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**ECONOMIC AND SOCIAL COMMISSION
FOR WESTERN ASIA**

Development Planning Division

**SURVEY OF ECONOMIC AND SOCIAL DEVELOPMENTS
IN THE ESCWA REGION, 1992**

SUMMARY

CONTENTS

	<u>Page</u>
Executive Summary	iv
<u>Chapter</u>	
I. OVERVIEW	1
II. OVERALL ECONOMIC PERFORMANCE	5
III. SECTORAL DEVELOPMENTS	6
IV. SOCIAL DEVELOPMENTS	13

EXECUTIVE SUMMARY

The overall economic performance of the Economic and Social Commission for Western Asia (ESCWA) region, a number of detracting developments and features notwithstanding, improved significantly in 1992--a notable exception being Iraq, which continued to be adversely affected by the United Nations sanctions. This improvement is reflected in higher aggregate output and per capita income levels, marked improvement in the internal and external balance situation, and reduced inflationary pressures.

The region appears to have generally recovered from the consequences of the Gulf crisis. Aggregate gross domestic product (GDP) is estimated to have grown by 4.5 per cent in 1992, after having declined in the preceding two years. All member countries, except Iraq and the Republic of Yemen, shared in the improved performance.

Several developments have contributed to this improved performance. Progress made in the implementation of economic reform programmes has: enabled some traditionally deficit member countries (Egypt and Jordan) to lessen their internal and external imbalances considerably; contributed to the improvement of overall economic performance and prospects; enhanced the member countries' international credit standing, with positive effects on the external debt situation; and reduced inflationary pressures.

While privatization and policies of "opening-up" and deregulation are central to the economic reform programmes advocated by the International Monetary Fund and the World Bank for Egypt and Jordan, the trend has also been gaining momentum in other countries of the region, including the Syrian Arab Republic and the Republic of Yemen. Expanding the role of the private sector is being pursued in the context of liberalizing trade and prices and providing greater incentives for investors (e.g., Law No. 10 of 4 May 1991 in the Syrian Arab Republic, and Law No. 22 of 1991 in the Republic of Yemen). At the same time, increasing attention is being given to raising the efficiency of public enterprises and to economic management.

Remarkable resiliency was shown by some countries in coping with the aftermath of the Gulf crisis. Jordan is notable in this regard with its handling of the returnee problem, in the manner in which it capitalized on their skills and savings, and in finding alternative markets and sources of aid for those who suffered some loss in the Gulf; this is highly significant, given the presumed high vulnerability of the Jordanian economy to external influences and shocks. Considerable progress made by Kuwait in reconstruction, particularly in the rehabilitation of its oil production and export facilities, should also be mentioned.

Though tangible results have not yet been achieved, commitment to the Middle East peace negotiations has held, with potentially far-reaching implications for future growth and development in the region in the event of their successful conclusion.

Other positive features and developments include: (a) the improved prospects for the Lebanese economy, reflected in: the increasingly positive and forthcoming attitude by international and regional lending institutions and aid donors; a significant improvement in the exchange rate of the Lebanese pound (LL)--from LL 2,750 = \$US 1 to LL 1,740 = \$US 1--in the four months up to February 1993, associated with a significant rise in international reserves; and some abatement in inflationary pressures; (b) recovery in non-oil-sector activities in the Gulf (including banking, manufacturing and trade), and capital inflows (including capital repatriated during the Gulf crisis); (c) good agricultural harvests due to abundant snowfall which favourably affected Jordan, Lebanon and the Syrian Arab Republic; the latter has also benefited from the expansion in the production and export of crude oil; and (d) record revenues from tourism and Suez Canal dues in Egypt and the partial recovery of tourism in Jordan.

Other developments and features, however, have continued to detract from performance and development prospects.

Regional cooperation efforts suffered a setback as a result of the Gulf crisis and war; this has persisted, with adverse effects on regional trade, aid and labour flows, particularly for the less-endowed member countries. Frequent border disputes have contributed to strained relations, even among members of the same economic grouping and/or those with traditionally close economic and cultural ties. This is unfortunate, since the weakening of integration arrangements and institutions in the region is taking place at a time when other regions are forging closer economic ties and forming ever larger economic blocs.

Demographic pressures continue to place a severe strain on the limited resources of a number of countries in the region, making the creation of employment opportunities and the provision of social services such as education and health--as well as the generating of adequate savings--increasingly difficult. The unemployment problem has been aggravated by the loss of employment opportunities in the Gulf and by recruitment policies that generally favour labour from outside the region and discriminate against nationals of some member countries, a practice which emerged in the wake of the Gulf crisis.

The priority given to security and defence (accentuated by the Gulf crisis) continues to divert scarce resources away from development. This has also contributed to widening budget deficits in some of the traditionally surplus countries, obliging some of them to resort to foreign borrowing and the liquidation of assets held abroad, and to pursue more conservative aid policies.

Income disparities within and among countries of the region remain a pressing problem which could become a serious destabilizing factor undermining the development process.

The maintenance of economic sanctions by the United Nations against Iraq has continued to impose severe constraints on that country's ability to repair the war damage and resume development and growth.

Intensified efforts by the Israeli authorities to suppress the intifadah have led to further deterioration in the economic and social conditions of people in the occupied Palestinian territories.

In a number of countries, including Iraq, Lebanon, and the Republic of Yemen, inflation and pressure on the national currency have remained untenably high. In Lebanon there was a significant strengthening of the national currency, but the rate of inflation in 1992 is estimated to have reached 120 per cent as prices failed to fall commensurately.

The devastating effects of the Gulf crisis and war and the inability of the main power groups to reach agreement among themselves have hindered the consolidation of institutions and policies in the implementation of the May 1990 unification agreement that brought together Democratic Yemen and Yemen to form the Republic of Yemen.

Attacks on foreign tourists in Egypt since the latter part of 1992, if they continue, pose a threat to the Egyptian tourism industry and thus to a significant source of foreign exchange earnings.

I. OVERVIEW

The region's overall economic performance, a number of detracting developments and features notwithstanding, improved significantly in 1992; a notable exception was Iraq, which continued to be adversely affected by the United Nations sanctions. This improvement is reflected in higher aggregate output and per capita income levels, marked improvement in the internal and external balance situation, and reduced inflationary pressures.

Several developments have contributed to the improved performance. Progress made in the implementation of economic reform programmes has: enabled some traditionally deficit member countries (Egypt and Jordan) to lessen their internal and external imbalances considerably; contributed to the improvement of overall economic performance and prospects; enhanced the member countries' international credit standing, with positive effects on the external debt situation; and reduced inflationary pressures. The gross domestic product (GDP) of Jordan, which grew only marginally in 1991, is estimated to have risen by 8 per cent in real terms in 1992, while the rate of inflation dropped from 8.2 per cent to about 4 per cent. At the same time, the government budget deficit was slashed to 8 per cent of GDP (28 per cent in 1988), and the ratio of external debt to gross national product (GNP) fell from 220 per cent to 150 per cent between 1991 and 1992. Moreover, budget estimates for 1993 foresee, for the first time, that domestic revenues will be adequate to cover government consumption expenditures and a sizeable portion (over 40 per cent) of its investment outlays. Similarly, Egypt has experienced significant improvements in both its internal and external balances, with: the State budget deficit reported at 7.1 per cent of GDP for fiscal year 1991/1992 (24.7 per cent in 1987/1988); the Central Bank's foreign reserves standing at \$US 10.5 billion by the end of June 1992 (\$US 6.3 billion at the end of March 1991); inflation at less than 10 per cent at the end of June 1992, compared with more than 20 per cent a year earlier; and a very substantial reduction in the external debt.

While privatization and policies of "opening up" and deregulation are central to the economic reform programmes advocated by the International Monetary Fund and the World Bank for Egypt and Jordan, the trend has also been gaining momentum in other countries of the region, including the Syrian Arab Republic and the Republic of Yemen. Expanding the role of the private sector is being pursued in the context of liberalizing trade and prices and providing greater incentives for investors (e.g., Law No. 10 of 4 May 1991 in the Syrian Arab Republic, and Law No. 22 of 1991 in the Republic of Yemen). At the same time, increasing attention is being given to raising the efficiency of public enterprise and to economic management.

Remarkable resiliency was shown by some countries in coping with the aftermath of the Gulf crisis. Jordan is notable in this regard with its handling of the returnee problem, in the manner in which it capitalized on their skills and savings, and in finding alternative markets and sources of aid for those who suffered losses in the Gulf; this is highly significant, given the presumed high vulnerability of the Jordanian economy to external influences and shocks. Considerable progress made by Kuwait in reconstruction, particularly in the rehabilitation of its oil production and export facilities, should also be mentioned.

Though tangible results have not yet been achieved, commitment to the Middle East peace negotiations has held, with potentially far-reaching implications for future growth and development in the region in the event of their successful conclusion.

Other positive features and developments include: (a) the improved prospects for the Lebanese economy, reflected in: the increasingly positive and forthcoming attitude by international and regional lending institutions and aid donors (e.g., the financial agreement by which the Italian Government will offer grants and concessional and commercial loans in the amount of \$US 480 million; an agreement with the World Bank for \$US 175 million; and a financial grant equivalent to \$US 37.8 million from the European Commission as a contribution to the reconstruction plan); a significant improvement in the exchange rate of the Lebanese pound (LL)--from LL 2,750 = \$US 1 to LL 1,740 = \$US 1--in the four months up to February 1993, associated with a significant rise in international reserves; and some abatement in inflationary pressures; (b) recovery in non-oil-sector activities in the Gulf (including banking, manufacturing and trade), and capital inflows (including capital repatriated during the Gulf crisis); (c) good agricultural harvests due to abundant snowfall which favourably affected Jordan, Lebanon and the Syrian Arab Republic; the latter has also benefited from the expansion in production and export of crude oil; and (d) record revenues from tourism and Suez Canal dues in Egypt and the partial recovery of tourism in Jordan.

Other developments and features, however, have continued to detract from performance and development prospects.

Regional cooperation efforts suffered a setback as a result of the Gulf crisis and war; this has persisted, with adverse effects on regional trade, aid and labour flows, particularly for the less-endowed member countries. Frequent border disputes have contributed to strained relations, even among members of the same economic grouping and/or those with traditionally close economic and cultural ties. This is unfortunate, since the weakening of integration arrangements and institutions in the region is taking place at a time when other regions are forging closer economic ties and forming ever larger economic blocs.

Demographic pressures continue to place a severe strain on the limited resources of a number of countries in the region, making the creation of employment opportunities and the provision of social services such as education and health--as well as the generating of adequate savings--increasingly difficult. The unemployment problem has been aggravated by the loss of employment opportunities in the Gulf and by recruitment policies that generally favour labour from outside the region and discriminate against nationals of some member countries, a practice which emerged in the wake of the Gulf crisis.

The priority given to security and defence (accentuated by the Gulf crisis), continues to divert scarce resources away from development. This has also contributed to widening budget deficits in some of the traditionally surplus countries, obliging some of them to resort to foreign borrowing and the liquidation of assets held abroad, and to pursue more conservative aid policies.

Income disparities within and among countries of the region remain a pressing problem which could become a serious destabilizing factor undermining the development process.

The maintenance of economic sanctions by the United Nations against Iraq has continued to impose severe constraints on that country's ability to repair the war damage and resume development and growth.

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In a number of countries, including Iraq, Lebanon, and the Republic of Yemen, inflation and pressure on the national currency have remained untenably high. In Lebanon, there was a relatively significant strengthening of the national currency in the latter part of the year, but the rate of inflation in 1992 is estimated to have reached 120 per cent as prices failed to fall commensurately.

The devastating effects of the Gulf crisis and war and the inability of the main power groups to reach agreement among themselves have hindered the consolidation of institutions and policies in the implementation of the May 1990 unification agreement that brought together Democratic Yemen and Yemen to form the Republic of Yemen.

Attacks on foreign tourists in Egypt since the latter part of 1992, if they continue, pose a threat to the Egyptian tourism industry and thus to the country's foreign exchange earnings and development.

Developments at the international level were mostly unfavourable. World output, after falling by 0.6 per cent in 1991 in the first global contraction in the post-war era, grew by 0.4 per cent in 1992, i.e., by almost one fourth the rate projected a year earlier (1.5 per cent).

The virtual stagnation in world output in 1992 was largely the result of two major developments. First, the developed market economies grew by a mere 1.5 per cent. Second, production continued to contract sharply in several of the economies in transition in Eastern Europe and the former Soviet Union, recording an average collapse of output of 18.4 per cent. In contrast, the developing countries' performance improved, with an average growth rate of 4.5 per cent, but with wide inter-country differences.

The improvement in the world economy which is forecast for 1993 (2 per cent), mainly reflects: better conditions in the transition economies--a decline of only 3.5 per cent; a growth of 5 per cent in the developing countries (concentrated in Asia)--the highest rate since the 1970s; and slow but improved growth in industrial countries (2 per cent).

With the dismal performance of the world economy in 1992, per capita output fell, and virtually no increase is expected in 1993.

The volume of world merchandise trade grew by about 4.5 per cent in 1992, compared to 3.9 per cent in 1991 (the smallest growth since 1983). This was the ninth consecutive year in which world trade grew more rapidly than world

output--a period that has also been characterized by large-scale international transfers of financial resources. Stronger economic activity in the developed market economies and a slow-down in the contraction of output in the economies in transition are expected to boost the growth of world trade in 1993.

Owing to poor economic performance, the rate of unemployment increased in all major industrial countries from an average of 5.6 per cent in 1990 to 6.3 per cent in 1991 and 6.8 per cent in 1992. It is forecast to remain at this level in 1993.

On the positive side, sluggish growth in the developed market economies reinforced the downward trend in inflation in 1992, reducing it to levels not seen since the 1960s. The average rate of inflation for all developed market economies declined from 4.5 per cent in 1991 to 3.4 per cent in 1992, and it is forecast to remain at this level in 1993. Inflation also became more manageable in Latin America under the impact of stabilization and structural adjustment programmes being implemented in several countries.

An easy monetary policy has been pursued in North America and Japan in order to boost economic growth. Consequently, short-term interest rates in the United States fell in 1992 to 3.3 per cent (third quarter)--i.e., one third their level in mid-1989--while in Japan the decline was from 7.5 per cent to 4.2 per cent. Interest rates in Europe remained high, however, despite weak growth caused by the Bundesbank's tight monetary policy.

II. OVERALL ECONOMIC PERFORMANCE

The region appears to have generally recovered from the consequences of the Gulf crisis and war. Aggregate GDP is estimated to have grown by 4.5 per cent in 1992, having declined in the preceding two years (see table at the end of the present summary). All member countries (except Iraq and the Republic of Yemen) achieved positive growth rates in 1992.

The Gulf Cooperation Council (GCC) countries as a group are estimated to have achieved a 5.2 per cent growth rate in 1992, compared to a 0.8 per cent decline in 1991. The fastest growth (30 per cent) was recorded by Kuwait, where output had dropped by over two fifths in 1991. This robust rebound in the economic performance of Kuwait was largely attributable to the sharp increase in oil production, which by the end of 1992 came close to its pre-Gulf crisis level, and the boom in construction activity to rebuild the country's devastated physical infrastructure, oil installations and basic services. Improved business confidence and an increase in both public- and private-sector investment in several GCC countries enhanced overall economic performance, despite the decline in oil revenues in a number of member countries. Favourable growth rates experienced in non-oil-sector activities compensated partially for the drop in oil revenues.

The economy of Saudi Arabia is estimated to have grown by 6 per cent in 1991 and 4 per cent in 1992, mainly as a result of higher oil production and exports. Despite stagnating oil prices, Saudi Arabia managed to increase its oil revenues by 10.7 per cent by raising the level of oil output.

Oman maintained its earlier good performance, with GDP estimated to have increased by 9 per cent in 1992--up from 7.5 per cent in 1991. As in other GCC countries, growth in the non-oil sector has been the major factor behind the good performance of the Omani economy.

The GCC countries have been intensifying their efforts to diversify and privatize, which include the partial or full transfer of publicly-owned companies--including some of those in the oil downstream industry--to private ownership. However, despite lucrative incentives provided to the private sector, results have been below expectations. The scope of privatization in the GCC countries is nevertheless expected to expand in the coming years in all sectors of the economy. The financial constraints which emerged as a result of the Gulf crisis and war have had a strong dampening effect on public expenditures; this is likely to continue for some time, implying increased opportunities for private-sector participation.

Among the more diversified economies of the region, Jordan is estimated to have achieved the highest growth rate (8 per cent), compared with only 1.1 per cent in 1991. The central factor behind this robust upswing is the boom in the construction sector, boosted by sharp rises in demand and investment and financed mainly through the returnees' repatriated savings. In 1992, 6 million square metres were licensed, and the number of housing units increased by 20,000--or 16 per cent--over 1991 figures. Increased investments in the manufacturing sector, as well as a very good agricultural season, also contributed to Jordan's good performance.

The Egyptian economy is estimated to have grown by 3.5 per cent in 1992. Higher oil revenues, earnings from tourism and Suez Canal dues, improvement in the country's balance-of-payments position, and the increase in private-sector investment contributed to the general improvement of the economic environment in the country.

In the Syrian Arab Republic, GDP is estimated to have increased by 5 per cent in 1992, boosted by higher public and private investment, a rise in oil production and a good agricultural season.

However, despite the good economic performance achieved in 1992 by the countries with more diversified economies, and the relative success achieved in the implementation of adjustment programmes and policies (notably by Egypt and Jordan, and to a lesser extent, the Syrian Arab Republic), fundamental structural imbalances remain. Egypt and Jordan in particular remain confronted with double-digit unemployment rates and heavy dependence on external financing.

The Republic of Yemen, the region's least developed member country, continued to suffer from the consequences of the Gulf crisis and war, despite their efforts to cope with the massive influx of refugees and returnees. Sharply reduced remittances and aid flows, lower oil revenues, and a series of strikes by civil servants and trade unions all contributed to depress the level of economic activity in the country. The country's GDP declined for the third year in a row, though the decline of 2 per cent in 1992 was lower than that of the preceding two years.

Inflationary pressures continued to pose a serious problem for a number of countries, particularly Iraq, Lebanon and the Republic of Yemen. In the GCC countries, inflation remained mild and under control, though in Kuwait the inflation rate was higher than average, owing mainly to higher reconstruction spending and a large budget deficit. Iraq continued to suffer from high inflation, fueled by severe supply constraints and excessive money supply. Lebanon continued to suffer from high inflation, which was accentuated by the depreciation of the local currency throughout most of 1992. Inflation reached 200 per cent during the first six months of 1992, but subsided somewhat in the latter part of the year. In the Republic of Yemen, inflation remained high, exacerbated by excessive aggregate demand, depreciation of the local currency and a large budget deficit. Though no official figures were available, indications are that inflation was over 50 per cent in 1992, up from about 40 per cent in 1991. In some ESCWA countries, however, inflation rates fell considerably during 1992--particularly in Egypt and Jordan.

Privatization gained further momentum in 1992. The Syrian Arab Republic and the Republic of Yemen had issued earlier investment promotion laws, not only as a vehicle for promoting investment, but also to encourage private-sector participation. In Egypt and Jordan, privatization is being pursued within the framework of economic and financial structural adjustment programmes. While privatization efforts are being made, a number of related issues remain causes for concern, such as how the sale of public enterprises will be effected in the absence of developed financial markets, the budgetary impact of privatization, and the re-employment of workers made redundant.

Unemployment in the labour-sending countries, exacerbated by the Gulf crisis, continues to be a major problem--especially in Egypt, Jordan and the Republic of Yemen. Although no official data are available, indications are that unemployment remains high (double-digit) in Egypt, Jordan and the Republic of Yemen. This is not only affecting living standards, but is also being reflected in increased social tensions. Prospects for resolving the unemployment problem in the short and medium term appear dismal. However, the pressure could be eased considerably if expatriate employment policies in the member countries with labour shortages became more favourable.

III. SECTORAL DEVELOPMENTS

Oil markets in 1992 were relatively calm compared with 1990 and the first half of 1991, with average prices remaining virtually unchanged between 1991 and 1992 at \$US 18.50 per barrel. On the supply side, the year witnessed the gradual return of Kuwait's oil production to close to its pre-Gulf crisis level, and the Organization of Petroleum Exporting Countries (OPEC) production averaged 24.4 million barrels a day (mb/d)--its highest level since 1980. On the demand side, the increase was only marginal (less than 1 per cent), reflecting the persistence of the recession in most Organization for Economic Cooperation and Development (OECD) countries, the hesitant recovery in the United States, and the sharp decline in economic activity in the former Soviet Union and Eastern Europe (the economies in transition).

After declining by 4.2 per cent in 1991, total crude-oil production in the ESCWA region increased by 8.2 per cent in 1992--up from 13.82 mb/d in 1991

to 14.96 mb/d a year later. However, the overall increase conceals large inter-country differences. Those that managed to raise production were Iraq (53.9 per cent), Kuwait (elevenfold), Saudi Arabia (3 per cent) and the Syrian Arab Republic (7.7 per cent)--the first two countries from initially very low levels, with Iraq's output still only about one seventh of its pre-Gulf crisis level. In Bahrain, the United Arab Emirates and the Republic of Yemen, output fell by 2.4 per cent, 2.9 per cent and 10.2 per cent, respectively. As a share of OPEC output, the region's production increased from 56.3 per cent in 1991 to 61.3 per cent in 1992, but remained 1.2 per cent below its 1990 level.

Oil revenues accruing to the ESCWA region increased from \$US 68 billion in 1991 to \$US 77.5 billion in 1992--an increase of 13.8 per cent--but remained 5.2 per cent below their 1990 level of \$US 81.7 billion. The highest increase was recorded by Kuwait, where revenues reached \$US 4.1 billion (compared with \$US 500 million in 1991), followed by Saudi Arabia (10.7 per cent) and the Syrian Arab Republic (3.8 per cent). Revenues fell in both the United Arab Emirates and the Republic of Yemen, by 2.4 per cent and 16.3 per cent, respectively, mainly due to lower output. United Nations economic sanctions still prevented Iraq from exporting oil, with the exception of the 50,000 barrels a day sent to Jordan in repayment of debt.

The share of the ESCWA countries in total revenues earned by OPEC members increased from 52.7 per cent in 1991 to 56.7 per cent in 1992.

Proven oil reserves in the ESCWA region were virtually unchanged between 1991 and 1992 at 574.8 billion barrels, accounting for 57.7 per cent of the world total and 77.4 per cent of the OPEC total. Saudi Arabia possesses 260.3 billion barrels of proven oil reserves, or 45.3 per cent of ESCWA's total and 26.1 per cent of the world total. Iraq comes second with 100 billion barrels, representing 17.4 per cent of the ESCWA total and 10 per cent of the world total. Saudi Arabia, Iraq, Kuwait and the United Arab Emirates together account for 55.5 per cent of world proven reserves. These reserves can sustain ESCWA's current oil output for another 105 years, compared with only 43 years for the world as a whole. However, within ESCWA, this figure varies from country to country--115.6 years for the United Arab Emirates and 84.4 years for Saudi Arabia to only 6.7 years for Bahrain and 8.8 years for the Syrian Arab Republic.

The ESCWA region holds slightly more than 17 per cent of the world's natural gas reserves, rendering it a potentially significant contributor to the steadily expanding international gas market. World trade in gas and related products increased during 1991 by 4.6 per cent, accounting for 15.2 per cent of marketed gas. Though most of the gas is geared for local consumption, the ESCWA countries with large reserves are undertaking export-oriented development projects (such as Qatar's three-phase North Field development project). Europe and Asia are considered potential markets for gas from the region, and a number of agreements were concluded during 1992 for gas purchase once production and export facilities are in place.

Proven gas reserves in the ESCWA region increased by 14 per cent during 1992, mainly due to discoveries in Oman, Egypt, the Republic of Yemen and Qatar. At current production rates, enough gas is available for the region as a whole for 258 years, compared to 65 years for the world.

Growth of the agricultural production index in 1992 varied from 1.7 per cent in Egypt to 48 per cent in Jordan. Despite an increase of 5.2 per cent in the cultivated areas, the region's production of cereals fell 3.5 per cent from the year before. The region achieved a 3.8 per cent growth in vegetable production, owing to the expansion in the use of greenhouses in most ESCWA countries. Production of fruits grew by 1.8 per cent. Moderate increases were also realized in the production of pulses, potatoes and sugar beets. Oil crop production decreased, while animal production (red and poultry meat, eggs, and dairy products) achieved some growth, which varied from one country to the other.

While the agricultural commodities' share of total imports was estimated at around 17.1 per cent in 1991, their share of exports was a mere 2.6 per cent. The deficit in agricultural trade decreased from \$US 12.5 billion in 1990 to about \$US 11 billion in 1991. This decrease, however, is a short-term phenomenon associated with the situation in Iraq and Kuwait.

Manufacturing activity in the ESCWA region declined by 8.3 per cent (value added at current prices) in 1991, having grown by only 2.7 per cent in 1990. This contraction came about despite the significant recovery achieved by Kuwait. Excluding Iraq (where the sector continued to suffer from the consequences of the Gulf crisis) and Kuwait, the manufacturing sector recorded a growth rate of 8.8 per cent, owing mainly to the strong performance of the food, beverage, clothing and construction industries.

Apart from Iraq and Kuwait, where manufacturing activities have focused mainly on reconstruction and restoration works, industrial performance remained strong. The relative share of the GCC group of countries in manufacturing activity in 1991 improved, mainly due to the destruction of Iraq's industrial base and to the sanctions. The outlook for the sector will depend mainly on improvements in the investment climate, on the ability to mobilize domestic, private and foreign investments, and on the success in finding export markets for the region's products. For the GCC countries, the growth of their petrochemical industry will be greatly affected by whether these countries succeed in negotiating better market-access terms with the European Community (EC) countries. In the diversified economies, particularly Egypt and Jordan, the performance of the sector would be boosted by the success of ongoing economic adjustment programmes.

The transport sector in the ESCWA region continued its robust growth in 1992. Most countries are currently placing high priority on transport projects in their development programmes. Efforts are also being made to reduce dependence on foreign resources for implementation. The modal split of investments in the transport infrastructure remains the subject of particular consideration based upon the priority given, in each country, to specific transport modes. Among the fundamental objectives of transport planning and policy formulation are the optimization of supply of transport services, the extension of transport networks and the harmonization of conditions for competition or complementarities among various transport modes.

However, despite strong performance by the transport sector in general, maritime transport still suffers from the impact of the Gulf crisis as reflected in reduced deadweight tonnage of the merchant fleet.

The aggregate dollar value of the region's exports (excluding Iraq and Kuwait) declined in 1991 to \$US 89.3 billion, i.e., by 12.9 per cent--as oil prices returned to their pre-Gulf crisis level, economic sanctions against Iraq deepened and the disruptive effects of the Gulf crisis on trade were not resolved. At the international level, the economic recession and deepening economic and financial difficulties facing the former Soviet Union (a strong trade partner of some countries in the region) and other Eastern European countries affected the region's export performance.

Apart from Saudi Arabia and Qatar, where the value of exports increased in 1991 by 10 per cent and 6.4 per cent, respectively, the remaining GCC countries recorded declines which ranged between 9.4 per cent for Bahrain and 6.5 per cent for Oman.

The Republic of Yemen and the Syrian Arab Republic, both non-oil countries, recorded sharp declines in exports amounting to 28.8 per cent and 22.6 per cent, respectively; this was due to the fall in oil exports in the former, while in the latter the arrangement with the former Soviet Union (which boosted exports during 1989-1990) came to an end in February 1991. Egypt, however, reported a large increase (41 per cent) as its oil exports increased by 50 per cent; and Jordan's exports increased by 6.5 per cent despite the fact that the Iraqi market--Jordan's largest single market--remained closed because of the United Nations economic sanctions.

The region's aggregate imports (excluding Iraq) totalled over \$US 72 billion in 1991, implying a small growth rate of 2.9 per cent over 1990. Other than Egypt and Jordan, where imports declined by 15.7 per cent and 3.5 per cent, respectively, imports increased in all ESCWA countries at rates ranging between 45.4 per cent for Lebanon and 9.4 per cent for Bahrain.

Partial and preliminary data point to improved export and import performance in 1992.

The improvement recorded in the region's ability to finance imports from export proceeds in 1989 and 1990--when the export/import ratio increased by 31 per cent and 11 per cent, respectively--was partly eroded in 1991 by the decline in exports, coupled with higher imports.

The overall geographic distribution of the region's exports remained heavily weighted in favour of the developed market economies, though their share in the total fell from around 54 per cent in 1991 to 51.7 per cent in 1992. The share of the region's other trading partners increased slightly relative to 1990 (developing countries from 23 per cent to 24 per cent, intraregional exports from 9 per cent to 9.5 per cent, former centrally planned economies from 2.2 per cent to 2.5 per cent, and the rest of the world from 11.8 per cent to 12.3 per cent).

The developed market economies recorded further gains as the region's main supplier. After the large increase in their share of imports in 1991, another improvement was recorded in 1992 which raised their share from 60.7 per cent to 61.7 per cent, compared to an average of 57.1 per cent during the period 1988 to 1990. The importance of the United States increased even further in 1992 to reach 17.6 per cent--compared to 15.9 per cent in

1991--and to an average of 12.5 per cent during the period 1988 to 1990; while the importance of the EC declined, the United States continued to be the region's leading supplier. Imports from other developing countries declined slightly, but the biggest reduction occurred in intraregional imports, the share of which dropped from 7.7 per cent in 1991 to 4.7 per cent in 1992.

The combined current account balance of the region (excluding Iraq, Kuwait and Lebanon for lack of data) went back to deficit in 1991, after recording a surplus of \$US 3.9 billion in 1989 and \$US 4.3 billion in 1990. The \$US 21.8 billion deficit in 1991 reflected the decline in the trade surplus from \$US 29.6 billion to \$US 26.9 billion, and the doubling of both the services deficit (from \$US 15.8 billion to \$US 30.8 billion) and the unrequited transfers deficit (from \$US 9.5 billion to about \$US 18 billion).

The deterioration in the region's overall current account occurred despite its improvement in the non-oil economies. The overall surplus of this group increased from \$US 1.9 billion in 1990 to \$US 3.1 billion in 1991 as the surplus on services more than doubled and net unrequited transfers increased by \$US 0.7 billion. Within this group, Egypt led, with its surplus increasing from \$US 0.2 billion in 1990 to \$US 1.9 billion in 1991, followed by Jordan, which succeeded in turning a deficit of \$US 0.1 billion in 1990 into a \$US 0.4 billion surplus in 1991. In the Syrian Arab Republic, however, the surplus was slashed by more than 50 per cent owing to the sharp decline in the trade surplus and the increase in the services deficit.

Aggregate international reserves of the region (excluding Iraq, the Syrian Arab Republic and the Republic of Yemen) increased from \$US 31.4 billion in 1990 to \$US 36.4 billion in 1991. The increase reflected improvement in both the GCC countries' position (from \$US 22.6 billion to \$US 24.9 billion), and in the position of other ESCWA countries--mainly Egypt--from \$US 8.8 billion to \$US 11.4 billion).

Partial and incomplete information for 1992 reflects a slight improvement in the overall reserve position of the region, with marked additions in Egypt and Kuwait, and a substantial decline in Saudi Arabia.

Improvement in the region's international reserves allowed member countries to provide for imports and other foreign-exchange outlays, thus decreasing their external exposure and vulnerability. The reserve/import ratio for the region as a whole increased from 5.3 months in 1990 to 6.6 months in 1991. Improvement in the reserve/import ratio, however, was much higher in the non-oil economies relative to GCC countries, rising from 6.4 months to 8.2 months in the former, compared to an increase from 6.1 months to 6.8 months in the latter.

Government budgeting and financial planning in the ESCWA region continued to suffer in 1992 from the impact of the Gulf crisis, though to a lesser degree than in the preceding two years, when the crisis seriously affected the availability of financial resources and patterns of expenditures, with defence and security accounting for large portions of allocations. The budgets of most ESCWA countries in 1992 aimed at restoring financial order and economic balance. The increasing budget deficits of the GCC countries were largely contained, owing mainly to the increase in government oil revenues and the

trimming of expenditures (a significant portion of these expenditures caused by the financial obligations resulting from the Gulf crisis). The financial difficulties experienced by a number of ESCWA non-GCC countries in the wake of the Gulf crisis which were due to the loss of foreign financial sources and the reduced capacity to maintain expenditure levels--particularly current expenditures--were also contained, especially as some of these countries were able to improve the process of mobilizing of domestic financial resources and rationalizing expenditures.

Financing budget deficits in most GCC countries was done partly by borrowing (domestically as well externally), and partly by drawing on foreign assets, thus leading to a sharp rise in the indebtedness of these countries and to a significant decline in their foreign financial holdings. The total debt of these countries is estimated at around \$US 90 billion at end 1992, of which \$US 65 billion is domestic; the rest is external.

In other ESCWA countries, financing budget deficits was done partly through borrowing--especially domestic borrowing--and partly through improved tax-collection methods. The budget deficit (as a percentage of GDP) for some of these countries remained high despite the efforts being undertaken to lower it, by increasing the revenue basis and rationalizing expenditures. For example, the budget deficit/GDP ratio for Egypt is estimated to have been around 6.5 per cent in 1992, 2.5 per cent over the anticipated ratio in the country's structural adjustment programme. For Jordan, the ratio has been around 9 per cent, or 3 per cent higher than anticipated in the country's economic reform programme.

Total external debt of the ESCWA region is estimated at over \$US 180 billion at end 1992, with a significant portion of the debt accounted for by Egypt, Saudi Arabia, Kuwait and Iraq. The external debt of the GCC countries is mostly private and/or government-guaranteed public-sector debt, and as such does not represent a major financial burden for these countries, as they can draw on their still substantial foreign financial resources to service it. The external debt of other ESCWA countries, in contrast, represents a heavy liability vis-à-vis the financial capabilities of these countries, especially the populous ones. However, a number of these countries have been able to reschedule significant portions of their external debt. For example, Jordan has been able to reschedule most of its non-commercial (bilateral and multilateral) debt during the last few years. More recently (February 1993) Jordan agreed with the London Club (commercial debt) to buy back its debt at 37 per cent of the face value of the principal and at 48 per cent of the face value of the interest.

In 1992, banks in most ESCWA countries (especially the GCC countries) were highly liquid, owing on the one hand to the return of deposits withdrawn during the Gulf crisis, and on the other to increased government expenditures. To comply with the capital adequacy ratio required by the Bank for International Settlements, most banks in the ESCWA region--especially in the GCC countries--raised their paid-in capital, either by resorting to financial reserves or by issuing and placing equity shares in the domestic market.

The economic outlook for 1993 is not expected to differ significantly from 1992 for the region as a whole. Prospects will be largely governed by: (a) the situation in the international oil market; (b) progress made in the Middle East peace negotiations; (c) internal stability and political developments (particularly in Iraq); (d) the state of cooperation among member countries; and (e) success in removing structural imbalances and ensuring conditions for sustainable development.

The situation in the oil market is not expected to diverge significantly from recent trends; the only major change could be the return of Iraq to the oil market. With its large production capacity and dire need for foreign exchange, Iraq may initially be expected to attempt to maximize production and exports. This would strain the ability of OPEC to maintain supplies at levels consistent with world demand, with adverse effects on the already soft oil prices. World oil demand is not expected to increase significantly in 1993, owing mainly to the continued slow-down in overall world economic activity.

While prospects in the GCC countries remain largely linked to oil, the non-oil sectors are expected to continue expanding.

In the non-oil diversified economies, the outlook for 1993 varies from one country to another. In Egypt, economic performance will be affected by the ability of the Government to maintain the momentum of economic reform, particularly in the direction of privatization and rationalizing the operations and management of public enterprises, as well as by the volume of oil revenues, tourism and remittances. While oil revenues depend on the level of oil prices, which are not expected to change significantly in 1993, revenues from tourism could be adversely affected by anti-tourist attitudes and actions which, by the last quarter of 1992, had already reduced the flow of tourists considerably.

In Jordan, the economy is expected to continue to grow satisfactorily, though at a slower pace than in 1992. Actual performance will largely depend on Jordan's success in attracting additional investments (foreign and domestic) and in finding alternative sources of aid and export outlets where intensive and concerted public and private efforts have been positively rewarded.

In the Syrian Arab Republic, economic performance will depend in considerable measure on the performance of the agricultural sector and oil revenues, as well as on increased private-sector investment--all of which appear to enjoy good prospects.

In the Republic of Yemen, it is expected that poor economic performance will extend into 1993. The country still has insufficient foreign exchange reserves, owing to reduced remittances, aid flows and oil exports. Moreover, economic recovery is being hindered by the lack of progress in translating the 1990 unity agreement into workable policies and institutions.

If present trends continue, prospects for the Lebanese economy in 1993 are favourable and will be strengthened by the ability of the Government to deliver on its main promises.

Performance in 1993 in the countries that were adversely affected by the Gulf war and crisis--notably Jordan and the Republic of Yemen--will continue to be overshadowed by the slow progress in the direction of regional reconciliation.

IV. SOCIAL DEVELOPMENTS

The countries of the ESCWA region are still trying to adjust to the significant social changes that have emerged in the wake of the Gulf crisis. The crisis further aggravated already existing problems, including unemployment, disparities in living standards, poverty, drug abuse, disability, refugees and returnees. High population growth, the massive influx of returnees and reduced aid flows have worsened the poverty problem in several member countries. The situation has been further exacerbated by inadequate employment opportunities and the lack of health, education, and other social facilities, particularly in the rural areas. Deteriorating rural conditions have led to the massive displacement of people and worsening urban poverty. In Iraq, there has been a rapid increase in poverty levels resulting from the Gulf crisis and war and from the economic sanctions imposed by the United Nations Security Council. In Jordan, where almost 30 per cent of the population is considered to live below the poverty line, the Gulf crisis has added further strain. In the Republic of Yemen, though no figures are available, indications are that the poverty level will increase, precipitated by the return of more than 850,000 people from the Gulf region and between 40,000 and 60,000 from Somalia and other parts of eastern Africa.

The spread of education continues unabated in the region and is reflected in improved adult literacy rates, better gross enrolment ratios in primary education, and the setting up of new and specialized higher education institutions responding to emerging specializations (with increasing private-sector participation).

Health conditions in the region continue to improve, with an increasing number of systematic health plans and programmes being implemented by almost all ESCWA member countries--in the process prolonging average life expectancy, reducing infant mortality, and raising labour productivity. In contrast to the general improvement in health services, the health situation in Iraq continued to deteriorate, reflecting inadequate medical supplies and services. The infant mortality rate has quadrupled, and cholera and typhoid--which had previously been eradicated--have returned.

The magnitude of the disability problem in the ESCWA region has been increasing rapidly in recent years owing to armed conflicts such as the Gulf War and the suppression of the intifadah in the occupied Palestinian territories. Furthermore, physical disability caused by violence has traumatic psychological effects. The Gulf crisis and war--and the continuing sanctions against Iraq--have increased the prevalence of disability in that country. Diseases leading to impairment are on the rise, owing to the lack of vaccines and poor sanitary conditions.

The family structure in the ESCWA region has been undergoing a radical transformation. Rapid urbanization, industrialization, migration, armed conflicts and political disturbances have led to a gradual erosion of

traditional values. Certain socio-economic variables, including the increased participation of women in the labour force, are having their impact on the fabric of the family in the ESCWA region and are changing attitudes and values that affect the relationships among family members. The composition of a typical family in the region is still dominated by children and youth (over 61.7 per cent), with very high economic dependency ratios. However, despite this rapid change in the functional structure of families and society in general, family ties in the region remain strong, and the family is still considered the source of cohesion and support for individual members.

Table. Macro-economic indicators for the ESCWA region, 1990-1992

	1990	1991	1992 ^{a/}
Gross domestic product (GDP) (billions of US dollars) ^{b/}	266.3 ^{c/}	249.6	260.9
GDP growth rate (percentage)	(3.7)	(6.3)	4.5
External debt (billions of US dollars)	153.0	157.2	180
Debt service payment (billions of US dollars)	14.5	15.4	..
External debt/GDP (percentage)	54.5	58.2	..
Exports (billions of US dollars)	102.6 ^{c/}	89.3 ^{d/}	..
Imports (billions of US dollars)	70.1 ^{c/}	72.1 ^{e/}	..
Balance of trade (billions of US dollars)	32.5	17.2	..
Current account balance (billions of US dollars)	4.3	(21.8) ^{f/}	..
International reserves (billions of US dollars)	31.4 ^{g/}	36.4 ^{h/}	..
International reserves/import ratio (months)	5.3	6.6	..
Oil production (millions of barrels per day)	14.29	13.82	14.96
Oil revenues (billions of US dollars)	81.7	68.0	77.5
Proven oil reserves (billions of barrels)	569.2	574.9	574.8
Proven oil reserves/total world oil reserves (percentage)	57.6	58.0	57.7
Proven oil reserves/production (years)	109.1	112.5	105.2
Natural gas reserves/total world gas reserves (percentage)	17.0	16.7	17.0
Agricultural imports (billions of US dollars)	14.9	13.4	..
Agricultural exports (billions of US dollars)	2.5	2.4	..
Agricultural trade balance (billions of US dollars)	(12.5)	(11.0)	..
Manufacturing value added (billions of US dollars)	23.0

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

Table (continued)

Notes: Parentheses -- () --- denote deficit or negative. Two dots (...) denote data that is incomplete or not available.

a/ Preliminary estimates

b/ At constant 1985 prices.

c/ Figures for Iraq and Kuwait are for seven months only and total \$US 9.5 billion and \$US 5.8 billion for exports and \$US 5.1 billion and \$US 3.3 billion for imports, respectively.

d/ Excluding Iraq and Kuwait.

e/ Excluding Iraq.

f/ Excluding Iraq, Kuwait and Lebanon.

g/ Excluding Iraq and the Syrian Arab Republic; figures for the Republic of Yemen are for the first quarter only.

h/ Excluding Iraq, the Syrian Arab Republic and the Republic of Yemen.