments are examples of such alternatives.

III. DEVELOPMENTS IN THE EXTERNAL SECTOR

32. The ESCWA region's international trade accounted for only 2.1 per cent of total world trade volume in 1996-1997, a significant decline from 7.2 per cent in 1980-1981. The 1996-1997 oil exports from ESCWA members accounted for 75 per cent of the region's total exports. Owing to the collapse in oil prices in 1998, the oil export revenues of the ESCWA region as a whole were adversely affected. The total value of the region's exports in 1998, excluding the West Bank and the Gaza Strip, was estimated at US$ 97.1 billion, a drop of 21.7 per cent from the 1997 level. Optimistic forecasts for 1999 predict an improvement in world oil prices that will lead to an 8 per cent increase in the region's export revenues.

33. Export revenues of the GCC countries, which contributed more than 80 per cent of the ESCWA region's total export revenues, were estimated at US$ 79.4 billion in 1998, a severe decline of 26.4 per cent from the 1997 revenues. The total exports of Kuwait and Saudi Arabia were estimated to have declined by 31.0 per cent and 28.5 per cent respectively in 1998, the largest percentage declines among the GCC countries. Bahrain's total exports declined by 19.8 per cent, the smallest percentage in this group. For the other GCC countries, preliminary estimates of their 1998 total exports show a decrease of 21.1 per cent in the United Arab Emirates, 24.3 per cent in Oman, and 25.6 per cent in Qatar compared with 1997. In contrast to the GCC countries, the more diversified economies were estimated to have registered an increase in their combined total export revenues by 10.0 per cent in 1998 from the 1997 level. The main contributing factor was an increase in Iraqi exports as a result of the oil-for-food deal agreed in February 1998. However, total exports of three countries in this group in 1998 were estimated to have dropped significantly from 1997. These countries were the Republic of Yemen, with the highest rate of decline at 30.5 per cent, the Syrian Arab Republic with a 20.4 per cent decline, and Egypt with an 11.7 per cent decline. For Jordan and Lebanon, non-oil exporters, their exports were estimated to have increased by 5.1 per cent and 15.3 per cent respectively in 1998.

34. The total import values of the ESCWA region in 1998 are estimated to have registered a 2.6 per cent decline from the 1997 level. Two primary reasons were the sharp fall in their oil revenues, which are normally the major source of financing imports, and a significant decline in the commodity prices in world markets during 1997 and 1998. Furthermore, the value of imports from several East Asian countries declined, mainly because of the depreciation of their respective currencies. In 1999, the ECSWA region's total imports are projected to increase by 1.1 per cent.

35. Import values of the GCC countries as a whole in 1998, which accounted for more than 70 per cent of the region's total imports, are estimated to have decreased by 4.8 per cent from the 1997 values. They are projected to increase slightly, by around 0.6 per cent, in 1999. All the GCC countries were estimated to have experienced a decline in imports, with the magnitude of the decline varying within the group, between 3.0 per cent in Oman and 6.5 per cent in the United Arab Emirates. In 1999, however, imports of the GCC countries are forecasted to increase with the exception of Saudi Arabia, where they are expected to decline by 1.0 per cent. Bahrain's imports are expected to record the lowest increase of 1.1 per cent in the group, while the imports of the United Arab Emirates will increase by 3.2 per cent. For the more diversified economies, preliminary estimates for 1998 indicated that their total imports as a group achieved a growth rate of 2.1 per cent, owing primarily to the increase in Iraq's imports, and are projected to increase by almost the same rate in 1999. However, the imports of three countries in this group are estimated to have decreased significantly in 1998 from the 1997 levels: Jordan by 8.6 per cent, Lebanon by 7.2 per cent, and the Republic of Yemen by 6.6 per cent. The imports of both Egypt and the Syrian Arab Republic are estimated to have declined by lower rates: 3.5 per cent and 4.9 per cent respectively. In contrast, imports by all countries in this group are expected to increase in 1999, at growth rates between 2.3 per cent in Egypt and 3.4 per cent in the Syrian Arab Republic.

36. Although the combined trade balance in the ESCWA region had achieved a surplus of US$ 14.5 billion in 1997, it was estimated to have recorded a deficit of US$ 9.4 billion in 1998 as a result of the sharp decline in total export revenues. In 1999, the region's trade balance was projected to remain in deficit and register about US$ 2.9 billion. For the GCC countries as a group, the balance of trade was estimated to have recorded a surplus of US$ 7.1 billion in 1998, compared with a much larger surplus of US$ 32 billion in 1997. In 1999, it may achieve a surplus of US$ 13 billion. Examined individually, three countries in this group, namely Saudi Arabia, Kuwait and Oman, are expected to have achieved a surplus, while the other three are estimated to have recorded a deficit in 1998. As for the more diversified economies, their combined trade balance was estimated to have registered a deficit of about US$ 16.5 billion in 1998, and is forecasted to remain in deficit at US$ 16 billion in 1999. All the countries in this group, excluding Iraq which is under the United Nations economic sanctions, are expected to have trade deficits in 1999, as a group and individually.

37. The export/import ratio of the ESCWA region as a whole reached 1.13 in 1997, representing a slight decline from the 1996 level, and is estimated to have deteriorated in 1998 to only 0.91. It is projected to increase slightly in 1999 to 0.97. For the GCC countries, this ratio decreased from 1.42 in 1997 to 1.1 in 1998 and is forecasted to increase in 1999 to reach 1.18. For the more diversified economies, the ratio was estimated to have increased from 0.48 in 1997 to 0.51 in 1998, and is projected to rise further in 1999 to 0.54.

38. Exports of mineral fuels contributed 75 per cent of the ESCWA region's total exports in 1997. The share of mineral fuels in total exports was 84.2 per cent among the GCC countries as a whole, although it varied from country to country. The share registered 62 per cent in Bahrain, 76 per cent in Oman, and 97 per cent in Kuwait. The structure of exports of the more diversified economies differs significantly from that of the GCC countries. Exports of mineral fuels accounted for 52.7 per cent of the total exports of the more diversified economies as a group, while the contributions of food and live animals as well as manufactured goods were both around 11 per cent. Egypt's exports of manufactured goods reached 25.6 per cent of its total exports, and the share of exports of mineral fuels was 45.3 per cent. While Jordan and Lebanon are not mineral fuel exporters, Jordan's exports of crude materials and chemicals are on the rise, and manufactured goods contributed significantly to Lebanon's exports. In the Syrian Arab Republic, mineral fuels as well as food and live animals made up most of the country's exports, with shares of 63.6 per cent and 18 per cent respectively. As for the Republic of Yemen, the exports of mineral fuels contributed more than 95 per cent of the country's total exports.

39. Three categories of imported goods made up most of the ESCWA region's imports: machinery and transport equipment contributed 30.7 per cent of the total imports, manufactured goods contributed 19.4 per cent, and food and live animals 15.9 per cent. The import structure of the GCC countries as a group is similar to that of the entire ESCWA region, with the contribution of machinery and transport equipment being slightly higher at 37.8 per cent. Bahrain's import structure is different from the rest of the GCC countries, with its mineral fuel imports representing the highest contribution in the ESCWA region at 36.6 per cent owing to refinery and re-export operations, and with the imports of machinery and transport equipment accounting for only 18.3 per cent. The shares of machinery and transport equipment imported varied among other GCC countries, from 35.5 per cent in Saudi Arabia to 50.6 per cent in Qatar. Among the more diversified economies, the contribution of machinery and transport equipment to the total imports registered 25.8 per cent. In addition, the shares of food and live animals as well as manufactured goods imported by the countries with more diversified economies totalled about 20 per cent. While machinery and transport equipment, food and live animals, and manufactured goods made up most of the imports of Egypt, Jordan, Lebanon and the Syrian Arab Republic, the imports of food and live animals by the Republic of

Yemen contributed about 28.5 per cent of the country's total imports, the highest percentage in the ESCWA region.

40. The developed market economies represent the largest export outlets for the ESCWA region, and their share in the region's total trade volume increased from 48.2 per cent in 1996 to 50.4 per cent in 1997. While the share of exports to the European Union (EU) decreased significantly, from 17.9 per cent to 13.8 per cent in the same period, there was no change in the shares of Japan and the United States of America, which accounted for 22 per cent and 9.2 per cent of exports respectively. The share of developing countries decreased slightly from 42.3 per cent to 41 per cent, owing to the reduction in the share of Asian developing countries by almost 2 per cent at the time of the Asian crisis. As for imports by the ESCWA region as a whole, the total volume from developed market economies decreased slightly, by 0.6 per cent. The share of the EU decreased by 2 per cent between 1996 and 1997, while there was no significant change in the share of either the United States or Japan. Moreover, the share of imports from developing countries decreased by 1.5 per cent, while the imports from the Asian developing countries jumped from 15.5 per cent to 20.2 per cent, owing mainly to the depreciation of their currencies.

41. Intraregional trade improved in 1997, increasing to 8.6 per cent of the ESCWA region's total exports and 10.8 per cent of its total imports, up from the 1990 and 1996 average levels of 7.9 per cent and 9.2 per cent respectively. However, intraregional trade within the ESCWA region is still very limited compared with the 38.7 per cent in the North American Free Trade Agreement (NAFTA) area or the 57.5 per cent in the EU. Combined interregional exports and imports among the GCC countries reached 7.6 per cent and 8.5 per cent respectively of their total export and import volumes in 1997. The share of intraregional trade of the more diversified economies was slightly higher, at 17.7 per cent of the total exports and 9.3 per cent of the total imports. The 1997 intraregional trade balance recorded a surplus for the GCC countries at US$ 40 million and a deficit at US$ 697 million for the more diversified economies.

42. The current account balance of the ESCWA region, excluding Qatar, the United Arab Emirates, Iraq and Lebanon owing to a lack of data, recorded a surplus of US$ 9.5 billion in 1997, representing an increase of about 18 per cent from the 1996 level. In 1998, the balance was estimated to have recorded a deficit as a result of the drop in export revenues. The GCC countries as a group had a surplus of about US$ 8.8 billion in 1997, which was 8.7 per cent over the 1996 level. Only Oman in this group had a deficit, at US$ 54 million. The more diversified economies also achieved a surplus in 1997 of US$ 726 million in contrast to a deficit recorded in 1996. All the countries in this group had a surplus in 1997, with the magnitudes varying between US$ 15 million in Jordan and US$ 464 million in the Syrian Arab Republic.

43. Tourism receipts of the ESCWA region, excluding Qatar and the United Arab Emirates owing to a lack of data, reached about US$ 8 billion in 1996, compared with US$ 7.3 billion in 1995. The contribution of the GCC countries to the region's total receipts was 22.6 per cent, with Saudi Arabia being the leader in this group with US$ 1.3 billion. The more diversified economies have contributed US$ 6.2 billion, or 77.4 per cent of the total receipts of the region. Egypt is the most significant country in the region in the area of tourism, its receipts representing about 40 per cent of the region's total receipts, and 4 per cent of the total Egyptian GDP. In 1996-1997, the country's tourism revenues reached US$ 3.4 billion. The second country in this group with respect to tourism is the Syrian Arab Republic, with tourism revenues reaching about US$ 1.5 billion in 1996. Tourism receipts of Jordan and Lebanon in the same year reached US$ 770 million and US$ 715 million respectively.

44. Combined workers' remittances of five ESCWA member countries, namely, Egypt, Jordan, Lebanon, Oman and the Republic of Yemen, totalled about US$ 8.1 billion in 1996, representing an increase of 0.9 per cent over the 1995 level. Workers' remittances in Egypt, the leading labour-sending country in the region, reached US$ 3.5 billion in 1997-1998 compared with US$ 3.25 billion in 1996-1997. The

remittances to Lebanon reached about US$ 2.5 billion in 1996, equivalent to 53 per cent of the country's total exports of goods and services. In Jordan and the Republic of Yemen, the remittances of the expatriate workers of these two countries totalled US$ 1.5 billion and US$ 1.1 billion respectively. In contrast, Omani workers' remittances were very small, at US$ 39 million in 1996.

45. International reserves, minus gold, in the ESCWA region, excluding Iraq and the Syrian Arab Republic owing to a lack of data, increased as of May 1998 by 1.3 per cent over the 1997 level, reaching US$ 53.7 billion. The GCC countries' international reserves, accounting for 45.2 per cent of the ESCWA region's total reserves, increased by 3.2 per cent in 1998 from 1997. The GCC countries' international reserves could cover imports for only 3.7 months in 1998, compared with an average of 12.5 months in the 1970s and an average of 8.2 months in the 1980s. The international reserves of the countries with more diversified economies as a whole amounted to US$ 29.4 billion in 1998, a 0.2 per cent decrease from the amount in 1997. Egypt's international reserves reached US$ 20.1 billion, the largest among all ESCWA member countries, accounting for 37.4 per cent of the total reserves in the region in 1998. This large amount was sufficient to finance the country's imports for 18.4 months, in contrast to an average of only one-month coverage periods during the 1970s and the 1980s. The international reserve positions also improved in 1998 in Jordan, Lebanon and the Republic of Yemen, enough to cover imports for around six months in both Jordan and the Republic of Yemen, and 9.6 months in Lebanon.

46. External debts of six ESCWA member countries, namely Egypt, Jordan, Lebanon, Oman, the Syrian Arab Republic, and the Republic of Yemen, were reduced significantly during the 1990s. The combined total debt of these countries was US$ 71.6 billion in 1996, indicating a 4.77 per cent decline from the 1995 level. Egypt had been the most indebted country in the region, but has made significant progress since the second half of the 1980s, with its external debt amounting to US$ 29.98 billion in 1997. This amount indicated a 6.22 per cent decline from the 1996 level and represented 46.3 per cent of GDP. In the Syrian Arab Republic, the external debt recorded a slight increase of 0.48 per cent in 1996 over 1995 to reach US$ 21.4 billion, which represented 130.5 per cent of total GDP. Jordan's external debt decreased by 5.55 per cent in 1997 from the 1996 level, registering US$ 7.7 billion. This represented 109.5 per cent of the country's GDP. External debt of the Republic of Yemen had been reduced significantly at a rate of 46.73 per cent between 1995 and 1996, but increased slightly in 1997, reaching US$ 3.35 billion. This represented 62.1 per cent of GDP. Lebanon's external debt increased sharply in 1997 at a rate of 25.5 per cent over the 1996 level, reaching US$ 5.0 billion. Oman's external debt reached US$ 3.4 billion in 1996, which was low relative to the country's GDP, representing about 24.6 per cent.

IV. ENVIRONMENTAL CONDITIONS

47. While most ESCWA members are blessed with large combined oil and natural gas reserves, the region is less fortunate in general with respect to two other critical natural resources: productive land and accessible renewable water resources. The region's accelerated economic growth and development and urbanization during the past decades have evidently been putting significant pressures on its limited natural resources and stressing the environment. In the absence of integrated national conservation strategies, the abuse of soil and water has led to soil degradation, loss of fresh non-renewable water reserves, and deterioration in water quality. The limited capacity of the ESCWA region's fragile ecosystems to exploit the natural resources and to process the generated wastes, as well as to maintain its life-supporting potential, are rapidly becoming jeopardized.

48. More than three quarters of the land in Western Asia is desert, and an increasing part of the permanent pasture has been subject to soil erosion as a result of the reduced vegetation cover. Agriculture in the ESCWA region remains severely constrained by the limited areas of arable land, the scarcity of suitable water resources, and the unfavourable arid climatic conditions. The aridity of the environment, deforestation, overgrazing and the extension of cereal crops into rangelands have led to the deterioration of natural vegetation cover and accelerated desertification. Most Governments in the region, in particular those of Jordan, Lebanon, Saudi Arabia, the Syrian Arab Republic and the United Arab Emirates, have exerted efforts to ensure forest conservation, green belt development, biological sand dune fixation, roadside plantations, afforestation and reforestation, and have succeeded in stabilizing the situation to a great extent.

49. The water scarcity in the ESCWA region dictates that the region's overwhelming environmental priority must be the conservation and protection of its water resources. At present, the unsustainable withdrawal of water from currently available surface and groundwater supplies is a major cause of water scarcity in the region. In addition, the progressive deterioration in the quality of groundwater is a major issue to be addressed in the entire region. The discharge of raw and partially treated wastewater from agriculture, industry, and municipalities into watercourses has not only subjected agricultural land and water resources to severe pollution, but has also raised serious public health concerns. The urgent need for safe drinking water increased the demand on desalinated water, with negative environmental implications and the overdrafting of exhaustible groundwater resources.

50. Industrial activities in the ESCWA region consist mainly of extraction and manufacturing. While massive and modern industrialization continues to make progress in incorporating advanced technologies into the national infrastructures, the region's environmental interests remain, in general, marginalized. For example, technological advancement and know-how is limited in the areas of processing, recycling and reprocessing. Environmental aspects have been practically ignored in the decision-making process for the setting up of industrial activities in most of the ESCWA member countries. The marine environment in the region is also increasingly threatened, particularly in the near shore. Contributing factors to the marine environmental deterioration include oil exploration and exploitation, rapid economic growth, overfishing, physical alteration of the coastlines by dredging and filling, discharge of raw sewage, disposal of untreated industrial effluents, and dumping of waste oil and debris. The situation has been further complicated by the continuous encroachment of population onto the coastal areas.

51. Human activities in the ESCWA region are concentrated in urban areas, thereby creating heavy demand for natural resources, such as energy, fresh water, food and land, as well as the demand for basic services and infrastructure, such as sanitation and waste disposal services, education, health care, roads and public transportation. These patterns will ultimately lead to a high rate of environmental degradation by augmenting the emission of air pollutants, water pollutants, domestic wastes, toxic and hazardous wastes, and depletion of resources. The region has a diversity of habitats owing to its variations in climate, geology,

amount and distribution of rainfall, and elevation. Recent overgrazing, deforestation and hunting have, however, resulted in desertification and the disappearance or extinction of some native plants and animals.

52. ESCWA member countries are facing severe environmental degradation caused by high rates of population growth and economic growth, along with the accelerated urbanization. At the same time, environmental protection measures are not stringent in the region in general, thus leading to serious deterioration in the environmental and health conditions. The reasons for this unsustainable pattern of development in the ESCWA region include poor institutional arrangements, a lack of environmental, economic, and social information, a lack of public participation in the decision-making process, and severe inadequacies in institutional capacities and qualified human resources.

53. The issue of environmental dumping is particularly important in the ESCWA region since many ESCWA member countries are in the process of opening their economies to foreign investors and encouraging export–oriented industries. Integrating environment management into socio-economic development planning and decision-making processes is crucial, but has not been taken seriously: hence the absolute failure to adopt long-term strategic perspectives. None the less, environmental management has received greater attention on the global scale over the past few years, with the popularization of the concept of sustainable development. This newly developed trend has prompted policy makers in the ESCWA member countries to review their older ideas and tools of environmental management and to seek strategies to implement intricate formulas of coordination and integration of environmental issues in development planning.

54. Development of national environmental strategies and action plans is a powerful tool in this direction. Improving environmental institutions and management systems by allocating resources and linking environmental issues with economic planning and policy-making is considered a top priority for achieving sustainable development. In addition, public participation in the environmental aspects of socio-economic development will enhance the decision-making process and ensure its implementation.

V. SOCIAL DEVELOPMENTS

55. The United Nations Development Decades, which began in the early 1960s, are drawing to the end of the Fourth Decade. While international and regional efforts to deal with development goals to attain social justice continue, these efforts are still marred by political tensions and financial turmoil. The crises in Asia in 1997-1998 and in Russia in 1998 affected world financial and trading markets, which, in turn, placed severe obstacles to the attainment of social development goals in many countries. The overall development efforts of ESCWA member countries are being tested, as indicated by the bleak forecasts for employment, economic growth and international financial stability. Because of political tensions and non-adherence to Security Council resolutions in the region, precious resources that could be used to achieve socio-economic development objectives continue to be diverted to arms and military expenditures.

56. The population of the ESCWA member countries grew, between 1978 and 1998, from 87.8 million to 157.6 million, an average annual increase of 2.9 per cent. The population in the ESCWA region constituted around 59 per cent of the population of all Arab countries and 4.4 per cent of the total population of Asia. The population in the ESCWA region as a whole is projected to reach 166 million by the end of the century and 210 million in the year 2010, accounting for 5.0 per cent of the population in Asia and 3.1 per cent of the world population. The population in the ESCWA region is relatively young, with a large proportion under the age of 15. In 1998, about 41 per cent of the population were below 15 years of age, while only 4.0 per cent were older than 65. The total fertility rate declined from 6.8 in 1978 to 4.4 in 1998, or by 2.1 per cent annually. Nevertheless, with the disproportionately high percentage of young people reaching child-bearing age, the growth momentum will increase the region's population rapidly, in spite of the decline in the average fertility rate. Another factor contributing to the fast increase in the population is improvement in average life expectancy at birth. It was recorded at 71.0 for females and 68.2 for males in 1998. In comparison with two decades ago, women now live 8.9 years longer and men 9.2 years longer. Iraq is the only country where life expectancy at birth has dropped, by 3.2 years for men and by 1.9 years for women.

57. Given the rapid increase in the number of the unemployed in the ESCWA region, new entrants to the labour force who do not find suitable jobs represent a greater threat to social stability than the long-term unemployed who would have joined the informal sector. In Egypt, for example, the traditional labour-absorbing mechanisms of government employment, public enterprises and, to a lesser extent, external migration are no longer effective. At the same time, job creation in the private and manufacturing sectors has been slow and unable to absorb the excesses in the public sector. Most new jobs are in the low-productive, low-wage service and agricultural sectors, thus resulting in the continued deterioration of labour productivity. One solution is to upgrade the quality of education to meet the technical requirements of the twenty-first century, with emphasis on cognitive and technically advanced skills. Such improvements require a re-evaluation of government budget allocations to reflect the increases in the number of institutes of higher education and the expansion of vocational training programmes. The role of the private sector should also be restructured to become complementary to the public sector.

58. In spite of the considerable progress made in the status of Arab women in the ESCWA region over the past decades, the gender gap in socio-economic status persists in most of the countries in the region. The continued inadequate participation in education of girls and adult women has serious negative implications for their skills development and thus their employment opportunities, and increases the difficulties for them to gain access to income-generating economic activities. Political participation by Arab women has also improved. For example, the number of ESCWA member countries that have granted women the right to vote has increased since the 1970s. The number of women elected to Parliaments has also risen. In 1998, the Syrian Arab Republic had the highest count in the region with 24 women in its Parliament. However, at the regional level, women still occupy a negligible 3 to 4 per cent of the total

number of the country's parliamentary seats. Moreover, the numbers of women appointed to high-ranking government posts or executive levels with decision-making capacities continue to be limited.

59. Although there has been a rise in the share of women in the labour force in the ESCWA region, their participation continues to remain low compared with men. This may be the result of several factors: the prevalence of early marriages, high fertility rates, and family responsibilities, as well as lingering socio-cultural restrictions on female employment. In addition, women's participation in the labour force is usually complex since they are expected to perform multiple roles, encompassing careers, housekeeping and child care. The highest percentages of economically active women in the region have been recorded in Lebanon and Egypt, while the lowest rates have been in the GCC countries. The majority of working women in most ESCWA member countries are employed in the services sector, which is considered socially and culturally more acceptable. In some countries, however, the concentration of women in the primary sector is relatively high, but they are under-represented in the industrial sector. For example, in Egypt, the Syrian Arab Republic, and the Republic of Yemen, 50 to 60 per cent of the working women are engaged in the agricultural sector.

60. The urban population has been growing faster than both the total and rural population in the ESCWA member countries as a whole. While in 1975 only 47 per cent of the region's total population lived in urban areas, this number increased to 53 per cent in 1985 and to 57 per cent in 1995, and is expected to reach about 60 per cent by the year 2000. This development indicates that urbanization in the region is progressing faster than in other developing countries, in which only 41 per cent of the total population are expected to live in urban areas in the year 2000. Despite crowded living conditions and poor quality of services delivery in most large cities in the ESCWA region, their continued growth is indicative of the advantages they offer in comparison with smaller towns and villages. Such an urban bias is understandable, as cities generate employment, or prospects for employment, for new migrants. Urban services, including housing, education, health, and recreation, also tend to be of better quality than those provided, if they are available at all, in rural areas. The discrepancy between urban and rural areas is particularly striking with regard to access to safe drinking water and sanitation.

61. Most ESCWA member countries have made considerable progress in extending infrastructure facilities to dwelling units, particularly in urban areas. Some 75 to 90 per cent of households in the GCC countries have a direct connection to water and sewage networks and over 95 per cent of dwellings in these countries are connected to kitchen and bathroom facilities. However, the lower income countries of the region have achieved more modest progress. For example, only 42 per cent of households in Egypt are directly connected to water and sewage networks. Furthermore, in squatter settlements in Sana'a and Hodeida, the West Bank and Gaza, Beirut, Baghdad, Amman and Aqaba, to cite a few examples, households lack any access to adequate housing, sanitation and refuse collection, and this has resulted in serious environmental problems. In contrast, there have been remarkable achievements in extending electricity in most countries of the region, and the urban-rural gap in this respect is minimal.

ANNEX TABLE. SOCIO-ECONOMIC INDICATORS FOR THE ESCWA REGION, 1996-1998

	1996	1997	1998*
Gross domestic product (GDP) (billions of US dollars)[a/] at constant 1992 prices	312.33	322.87	326.14
Real GDP growth rate (percentage)[a/]	3.7	3.4	1.0
Population (in millions)[a/]	126.26	129.50	132.82
Population growth rate (percentage)[a/]	2.5	2.5	2.5
GDP at nominal prices (billions of US dollars)[a/]	354.4	379.3	395.9
Exports (billions of US dollars)[b/]	127.8	123.9	97.1
Imports (billions of US dollars)[b/]	104.5	109.4	106.5
Balance of trade (billions of US dollars)[b/]	23.2	14.5	(9.4)
Current account balance (billions of US dollars)[c/]	8.1	9.5	N/A
International reserves (billions of US dollars)[d/]	48.6	53.0	53.7
International reserves/import ratio (months)[d/]	5.6	6.2	6.1
Crude oil production (millions of barrels per day)	16.4	17.3	18.3
Crude oil revenues (billions of US dollars)	97.4	94.8	67.7
Proven oil reserves (billions of barrels)	489.5	490.0	586.2
Proven oil reserves/total world oil reserves (percentage)	56.0	56.8	57.5
Proven oil reserves/production (years)	96.2	92.2	89.2

Source: Economic and Social Commission for Western Asia, based on national and international sources.

Notes: Parentheses ( ) denote a deficit or negative.
N/A indicates that data are not available.
* Preliminary estimates.
a/ Excluding Iraq and the West Bank and the Gaza Strip owing to a lack of comprehensive data.
b/ Excluding Iraq owing to a lack of comprehensive data.
c/ Excluding Iraq, Lebanon, Qatar, the United Arab Emirates, and the West Bank and the Gaza Strip owing to a lack of comprehensive data.
d/Excluding Iraq, the Syrian Arab Republic, and the West Bank and the Gaza Strip owing to a lack of comprehensive data.
