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Preface

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

The *Survey of Economic and Social Developments in the ESCWA Region, 1995* indicates an improvement in economic conditions in 1995, with the region's gross domestic product registering a growth rate of 2.8 per cent, compared with the meagre 0.8 per cent growth rate in 1994. Most countries of the ESCWA region benefited from the 8.7 per cent rise in oil prices in 1995, which had a very positive and direct impact on Government budgets and external trade balances.

Economic reform and structural adjustment programmes, adopted to correct internal and external imbalances as well as to enhance efficiency and productivity, continued to be implemented in ESCWA member countries, with Egypt, Jordan, and the Republic of Yemen implementing IMF/World Bank-supported economic reform programmes. The role of the private sector in economic development and growth is being promoted, with privatization of public enterprises being undertaken in some member countries.

Despite their improving economic conditions, some countries in the region continue to be beset with many social problems, including high unemployment rates, inadequate housing, poverty, and deteriorating environmental conditions.

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

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

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ABBREVIATIONS AND EXPLANATORY NOTES

b/d	Barrels per day
BCM	Billion cubic metres
BD	Bahrain dinar
CAMRE	Council of Arab Ministers Responsible for Environment
CBK	Central Bank of Kuwait
c.i.f.	Cost, insurance, freight
CIS	Commonwealth of Independent States
DAC	Development Assistance Committee
Dh	UAE dirham
ESCWA	Economic and Social Commission for Western Asia
EU	European Union
FAO	Food and Agriculture Organization of the United Nations
FDI	Foreign direct investment
f.o.b.	Free on board
FRNs	Floating rate notes
GATT	General Agreement on Tariffs and Trade
GCC	Gulf Cooperation Council (includes Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates)
GDP	Gross domestic product
GNP	Gross national product
Gwh	Gigawatt hour
ha	Hectare
IBRD	International Bank for Reconstruction and Development
ID	Iraqi dinar
IDA	International Development Association
IMF	International Monetary Fund
JD	Jordanian dinar
KIA	Kuwait Investment Authority
KPIC	Kuwait Petrochemical Industries Company
KD	Kuwaiti dinar
km	Kilometre
Kv	Kilovolt
Kwh	Kilowatt hour
LE	Egyptian pound
LL	Lebanese pound
LNG	Liquefied natural gas
LPG	Liquefied petroleum gas
LS	Syrian pound
mbd	Million barrels per day
MCM	Million cubic metres
MENA	Middle East and North Africa
MW	Megawatt
NGL	Natural gas liquid
NGOs	Non-governmental organizations
ODA	Official development assistance
OECD	Organization for Economic Cooperation and Development
OPEC	Organization of Petroleum Exporting Countries
qantar	1 qantar = 157.5 kg; 1 metric qantar = 50 kg

QR	Qatar riyal
R and D	Research and Development
RO	Rial Omani
SDR	Special drawing rights
SRLs	Saudi Arabian riyals
t/y	Tons per year
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNIDO	United Nations Industrial Development Organization
UNIFEM	United Nations Development Fund for Women
USAID	United States Agency for International Development
WHO	World Health Organization
WTO	World Trade Organization
YRls	Yemeni rials

Notes: References to dollars ($) are to United States dollars, unless otherwise stated.
Two dots (..) indicate that data are not available or are not separately reported.

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

A hyphen (-) indicates:
(1) The item is not applicable;
(2) Between years or months (for example, 1990-1992 or January-June), the years or months covered, including the beginning and ending of years or months.

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

OVERVIEW

Economic and social developments in the ESCWA region in 1995 were affected by several major factors including: the rise in oil prices in the international markets; the surge in non-oil exports in several ESCWA member countries; notable increases in tourism revenues; some progress in the Middle East peace process; the launching of the World Trade Organization (WTO); the continuation of the United Nations economic sanctions on Iraq; the application of prudent monetary and fiscal policies by most ESCWA members;[1] and the implementation of economic reform in most countries in the region.

The rise in oil prices led to increases in oil revenues in all of the 10 oil-exporting ESCWA member countries,[2] and in turn had a positive effect on their respective balances of trade and government budgets. Oil revenues of the ESCWA oil-exporting countries, which fell by 5 per cent in 1994, rebounded in 1995 and are estimated to have grown by 9.3 per cent to $78.4 billion, up from $71.8 billion in 1994. Most of this increase, however, is attributed to the 8.7 per cent upward adjustment in oil prices.

The ESCWA region's gross domestic product (GDP), excluding Iraq, is estimated to have registered a growth rate of 2.8 per cent in 1995, compared with a meagre 0.8 per cent growth rate in 1994. Owing to the region's relatively high population growth rate, per capita GDP was stagnant in 1995. The region's economy needs to grow at higher rates in order to register positive per capita growth rates and to be able to accommodate the rising number of new entrants into the labour force each year.

Economic growth and performance differed among ESCWA member countries. In the Gulf Cooperation Council (GCC) countries, the highest GDP growth was registered by Oman (4.5 per cent) and the lowest by Qatar (1 per cent). Among the more diversified economies, Lebanon had the highest GDP growth rate (7 per cent), while the Republic of Yemen had the lowest growth rate (0.5 per cent) in 1995.

Owing to the prudent monetary and fiscal policies pursued by most ESCWA members, inflation rates continued to decline in most economies of the region. However, inflation rates in 1995 remained extremely high in the Republic of Yemen (45 per cent) and in the West Bank and Gaza Strip (25 per cent), while Iraq continued to suffer from hyperinflation.

High unemployment rates continued to be a severe problem confronting most of the more diversified economies, particularly the Republic of Yemen and the West Bank and the Gaza Strip, where unemployment rates are estimated at 30 per cent. The unemployment rates in Egypt and Jordan remained high in 1995 at around 15 per cent. Both countries, in implementing economic reform, have been restraining government expenditure in the past few years. The Governments of Egypt and Jordan are implementing macroeconomic policies that encourage the private sector to absorb the large number of new entrants into the labour force, which in Egypt is estimated at around 500,000 annually. The Syrian Arab Republic also suffers from high unemployment, but at rates lower than those in Egypt and Jordan. Although GCC countries are all labour-receiving countries, unemployment is rising among the indigenous population in some of these countries.

Exports of goods in the ESCWA region increased by approximately 8.4 per cent during 1995, while imports rose by around 9.2 per cent. The increase in exports was mainly due to the upward adjustment in international oil prices, which favourably influenced the value of the region's oil exports. In addition, non-oil exports of the more diversified economies also increased considerably, particularly those of Lebanon, Jordan

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

[2] This includes the Gulf Cooperation Council members (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates) as well as Egypt, Iraq, the Syrian Arab Republic and the Republic of Yemen.

and Egypt. A surplus in the region's overall balance of trade was registered in 1995 owing to the surplus recorded by the GCC countries, which outweighed the negative combined balance of the more diversified economies of the region. Current account balances generally improved in 1995, with notable progress made by Saudi Arabia which recorded an estimated decrease in its deficit from almost $9.1 billion in 1994 to $5 billion in 1995. Large outflows of remittances from the GCC countries remain a problem for this group of countries, though the inflow of remittances mitigates the balance of trade deficit recorded by the region's more diversified economies.

The external debt of the countries in the ESCWA region, excluding Iraq, remained in 1995 at almost the same level as in 1994, namely around $182 billion. The decline in the external debt of a number of ESCWA member countries, such as Jordan, Kuwait and Saudi Arabia, was by and large negated by the increase in the external debt of other ESCWA member countries, such as Egypt, Lebanon and the Republic of Yemen.

Economic reform and structural adjustment programmes, adopted to correct internal and external imbalances, as well as to enhance efficiency and productivity—which are particularly essential in a rapidly globalizing world economy—continued to be implemented in most countries in the ESCWA region in 1995. The trend of moving away from an inward-looking economic development strategy, which depended primarily on government involvement in the economy, towards an outward-looking development strategy, which depends on a leading role taken by the private sector, is becoming more apparent. Privatization of public enterprises is taking place, though at a very slow pace, in several ESCWA member countries. New investment and tax laws have been formulated to encourage private investment, both by local and foreign investors. Nevertheless, private foreign investment in the region remained modest compared with other developing regions.

I. INTERNATIONAL ECONOMIC AND SOCIAL DEVELOPMENTS

A. ECONOMIC GROWTH AND TRADE DEVELOPMENTS

1. *World economic growth*

The world economy, which slowed considerably during the 1991-1993 period and rebounded strongly in 1994, is estimated to have continued its buoyant expansion in 1995. The world's aggregate GDP, which recorded a 2.6 per cent growth rate in 1994, the highest since 1990, is estimated to have grown by the same rate in 1995 (table 1). This robust growth has been shared by major country groups, with the exception of the economies in transition, where economic activities are still affected by the transformation process of the economies in transition into market-oriented economies. Even in this group, the deterioration in economic activities that prevailed during the 1991-1994 period slowed considerably during 1995, and it is projected that this group will achieve positive economic growth in 1996.

TABLE 1. GROWTH OF WORLD OUTPUT BY MAJOR COUNTRY GROUPING, 1990-1995
(Annual percentage change in gross domestic product)

	1990	1991	1992	1993	1994	1995[a/]
World	2.8	0.4	1	1.1	2.6	2.6
Developed market economies	2.8	0.8	1.5	1	2.9	2.4
United States of America	1.2	(0.6)	2.3	3.1	4.1	3
European Union	2.7	0.6	1	(0.5)	2.8	2.8
Japan	4.8	4.3	1.1	(0.2)	0.5	0.5
Economies in transition	2	(8.8)	(12.1)	(6.9)	(8.9)	(2)
Developing economies	3.1	3.4	4.9	5	5.4	5
China	3.9	8	13.2	13.4	11.8	10

Source: United Nations, Department for Economic and Social Information and Policy Analysis, "The world economy at the beginning of 1996, note by the Secretary-General", pp. 2 and 19.

Note: ( ) indicates negative.
a/ Estimates.

In the developed market economies, where economic growth in 1994 registered 2.9 per cent (the highest in five years), the pace of economic activities slowed somewhat during 1995, with GDP estimated to have grown by 2.4 per cent. The United States of America's economy, which grew by 4.1 per cent in 1994, is estimated to have slowed in 1995 to 3 per cent. This slight moderation in economic growth in 1995 in the United States reflected the tight monetary policy implemented by the Federal Reserve Board during 1994 to bring economic growth to a more sustainable pace, with both inflation and unemployment kept under control.

The United States monetary authorities raised the federal fund rates several times between February 1994 and July 1995 to slow economic growth and prevent the economy from overheating. The reduction in the growth of domestic demand has contributed to an overall moderation in economic growth. Consumer debt also remained high, which affected spending in 1995 and thus contributed to lower economic growth.

However, the monetary authorities reversed their tight monetary policy in July 1995, when the economic indicators pointed to a lower than expected GDP growth rate for the fourth quarter of 1995.

In the European Union, economic growth recovered in 1994 to a 2.8 per cent growth rate, compared with a contraction of 0.5 per cent in 1993. This was a reflection of stronger growth in both Germany and the United Kingdom of Great Britain and Northern Ireland. In Germany, economic growth rebounded in 1994 to 2.9 per cent, up from a meagre rate of 1.1 per cent in 1993, and it was estimated at 3.2 per cent in 1995.[3] Economic growth in Germany in both 1994 and 1995 was boosted by a strong export sector, despite the appreciation of the deutsche mark against other European currencies and the United States dollar and the construction boom in the eastern part of the country. In the United Kingdom, economic growth, which picked up in 1993 to 2.2 per cent, gathered momentum in 1994 by recording a 3.8 per cent growth rate,[4] among the highest in the major industrialized countries. Economic growth, however, is estimated to have slowed in 1995 to 2.7 per cent,[5] affected by moderation in manufacturing output, lower demand in major industrialized countries and fiscal and monetary contractions.

Japan is the only country among the major industrialized countries where economic recovery did not gather momentum during the 1994-1995 period. Economic expansion remained sluggish despite the stimulative fiscal policy pursued by the Government during those two years. The Government's monetary policy has been supportive of economic expansion, and short-term interest rates were lowered substantially to stimulate borrowing and investment. In addition, as part of its expansionary fiscal policy, the Government has spent about 73 billion yen since 1992 to stimulate growth. However, the economic rebound was hindered by both currency appreciation and by the damage caused by the Kobe earthquake. Currency appreciation slowed exports, which have traditionally been the engine of economic growth in Japan. The country's GDP, which recorded a negative growth rate of 0.2 per cent in 1993 and rebounded slightly in 1994 to a positive 0.5 per cent, is estimated to have grown by the same rate during 1995.

In the economies in transition, the deterioration in economic activities that prevailed in this group of countries during the 1991-1994 period is estimated to have decelerated during 1995. The aggregate GDP of this group of countries, which contracted by 12.1 per cent, 6.9 per cent and 8.9 per cent in 1992, 1993 and 1994 respectively, is estimated to have dropped by only 2 per cent in 1995. Most of these countries have succeeded in lowering their fiscal imbalances and reducing inflation rates; growth picked up in 1994 in some of these countries, including Albania (7.4 per cent), Estonia (6.0 per cent) and Slovenia (5.0 per cent).[6] Moreover, structural adjustment and economic reform programmes implemented during the last five years have succeeded, in most countries of this group, in bringing about economic stabilization, institutional reform and an improved macroeconomic environment. This has induced an inflow of foreign direct investment (FDI), which helped in the resumption of economic growth and the implementation of the privatization programmes.

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[3] International Monetary Fund, *World Economic Outlook*, May 1995 (Washington, D.C.), p. 3.

[4] Ibid.

[5] Organization for Economic Cooperation and Development, *Economic Outlook* 58, December 1995, p. 67.

[6] International Monetary Fund, *World Economic Outlook*, May 1995 (Washington, D.C.), p. 53.

2. *Economic growth in developing countries*

The economies of the developing countries, as a group, continued their brisk growth in 1995. The combined GDP of this group of countries is estimated to have grown by 5 per cent in 1995, compared with 5.4 per cent in 1994 (table 2). Although economic growth decelerated in 1995, it is still robust compared with the last decade and has been coupled with declines in inflation rates. Economic growth in the developing countries in the last two years has been helped by a strong demand for primary commodities by the major industrialized countries, which pushed prices higher. In 1995, oil prices also increased by 8.7 per cent over 1994, and this helped the economic performance of the major oil-producing and oil-exporting countries, including those in the ESCWA region.

TABLE 2. OUTPUT AND GROWTH IN DEVELOPING COUNTRIES, 1990-1995
(Annual percentage growth in GDP)

	1990	1991	1992	1993	1994	1995
Developing countries	3.1	3.5	4.9	5	5.4	5.0
Latin America	(0.1)	2.9	2.2	3	4.5	1.0
Africa	2.2	1.3	0.8	0.4	2.5	2.5
South and East Asia	6.6	5.4	5.2	5.5	6.7	7.1
China	3.9	8	13.2	13.4	11.8	10

Source: United Nations, Department for Economic and Social Information and Policy Analysis, "The world economy at the beginning of 1996, note by the Secretary-General", p. 23.

Note: ( ) indicates negative.

The economies of South and East Asia, excluding China, continued their pattern of robust growth in 1995. The aggregate GDP of this group is estimated to have grown by 7.1 per cent in 1995, the highest in the last six years. Economic growth benefited from a strong export sector, as its products became more competitive with Japanese products, owing to the appreciation of the yen *vis-à-vis* their respective currencies. In addition, the continued inflow of foreign investment, both direct and equity investment portfolio, accelerated economic growth and development in these countries.

China continued its double digit economic growth in 1995. GDP is estimated to have grown by 10 per cent in 1995, down slightly from its 1994 level of 11.8 per cent. Despite the relative deceleration, which reflected the fiscal consolidation introduced by the Government to prevent the economy from overheating, economic growth in China remains the highest in the world. Currently, the main concern for the Chinese Government is how to steer the economy onto a more sustainable path where inflation is kept under control.

In Africa, economic growth in 1995 is estimated at 2.5 per cent, the same level as in 1994 and the highest for several years. Nevertheless, economic growth in Africa continued to lag behind other developing regions. Furthermore, taking into consideration the relatively high population growth rates in many African countries, the per capita growth rate remains dismal, particularly in sub-Saharan Africa. As in the rest of the developing countries, economic expansion in Africa was boosted by higher export revenues in 1995.

Moreover, the economic stabilization and reform programmes and policies being implemented by a large number of African countries improved the economic environment substantially and stimulated growth.

In Latin America, economic growth is estimated to have contracted sharply in 1995. The aggregate GDP growth rate of this group of countries is estimated to have declined to only 1 per cent, down from its 1994 level of 4.5 per cent. The economic recovery that picked up in both 1993 and 1994 decelerated in 1995. Economic growth in this group of countries was negatively affected by the Mexican crisis of December 1994, which resulted from the devaluation and floating of the exchange rate of the Mexican new peso. This led to a considerable outflow of foreign capital, which put severe pressure on the exchange rate and sharply reduced the international reserves of Mexico. The impact of the crisis spilled over to the rest of this group of countries, particularly to those highly dependent on the inflow of foreign capital for investment finance, such as Argentina. Despite the fact that the crisis was a short-term event, it contributed to the contraction of economic growth in many countries in this group in 1995.

In the ESCWA region, economic performance improved in 1995 compared with 1994. The region's aggregate GDP (excluding Iraq, where GDP grew by only 0.8 per cent in 1994) is estimated to have grown by 2.8 per cent in 1995. The economies of the region benefited from the 8.7 per cent increase in oil prices as well as the improved macroeconomic environment created by the implementation of economic reform programmes by several countries in the region.

3. *World trade*

Growth in world trade continued to outpace growth in world output. In 1995, world trade continued its vigorous expansion, boosted by the economic recovery in both the major industrialized countries and in the developing countries. The rebound in primary commodity prices, which is a reflection of the strong demand in the developed countries, boosted the exports of the developing countries. Furthermore, the 8.7 per cent increase in oil prices in 1995 helped the growth of exports of the oil-exporting countries.

However, the growth in this sector is mainly attributed to the economic recovery in both the United States and Western Europe, which boosted demand, including demand for imports. Even in Japan where economic growth remained weak, imports are estimated to have jumped by 14.2 per cent[7] in 1995 as the appreciation of the yen made them more competitive in the domestic Japanese market. In the United States, imports grew by 13.4 per cent in 1994, boosted by higher demand for imports of raw materials, including oil. Despite the estimated drop in 1995 to about 11 per cent, as economic growth became more moderate, the import sector remained strong compared with the 1990-1992 period. Even the depreciation of the dollar in 1995 did not have a strong dampening effect on the inflow of imports.

In the developed market economies, the volume of imports is estimated to have grown by 8.9 per cent in 1995, down from 10.8 per cent in 1994 (table 3).

Despite the moderate deceleration of imports in 1995, the sector remained strong, boosted by higher demand and the appreciation of several currencies, particularly the deutsche mark.

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[7] United Nations, Department for Economic and Social Information and Policy Analysis, "The world economy at the beginning of 1996, note by the Secretary-General", p. 25.

TABLE 3. WORLD TRADE: RATES OF GROWTH OF VOLUMES, 1990-1995

	1990	1991	1992	1993	1994	1995
World Trade	4.8	5.3	6.0	4.2	10.4	9.8
Volume of exports						
Developed market economies	5.0	3.4	4.2	1.8	9.5	8.0
Developing countries	4.6	11.3	9.6	11.7	11.8	12.6
Volume of imports						
Developed market economies	4.6	2.9	4.8	1.0	10.8	8.9
Developing countries	4.9	12.8	11.3	11.3	10.4	13.5

Source: United Nations, Department of Economic and Social Information and Policy Analysis, "The world economy at the beginning of 1996, note by the Secretary-General", p. 25.

Exports of the developed market economies also performed well in 1995, with the exception of Japan. The export volume in this group of countries is estimated to have grown by 8 per cent in 1995, down from a growth rate of 9.5 per cent in 1994. While the exports of North America increased in 1995 owing primarily to higher productivity and the depreciation of the dollar, the growth in the volume of exports of Japan fell in 1995 to 1.4 per cent, down from 1.7 per cent in 1994. The main factors behind this drop were the appreciation of the yen, which made Japanese products less competitive in the world markets, and the lower economic growth in Japan as compared with the rest of the group. In Western Europe the volume of exports also fell slightly in 1995, reflecting a reduced world demand, and for some countries, such as Germany, the currency appreciation reduced the competitiveness of their exports in international markets.

In 1995, both exports and imports in the developing countries continued the solid growth that had prevailed during the previous five years. The volume of exports was boosted by the sharp rebound in the demand for both primary commodities and industrial goods. The developing countries in general, and those in the dynamic growth area in South and East Asia in particular, benefited from the surge in import demand in the major industrialized countries. Moreover, the appreciation of the yen helped to boost the exports of South and East Asian countries by making their products more competitive in the world markets against Japanese exports. Even exports from the oil-exporting countries, which had been depressed by lower oil prices for the past few years, rebounded in 1995 as oil prices increased by 8.7 per cent compared with 1994.

Exports from Africa, which had been depressed during the 1992-1994 period, rebounded in 1995. The volume of exports is estimated to have grown by 5 per cent compared with 1.5 per cent in 1994 and a contraction of 2.2 per cent in 1993. As in the rest of the other developing countries, exports of the African countries benefited from strong demand in the industrialized countries and from higher oil prices. In addition, the integration of South Africa also helped to boost the exports of the continent as a whole. Imports also rebounded in 1995, reflecting a continued economic growth for the continent as a whole. The volume of imports is estimated to have recorded a growth rate of 3.6 per cent in 1995 compared with a contraction of 1.2 per cent in 1994.

In Latin America, however, the Mexican crisis—which had a negative impact on the rest of the region—led to lower economic growth and lower demand for imports, as these countries took measures to reduce their external imbalances. The growth rate in the volume of imports of this group is estimated to have dropped sharply in 1995 to only 3.7 per cent, down from a brisk growth of 15.3 per cent registered in 1994. Exports recorded higher growth rates than imports, reflecting higher demand in the industrialized countries, particularly in North America with which Latin American countries have strong trade relations, as well as the higher oil prices. The volume of exports of this group of countries is estimated to have grown by 7.4 per cent in 1995, down slightly from its 1994 growth level of 9.2 per cent.[8]

B. UNEMPLOYMENT

Unemployment rates in the major industrialized countries, with the exception of Japan, dropped slightly in 1995 compared with 1994. However, despite this drop, unemployment rates remained relatively high in this group of countries. Moderate economic growth reduced the demand for labour in the major industrialized countries, with the exception of the United States, where the unemployment rate remained close to its natural rate. Unemployment remained a major economic problem to be tackled by this group of countries, as economic recovery has not been strong enough to generate sufficient labour demand to make a significant reduction in unemployment. Moreover, in some of these countries, such as Japan, economic growth remained weak, which contributed to a slack labour market. The unemployment rate in Japan is estimated to have reached 3 per cent in 1995, its highest level in the last few years. Japan is the only country in the major industrialized countries where the unemployment rate is estimated to have increased in 1995.

In the United States, the unemployment rate dropped to 5.7 per cent in 1995, down from 6 per cent in 1994 (table 4), despite the slow-down in economic growth. A further drop in the unemployment rate may be expected to lead to higher wages and higher production costs which, in turn, may exert inflationary pressures.

In Germany, unemployment is currently considered a serious economic problem that needs immediate attention. The country's unemployment rate reached 6.9 per cent in 1994, its highest level since 1985. Despite the slight drop in 1995 to 6.7 per cent, the rate is still among the highest in the major industrial countries after France, Italy and the United Kingdom, where the unemployment rates in 1995 are estimated at 11.6 per cent, 11.5 per cent and 8.3 per cent respectively. Both lower economic growth and higher wages contributed to the overall increase in the unemployment rate in Germany.

In France, the unemployment rate is among the highest in the major industrialized countries despite the slight drop in 1995; this was helped by the notable increase in employment in the private sector, which played a big role in moderating the rate of unemployment. The unemployment rate in the United Kingdom dropped from 9.5 per cent in 1994 to 8.3 per cent in 1995 (its lowest level since 1990) and is expected to drop further in 1996 as the economic recovery is projected to accelerate.

C. INFLATION

The most important characteristic of the current economic recovery in the developed market economies is general price stability and the absence, so far, of inflationary pressures. Inflation rates in this

[8] United Nations, Department of Economic and Social Information and Policy Analysis, "The world economy at the beginning of 1996, note by the Secretary-General", p. 25.

TABLE 4. UNEMPLOYMENT RATES IN DEVELOPED MARKET ECONOMIES, 1990-1995

	1990	1991	1992	1993	1994	1995[a/]
All developed market economies	6.0	6.7	7.4	7.8	7.8	7.4
Major industrial countries[b/]	5.6	6.2	6.8	6.9	6.8	6.5
Japan	2.1	2.1	2.2	2.5	2.9	3.0
France	8.9	9.4	10.4	11.6	12.3	11.6
Germany	4.9	4.2	4.6	6.1	6.9	6.7
United Kingdom	6.8	8.8	10.1	10.4	9.5	8.3
United States	5.4	6.6	7.3	6.7	6.0	5.7
Other industrial countries	8.1	8.9	10.1	12	12.4	11.8

Source: United Nations, Department for Economic and Social Information and Policy Analysis, "The world economy at the beginning of 1996, note by the Secretary General", p. 22.

a/ Estimates.
b/ Including Canada, France, Germany, Italy, Japan, the United Kingdom and the United States.

group of countries remained subdued, with the exception of Italy, where inflation remains a cause of concern. For the group as a whole, consumer price inflation in 1995 is estimated at 2.5 per cent, up slightly from its 1994 level of 2.3 per cent, but still only half of its 1990 level of 5 per cent (table 5). Japan continued to enjoy the lowest inflation rate among the major industrialized countries, with both the weak economic recovery and the appreciation of the yen dampening inflationary pressures in 1995. Even the expansionary fiscal policy pursued by the Government in 1995 to stimulate economic growth did not affect price levels. Consumer price inflation in Japan registered only a 0.1 per cent growth rate, down from 0.7 per cent in 1994 and 3.1 per cent in 1990. In Germany, the inflation rate dropped to 2.2 per cent in 1995 from 3.0 per cent in 1994 owing to slow economic growth, currency appreciation and a slack labour market.

In the United States, despite the slight rise in the inflation rate in 1995 to around 3 per cent, inflationary pressures remained generally subdued. The monetary authorities in early 1995 raised short-term interest rates to prevent a resurge of inflation. Economic growth slowed in 1995 to a more sustainable pace, and capacity utilization also dropped slightly, thereby preventing the emergence of strong pressures in the labour market.

In general, inflationary pressures in the major industrialized countries remained largely under control, helped by lower economic activity, a slack labour market that kept the cost of labour relatively low, and fiscal prudence.

In the developing countries, inflation rates in 1995 for this group as a whole are estimated to have been cut in half compared with 1994. Fiscal restraint, reflected in reductions in budget deficits, which is part of the macroeconomic stabilization programmes being implemented by a large number of developing countries, played a major role in reducing inflation rates.

TABLE 5. CONSUMER PRICE INFLATION IN SELECTED COUNTRIES AND GROUPS, 1990-1995

	1990	1991	1992	1993	1994	1995[a/]
All developed market economies	5.0	4.3	3.1	2.7	2.3	2.5
Major industrial countries	4.8	4.2	2.9	2.6	2.1	2.4
Germany	2.7	3.5	4.0	4.1	3.0	2.2
Japan	3.1	3.3	1.7	1.2	0.7	0.1
United States	5.4	4.2	3.1	3.0	2.6	3.0
Other industrial countries	6.1	5.2	4	3.7	3.1	3.5
Developing countries	61.7	33.4	35.9	43	48	17.5
Africa	16.3	24.7	29.7	26.8	33.6	21.4
Asia	6.6	7.7	7.1	9.4	13.5	9.9
Western hemisphere	440.8	128.8	152.6	212.3	225.8	36.1
Countries in transition	44.1	94.8	722.3	675.1	295.2	126.9

Sources: United Nations, Department for Economic and Social Information and Policy Analysis, "The world economy at the beginning of 1996, note by the Secretary-General", p. 21; and the International Monetary Fund, *World Economic Outlook*, May 1995, pp. 132 and 135.

a/ Estimates.

For South and East Asia, where economic growth remained high, several countries have pursued tight fiscal and monetary policies to moderate growth so as to dampen inflationary pressure. In Asia, where inflation rose in 1994 as a result of increased foreign direct investment, it is estimated to have moderated in 1995 to 9.9 per cent the lowest among developing regions.

In Latin America, progress has been made in fighting inflation. During the 1990-1994 period, the inflation rate for the group as a whole was cut by almost half as it dropped to 36.1 per cent. Tight monetary and fiscal policies were implemented to reduce inflation rates in this group of countries. Nevertheless, inflation rates in Latin America remained the highest among developing regions.

In the countries in transition, substantial progress in fighting inflation has been made during the last two years. Fiscal prudence, tight monetary policies and weak economic growth in some countries were the main factors behind the drop in the inflation rate for the group as a whole. Consumer price inflation dropped in 1995 to 126.9 per cent compared with 295.2 per cent in 1994 and 722.3 per cent in 1992.

D. INTEREST RATES

Tight monetary policies were pursued in 1995 by several major industrialized countries in order to slow growth to a more sustainable pace. Monetary authorities raised short-term interest rates to slow investment and ensure economic growth at a sustainable pace. In addition, the monetary authorities in some

European countries have raised short-term interest rates in order to prevent their respective currencies from depreciating further, particularly against the deutsche mark.

In the United States, the Federal Reserve Board raised the federal funds rate several times between February 1994 and March 1995 to prevent the economy from overheating. The rate was raised by 3 percentage points to 6 per cent in response to the higher than expected economic growth rate. However, the federal fund rate eased to 5.75 per cent in July 1995 after the economic indicators pointed to higher than expected growth during the third quarter of 1995.

In Germany, sluggish economic growth and the appreciation of the national currency prompted the monetary authorities to lower the short-term interest rate to 4.5 per cent in 1995, down from 5.4 per cent in 1994 and 7.3 per cent in 1993 (table 6). Japan also lowered its short-term interest rate to stimulate economic growth and to respond to the appreciation of the yen against major currencies, which had hurt the country's exports and thus delayed economic recovery. The short-term interest rate in Japan is the lowest among the major industrialized countries. This encouraged Japanese businessmen to borrow from the Japanese financial markets and reinvest in the United States bond market, where the yield ranged between 6 per cent and 6.6 per cent during the last few months of 1995. Fiscal restraint in the majority of the industrialized countries, with the exception of Japan, supported the monetary authorities in these countries in reducing short-term interest rates in 1994. However, in 1995 while both Japan and Germany continued to pursue expansionary monetary policies to stimulate growth, both the United States and the United Kingdom tightened their respective monetary policies by raising short-term interest rates (table 6).

TABLE 6. MAJOR DEVELOPED MARKET ECONOMIES: SHORT-TERM AND LONG-TERM INTEREST RATES, 1990-1995

	1990	1991	1992	1993	1994	1995
Short-term interest rates[a/]						
United States	7.5	5.4	3.4	3.0	4.2	5.5
Japan	7.7	7.2	4.3	2.9	2.3	1.2
Germany	8.5	9.2	9.5	7.3	5.4	4.5
United Kingdom	14.8	11.5	9.6	5.9	5.5	6.7
Long-term interest rates[b/]						
United States	8.6	7.9	7.0	5.9	7.1	6.6
Japan	7.0	6.4	5.3	4.3	4.4	3.4
Germany	8.8	8.5	7.9	6.5	6.9	6.9
United Kingdom	11.8	10.1	9.1	7.5	8.2	8.2

Source: Organization for Economic Cooperation and Development, *OECD Economic Outlook* 58, December 1995.

a/ For the United States, three-month treasury bills; for Japan, three- to six-month certificates of deposits; for Germany and the United Kingdom, three-month inter-bank rates.

b/ For the United States, Japan and the United Kingdom, 10-year government bonds; for Germany, 8-15-year public sector bonds.

Long-term interest rates dropped in 1995 in both Japan and the United States as inflation fears receded; these rates remained unchanged in both Germany and the United Kingdom. However, long-term

interest rates still remained relatively high owing mainly to a high demand for capital, high public debt levels in some of the major industrialized countries such as the United States, and the competition for financial resources between Governments and the private sector.

E. External inflow of resources to the developing countries

The net inflow of external resources to developing countries reached a new high of $231 billion in 1995, up from $207.4 billion in 1994.[9] The main factor contributing to the overall rise in the total inflow of capital to the developing countries was the sharp increase in private capital, particularly foreign direct investment (FDI). In 1995, private capital inflow reached a new record of $167.1 billion, up by 5.2 per cent from its 1994 level of $158.8 billion. The inflow of FDI surged in 1995 to $90.3 billion, up by 12.7 per cent from its 1994 level of $80.1 billion, and accounted for 54 per cent of total private capital inflow. However, while the inflow of FDI surged, the portfolio equity inflow dropped in 1995 by 36.9 per cent to $22.0 billion, down from $34.9 billion in 1994,[10] owing mainly to the Mexican crisis of December 1994. The crisis led to a sharp, short-term outflow of portfolio investment not only from Mexico but also from other emerging markets, particularly from Latin America. This sharp drop in the inflow of equity investment led to the deceleration of the total inflow of private capital to the developing countries in 1995 compared with 1993. Moreover, the increase in foreign capital inflow to the developing countries was shared mainly by a small number of middle-income countries, particularly in East Asia. East Asia's share in total private capital inflow to developing countries increased from 48.7 per cent in 1994 to 58.7 per cent in 1995, while the share of the Middle East and North Africa remained at only 4 per cent, or $6.8 billion.[11] In addition, the share of Latin America dropped in 1995 to only 20.3 per cent, down from 31.3 per cent in 1994 mainly as a result of the Mexican crisis.

While the inflow of private capital to developing countries continued its upward trend, the inflow of official development assistance (ODA) dropped during the 1991-1994 period. Furthermore, the rebound in ODA in 1995 was mainly the response of the international community, particularly the United States, to the Mexican crisis.

Declines in ODA hurt most of the low-income developing countries, which are considered by the private sector as a high risk investment area and thus remain highly dependent on the inflow of ODA.

Low-income developing countries are faced with a declining inflow of ODA, both from developed countries and from oil-exporting developing countries, which used to provide a higher share of their gross national product (GNP) as economic aid to these developing countries during the 1970s and 1980s. However, owing to the sharp drop in oil prices and revenues, these countries cut their public spending, including their economic aid, to the rest of the developing countries.

For the low-income, heavily indebted developing countries to attract the foreign direct investment which has become the most important source of development finance, structural economic reforms have to

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[9] World Bank, *World Debt Tables* 1996, volume 1, p. 3.

[10] Ibid.

[11] Ibid., p. 11.

BOX 1. THE INTERNATIONAL MONETARY FUND FACILITIES

The International Monetary Fund (IMF) was established in 1945, mainly to provide assistance to its member countries faced with short-term balance of payments adjustments. However, the role of the Fund has, for the last several years, been extended to cover broader macroeconomic imbalances through economic stabilization, economic reform policies and programmes, and privatization.

The IMF provides assistance to its member countries through a number of facilities (arrangements) depending on the economic conditions prevailing in each country.

(a) **Stand-by arrangements** (short-term credits) represent the most important facility provided by the Fund to member countries for strong adjustment efforts on concessional terms,[a/] with a duration of between one year and 18 months and repayment within five years of each tranche. The stand-by arrangement are made available to the requesting member countries in four tranches; each represents 25 per cent of the country's quota. The largest receiver of stand-by arrangements in 1995 were Mexico (12.1 billion special drawing rights [SDRs]) and Russia (4.3 billion SDRs). The cumulative amount under this arrangement reached by the end of 1995 about 20.4 billion SDRs distributed between 26 countries.

(b) **Extended Fund facility** (EFF) is provided to member countries experiencing balance of payments problems emanating from long-term macroeconomic imbalances. Under this facility, the Fund supports 45 adjustment programmes in 36 developing countries.[b/] However, before receiving assistance under this facility the requesting country has to undertake commitments for economic policy changes (conditionality). In 1995, the Fund provided 1,965.16 million SDRs under this facility, up from 900.3 million SDRs in 1994, while the cumulative amount provided under this facility reached 7.6 billion SDRs by the end of 1995.

(c) **Structural adjustment facility** (SAF) was created in 1986 specifically for the low-income developing countries as part of the Fund's support for their economic adjustment programmes. However, this facility was discontinued in 1993.

(d) **Enhanced structural adjustment facility** (ESAF) was established in 1987 and expanded in 1994 after the suspension of the SAF arrangements as ESAF became the main source of the Fund's soft lending to the low-income developing countries faced with balance of payments adjustments. However, to be eligible, a member country has to formulate a framework for a three-year adjustment programme aiming at strengthening its balance of payments position and reactivating economic growth. By the end of April 1995, 27 arrangements were concluded with a cumulative amount of about 3.0 billion SDRs.[c/]

(e) **Special facilities**

(i) **System transformation facility** (STF) was created in 1993 especially for the economies in transition, which are faced with balance of payments problems. Since its establishment, 20 countries have borrowed under this facility. Each country can borrow up to 50 per cent of its quota. The total amount borrowed up to the end of 1995 reached almost 4.0 billion SDRs.

(ii) **Compensatory and contingency financing facility** (CCFF). This facility is provided to those member countries faced with short-term balance of payments adjustments caused by a temporary drop in export revenues.

The amount approved under the Fund facilities reached about 31.2 billion SDRs by the end of 1995.[d/]

Source: IMF *Survey*, September 1995.

a/ IMF *Survey*, September 1995, p. 5.
b/ IMF *Survey*, 31 July 1995, p. 235.
c/ IMF *Survey*, 5 February 1996, p. 49.
d/ Ibid.

be undertaken. These reforms, which include increasing microeconomic efficiency, macroeconomic stability and institutional reform, would substantially improve the economic environment and would lead to a significant increase in the inflow of foreign direct investment. This is particularly important where the inflow of official assistance has declined and demand for FDI has increased.

However, despite the importance of the FDI in the development finance of the developing countries, its instability makes their economies vulnerable to any short-term policy changes. The Mexican crisis was a clear example of FDI volatility. In addition, any increase in the interest rates in developed market economies will lead to a slow-down in the inflow of capital to developing countries.

F. EXTERNAL DEBT OF THE DEVELOPING COUNTRIES

The external debt stock of the developing countries reached a new record in 1995 of $2,068 billion, up by approximately 8 per cent from its 1994 level of $1,921 billion (table 7). The net debt flow also rose sharply in 1995 to $133.1 billion, up by 54.8 per cent from its 1994 level of 86 billion. The main factor behind the sharp increase in net debt flow in 1995 was the surge in demand for capital in the developing countries, particularly in East Asia and Latin America.

TABLE 7. DEVELOPING COUNTRIES' STOCK OF EXTERNAL DEBT, 1990-1995
(Billions of US dollars)

	1990	1991	1992	1993	1994	1995
Total	1 510	1 594	1 667	1 776	1 921	2 068
Long-term debt	1 206	1 265	1 305	1 391	1 523	1 622
- Official	607	654	674	726	791	837
- Private	599	612	631	665	731	786
Short-term debt	269	291	323	345	335	385
Use of IMF credit	35	38	38	40	44	61

Source: World Bank, *World Debt Tables, 1996*, volume 1, p. 31.

The increase in the external debt of the developing countries in 1995 was attributed mainly to the continued buoyant expansion in the inflow of both private lending and the increase in the official development assistance as part of the rescue package by the international community in response to the Mexican crisis of December 1994. In addition, the inflow of portfolio investment, particularly to the emerging markets in East Asia and Latin America, also increased despite the short-term interruption in the aftermath of the Mexican crisis.

Despite the increase in the external debt of the developing countries in 1995, the ratio of the total debt stock to the exports of these countries dropped to 150 per cent, down from 163 per cent in 1994.[12] This drop was a reflection of the strong performance of the exports of the developing countries, which benefited from higher demand for primary commodities in developed market economies.

[12] Ibid., p. 33.

BOX 2. THE WORLD BANK'S LENDING TO THE DEVELOPING COUNTRIES

The World Bank, which was established in 1945, consists of the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA). The main objective of the Bank is to promote economic development in the developing countries. The Bank provides loans to creditworthy developing countries and only to projects that are economically feasible. The IDA was established in 1960 to provide interest-free assistance to the poor developing countries with per capita GNP of less than $696.

The total lending of the World Bank in 1995 reached $22.5 billion, up by 8.1 per cent from its 1994 level of $20.8 billion. Latin America was the largest borrower in 1995 ($6.06 billion or 26.9 per cent of the total lending), followed by East Asia ($5.69 billion or 25 per cent of the total lending), Europe and Central Asia ($4.5 billion or 20 per cent of the total).

The share of the IDA dropped in 1995 to 23 per cent of the total lending, compared with 31.6 per cent in 1994, owing mainly to the decline in lending to both East and South Asia and Africa. However, despite the drop, Africa's share in 1995 was about 50 per cent of the total IDA lending.

At the sectoral level, the agricultural sector still receives the highest priority in the Bank's lending to developing countries, followed by urban development, education and transport. For example, in 1995 the agriculture sector received 11.8 per cent of the Bank's total lending, followed by 9.3 per cent for education, 6.4 per cent for urban development and 4.6 per cent for water supply and sewerage.

The Middle East and North Africa (MENA) region received about $978 million or 4.3 per cent of the Bank's total lending. However, despite the small share of the MENA region, the Bank provides support to a wide range of economic and social activities. During the MENA Summit in Casablanca in October-November 1994, the Bank proposed a long-term strategy for the development of the region based on rapid sustainable economic growth which is both widely shared and environmentally sound. In addition, the Bank has supported economic stabilization and reform programmes in several MENA countries such as Egypt, Jordan, Morocco, Tunisia and Yemen. Furthermore, the Bank has prepared an assessment of the private sector role in economic development in Egypt, Jordan, Lebanon, Morocco and Tunisia.

In the area of social development, the Bank has extended support to several social projects such as education assessment in Jordan, Lebanon, Tunisia and the West Bank and Gaza Strip. In the area of poverty eradication, the Bank supported several projects, including the preparation of a social welfare study in Egypt and poverty assessment in Tunisia.

TOTAL LENDING BY THE WORLD BANK, 1990-1995
(In millions of US dollars)

	1990	1991	1992	1993	1994	1995
Africa	2 986.1	3 394.2	3 973.6	2 817.3	2 807.9	2 284.3
East Asia and the Pacific	3 798.6	4 563.2	5 446.5	5 569.8	6 034.8	5 693.8
South Asia	3 934.7	3 604.8	2 998.8	3 416.2	2 370	3 005.7
Europe and Central Asia	1 640.6	3 867	2 143.3	3 843.9	3 726.4	4 498.8
Latin America and the Caribbean	5 398.8	5 236.7	5 661.5	6 168.5	4 746.7	6 060.5
Middle East and North Africa	1 297.6	2 019.6	1 482.0	1 880.2	1 150.6	978.7
Total	19 056.4	22 685.5	21 705.7	23 695.9	20 836.0	2 252.0

Source: The World Bank, *Annual Report, 1995*.

Measures by the international community to provide for debt relief for the developing countries continued, both at bilateral and multilateral levels. In December 1994, the Paris Club agreed on terms of debt reduction for the low-income developing countries (Naples terms), which provide for debt reduction for eligible low-income developing countries of up to 67 per cent. In 1995, several bilateral debt-restructuring and debt-relief agreements were signed between a number of developing countries and their respective creditors. Moreover, several developing countries benefited from the international debt reduction facilities. In this context, and by the end of 1995, 23 middle-income developing countries concluded debt reduction agreements as part of the Brady debt reduction facility.[13] In addition, a number of developing countries have been awarded debt relief as part of their economic reform programmes. In the ESCWA region both Egypt and Jordan benefited from this arrangement. However, while the debt situation of the middle-income developing countries has improved as a result of both high economic growth and debt relief agreements, the debt situation of the low-income heavily indebted developing countries remains serious, thereby hindering their economic recovery.

Alarmed by the debt situation of these countries, the international community tried to formulate debt relief packages for these countries. In this context, the joint Development Committee of the World Bank and the IMF agreed in October 1995 to address the issue of these countries' debt owed to the multilateral institutions.[14]

G. GLOBAL SOCIAL DEVELOPMENTS

In 1995, the issue of social development received more attention from Governments and the international community than at any other time. Globalization, which has come about as a result of the increase in human mobility, enhanced communications, greatly increased trade and capital flows and technological developments, has opened up new opportunities for economic growth whereby, according to the Copenhagen Declaration, the global wealth of nations has multiplied sevenfold over the past 50 years.[15] However, despite the rapid advances in technological and economic development on a global scale, the world is faced with a number of social ills that have escalated with the increase in global wealth. The following are some of the social problems faced by all developed and developing countries, although to different degrees:

1. *Unemployment rates*: In all parts of the world people are being made "redundant" from productive activities in large numbers; many workers are becoming "obsolete" owing to technological developments and the growth of globalization. Polarization between those who can afford a decent living and those who cannot is growing; the annual per capita income in industrialized countries stands at $20,000, compared with $500 in the least developed countries.[16] Economic growth is increasingly insufficient to ensure employment opportunities for all job seekers, or to halt the spread of income inequality, marginalization and exclusion which threaten the cohesion of many societies. Of the world's total labour force of 2.8 billion, more than

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[13] Ibid.

[14] United Nations, Department of Economic and Social Information and Policy Analysis, "The world economy at the beginning of 1996, note by the Secretary-General", p. 4.

[15] United Nations Department of Public Information, "The Copenhagen Declaration and Programme of Action, World Summit for Social Development, 6-12 March 1995" (DPI/1707).

[16] United Nations Department of Public Information, background paper on "World Employment", prepared for the World Summit for Social Development (DPI/1538).

120 million people are officially unemployed and some 700 million are underemployed[17] (the latter estimated at 700 million, or 25 per cent of the total labour force). Millions of young people, including those with formal education, have little hope of finding productive work. During the period 1996-2005, about 35 million new jobs will be needed in the industrial countries, and 1 billion new jobs will be needed in the developing countries.[18] It is no longer believed that economic development or modernization is automatically accompanied by an improvement in living standards and social conditions of all individuals.

2. *Poverty*: Poverty affects around one third of the population of the developing countries and at the same time it is increasing in the developed world: nearly 15 per cent of the population of the European Union live below national poverty lines. At present more than 1 billion people in the world live in absolute poverty. A large proportion of these people, the majority of whom are women, have very limited access to income, resources, education, health care or nutrition, particularly in developing countries.

3. *Social exclusion*: Aside from the rising tides of unemployment and poverty worldwide, societies are also threatened by the marginalization of large segments of their populations through exclusion and neglect. Groups most likely to be marginalized are the poor, women, the elderly, minorities, the disabled and rural populations. It is estimated that fewer than 10 per cent of the world's total population participate fully in the political, social, economic and cultural institutions that shape their lives.[19] In addition, there are serious social problems of a different nature and magnitude in countries in transition and countries experiencing political, economic and social transformations.

4. *Organized crime*: The world is facing a growth in organized crime and illegal businesses, and their increasing organization and operation at an international level, which is threatening to erode social and economic progress in developed and developing countries alike. Russian gangs, the Italian mafia, the Japanese yakuza, the Chinese triads and the Colombian cocaine cartel are but a few examples of crime syndicates that control a substantial volume of illegal international trade and business. The annual sales of major transnational crime syndicates were estimated at $750 billion.[20] In the United States alone, 14 million crimes were reported in 1992, costing the country $425 billion.

5. *Violence and abuse*: Violence is spreading in many parts of the world. The United States has the highest incidence of murders (over 12 per 100,000). The number of reported rapes was 150,000 in 1993, and an estimated 3 million American children are chronic victims of abuse and neglect.[21] In Brazil, home to an estimated 200,000 street children, four minors are murdered each day—a figure that increased by 40 per cent in a single year (1993-1994). Moreover, an estimated 500,000 child prostitutes work in the sex tourism centres of Thailand, Sri Lanka and the Philippines. Indigenous peoples (300 million in over 70

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[17] United Nations Department of Public Information, background paper on "Jobless Growth and the Right to Work", prepared for the World Summit for Social Development (DPI/1491/SOC/CON).

[18] UNDP, *Human Development Report 1995*, p. 14.

[19] See United Nations Department of Public Information, background paper on "Social Integration", prepared for the World Summit for Social Development (DPI/1553/CON/SOC).

[20] See United Nations Department of Public Information, background paper on "Crime Goes Global", prepared for the World Summit for Social Development (DPI/1518/SOC/CON).

[21] See background paper on "Social Integration".

countries) often face severe discrimination and violence and some are even threatened with extinction as a result of economic and environmental exploitation.[22]

6. *Ethnic conflicts*: Ethnic conflicts are seen as increasingly grave sources of instability. Between 1989 and 1992, there were 82 conflicts, 79 of which were within national boundaries.[23] Ninety per cent of the casualties were innocent civilians, and those who survive often become refugees.

7. *Refugees and displaced populations*: In developing countries, rapid population growth which is not accompanied by an increase in opportunities for employment has created pressures for population movements that threaten to become a serious source of international conflict. In addition, civil wars, ethnic conflicts and natural disasters have forced people to move, thus creating large refugee and displaced populations, with the result that more people are living outside their home villages than ever before. Moreover, the growth of large cities and urban poverty in developing countries without adequate physical infrastructure has created severe problems of sanitation and pollution that has led to further deterioration of the quality of life in cities and urban centres.

One of the major causes of the continuing deterioration of the global social situation is the increasing lack of adaptation of today's development strategies to the challenges posed by a radically changing world. With development strategies focusing, up to the present day, almost exclusively on economic growth, the level and scale of social problems have grown dramatically, with inequalities and disparities of development becoming more marked and increasingly unacceptable: exploitation, disintegration of the social framework, exclusion, hunger, social disequilibrium, poverty, unemployment and wasted human resources, as well as environmental degradation are all on the increase.

There is therefore an urgent need to formulate development strategies that are better suited to the economic and social needs of contemporary societies, and to place them within the context of the value systems and standards operational in the societies concerned. Social development can no longer be taken as a "side-effect" of economic development. Development policy should thus restore a social dimension of development wherever purely economic considerations have been taken into account.[24]

Prior to the 1995 World Summit for Social Development, measures to lessen the negative social consequences of any development plan were often added on an ad hoc basis. The main objective of development plans was invariably economic, namely the maximization of interest on financial capital. Development thinking was biased towards economics—the dominant economic actors and decision makers in the global economy were the competing financial institutions and the multinational corporations, promoting economic growth as quantified in monetary terms. However, growth that is measured in purely monetary terms has serious limitations, since it neglects essential social priorities.

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22 Ibid.

23 For further details, see United Nations Department of Public Information, background paper on "Ethnic Violence", prepared for the World Summit for Social Development (DPI/1587/SOC/CON).

24 See Graduate Institute of Development Studies, "A different form of social development: the search for a new method of approach; report of a working group in preparation of the United Nations [Summit] for Social Development, Copenhagen, March 1995" (Geneva).

The World Summit for Social Development provided a unique opportunity for the international community to refocus development on fundamental social issues. The Summit made it clear that a just society cannot accept high levels of unemployment, that a stable society cannot deprive entire groups of the fruits of development, and that a secure society cannot exist without social safety nets for its disadvantaged members. The incorporation of these three principles into development strategies would eventually reduce the social problems plaguing the global society. A new comprehensive vision of development, where the economy can be made to serve the society, would incorporate these principles.

The Programme of Action adopted by the participants in the World Summit for Social Development outlines actions to create, in a framework of sustained economic growth and sustainable development, a national and international environment favourable to social development, to the eradication of poverty, to the enhancement of productive employment and to the fostering of social integration. The first objective of the Plan of Action is to have an enabling environment for social development to improve and enhance the quality of life for all people. Such an environment cannot be built on market economies quantified in monetary terms alone. Therefore, what is primarily required is sustained economic growth that generates jobs and distributes benefits equitably in a manner geared towards eradicating poverty and reducing social and economic inequality and exclusion on both the national and global levels.

H. SHORT-TERM ECONOMIC OUTLOOK

Despite the signs of weakness in economic growth during the fourth quarter of 1995 reflected in lower growth in the major industrialized countries, the fundamentals for a continued upward swing in the world economy continued to be strong. In the major industrialized economies, the weakness registered in economic activities in 1995 was a natural response to the tight fiscal and monetary policies pursued by the majority of these countries, with the exception of Japan.

World economic growth is projected at 3 per cent in 1996, up slightly from its 1995 level of 2.6 per cent. This slight rebound is expected to be achieved despite the continued moderation in economic activities in the developed market economies, where GDP is expected to register only 2.5 per cent, up from 2.4 per cent in 1995.[25]

The main contribution to the world economic rebound will come more from the developing countries, where GDP growth is expected to record a rate of 5.5 per cent, up from 5 per cent in 1995.[26] Even in the economies in transition, economic growth for the group as a whole is expected to pick up in 1996 after several years of economic contraction. Among the developing countries, the highest expansion is projected to continue to be achieved by South and South-East Asian countries, despite the expected moderation of economic growth in 1995.

Unemployment rates in the developed market economies are expected to move upward slightly in 1996 as economic growth slows, with the exception of the United Kingdom where unemployment is expected to drop as economic growth rebounds.

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[25] Ibid.

[26] Ibid.

Inflationary pressures in the developed market economies in general are expected to continue to be under control, helped by moderate growth and slack labour markets. However, in the United States increased commodity prices coupled with an increase in the labour unit cost may put upward pressure on the inflation rates in 1996.

In the developing countries, the recent success in subduing inflationary pressures is expected to continue in 1996, helped by economic stabilization programmes that are being implemented in the majority of these countries.

II. MACROECONOMIC PERFORMANCE

The macroeconomic performance of the ESCWA region in 1995 was affected by several major factors, including the following: (a) the rise in oil prices in the international markets; (b) the surge in non-oil exports in several ESCWA member countries; (c) notable increases in tourism revenues; (d) some progress in the Middle East peace process; (e) the launching of the World Trade Organization (WTO); (f) the continuation of the United Nations economic sanctions on Iraq; (g) the application of prudent monetary and fiscal policies in most ESCWA member countries; as well as (h) the implementation of economic reform in most countries in the region.

As noted above, 10 of the 13 ESCWA members are oil exporters, namely all the Gulf Cooperation Council (GCC) countries (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates), as well as Egypt, Iraq, the Syrian Arab Republic and the Republic of Yemen. Developments in the oil sector directly affect, in various degrees, total exports and government revenues, and indirectly affect most other sectors. Owing mainly to an 8.7 per cent upward adjustment in oil prices in 1995, oil revenues in the ESCWA region increased by 9.3 per cent to $78.4 billion, up from $71.8 billion in the preceding year (see chapter VIII). This increase had a positive effect on economic growth and development in the entire region.

Non-oil exports increased notably in several GCC countries and in some of the more diversified economies in the ESCWA region[27] owing to intensified export promotion efforts as well as to the rise in the international price of some non-oil exports including petrochemicals, aluminium, potash, potassium and various agricultural products.

Owing to the continuing efforts to encourage tourism in the region, coupled with a notable decline in terrorist activities against tourists in Egypt, tourism activities and revenues surged in 1995 in a number of ESCWA member countries, particularly in Egypt, Jordan, Lebanon and the Syrian Arab Republic. This development, in turn, had favourable effects on the supply of foreign exchange and employment opportunities in these countries.

The Middle East peace process, which began in Madrid in 1991, made modest progress in 1995. A fair and comprehensive peace is required before the region can obtain all the potential and expected peace dividends. Nevertheless, Jordan benefited from the full restoration of its water and land in 1994 and continued to benefit from the surge in tourism and tourism-related construction, as well as some external debt relief.

The launching of WTO and the start of the application of the 1994 GATT agreement in January 1995 has affected the ESCWA region by reducing the protective barriers confronting its exports and simultaneously precipitating a notable increase in its imports, particularly its food imports. Moreover, globalization and the accompanying increase in international competition has pushed several countries in the region to implement economic policies that encourage improved productivity and efficiency.

The continuation of the economic sanctions imposed by the United Nations on Iraq since August 1990 has severely hindered economic and social developments in that country. In addition, countries that traditionally have had strong economic and trade relations with Iraq, such as Jordan, continued to suffer in 1995 from the adverse effects of these sanctions on their exports. In contrast, the major oil-exporting

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[27] The more diversified economies in the ESCWA region include Egypt, Iraq, Jordan, Lebanon, the Syrian Arab Republic, the West Bank and Gaza Strip, and the Republic of Yemen.

countries continued to benefit from the virtual absence of Iraqi oil in the international market, as prices remained higher than if oil from Iraq had been sold.

The Governments of most ESCWA member countries pursued prudent monetary and fiscal policies in 1995. Such policies, which are required to combat inflation and provide conditions suitable for steady and sustainable economic growth in the near future, may have restrained further economic growth in 1995 in several of these countries.

Economic reforms were implemented in 1995 in most member countries, although to various degrees. The main thrust of the reforms was to improve internal and external imbalances and to encourage the private sector to play a leading role in economic development as well as to alter the development strategies in these countries from an inward-looking strategy depending on import substitution to an outward-looking strategy depending on export promotion. These reforms have affected the macroeconomic performance of ESCWA member countries in 1995 in different ways.

A. ECONOMIC GROWTH AND DEVELOPMENT

The overall economic performance in the ESCWA region improved in 1995. The region's GDP, excluding Iraq, is estimated to have registered a growth rate of 2.8 per cent in 1995 in real terms, compared with a meagre 0.8 per cent growth rate in 1994 (table 8).[28]

TABLE 8. GROSS DOMESTIC PRODUCT BY COUNTRY AND COUNTRY GROUPING, 1992-1995

Countries	GDP in millions of US dollars at constant 1992 prices				Growth rates *(percentage)*		
	1992	1993	1994	1995[a/]	1993	1994	1995[a/]
GCC countries							
Bahrain	4 433	4 799	4 897	5 029	8.3	2.0	2.7
Kuwait	18 811	23 137	23 043	23 711	23.0	(0.4)	2.9
Oman	11 485	12 258	12 688	13 253	6.7	3.5	4.5
Qatar	7 646	7 602	7 488	7 563	(0.6)	(1.5)	1.0
Saudi Arabia	123 204	122 419	121 072	123 131	(0.6)	(1.1)	1.7
United Arab Emirates	35 413	34 883	34 917	35 370	(1.5)	0.1	1.3
Subtotal	200 992	205 098	204 105	208 057	2.0	(0.5)	2.0
More diversified economies[b/]							
Egypt	41 759	43 012	44 689	46 878	3.0	3.9	4.9
Jordan	5 144	5 441	5 751	6 113	5.8	5.7	6.3
Lebanon	5 231	6 092	6 579	7 039	16.5	8.0	7.0
Syrian Arab Republic	12 558	13 051	13 703	14 525	3.9	5.0	6.0
Republic of Yemen	3 849	4 074	4 053	4 073	5.9	(0.5)	0.5
Subtotal	68 541	71 670	74 775	78 628	4.5	4.3	5.2
ESCWA total[b/]	269 533	276 768	278 880	286 685	2.7	0.8	2.8

Source: Economic and Social Commission for Western Asia, *National Accounts Studies of the ESCWA Region*, Bulletin No. 15, 1995.

Note: ( ) indicates negative.
a/ Estimates.
b/ Excluding Iraq, the West Bank and the Gaza Strip.

[28] Although Iraq is excluded owing to lack of data on its economic growth, all available economic indicators show that the overall economic conditions in the country deteriorated further in 1995, primarily as a result of the continuation of the United Nations economic sanctions imposed on that country since August 1990.

However, owing to the region's relatively high population growth rate, per capita GDP was stagnant in 1995 (table 8). Although a stagnant per capita GDP is an improvement over the decline of 1.8 per cent in per capita GDP in the preceding year, it cannot be considered satisfactory. The region's economy needs to grow at higher rates in order to register positive per capita growth rates and to be able to accommodate the rising number of new entrants into the labour force each year.

Macroeconomic performance differed between the GCC countries and the countries with more diversified economies. Economic performance also varied among the members of these two groups of countries in 1995, as shown below.

1. *The GCC countries*

The GDP of the GCC countries[29] is estimated to have registered a 2.0 per cent growth rate in 1995 compared with a negative 0.5 per cent growth rate in the preceding year (table 8). This turnaround may be attributed mainly to the growth in the oil sector which, despite diversification efforts during the past decade, contributes over one third of the GCC countries' GDP, more than 80 per cent of government revenues and more than 90 per cent of their exports. The growth in the oil sector more than compensated for declines in some other sectors that were adversely affected by the reductions in government expenditures undertaken to reduce budget deficits. Per capita GDP in the GCC countries is estimated to have declined by 1.0 per cent in 1995, after declining by 3.2 per cent in the previous year (table 2). In 1995, GDP growth rates varied among the GCC countries, ranging between 1.0 per cent in Qatar and 4.5 per cent in Oman.

(a) *Bahrain*

Bahrain's GDP is estimated to have increased by an estimated 2.7 per cent in 1995, compared with 2.0 per cent in 1994. Bahrain's economy, the most diversified among the GCC countries, was stimulated by the growth of the oil sector, which is estimated to have registered a 9.0 per cent growth in nominal terms. The non-oil sectors were relatively sluggish in 1995, owing to restrained government expenditures, and are estimated to have registered only modest growth. However, the banking sector, which traditionally has a strong link with developments in the oil sector, recorded a relatively good performance. The performance of the tourism sector, which is encouraged by the Government to increase its contribution to GDP and employment, was not as good as anticipated owing to terrorist activities.

(b) *Kuwait*

Kuwait's GDP is estimated to have registered a 2.9 per cent growth rate in 1995, after recording a negative 0.4 per cent rate in 1994. This turnaround is mainly owing to growth in the oil sector. The private sector, heavily dependent on government expenditure, has not yet assumed the greater role in economic development and growth which the Government had envisaged. The belt-tightening of fiscal policies and the completion of major construction projects limited higher growth in 1995.

(c) *Oman*

Oman's economy registered the highest growth among GCC countries in both 1994 and 1995, recording growth rates of 3.5 per cent and 4.5 per cent respectively. This may be attributed to the fact that Oman is at the forefront in implementing economic reform policies among the GCC countries. It is the first GCC country to remove the terms for national partnership that have discouraged foreign investment and that

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

have previously blocked attempts to engage in joint ventures with major industrial countries. In addition, the Omani economy was helped by higher oil production and prices in 1995.

(d) *Qatar*

Qatar's GDP, which registered a negative growth of 1.5 per cent in 1994, is estimated to have recorded a positive growth rate of 1.0 per cent in 1995. Qatar's economy benefited from higher oil prices and production in 1995. Nevertheless, economic growth in Qatar may be expected to remain sluggish until 1998, when major liquefied natural gas projects currently under construction start production and thereby provide a significant boost to the economy and counter the pattern of decline in the productivity of the country's oilfields.

(e) *Saudi Arabia*

Despite significant fiscal austerity measures, Saudi Arabia's economy, by far the largest in the ESCWA region, performed well in 1995, turning a negative GDP growth rate of 1.1 per cent in 1994 into an estimated positive GDP growth rate of 1.7 per cent. Consumption was constrained by the reduction in subsidies of public goods and services and the higher costs of imports from major European countries and Japan, owing to the weakening of the United States dollar to which the Saudi Arabian riyal (SRL) is pegged, and to significant cutbacks in government expenditure which had a direct and indirect impact on the activities of the private sector. The growth of the oil sector, which accounts for over one third of the Kingdom's GDP and over 90 per cent of its exports, was the main factor in boosting the economy and reducing the country's internal and external imbalances. However, the outflow of workers' remittances continued to affect the country's current account. Workers' remittances transferred out of Saudi Arabia are estimated to have increased from $15.2 billion in 1994 to $17.2 billion in 1995, and totalled $100.3 billion for the period 1990-1995.[30]

(f) *United Arab Emirates*

The United Arab Emirates is estimated to have witnessed a real GDP growth rate of 1.3 per cent in 1995, compared with only a meagre 0.1 per cent growth rate the previous year.[31] This improvement is mainly due to the growth in the oil sector, coupled with the good performance of the construction and trade sectors.

2. *The more diversified economies*

The region's more diversified economies,[32] with the exception of Iraq, continued to perform well in 1995, registering an estimated GDP growth rate of 5.2 per cent, after achieving a 4.3 per cent growth rate the previous year (table 8). Despite a high population growth rate, per capita GDP in the more diversified economies increased by 2.3 per cent in 1995, compared with a growth rate of 1.7 per cent in 1994 (table 9). Factors contributing to this good performance include the rejuvenation of the private sector in a number of countries implementing economic reform and liberalization, as illustrated by the surge of non-oil exports; the

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[30] Figures for 1990-1994 from International Monetary Fund, *International Financial Statistics*, various issues; and ESCWA estimates for 1995.

[31] However, the country's nominal GDP in 1995 is estimated to have registered a growth rate of 6.5 per cent.

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

improved conditions for private investment, both domestic and foreign; considerable increases in tourism; the continuation of large inflows of transferred workers' remittances; and a declining debt-servicing burden, as well as the 8.7 per cent rise in oil prices in 1995. Among the more diversified economies and excluding Iraq, Lebanon had the highest GDP growth rate with an estimated 7 per cent, and the Republic of Yemen had the lowest growth rate with 0.5 per cent (table 8).

TABLE 9. PER CAPITA GROSS DOMESTIC PRODUCT IN THE ESCWA REGION, 1992-1995
(US dollars at constant 1992 prices)

	US dollars				Growth rates (*percentage*)		
	1992	1993	1994	1995[a/]	1993	1994	1995[a/]
GCC countries							
Bahrain	8 525	8 970	8 920	8 932	5.2	(0.6)	0.1
Kuwait	13 247	15 847	14 224	12 956	19.6	(10.0)	(8.9)
Oman	5 760	6 074	6 030	6 062	5.5	(0.7)	0.5
Qatar	14 789	14 370	13 866	13 725	(2.8)	(3.5)	(1.0)
Saudi Arabia	7 323	7 151	6 938	6 917	(2.3)	(3.0)	(0.3)
United Arab Emirates	20 007	19 208	18 762	18 528	(4.0)	(2.3)	(1.2)
Subtotal	8 721	8 736	8 460	8 376	0.2	(3.2)	(1.0)
More diversified economies[b/]							
Egypt	757	761	775	796	0.5	1.8	2.7
Jordan	1 352	1 377	1 404	1 439	1.8	2.0	2.5
Lebanon	1 938	2 171	2 257	2 326	12	4.0	3.1
Syrian Arab Republic	968	980	987	1 005	1.2	0.7	1.8
Yemen	322	331	320	310	2.7	(3.3)	(3.2)
Subtotal	791	806	820	840	1.9	1.7	2.3
ESCWA total[b/]	2 458	2 463	2 418	2 419	0.2	(1.8)	0.0

Source: Economic and Social Commission for Western Asia, *National Accounts Studies of the ESCWA Region*, Bulletin No. 15, 1995.

Note: ( ) indicates negative.
a/ Estimates.
b/ Excluding Iraq, the West Bank and the Gaza Strip.

(a) *Egypt*

Egypt's economy, the largest among the more diversified economies and the second largest among all ESCWA member countries, is preliminarily estimated to have grown by 4.9 per cent in 1995, up from 3.9 per cent the preceding year. The structural adjustment and economic reform undertaken under the auspices of the International Monetary Fund since 1991 are beginning to yield some of the anticipated results. Non-oil exports, particularly textiles, fertilizers and some agricultural products, increased remarkably in 1995. Oil exports also increased owing to higher international oil prices as well as the Government's policy of substituting gas for oil in local consumption, hence allowing for more oil exports. Though imports also increased considerably in 1995, the surge of imports of capital goods reflected favourably on productivity and economic growth. Sectors registering 5.0 per cent growth or more included industry, banking and tourism. Egypt received 3.13 million tourists in 1995, an increase of 21 per cent over the previous year. Income from tourism during its peak in 1992 was $2.2 billion, but owing to terrorist activities this income

dropped to $1.3 billion in 1993 and $1.5 billion in 1994; however, in 1995 it surged to an estimated level of over $2 billion. International reserves at the Central Bank reached $18 billion, sufficient to cover 12 months of imports of goods and services. Revenues from the Suez Canal in 1995 are estimated to have increased by $56 million over 1994 and reached $1.93 billion. Workers' remittances transferred to Egypt increased from $4.6 billion in 1994 to an estimated $4.7 billion in 1995, and thereby totalled $34.3 billion during the 1990s.[33] In recognition of Egypt's greatly improved internal and external imbalances, the IMF dropped its recommendation that the Egyptian Government devalue the Egyptian pound. Moreover, the members of the Paris Club are expected in 1996 to waive $4 billion of Egypt's debt owed to them.

(b) *Iraq*

Iraq's economy has been devastated by the continuation of the United Nations sanctions imposed since August 1990. In 1995, economic conditions in Iraq deteriorated further. The country continued to suffer from a rapidly depreciating national currency and hyperinflation. Factories were working at below 30 per cent of their productive capacity, owing to the shortages of raw materials, spare parts and adequate maintenance. Similarly, the lack of spare parts, seeds, fertilizers, pesticides and herbicides led to a considerable decline in agricultural output in 1995. Owing to the United Nations embargo on Iraqi oil exports, Iraq continued to limit its oil production to levels that only marginally exceed its domestic demand, which is far below its production capacity. In United States dollar terms, Iraq's GDP per capita in 1995 ranks it among the lowest group of the least developed countries in the world.[34]

(c) *Jordan*

Jordan's economy in 1995 continued its solid performance, which started a few years ago, with its GDP growing by 6.3 per cent, after registering growth rates of 5.8 per cent and 5.7 per cent in 1993 and 1994 respectively. Jordan is reaping some of the rewards that had been expected from its implementation of the IMF-recommended structural adjustment programme and economic reform, as well as from the signing of a peace treaty with Israel. Jordan's exports, which increased by 14 per cent in 1994, are estimated to have increased by more than 20 per cent in 1995. The construction, industrial and tourism sectors performed exceptionally well in 1995. Tourism revenues are estimated to have increased by 24 per cent to $723 million in 1995, from $582 million in the preceding year.[35] Transferred workers' remittances to Jordan increased in 1995 by 13 per cent to $1,266 million, up from $1,121 million in 1994, and totalled $5.2 billion for the period 1990-1995. Through debt repayment, forgiveness and rescheduling, Jordan was able to reduce its debt-service burden from $1.2 billion in 1989 to less than $500 million in 1995, thus freeing more resources for investment.[36] The Jordanian dinar (JD) was pegged to the United States dollar in late 1995. The dinar has benefited from the Government's policy commitment to high interest rates in the range of 8.5-9 per cent

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[33] *Middle East Monitor*, March 1996, p. 13.

[34] Economic and Social Commission for Western Asia, *National Accounts Studies of the ESCWA Region*, Bulletin No. 15, 1995. p. 4.

[35] *Jordan Times*, 6 April 1996.

[36] On 28 October 1995, Moody's Investors Service and Standard and Poor's (S&P), the international credit rating agencies, assigned, for the first time, credit ratings to Jordan's debts. Moody's assigned a Ba3 long-term rating to foreign currency debt, while S&P gave it a B+ foreign currency rating and a BBB- for local currency debt. Jordan is the first ESCWA member country, and the second Arab country after Tunisia, to receive ratings by international credit agencies.

on deposits (and 13 to 14 per cent on borrowing) in order to maintain the dinar's attractiveness. Although such a policy may encourage the inflow of workers' remittances and help to increase foreign currency reserves in the Central Bank, it discourages private businessmen from increasing their investments in the productive sectors, and dampens activities in the Amman Stock Market.

(d) *Lebanon*

Lebanon continued the implementation of its reconstruction programme in 1995. Though its GDP growth was estimated at 7 per cent in 1995, down from 16.5 per cent and 8 per cent in 1993 and 1994 respectively, it remained the highest among all ESCWA member countries for the second year in a row. The Lebanese economy continued to benefit from the large-scale reconstruction activities being implemented in order to rebuild the infrastructure damaged by civil strife. The economy also benefited from a boom in the services sectors, particularly in tourism and banking. Capital inflows to the country remained significant. Meanwhile, Lebanon's balance of trade deficit widened in 1995 as its imports of capital and consumer goods increased. The Lebanese pound appreciated by 3.2 per cent *vis-à-vis* the United States dollar in 1995. The Beirut Stock Exchange reopened in 1995, after a closure of nearly 13 years. Interest rates declined significantly towards the end of 1995, and this may accelerate investment activities in 1996, particularly in the construction and tourism sectors.

(e) *Syrian Arab Republic*

The Syrian Arab Republic's GDP in 1995 is estimated to have registered a growth rate of 6 per cent, compared with 5 per cent in 1994. The Syrian economy benefited from the rise in oil prices and the strong performance of the agriculture and tourism sectors. Investment Law No. 10 of May 1991 continued to attract the inflow of capital from Syrians repatriating savings held abroad as well as the transfer of workers' remittances. However, the country remained burdened by a large external debt and high rates of inflation and unemployment.

(f) *West Bank and Gaza Strip*

The performance of the economy of the West Bank and Gaza Strip in 1995 was adversely affected by a poor harvest of the important olive crop as well as the restrictions on employment of Palestinian workers in Israel. GDP is estimated to have registered a 3 per cent growth rate in 1995, compared with an estimated 7.3 per cent growth rate the previous year. The West Bank and Gaza Strip continued to suffer from high inflation and unemployment rates.

(g) *Republic of Yemen*

The Republic of Yemen, confronted by severe internal and external imbalances, began implementing economic and structural reforms in 1995 under the auspices of the World Bank and the IMF. The GDP of the region's least developed country is estimated to have grown by a meagre 0.5 per cent in 1995. Although this low GDP growth is an improvement over the negative growth rate of 0.5 per cent registered in 1994, it remains well below the country's high population growth rate of 3.7 per cent. Adjustment programmes often lead to an initial contraction in economic activity that is later reversed by expanding private investment and exports in response to structural reforms. The modest turnaround in GDP in 1995 may be attributed mostly to the growth of the oil sector, which benefited from higher prices and output levels.

B. ECONOMIC REFORM POLICIES

Economic reform and structural adjustment programmes designed to correct internal and external imbalances as well as to enhance efficiency and productivity, which are particularly essential in a rapidly globalizing world economy, continued to be implemented in most countries in the ESCWA region in 1995. The trend of moving away from an inward-looking economic development strategy, depending primarily on government involvement in the economy, towards an outward-looking development strategy depending on a leading role by the private sector is becoming more apparent. Privatization of public enterprises is taking place, though at a very slow pace, in several ESCWA member countries. New investment and tax laws have been formulated to encourage private investment, both by local and foreign investors. Nevertheless, private foreign investment in the region remained very modest compared with other developing regions. Most ESCWA member countries need to accelerate their privatization programmes in order to reduce the financial burdens of their respective Governments, enhance efficiency in several public sector enterprises, and encourage the repatriation of the considerable amount of capital held by their nationals abroad. Governments' fear of rising unemployment and inflation rates continues to hinder a faster pace of privatization in the region.

1. *The GCC countries*

Economic reform is being implemented in the GCC countries, although at various paces. The GCC countries have undertaken measures to reduce government expenditure as a share of GDP and promote the role of the private sector in economic development and growth in their respective countries. Investment laws have been enacted to encourage private investment, both local and foreign. Some privatization was implemented in some countries, and is under serious consideration in other countries. Governments have increased their non-oil revenues by imposing various charges on public goods and services previously provided free of charge, or at greatly subsidized prices. Non-oil exports of GCC countries increased notably in 1995 as these countries continued their efforts to reduce their heavy dependence on oil exports, which are very vulnerable to changes in international oil prices. Stock markets necessary for raising capital funds for newly established and/or growing firms in the private sector are either being established and expanded, or are under consideration for opening in the near future.

As shown in table 10, government expenditures of the GCC countries as a percentage of GDP increased to a peak of 66.6 per cent in 1991, as an aftermath of the Gulf war. Thereafter, however, they declined in each of the following years and fell to 42 per cent in 1994. With the continued restraint in government expenditures, coupled with a rise in GDP, this percentage must have declined further in 1995.

(a) *Bahrain*

The Government of Bahrain, in its endeavour to reduce its reliance on oil exports, expanded the capacity of its aluminium plant, the products of which account for approximately 15 per cent of the country's total exports and about half of the exports of manufactured goods.[37] With respect to privatization, the Government announced plans to sell in the near future up to 20 per cent of its remaining 45 per cent shares in the Bahrain Aluminium Extrusion Company.[38]

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[37] Economist Intelligence Unit, *Country Report, Bahrain, 4th quarter, 1995*, p. 6.

[38] Ibid., p. 15.

TABLE 10. GOVERNMENT EXPENDITURE IN THE ESCWA MEMBER COUNTRIES AS PERCENTAGE OF GDP AT CURRENT PRICES, 1980, 1985, 1990-1994

Country	1980	1985	1990	1991	1992	1993	1994
Bahrain	22.3	35.7	39.7	36.1	37.1	32.4	31.6
Kuwait	45.4	42.0	68.4	243.3	110.8	55.1	59.6
Oman	42.8	55.8	46.6	47.7	51.0	50.7	48.7
Qatar	50.3	55.6	39.3	45.3	42.2	48.9	51.4
Saudi Arabia	45.4	57.8	51.2	60.4	45.8	42.3	38.0
United Arab Emirates	33.8	31.8	39.1	45.4	35.2	42.0	40.9
GCC	*52.6*	*50.3*	*49.7*	*66.6*	*50.0*	*44.2*	*42.0*
Egypt	50.9	54.0	34.0	39.6	44.5	42.2	31.6
Jordan	55.1	41.8	40.8	39.3	37.1	36.4	33.9
Lebanon	27.6	68.3	39.8	28.9	25.7	18.6	33.8
Syrian Arab Republic	48.0	43.6	22.9	25.6	24.6	24.8	26.6
Yemen	57.4	45.2	41.2	43.3	41.7	41.2	40.4
More diversified economies[a/]	*51.8*	*49.1*	*33.0*	*36.2*	*38.6*	*36.7*	*31.5*
ESCWA total[a/]	*52.4*	*50.0*	*45.3*	*59.0*	*47.0*	*42.2*	*38.9*

Source: Arab Monetary Fund, Organization of Arab Petroleum Exporting Countries, Arab Fund for Economic and Social Development, and League of Arab States, "Unified Arab Economic Report," various issues, 1987, 1991 and 1995 (in Arabic).

a/ Excluding Iraq and the West Bank and Gaza Strip.

BOX 3. MIDDLE EAST AND NORTH AFRICA ECONOMIC SUMMIT* AMMAN, JORDAN, 29 - 31 OCTOBER 1995

Under the patronage of His Majesty King Hussein Bin Talal of Jordan, the second Middle East and North Africa (MENA) Economic Summit was convened in Amman from 29 to 31 October 1995. The Summit was co-sponsored by the United States and the Russian Federation, with support from the European Union, Canada and Japan.

The Summit gathered government leaders and businessmen from the MENA region, Europe, the Americas and Asia. Its primary goals were to facilitate increased private sector investment in the region, foster a strong partnership between the public and private sectors to ensure that end, and to work to enhance regional development and cooperation. In this spirit, businessmen from the MENA region were able to make a number of significant business deals which will help to increase the region's productive capacity and contribute to its economic development. A number of these ventures will benefit from certain government guarantees, technical assistance, and support from the international community.

Furthermore, in the past year, government representatives undertook a series of negotiations on institutional arrangements, as called for in the Casablanca Declaration, which would help to support the peace process. In this respect, the following agreements were reached:

- The establishment of a **Bank for Economic Cooperation and Development in the Middle East and North Africa** in Cairo which, according to the draft articles, will be structured to promote private sector development, support regional infrastructure projects, and provide a forum to foster regional economic cooperation;

- The establishment of a **Regional Tourism Board, the Middle East-Mediterranean Travel and Tourism Association (MEMTTA),** to promote the region as a unique tourist attraction and to facilitate tourism. The Board will include representatives of both the public and private sectors;

- The establishment of a **Regional Business Council** to encourage cooperation and trade between the private sectors in MENA countries;

- The official inauguration of the **Economic Summit Executive Secretariat** in Rabat, aimed at fostering the partnership between the public and private sectors, by encouraging contacts and exchange of information and promoting private sector investment in the region.

As a complement to the regional institutions called for at Casablanca, the Steering Group of the Multilateral Peace Negotiations agreed to establish the **Regional Economic Development Working Group (REDWG) Monitoring Committee Secretariat**, which was scheduled to commence its activities in the first half of 1996. This permanent regional economic institution, to be based in Amman, will promote and strengthen regional economic cooperation. The regional parties recommended that the institution's activities cover all sectors coming under the REDWG Monitoring Committee's scope of work: infrastructure, tourism, trade, finance, and other areas within the Copenhagen Plan of Action.

Participants in the Summit expressed their strong support of the continuation of the peace process and the importance of achieving comprehensive peace. Business representatives reaffirmed their intention to follow through on all commercial and business ventures agreed upon at the Summit and to explore opportunities for further bolstering trade and investment in the region. Government officials voiced their intent to support private sector activities, most particularly by working towards establishing the institutions agreed upon in Amman as soon as possible.

It was announced that the third MENA Economic Summit (1996) would be held in Cairo and that the fourth MENA Economic Summit (1997) would be held in Qatar.

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* Information based on the text of *The Amman Declaration*, released at the end of the Middle East and North Africa Economic Summit, held in Amman in October 1995.

(b) *Kuwait*

In Kuwait, the five-year development plan for the years 1996-2000 emphasizes the need for an increased contribution by the private sector and the non-oil sectors. The plan also envisages annual reductions in public expenditure coupled with rising State revenues, and the elimination of the budget deficit by the year 2000.[39] Kuwait accelerated its privatization process in 1995. Since starting its privatization programme in September 1994, the Kuwait Investment Authority (KIA) has sold around $1.033 billion worth of shares in 22 companies.[40] KIA sold its shares via three ways: by auction; by public subscription; and by the sale to investment funds. Kuwait's privatization programme aims at boosting the country's private sector and attracting the return of Kuwaiti private capital held abroad. Moreover, KIA plans to sell government assets worth $3 billion over the next five years. In addition, for the purpose of attracting foreign investment, the Kuwaiti Government drafted a bill in December 1995 which stipulates a reduction in the duties imposed on import of equipment by non-GCC investors from 55 per cent to 30 per cent.[41]

(c) *Oman*

Oman embarked on major economic reforms four years ago which included a programme for privatization, opening up of its stock market, freeing interest rates, and improvement of investment laws. Several public institutions were privatized and other major projects including petrochemicals, sewerage, electricity, agriculture and industry are planned jointly with the private sector. The country's stock market, which was established in 1989, benefited considerably from the economic policy reforms, recording notable increases in activity.[42] The Government of Oman has made the promotion of private investment its top priority in its effort to accelerate economic growth and development of the country. Under the new rules for foreign investment issued in 1994, the Government of Oman established a special committee to end bureaucratic red tape, expand tax incentives, and allow foreigners full ownership of projects in some sectors. Oman is the first GCC country to remove terms for national partnership that discouraged foreign investors and prevented Oman from obtaining technology from major industrial countries through joint ventures. Foreign investors are now allowed to have 100 per cent ownership in projects that are deemed necessary for the Omani economy, provided that their capital is not less than $1.3 million. In addition, foreign investors are granted exemptions of up to 10 years from income taxes and a similar period for tariffs on import of equipment and raw materials needed for the projects. Although since 1993 the Government has been selling some of its shares in insurance companies, banks, hotels and cement companies, its new five-year development plan for the period 1996-2000 encourages private investors to undertake new investment projects rather than buying Government shares of already established enterprises.[43]

(d) *Saudi Arabia*

Saudi Arabia introduced some fiscal reforms at the start of 1995. It reduced government expenditure and increased non-oil revenues by increasing visa and work permit charges, raising prices of local petroleum

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39 Economist Intelligence Unit, *Country Report, Kuwait, 4th quarter, 1995*, p. 9.

40 *Middle East Economic Survey*, 6 November 1995, p. B5.

41 *Economic Review of the Arab World* (Beirut), December 1995, p. 11.

42 Ibid., p. 14.

43 Economist Intelligence Unit, *Country Report, Oman, 4th quarter, 1995*, p. 12.

and refined products, and increasing electricity, water and telephone charges, as well as domestic air fares. In June 1995 the Government reduced the subsidy it provides to wheat farmers by 25 per cent. These combined measures, coupled with the rise in the Government's oil revenue, greatly reduced the country's fiscal deficit. However, in the absence of further reform and expansion of the non-oil revenue base and non-oil exports, economic conditions of the Kingdom will continue to be greatly vulnerable to fluctuations in international oil prices. Thus Saudi Arabia plans to push ahead with economic policy reforms in the coming years. Its sixth development plan for the period 1995-2000 aims to balance the budget by the year 2000. The Government is reportedly considering the privatization of some State assets. The Government is currently considering privatizing the national airline, the telecommunication network, and the utilities. All impose a heavy burden on the Government in terms of subsidies provided, demand for capital investment, and employee salaries. Salaries of public sector employees account for 70 per cent of Saudi Arabia's government budget.[44] Reducing this expenditure may be the most effective, and simultaneously the most challenging, option currently available to the Government. Most likely in the next few years, the Government will move very cautiously with its privatization plan, and implement it through the sale of a portion of its shareholdings and would avoid outright sale of government assets whereby it would lose control of decision-making. Moreover, the Government apparently has no plans to open up the country's stock market to foreign investors.[45]

(e) *United Arab Emirates*

The United Arab Emirates raised prices of electricity, water, gasoline, telephone calls and other government-provided goods and services. However, most of these goods and services remain heavily subsidized. In addition, privatization of public sector enterprises remained negligible in 1995. Furthermore, no plans for privatization or additional reductions in subsidies were announced.

2. *The more diversified economies*

The countries with more diversified economies in the ESCWA region implemented economic reform policies in 1995, although with considerable differences in scope and pace of implementation. These countries, as a group, have been restraining government expenditure in the past few years. Government expenditure as a percentage of GDP of the more diversified economies fell from 38.6 per cent in 1992 to 36.7 per cent in 1993, and fell further to 31.5 per cent in 1994, as shown in table 10. Most of the decline can be attributed to the government expenditure restraint in Egypt and Jordan, both implementing structural adjustment and economic reform programmes under the auspices of the IMF. Further progress was made in 1995 with respect to reducing government expenditure as a percentage of GDP as Governments continued to pursue conservative fiscal policies and as there was a marked increase in the GDP of these countries as a group.

However, as a group, the more diversified economies—like the GCC countries—continued to witness a ratio of gross investment to GDP of around 22 per cent in 1995, as shown in table 11. This ratio is much lower than investment/GDP ratios achieved in 1994 by Malaysia (38.2 per cent), the Republic of Korea (35.9 per cent), and Singapore (34.4 per cent),[46] countries that have achieved relatively high rates of economic growth. On a country basis, Lebanon was estimated to have had in 1995 the highest investment/GDP ratio

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[44] *Middle East Economic Digest*, 3 November 1995, p. 34.

[45] Economic Intelligence Unit, *Country Report, Saudi Arabia, 4th quarter, 1995*, p. 13.

[46] International Monetary Fund, *International Financial Statistics*, February 1996.

(with 30.3 per cent) and the Republic of Yemen to have had the lowest ratio (with 11 per cent). Not surprisingly, and as indicated above, the Lebanese economy achieved the highest rate of growth in the ESCWA region in 1995, while the Republic of Yemen had the lowest rate of economic growth in that year. Countries of the region are fully aware that in order to accelerate GDP growth to levels that raise per capita GDP and accommodate the rising numbers of new entrants to the labour force each year, investment must increase. Thus, ESCWA member countries with more diversified economies have undertaken economic reform and policy measures that should lead to a significant increase in both domestic and foreign private investment in the coming years.

In 1995, economic reform policies were implemented in the more diversified economies, though differing in scope and pace from one country to another.

(a) *Egypt*

Under the auspices of the IMF and with the support of the World Bank, in 1991 Egypt began the implementation of a comprehensive economic reform and structural adjustment programme to correct internal and external macroeconomic imbalances. The reform programme aims to transform a centrally planned economy with a relatively small private sector to a decentralized, market-based, and outward-oriented economy in which the private sector plays the leading role in the country's economic development and growth.[47] The Government unified the exchange rate system, removed controls on foreign exchange dealings, freed interest rates, relaxed import and export restrictions, and reduced gradually its subsidies of petroleum products, electricity, foodstuffs and cigarettes. Consequently, the budget deficit declined from 20 per cent of GDP in fiscal year 1991 to 2.5 per cent of GDP in fiscal year 1994, and a budgeted level of 1.5 per cent of GDP in fiscal year 1995.[48] The improvement was mainly owing to cutbacks in government hiring, the introduction of a general sales tax, and the reduction in subsidies. In 1991, the IMF estimated that subsidies were costing the Egyptian Government around $10 billion per year, $2 billion of which were accounted for by electricity subsidies alone.[49] Prices of manufactured products are now not regulated except for pharmaceuticals, cigarettes, rationed sugar and rationed edible oil products, and virtually all agricultural subsidies were removed by 1994.[50] Petroleum prices in Egypt rose from 36 per cent of international prices in May 1989 to 90 per cent in June 1995. Gross investment as a percentage of GDP in Egypt remained below 20 per cent for many years as shown in table 11 below. Both local and foreign direct investment need to increase in order to raise GDP per capita and reduce unemployment in the country. Government officials estimate annual foreign and Arab direct investment in Egypt at between $300 million and $400 million.[51] Most foreign direct investment in Egypt is concentrated in the manufacturing (50 per cent) and banking (30 per cent) sectors. The Egyptian Government plans to intensify its efforts to increase investment in the country by lowering interest rates in 1996 and attracting foreign investors. Factors that have discouraged foreign direct investment in Egypt and need to be addressed by the authorities include the following: (a) complex and restrictive labour laws, (b) weak protection of intellectual property rights, (c) inadequate antitrust

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47 World Bank, *Trends in Developing Economies*, 1995, p. 157.

48 Ibid., p. 158.

49 Economist Intelligence Unit, *Country Profile Egypt, 1995-96*, p. 21.

50 Ibid.

51 *Middle East Economic Digest*, 19 January 1996, p. 4.

TABLE 11. GROSS INVESTMENT IN THE ESCWA MEMBER COUNTRIES (1980, 1985, 1990-1995) AS PERCENTAGE OF GDP AT CONSTANT 1992 PRICES

Country/group	1980	1985	1990	1991	1992	1993	1994	1995[a/]
Bahrain	32.5	29.7	17.6	30.0	34.8	19.3	26.1	27.3
Kuwait	13.9	29.1	18.0	37.2	19.1	14.2	11.7	13.0
Oman	22.5	39.6	14.9	16.8	17.2	17.7	16.3	16.7
Qatar	17.0	16.5	19.6	19.1	20.6	17.0	17.5	17.6
Saudi Arabia	26.2	27.1	23.0	22.3	22.2	23.4	23.5	23.4
United Arab Emirates	27.9	24.6	20.6	21.0	24.2	27.0	28.1	27.8
GCC	*24.4*	*27.3*	*21.4*	*22.3*	*22.2*	*22.3*	*22.35*	*22.4*
Egypt	28.6	16.9	20.3	19.1	19.7	19.0	19.1	18.7
Jordan	41.0	20.1	31.4	25.3	34.6	32.1	27.9	27.6
Lebanon	15.7	34.5	39.0	36.5	30.7	34.4	31.3	30.3
Syrian Arab Republic	27.5	36.4	20.5	19.7	23.2	22.2	21.6	22.3
Yemen	41.3	16.8	11.7	10.3	12.3	11.5	10.6	11.0
More diversified economies[b/]	*29.0*	*22.4*	*21.5*	*20.3*	*21.9*	*21.5*	*20.9*	*20.8*
ESCWA total[b/]	*25.3*	*26.1*	*21.4*	*21.8*	*22.1*	*22.0*	*21.9*	*22.0*

Sources: 1985, 1990-1995 compiled from the *National Accounts Studies of the ESCWA Region*, Bulletin No. 15, 1995; 1980 figures compiled from the *National Accounts Studies of the ESCWA Region*, Bulletin No. 9, 1987.

a/ Estimates.

b/ Excluding Iraq and the West Bank and the Gaza Strip.

and trade legislation, (d) inadequate credit mechanisms for small and medium-sized businesses, (e) a limited securities market and virtually non-existent derivatives market, and (f) various bureaucratic government procedures. The Government is considering new investment legislation to provide more incentives to investors. More categories of projects will qualify for tax and duty exemptions. Privatization will remain the major economic reform policy issue in Egypt for many years to come. Law 203 of 1991 established the legal basis for privatization by removing 314 public sector enterprises, with an official book value of 85 billion Egyptian pounds (LE) ($25.1 billion) and debts of LE 154 billion ($45.4 billion), from the control of Government ministries and restructuring them as affiliates under 16 independent holding companies. In principle, the holding companies operate as private sector companies with full financial and managerial accountability. Owing to various considerations, including economic, social, political, and technical factors, the pace of privatization in Egypt has been slow. In September 1994, only three State-owned companies were sold outright. The Government changed its policy in late 1994 from outright sales of State companies to more gradual disinvestment through the stock market, through long-term lease and management contracts, and through the use of Employee Shareholder Associations. However, in August 1995, the Government announced its intention to accelerate the privatization process and its plan to sell 100 per cent of the stock of public sector companies not regarded as crucial to the national economy. Meanwhile, the privatization limit for companies vital to the economy will remain at 40 per cent. In Egypt, accelerating non-oil exports is regarded as a national priority. In September 1995 the Higher Council for Exports was formed, with its objective being to set policies and measures that would help to generate rapid growth in exports in the coming years. Non-oil exports increased significantly in 1995, and indications are that they will increase further in the future, despite rising competition in the international markets.

(b) *Iraq*

Owing primarily to the continued rapid deterioration of the national currency and the accompanying hyperinflation in Iraq in 1995, the Iraqi Government announced in early 1996 new belt-tightening measures to help to reduce internal macroeconomic imbalances. The policy of resorting to printing money as the sole method of financing the Government budget deficits will be halted, and the Government has raised the prices of many of the goods and services it provides. For example, prices of telephone calls, postal services, transport, and utilities were all raised. The Government announced the sale of several State assets and the imposition of additional taxes in order to raise revenue. The authorities also relaxed restrictions on foreign exchange trading by allowing official exchange houses to trade at rates comparable to those available in the parallel market, in addition to allowing Iraqis living abroad to transfer foreign currencies to their relatives in Iraq. These measures, accompanied by negotiations with the United Nations concerning limited oil exports, have strengthened the Iraqi dinar and reduced inflationary pressures in the country during the first three months of 1996.

(c) *Jordan*

Jordan restarted its economic reform and structural adjustment programme under the auspices of the IMF in 1992. Its achievements in lowering the budget deficit as a percentage of GDP, lowering inflation rates to generally acceptable levels, reducing its external debt burden, and reducing (as well as targeting) subsidies have been remarkable. In 1995, the Government focused its reform efforts on stimulating private investment, both local and foreign. The Government passed a new investment law that lifts restrictions on foreign ownership, and a new income tax law that makes significant cuts in corporate and business taxes. Non-Jordanian investors are allowed to repatriate their foreign capital and profits, and liquidate and sell their projects or stocks without delay and in convertible currencies. The new income tax law reduces the maximum rate on taxable personal income from 50 per cent to 35 per cent. The new law also reduces the maximum corporate income tax rate to 15 per cent from 40 per cent in priority sectors such as mining, manufacturing, hotels, and hospitals, while the maximum tax rate on banks, financial, insurance and

brokerage firms was reduced from 50 per cent to 35 per cent. To help compensate for the declines in government revenue, the sales tax rate was increased from 7 per cent to 10 per cent. Additional laws that would complement the investment promotion law are planned for enactment in 1996 . These new laws will include a law for preventing monopoly practices, a new law for the Amman Financial Market, and a new customs law.[52] These laws, coupled with the investment law passed in 1995, are expected to lead to a considerable increase in Arab and foreign investment in Jordan starting in 1996, particularly in the light of Jordan's improved relations with GCC countries and the peace agreement with Israel. The privatization process is also gathering momentum, with several government-owned enterprises identified for privatization in 1996.

(d) *Lebanon*

In Lebanon, the private sector has traditionally played the dominant role in the country's economic development. This practice continued in 1995 with the encouragement of the Government. The share of gross investment to GDP in Lebanon is the highest among all ESCWA member countries, and not just in the more diversified economies of the region, as shown in table 11 above. In 1995, the Government's policy was aimed at restoring confidence and stability by moving the economy away from the vicious circle of inflationary deficit financing, dollarization and exchange rate fluctuations, and the creation of the proper environment for sustainable real economic growth.[53] Though the Government's budget deficit increased in 1995, the Government's policy is not to raise tax rates but instead to reduce them so as to encourage investment, create more employment opportunities and increase per capita GDP.[54] The opening of the Beirut Stock Exchange after a closure of 13 years may be expected to give a further boost in 1996 to private investment, both local and foreign.

(e) *Syrian Arab Republic*

Economic reform was initiated in the Syrian Arab Republic in May 1991 with the passage of Investment Law Number 10. The main purpose of this law was to encourage private investment, both local and foreign, as well as to attract the return of private capital held by Syrians abroad.[55] Latest official figures indicate that the number of businesses granted a licence under Investment Law Number 10 is 1,251, thereby creating over 232,000 jobs and attracting $5.5 billion in funds.[56] Nevertheless, these figures mask a lack of foreign interest. Out of 565 new industrial projects, only 16 are by foreign investors and only 9 are by non-Arab investors.[57] In October 1995, the Government moved closer to setting a uniform exchange rate by abolishing the special rate for hotel prices. A move towards a unified and more realistic exchange rate is envisaged for 1996. The Syrian Government is implementing economic liberalization at a relatively slow and cautious pace. The Government apparently prefers improving the performance of public sector

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52 *Jordan Times*, 30 January 1996, p. 8.

53 United Nations Development Programme, Development Cooperation Lebanon, 1994 Report, August 1995, p. 16.

54 *Middle East Economic Survey*, 22 January 1996, p. B1.

55 Estimates of the value of assets held by Syrians abroad are put at between $35 billion and $40 billion.

56 Economist Intelligence Unit, *Country Report, Syria, 4th quarter, 1995*, p. 13.

57 Ibid.

companies by giving flexibility to its managers, instead of privatizing such companies. Thus no privatization is currently envisaged in the Syrian Arab Republic in 1996 or 1997.

(f) *West Bank and Gaza Strip*

In the West Bank and Gaza Strip, the Palestinian Authority ratified in April 1995 the Palestinian Investment Law, which mirrors one of the most liberal policies in the region with respect to foreign investment. The Law states that foreign, Arab, and expatriate investors enjoy the same rights and privileges as those granted to local Palestinian investors; investments cannot be confiscated or nationalized, regardless of their origin; and all investors are entitled to repatriate their capital and profits. In addition, enterprises with paid-up capital exceeding $100,000 or those which employ no less than 10 workers are exempted from income tax for two years. Meanwhile, enterprises with paid-up capital exceeding $500,000 or employing not less than 25 workers are exempted from income tax and dues for five years. Moreover, Palestinian officials indicated their intention to follow a liberal, export-oriented trade policy, a monetary policy that inspires confidence in the world financial markets and a balanced fiscal programme that will ensure sustained economic growth and development.[58]

(g) *Republic of Yemen*

In 1995 the Republic of Yemen began implementing economic reform and structural adjustment policies under the auspices of the IMF and with the support of the World Bank. The programme calls for a set of measures to reduce public spending, privatize many public enterprises, float the national currency, and phase out government subsidies on basic commodities over a two-year period.[59] Yemen devalued the Yemeni rial in March 1995, introducing an official exchange rate of 50 rials to the United States dollar, up from 12 rials to the dollar. In the early days of 1996, the country abolished its fixed official exchange rate and allowed its currency to float. The country's 1995-1997 privatization programme includes a list of industrial and non-industrial enterprises that represent 20 per cent of the aggregate size of all public enterprises (in terms of number of employees). A total of 16 major public sector companies and 130 small companies are being considered for privatization.[60] In July 1995, Yemen increased the maximum interest rates on bank deposits from 9 per cent to 22 per cent, with the aim of encouraging local savings. Various subsidies were reduced, and the prices of gasoline, cooking gas and other fuel prices were doubled.

C. UNEMPLOYMENT AND INFLATION

1. *Unemployment*

High unemployment rates remain a major problem in the ESCWA region, particularly in the more diversified economies. Over several years, high population growth rates have contributed to an increase in the number of new entrants to the labour market to levels beyond the capacity of these economies to fully absorb them. As shown in table 12, the labour supply increased considerably in most ESCWA member countries between 1990 and 1995.[61] Furthermore, table 12 also indicates that the projected average annual growth rate of the labour force in most ESCWA member countries for the period 1995-2025 is relatively

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[58] *Middle East Economic Survey*, 15 January 1996, p. B5.

[59] Economist Intelligence Unit, *Country Report, Yemen, 4th quarter, 1995*, p. 27.

[60] *Al-Hayat*, 5 December 1995, p. 11 (in Arabic).

[61] The decline in the size of the labour force in Kuwait is attributed to the Gulf crisis.

BOX 4. THE IMPROVING INVESTMENT CLIMATE IN JORDAN

The globalization of the world economy, rising competition, emerging trading blocs, heavy national debt, high unemployment, and the establishment of the World Trade Organization (WTO) are among the main challenges that face developing countries today. These challenges have compelled developing countries to adopt policies that aim at accelerating economic growth, structural adjustment, economic reform and creating a favourable investment climate by opening up and adopting favourable regulatory frameworks.

Jordan has also been facing these challenges and has committed itself since the late 1980s to economic growth, which includes the mitigation of the unemployment situation (with figures hovering around 15 per cent owing to a high population growth rate and the return of expatriates after the Gulf crisis). This situation called for the creation of a conducive investment climate to attract local, Arab, and foreign investment. Investment climate has been interpreted as "the totality of policies and institutions that have a bearing directly or indirectly on investment decisions". In other words, the broad meaning of investment policies includes the micro- and macroeconomic policies of a country.

Jordan has a high rate of unemployment. In 1993 it was estimated at 18 per cent whereas in 1994 and 1995 it was estimated at 15.2 and 14.6 per cent respectively. The labour force in Jordan is considered to be the cornerstone of Jordan's economic development owing to the country's scarcity of natural resources. The Government, realizing that investment was a solution for unemployment, pursued a number of policies to encourage investment while at the same time attempting to mitigate the situation by embracing a number of procedures such as: activating employment funds and joining investment guarantee companies to insure commercial bank credits taken by small and medium enterprises against risks.

Among the policies and deregulations that Jordan has pursued with the aim of creating a favourable investment climate are the following;

(a) The macroeconomic policies that Jordan has pursued ensured stable and adequate growth in the GDP; contained inflation; led to an improvement in the country's internal and external imbalances; considerable reduction in its external debt burden; and simultaneously maintained the stability of the Jordanian dinar;

(b) The tax base was modernized and strengthened as part of the government fiscal policy through the introduction, in the past few years, of the self-estimating method of income tax. The income tax is applied on national and foreign companies with exemptions for investors or workers in certain sectors such as agriculture. Moreover, in 1994, the first stage of the General Sales Tax Law No. 6 was introduced. The law stipulates that local and imported goods are subject to a 10 per cent (started at 7 per cent) sales tax, with the exception of luxury goods whose tax could be as high as 20 per cent, and the exemption of some goods under a special provision;

(c) The Amman Financial Market (AFM) has enjoyed since 1978 an excellent record as one of the most regulated and credible financial markets in the region. Although the AFM has been, to date, limited by regulations that prohibit foreign investors from trading in stocks and bonds, new laws and regulations aiming at encouraging foreign investors to invest at AFM are expected to be announced soon;

(d) Privatization in Jordan has been progressing slowly; however, there are plans to corporatize and eventually privatize Royal Jordanian Airlines, the Jordan Electricity Authority and the Telecommunication Corporation. It is expected that foreign investment will be allowed in the privatized entities that will emerge.

(e) Incentives were offered by the Government to encourage investment; among the measures were those related to free zone areas and covered by Law No. 32 of 1984. Under this law, investors in free zone areas are exempted from —among other things—income and social services taxes for a period of 12 years. Investors are also allowed to transfer their invested foreign capital and profits abroad in foreign currency, and the same applies to the salaries of non-Jordanian employees. At the same time, goods imported to the free zone and exported to non-local markets are exempt from all taxes and duties.

BOX 4. *(continued)*

(f) To encourage exports, the Government has also offered some incentives such as: allowing the entry of foreign goods for the purpose of processing without paying customs and other fees provided that the processed goods will be re-exported within a period of six months. Moreover, machinery, equipment and material needed for Government projects or private projects approved by the Government are allowed entry without the paying of duties or fees provided they are re-exported at the completion of the project. In addition, containers are allowed free entry only if they are filled with Jordanian goods for exportation;

(g) The relaxation of regulations by the Central Bank through lifting restrictions on foreign currency holdings is aimed at encouraging the importation and exportation of capital for investment projects and commercial businesses. Non-Jordanians can keep and transfer any amount from their foreign currency accounts without restrictions or control. Jordanians can keep accounts in foreign currency in local banks equivalent to around JD 10,000. Arab or foreign capital, when imported and invested in Jordan, can be transferred abroad with the accrued profits;

(h) Investment has been significant in recent years. While in 1994 the number of companies registered increased by 1.2 per cent, their total capital increased by 68.4 per cent. However, foreign direct investment has been minor, amounting to 10 per cent of total gross domestic investment. Moreover, 90 per cent of FDI is Arab investment, mainly from Iraq, the Syrian Arab Republic and Lebanon. In order to enhance foreign investment, the Parliament passed a number of new laws aiming at modernizing legislation to encourage investment, and also covering taxes, customs, and other issues.

(i) Investment Promotion Law No. 16 of 1995, which replaced the Encouragement of Investment Law No. 11 of 1987, is expected to be the most effective legislation for encouraging investment. This law grants a number of incentives and exemptions as presented below:

(i) Non-Jordanian capital invested in Jordan shall enjoy the same rights and privileges as local capital.

(ii) The Government will guarantee the right of non-Jordanian investors and employees to transfer abroad their imported capital, interest, profits and earnings in foreign currency.

(iii) Net profits of projects are subject to different rates of exemptions, for 10 years, on income and social services tax: 25 per cent for projects established in industrial development area A; 50 per cent for area B; and 75 per cent for area C.

(iv) Fixed assets imported for improvement of projects, and spare parts (not more than 15 per cent of fixed asset value) are exempted from sales tax and other fees if the former is imported within three years of the committee's approval, and the latter is imported in the first 10 years after production.

(v) Hospitals and hotels shall be exempted from duties and taxes on imported furniture every seven years.

It is expected, however, that, along with the above measures applied by Jordan to enhance investment opportunities, a comprehensive peace in the Middle East will considerably facilitate the endeavours to provide a conducive investment climate by further attracting foreign, Arab and expatriate investors.

Sources: This text has drawn mainly on *The Investment Climate in Jordan*, Jordanian Business Association, 1995, and *The Report of the Investment Climate in the Arab World for 1994*, Inter-Arab Investment Guarantee Corporation, 1995.

high, reaching 4.46 per cent in the Syrian Arab Republic, 4.25 per cent in Yemen and 3.99 per cent in Oman. In other developing countries, for example, the projected average annual growth rate of the labour force for the same period is 1.83 per cent in Mexico, 1.61 per cent in India, and 1.5 per cent in Indonesia.[62] Meanwhile, for developed countries such as the United States, Germany, and Japan, the projected labour force average annual growth rate for the period 1995-2025 is much lower at 0.44 per cent, negative 0.31 per cent and negative 0.35 per cent respectively.[63]

TABLE 12. LABOUR SUPPLY IN SELECTED ESCWA MEMBER COUNTRIES, 1990 AND 1995

Country	Year	Labour force (*in millions*)[a/]	Change in labour force (*in millions*) 1990-1995	Percentage change in labour force (1990-1995)	Projected average annual growth rate 1995-2025 (*percentage*)
Egypt	1990	14.530	--	--	--
	1995	16.117	1.587	10.8	2.35
Iraq	1990	--	--	--	--
	1995	5.822	--	--	3.61
Jordan	1990	0.992	--	--	--
	1995	1.077	0.085	8.6	3.90
Kuwait	1990	0.835	--	--	--
	1995	0.553	(0.282)	(36.2)	1.90
Lebanon	1990	--	--	--	--
	1995	0.932	--	--	1.81
Oman	1990	0.405	--	--	--
	1995	0.478	0.073	18.0	3.99
Saudi Arabia	1990	4.081	--	--	--
	1995	5.010	0.929	22.8	3.25
Syrian Arab Republic	1990	3.101	--	--	--
	1995	3.545	0.444	14.3	4.46
United Arab Emirates	1990	0.784	--	--	--
	1995	0.863	0.079	10.1	0.45
Yemen	1990	2.920	--	--	--
	1995	3.296	0.376	12.8	4.25

Sources: 1990 figures compiled from the World Bank, *World Debt Tables*, 1995; 1995 figures compiled from the World Bank, *World Development Report*, 1995.

Note: ( ) indicates negative.

The unemployment problem, however, differs greatly between the GCC countries and the more diversified economies.

62 World Bank, *World Development Report*, 1995.

63 Ibid.

(a) *The GCC countries*

Although GCC countries are all labour-receiving countries, unemployment is rising among the indigenous population in some of these countries. Factors contributing to this phenomenon include particularly high population growth rates; the preference of nationals entering the labour force to work in the public sector, where job opportunities are becoming more scarce as the Governments are attempting to reduce their involvement in economic development in favour of a greater role by the private sector; and a mismatch between the qualifications of job seekers and the skill requirements of available jobs.

Several GCC countries have made progress during the past few years in localizing their labour force, particularly Bahrain and Oman. Nevertheless this progress was limited and was predominantly in the public sector and in certain managerial and clerical jobs in the private sector. Further significant progress can be achieved only by encouraging the indigenous population to acquire educational and technical skills that will meet the requirements of the labour market in the years to come. Other methods, such as obliging the private sector to recruit nationals, may have adverse effects on overall economic efficiency and may not, therefore, be sustainable in the long run.

(b) *The more diversified economies*

The more diversified economies also suffer from a relatively high labour force growth rate as well as economic growth rates that have failed to create sufficient increases in labour demand to match the increase in labour supply. Moreover, employment opportunities beyond national boundaries within and outside the ESCWA region are becoming increasingly limited. In addition, underemployment is prevalent, particularly in countries where the public sector is a major employer, as in Egypt, Jordan, the Syrian Arab Republic and the Republic of Yemen. The Republic of Yemen and the West Bank and Gaza Strip had the highest unemployment rates in the ESCWA region, estimated at 30 per cent in 1995. The high unemployment rate in the Republic of Yemen is caused by high population growth rates, the return of large numbers of expatriates from the GCC countries in 1990-1991, low economic growth rates, and the reduction in government expenditure in 1995. The high unemployment rate in the West Bank and Gaza Strip may be attributed to high population growth rates, the frequent closure of the territories depriving more than 50,000 Palestinian workers of access to their jobs, the return of expatriates from the Gulf, and delays in implementation of major reconstruction projects. The unemployment rates in Egypt and Jordan remained high in 1995, estimated at around 15 per cent. Both countries, in implementing economic reform, have been restraining government expenditures in the past few years. The Governments of Egypt and Jordan are implementing macroeconomic policies that encourage the private sector to absorb the large numbers of new entrants into the labour force, which in Egypt are estimated at around 500,000 annually. The Syrian Arab Republic also suffers from high unemployment, but at rates lower than those in Egypt and Jordan.

Given the rapid growth of the labour force in the more diversified economies, and the declining employment opportunities abroad, these countries can only combat their unemployment problems by implementing economic policies that favour rapid economic growth and promote labour-intensive projects. It is estimated that Egypt's economy, for example, needs to grow by at least an average annual rate of 7 per cent during the period 1996-2000 in order to accommodate the expected new entrants to the labour force each year and simultaneously reduce the country's high unemployment rate. The need for greatly increasing investment, both local and foreign, is obvious.

2. *Inflation*

Inflation rates jumped upwards in the GCC countries in 1995 owing to the weakening of the United States dollar[64] versus major European currencies and the Japanese yen, thereby raising prices of imports from those European countries and Japan. However, the reduction in subsidies of government-produced goods and services was the main reason for higher inflation rates in some GCC countries, particularly in Saudi Arabia. Nevertheless, inflation rates remain at very low levels compared with other developing countries. In 1995, inflation rates among GCC countries are estimated to have ranged from 1 per cent in Oman to 4.8 per cent in Saudi Arabia and 5 per cent in the United Arab Emirates (table 13).

TABLE 13. RATES OF INFLATION IN THE ESCWA REGION

(Percentage change)

Country/group	1992	1993	1994	1995[a/]
GCC				
Bahrain	(0.2)	2.5	0.9	3.0
Kuwait	(3.0)	0.6	1.0	3.5
Oman	1.4	0.9	(0.7)	1.0
Qatar	4.4	3.0	4.0	3.7
Saudi Arabia	(0.1)	0.8	0.6	4.8
United Arab Emirates	3.4	5.0	4.2	5.0
More diversified economies				
Egypt	13.7	12.1	8.2	7.2
Jordan	3.95	3.3	3.6	2.3
Lebanon	120.0	29.1	16.0	10.5
Syrian Arab Republic	9.5	13.2	15.3	22.0
West Bank and Gaza Strip	- -	- -	30.0	25.0
Yemen	45	70	100	45

Source: ESCWA, based on national and international sources.

Note: ( ) indicates negative; - - = not available.

a/ Estimates.

Among the more diversified economies, countries that have been implementing IMF-supported structural adjustment and economic reform, namely Jordan and Egypt, had the lowest inflation rates in 1995. Jordan's inflation rate in 1995 was estimated to have declined to 2.3 per cent,[65] while Egypt's inflation rate, which fell from 12.1 per cent in 1993 to 8.2 per cent in 1994, is estimated to have fallen to 4.9 per cent in

[64] The currencies of all GCC countries, with the exception of Kuwait, are pegged to the United States dollar.

[65] The 2.3 per cent figure was provided by the Central Bank of Jordan. However, Ministry of Planning estimates put the inflation rate at 4 per cent for 1995 (*Jordan Times*, 2 April 1996, p. 8).

BOX 5. WORKERS' REMITTANCES IN THE ESCWA REGION: DIRECTION AND MAGNITUDE

Workers' remittances have a considerable impact on the current account position of ESCWA member countries, both the labour-sending and labour-receiving ones. The labour-sending countries encompass all the countries with more diversified economies, while the labour-receiving countries are the GCC countries. Although Iraq was a major labour-receiving country prior to the Gulf war, it may now be considered a labour-sending country.

WORKERS' REMITTANCES IN SELECTED ESCWA MEMBER COUNTRIES, 1990-1995
(Millions of US dollars)

Country	1990	1991	1992	1993	1994	1995[a/]
Inward remittances						
Egypt	5 417	5 434	7 076	7006	4 622	4 700
Jordan	500	447	842	1 037	1 121	1 266
Lebanon	- -	- -	200	300	320	- -
Syrian Arab Republic	476	588	871	649	1 054	- -
Yemen	- -	- -	993	1 014	1 044	..
Outward remittances						
Saudi Arabia	(15 637)	(20 235)	(14 898)	(16 657)	(15 642)	(17 200)
Oman	(910)	(913)	(1 235)	(1 368)	(1 577)	(1 685)

Source: ESCWA, based on national and international sources.

Notes: ( ) indicates negative; - - = not available.

a/ Estimates.

Among the labour-sending countries of the ESCWA region, Egyptian expatriate workers have sent home the largest amount of remittances. The total amount of workers' remittances by Egyptian workers abroad during the 1990-1995 period totalled $34.3 billion. These remittances covered balance of trade deficits and helped Egypt register surpluses in its current account balances. Furthermore, these remittances contributed to an increase in activities in various economic sectors in Egypt, particularly in the banking, trade and construction sector. They also played a very important role in increasing Egypt's international reserves. Other countries that also benefited from an inflow of workers' remittances during this period include Jordan, Lebanon, the Syrian Arab Republic and the Republic of Yemen.

Among the labour-receiving countries of the region, Saudi Arabia witnessed by far the largest outflow of workers' remittances, which totalled an estimated $100.3 billion during the 1990-1995 period. This has had an adverse effect on the country's current account balances. Localization of the labour force in the GCC countries is progressing at a slow pace, given the need for the services of the expatriate labour force, and thus no major declines in the outflow of workers' remittances from these countries are expected in the coming few years. Nevertheless, the GCC countries could significantly reduce the outflow of workers' remittances almost immediately if they reduce restrictions on investments by non-GCC citizens.

the year ending November 1995, its lowest level in 32 years. However, Egypt's inflation rate for 1995 was estimated at 7.2 per cent (table 13). The third country implementing an IMF-supported structural adjustment programme, the Republic of Yemen, witnessed its inflation rate drop from 100 per cent in 1994 to an estimated 45 per cent in 1995, and aims at reducing it further to 20 per cent in 1996. Lebanon's inflation rate is estimated to have declined from 16 per cent in 1994 to 10.5 per cent in 1995. In the West Bank and Gaza Strip, the inflation rate remains high, despite its decline from 30 per cent in 1994 to an estimated 25 per cent in 1995. In the Syrian Arab Republic, the country's inflation rate, which increased from 13.2 per cent in 1993 to 15.3 per cent in 1994, is estimated to have risen again in 1995 to an estimated 22 per cent owing to the reduction in government subsidies, the conversion of foreign exchange at more realistic rates, and the prevailing high liquidity in the economy. As for Iraq, it continued to suffer from hyperinflation in 1995 as its national currency continued to fall sharply and the Government continued to depend very heavily on printing money for financing its expenditures. However, in early 1996, indications that Iraq will achieve an agreement with the United Nations to export $2 billion worth of oil resulted in an immediate strengthening of the Iraqi dinar (ID) in the range of ID 550-ID 700 to the United States dollar, from a previous record low of ID 3,010 to the dollar in December 1995. This improvement in the Iraqi dinar precipitated an instantaneous sharp decline in prices. The positive impact of possible oil exports in the near future was supported by prudent policies initiated by the Government early in 1996.

D. SHORT-TERM ECONOMIC OUTLOOK

The economic outlook for 1996 in the GCC countries will be determined mostly by developments in the oil sector given the dominant share of the sector in these countries' GDP, exports and government revenues. Preliminary indications show that international oil prices will register only modest, if any, increases in 1996. In addition, oil production is close to production capacity in most GCC countries, and thus only marginal increases in production are anticipated. Government budgets for 1996 will restrain expenditure. Privatization is expected to remain fairly limited, and hence the contribution of the private sector may be expected to show only modest growth. In all, the GDP growth rate in 1996 for the GCC countries as a group may be projected to be below its 1995 level.

For the more diversified economies in the ESCWA region, though oil is an important source of foreign exchange for some of these countries, the response of the private sector to economic reform and encouragement by the Government will determine economic prospects in 1996. Indications are that the private sector's role will be greatly enhanced in the more diversified economies, given the investment legislation and the significant increase that is expected in the pace of the privatization programme in Egypt, by far the largest economy among this group of countries. The anticipated benefits stemming from the MENA Summit and the Euro-Mediterranean Conference, held in Amman and Barcelona respectively during the fourth quarter of 1995, are expected to affect favourably growth and trade developments in the more diversified economies of the region. The GDP growth rate in 1996 for the more diversified economies as a group is foreseen to be higher than the level achieved in 1995. A comprehensive peace settlement in the Middle East, when achieved, may be expected to give a tremendous boost to confidence in the region among private investors, both domestic and foreign.

The unemployment problem in the ESCWA region is not expected to improve much in 1996, although the tourism sector in several countries, notably Egypt, Jordan and Lebanon, is expected to provide an increasing number of employment opportunities to both skilled and unskilled labour.

Inflation rates are expected to decline to levels below 3 per cent in most GCC countries in 1996, owing in part to the rebound of the United States dollar versus the major European currencies and the

Japanese yen, in addition to constrained government expenditures and generally slow economic growth. Inflation rates are expected to rise in most of the countries with more diversified economies in the region. Higher inflation rates are expected in Egypt and Jordan as both countries aim at increasing economic activities to levels sufficient to reduce unemployment. Meanwhile, the Syrian Arab Republic's inflation rate may be expected to rise in 1996 as a result of an anticipated official devaluation of the Syrian pound, to reflect more closely exchange rates in the parallel market. The inflation rate in Iraq will decline sharply in 1996 if the Government implements the prudent monetary and fiscal policies which it announced in the early days of the year, and if the United Nations sanctions on Iraq are removed, even partially.

III. INTERNATIONAL TRADE AND BALANCE OF PAYMENTS

Despite poor economic performance in the region and falling oil prices and revenues, international trade in the ESCWA region during 1994 was positively affected by an economic recovery from the stagnation that affected the developed market economies in the early 1990s. During 1995 the region's trade was affected by world developments, including an improvement in overall economic conditions of major importing countries, the start of the implementation of GATT and the newly formed WTO. In addition, regional political and economic developments contributed to the overall improvement of trade in the region. Economic conditions in the region improved during 1995 with a resulting positive effect on trade, partly as a result of benefits from the economic reforms and restructuring policies during 1995. In many countries of the region, these reforms have been aimed, in part, at the promotion of exports. As part of these policies, the decontrol of exchange rates in some of the countries has worked both to dampen imports and promote exports. The political events during 1994 and 1995, especially the progress made in securing peace with Israel, carried with them an enormous potential for foreign and domestic investment, economic growth and, ultimately, trade in the region. However, trade in the region during 1995 continued to be adversely affected by the imposition of the United Nations' economic sanctions on Iraq, in force since 1990, which affected not only Iraq but all of its trading partners in the region, particularly Jordan.

A. Overall trade performance

1. *Exports*

The dollar value of the ESCWA region's exports during 1994 (excluding Iraq owing to lack of data) increased by 4.2 per cent, reaching $101.3 billion (table 14). This represented a considerable improvement over the decline of 2 per cent noted the previous year. The exports of the region's two groups, the GCC and the more diversified economies, rose in 1994 by 1.9 per cent and 27.5 per cent respectively. The increase in the GCC countries was an improvement over the 1993 decline of 2.3 per cent. Improvement over the previous year's export level was also noted by the more diversified economies, whose 1993 exports had been approximately the same as in 1992.

The estimated dollar value of the region's merchandise exports in 1995 (excluding Iraq owing to lack of data) increased over the 1994 level by 10.7 per cent, reaching approximately $112 billion, compared with $101 billion recorded in the previous year (table 14). This increase represented a marked improvement over the rise in the region's 1994 exports of slightly more than 4 per cent. The exports of the region's two groups, the GCC countries and the more diversified economies, rose by 10.5 per cent and 11.7 per cent respectively. The increase by the GCC group of countries was a significant rise over their 1994 export increase of approximately 2 per cent. The estimated 11.7 per cent growth in exports of the more diversified economies continued the notable improvement, though the increase of 1995 was markedly smaller than the increase recorded during the previous year.

At the country level, declines in the exports of Bahrain (by 6.9 per cent) and Saudi Arabia (by 1.4 per cent) during 1994 were outweighed by increases in the rest of the countries in the GCC group. The largest increase was recorded by Kuwait, which continued to expand its oil exports to recover its pre-Gulf war export level. The next largest increase in exports in this group was noted by the United Arab Emirates, which recorded an increase of 6 per cent over the 1993 level. Oman witnessed an increase in exports of 3.2 per cent, following a slight decline in the previous year. Increases in the United Arab Emirates and Oman were achieved despite falling oil prices and revenues during 1994. Qatar's exports in 1994 were about the same as in 1993.

TABLE 14. ESCWA REGION: OVERALL TRADE FLOWS, 1990-1995

(Millions of US dollars)

	Exports (f.o.b.)						Variation (percentage)	
	1990	1991	1992	1993	1994	1995	1993-1994	1994-1995
ESCWA region	*96 069*	*89 936*	*99 316*	*97 212*	*101 311*	*112 121*	*4.2*	*10.7*
GCC	*86 161*	*80 602*	*90 568*	*88 486*	*90 183*	*99 695*	*1.9*	*10.5*
Bahrain	3 761	3 513	3 464	3 710	3 454	3 600[a/]	(6.9)	4.2
Kuwait	6 956	1 088	6 567	10 182	11 125	12 200[b/]	9.3	9.7
Oman	5 508	4 871	5 428	5 369	5 543	5 795[c/]	3.2	4.5
Qatar	3 529	3 107	3 736	3 181	3 200	3 500[b/]	0.6	9.4
Saudi Arabia	44 417	47 797	50 280	42 400	41 800	45 800[c/]	(1.4)	9.6
United Arab Emirates	21 990	20 226	21 093	23 645	25 061	28 800[d/]	6.0	14.9
More diversified economies	*9 908*	*9 334*	*8 748*	*8 726*	*11 128*	*12 426*	*27.5*	*11.7*
Egypt	2 582	3 618	3 072	2 243	3 235	3 529[d/]	44.2	9.1
Jordan	1 063	1 130	1 219	1 246	1 424	1 794[d/]	14.3	26.0
Lebanon	496	490	559	631	739	982[c/]	17.1	32.9
West Bank and Gaza Strip	321	246	299	236	165	170[e/]	(30.3)	3.3
Syrian Arab Republic	4 062	3 143	3 093	3 203	3 755	4 000[b/]	17.2	6.5
Yemen	1 384	1 197	1 065	1 167	1 811	1 950[b/]	55.2	7.7
	Imports (c.i.f.)						Variation (percentage)	
ESCWA region	*66 507*	*73 064*	*86 177*	*86 309*	*85 526*	*95 292*	*(0.9)*	*11.4*
GCC	*47 279*	*56 615*	*67 952*	*62 345*	*58 751*	*64 062*	*(5.8)*	*9.0*
Bahrain	3 712	4 115	4 263	3 858	3 737	3 600[b/]	(3.1)	(3.7)
Kuwait	3 923	4 761	7 251	6 966	6 653	7 000[a/]	(4.5)	5.2
Oman	2 681	3 194	3 769	4 113	3 914	4 012[c/]	(4.8)	2.5
Qatar	1 695	1 720	2 015	1 895	1 900	2 050[b/]	0.3	7.9
Saudi Arabia	24 069	29 079	33 244	25 900	21 300	22 500[c/]	(17.8)	5.6
United Arab Emirates	11 199	13 746	17 410	19 613	21 248	24 900[d/]	8.3	17.2
More diversified economies	*19 228*	*16 449*	*18 225*	*23 965*	*26 774*	*31 230*	*11.7*	*16.6*
Egypt	9 202	7 754	8 357	8 176	10 436	12 940[d/]	27.6	24.0
Jordan	2 603	2 508	3 255	3 539	3 382	3 788[d/]	(4.4)	12.0
Lebanon	2 578	3 748	4 180	5 549	5 406	6 722[c/]	(2.6)	24.3
West Bank and Gaza Strip	843	1 139	1 232	1 138	1 126	1 130[e/]	(1.1)	0.4
Syrian Arab Republic	2 526	3 151	3 490	3 476	4 569	4 700[b/]	31.4	2.9
Yemen	1 476	1 897	1 891	2 087	1 856	1 950[b/]	(11.1)	5.1

Sources: 1990-1994 data from ESCWA based on United Nations *Monthly Bulletin of Statistics*, various issues, and national (questionnaire) sources. Data for the West Bank and Gaza Strip from IMF, "West Bank and Gaza Strip—Recent Economic Developments and Progress in Institution Building", IMF Staff Paper, Country Report No. 95/106, October 1995 (1990-1992 figures are actual; 1993-1995 data are estimates). Totals for 1995 based on estimates.

Note: ( ) indicates negative.

a/ Estimate based on information in Middle East Memo (MEM);
b/ ESCWA estimate;
c/ National estimate (questionnaire);
d/ Based on official announcement;
e/ IMF estimates. ESCWA country estimates based on preliminary economic performance, oil revenues and recent trends.

Preliminary and estimated data during 1995 indicated that the United Arab Emirates, benefiting from higher oil prices, witnessed an increase in exports of approximately 15 per cent. Kuwait, Qatar and Saudi Arabia recorded increases in export levels estimated at over 9 per cent each, owing mainly to increases in oil prices on the international market and, in Qatar's case, an increase in oil production of approximately 4.5 per cent. The increase noted in Kuwait continued the trend of rising exports in that country since the end of the Gulf war, although during 1995 the increase was mainly attributable to a rise in oil prices rather than to a significant increase in oil output as had been the case during previous years. However, the increase in exports represented a notable improvement for Saudi Arabia and Qatar over 1994 levels, when exports of Saudi Arabia declined slightly, and in the case of Qatar were stagnant. During 1995 Oman's exports increased by an estimated 4.5 per cent, slightly higher than the previous year's increase of 3.2 per cent, while those of Bahrain are estimated to have increased by 4.2 per cent. Estimates for Bahrain represent a significant turnaround in the decline in exports of 6.9 per cent recorded in 1994.

In the more diversified group of countries, Yemen recorded the largest increase in exports, 55.2 per cent, during 1994 as its oil output increased by over 50 per cent. Egypt recorded the second largest increase in exports of 44.2 per cent in 1994, mainly as a result of unusually low exports the previous year. Compared with 1992 export levels, however, the $3.2 billion recorded in 1994 represented an increase of 5.3 per cent. Lebanon and the Syrian Arab Republic noted increases of around 17 per cent each, as Lebanon continued to recover from civil strife and the Syrian Arab Republic's non-oil exports improved. The exports of the West Bank and Gaza Strip, however, were adversely affected by repeated border closures during 1994, and fell by 30.3 per cent.

In 1995, the exports of the more diversified economies of the region are estimated to have been led by major increases in Lebanon, estimated at 33 per cent, and Jordan at 26 per cent. Lebanon's exports have been aided by the general reconstruction and continued economic recovery during the past few years. Jordan's significant rise in exports is largely due to increases in the exported values of phosphate and potash, which rose by approximately 6 per cent and 34 per cent respectively. Egypt's exports also rose significantly, by an estimated 9.1 per cent, but this increase for the year (1995) was less than in the previous year and less than that recorded during the first six months of 1995, during which non-oil exports increased dramatically. The slow-down in exports noted during the second half of 1995 was disappointing, especially in the light of recent expectations of an export boom, and was largely the result of a decline of non-oil exports over that recorded during the same period of the previous year. This may result in renewed pressure on Egypt to devalue its currency. Yemen and the Syrian Arab Republic are estimated to have recorded positive exports (though slightly lower than Egypt's exports) of 7.7 per cent and 6.5 per cent respectively. These increases were considerably lower than those recorded by both countries during the previous year. The exports of the West Bank and Gaza Strip are estimated to have increased by 3.3 per cent during 1995 which, though adversely affected by border closures, represents an improvement over the significant decline noted in 1994.

2. *Imports*

The imports of the ESCWA region (excluding Iraq owing to lack of data) fell during 1994 by 1 per cent owing to deteriorating overall economic performance for the year. Total ESCWA region imports were $85.5 billion during 1994. Imports of the GCC countries declined by 5.8 per cent, and this outweighed the 11.7 per cent increase in imports of the more diversified countries during 1994. During 1995 the region's imports increased by an estimated 11.4 per cent to total $95.3 billion, largely as a result of improved economic conditions throughout the region which contributed to an increase in the demand for imported goods. The rise of imports represented a reversal of the slight decline noted in 1994 and the relative stagnation of imports recorded in 1993. The imports of the GCC countries, which account for approximately

67 per cent of the region's total, increased by 9 per cent, to total $64.1 billion. This represented a significant turnaround over the 5.8 per cent drop noted during 1994. The increase in the imports of the regions more diversified economies is estimated at 16.6 per cent and reached $31.2 billion, following a substantial increase recorded during 1994 of 11.7 per cent.

At the country level, imports during 1994 decreased in every GCC country except Qatar and the United Arab Emirates. Qatar's imports were about the same as in 1993, but the imports of the United Arab Emirates increased by 8.3 per cent owing in part to slightly improved economic conditions that year. Saudi Arabia witnessed the largest decline during 1994—17.8 per cent—when its imports fell from $25.9 billion in 1993 to $21.3 billion in 1994, owing in part to a 1.1 per cent decrease in economic activity that year exacerbated by a 9.2 per cent decline in oil export revenues. Import levels in Oman and Kuwait declined by 4.8 per cent and 4.5 respectively, while Bahrain's imports declined by 3.1 per cent.

During 1995 the United Arab Emirates once again witnessed the highest increase in imports in this group of countries: approximately 17.2 per cent, reaching $24.9 billion. Qatar's estimated 7.9 per cent increase in imports represents a noticeable rise over the previous year's unchanged level, while Saudi Arabia's imports rebounded from a decline in 1994, as noted above, to increase by 5.6 per cent in 1995, reflecting improved economic conditions. Kuwait and Oman also experienced a turnaround in imports during 1995. Kuwait's imports increased by an estimated 5.2 per cent after declining by 4.5 per cent in 1994, while Oman's imports rose by an estimated 2.5 per cent in 1995 after falling by 4.8 per cent in the previous year. Bahrain is the only country in the region estimated to have witnessed falling imports in 1995; imports declined by an estimated 3.7 per cent following a 3.1 per cent drop the previous year.

The imports of the more diversified economies increased by 11.7 per cent in 1994, mainly as a result of significant increases in the imports of the Syrian Arab Republic and Egypt. The 1994 increase in imports of the Syrian Arab Republic of 31.4 per cent, rising from $3.5 billion to $4.6 billion after falling the previous year, was the largest in this group. The increase in Egypt's imports were also significant: imports increased by 27.6 per cent in 1994, after declining in 1993, to reach $10.4 billion, in part because of improved economic conditions that year, an increase in per capita income and the effect of the implementation of economic restructuring and reforms. All other economies in this group witnessed decreases in imports; the largest, 11.1 per cent, was in Yemen, owing to deteriorating economic conditions and a negative growth rate in per capita GDP that year. Other declines ranged from 4.4 per cent in Jordan to 1 per cent in the West Bank and Gaza Strip.

Preliminary data and estimates for 1995 indicate that in the region's more diversified economies the largest increases in imports during 1995 were noted by Lebanon at 24.3 per cent, and by Egypt at 24 per cent. Lebanon's increase reflects improvements in overall economic conditions and follows a decline of 2.6 per cent recorded in 1994. Jordan's imports increased by 12 per cent over 1994 levels and, though less than those estimated for Lebanon and Egypt, are significant especially in the light of the previous year's decline. Yemen's imports are estimated to have increased by 5.1 per cent during 1995, while estimates for the Syrian Arab Republic show an increase in imports of 2.9 per cent in 1995, a sharp slow-down after the significant increase recorded in 1994.

3. *Export/import ratio*

The region's export/import ratio, which reflects its ability to finance imports from export proceeds, remained the same in 1995 as in 1994 at 1.18, reflecting similar increases in exports and imports for the region as a whole during 1995 (table 15). This is a slight improvement over the 1993 level of 1.13. For the

GCC countries the export/import ratio increased slightly from 1.42 in 1993 to 1.53 in 1994 and to 1.56 in 1995. The export/import ratio of the more diversified economies decreased from 0.36 in 1993 to 0.42 in 1994 and to 0.4 in 1995. However, in terms of 1990 imports, the region's export/import ratio has improved reaching 1.55 in 1993 and increasing to 1.62 in 1994 and to 1.69 in 1995. Increases in the ratio in terms of 1990 imports were also noted in both the GCC countries and the more diversified economies.

TABLE 15. EXPORT/IMPORT RATIOS, 1990-1995

	1990	1991	1992	1993	1994	1995
ESCWA region						
Current imports[a/]	1.18	0.95	0.91	1.13	1.19	1.18
1990 imports[b/]	1.18	1.11	1.25	1.55	1.62	1.69
GCC countries						
Current imports[a/]	1.48	1.07	1.02	1.42	1.53	1.56
1990 imports[b/]	1.48	1.39	1.60	2.04	2.08	2.11
More diversified economies						
Current imports[a/]	0.52	0.57	0.48	0.36	0.42	0.40
1990 imports[b/]	0.52	0.49	0.45	0.45	0.59	0.65

Source: ESCWA, based on information in table 14.

a/ Ratio of current exports to current imports.
b/ Ratio of current exports to 1990 imports.

B. DIRECTION OF TRADE

1. *Aggregate trade*

Preliminary and incomplete data on the ESCWA region's geographical distribution of trade in 1995 (January-July only) indicate that the developed market economies continued to be the region's largest export outlet, with their share of the ESCWA region's total exports increasing from 52.1 per cent in 1994 to 55.9 per cent in 1995 (table 16). This increase, which represents almost no change over the 1990 share, to a large extent reflects the increase in the value of the region's oil exports. The share of the developing countries (other than those in the ESCWA region) also increased over the 1994 levels of 34.7 per cent to 37.8 per cent in 1995, and this level was significantly higher than the 29.3 per cent share noted in 1990. This increase, however, represents the continuation of a trend whereby purchases of developing countries have been accounting for a larger share of the ESCWA region's exports, largely a result of an increase in the demand for oil by Asian countries (other than ESCWA member countries).[66] Intraregional exports declined to 4.2 per cent in 1995 after recording a share of 7.2 per cent the previous year.[67] The ESCWA region's share

[66] ESCWA, *Analytical Review of Developments and Issues in the External Trade and Payments Situation of Countries of the ESCWA Region* (E/ESCWA/ED/1995/9/Rev.1), chap. III.

[67] Data for 1995 may underrepresent intraregional trade owing to incomplete reporting.

of total exports has not recovered its pre-Gulf war level of 10.9 per cent. The share of exports to Eastern Europe and the former Soviet Union increased only slightly from 2.2 per cent in 1994 to 2.4 per cent in 1995, down somewhat from the 1990 share of approximately 4 per cent. China's share is minimal, but it rose slightly over 1994 levels from just 1 per cent to 1.1 per cent, indicating that China remains a potential market for the region's exports as its economy is expected to grow considerably well into the next century.

TABLE 16. ESCWA REGION: DIRECTION OF TRADE, 1990, 1994 AND 1995
(Percentage share)

	Exports			Imports		
	1990	1994	1995[a/]	1990	1994	1995[a/]
ESCWA region	10.9	7.2	4.2	9.1	7.7	5.9
Other developing countries	29.3	34.7	37.8	21.9	26.3	28.9
Asia (excluding ESCWA region)	20.4	26.8	28.6	14.1	17.0	18.5
Africa (excluding Egypt)	2.7	5.5	6.7	1.1	3.3	2.9
Eastern Europe and FSU[b/]	4.0	2.2	2.4	5.1	4.6	4.5
China	0.2	1.0	1.1	2.1	2.5	2.7
Latin America and the Caribbean	2.2	0.2	0.1	1.2	1.4	3.0
Developed market economies[c/]	55.7	52.1	55.9	65.7	63.3	65.1
European Union	17.3	16.7	17.9	33.4	33.7	33.9
United States	14.0	11.0	9.6	12.6	13.4	13.6
Japan	22.1	21.7	22.2	11.0	9.1	7.4
Rest of world	4.1	6.0	2.0	3.3	2.7	0.0

Source: ESCWA compilations based on IMF, *Direction of Trade Statistics*, various issues.

a/ Figures for 1995 are for the period January to July only as available in international sources.
b/ FSU refers to the former Soviet Union.
c/ This includes developed market economies not included in the categories below such as Australia, New Zealand and Sweden.

At a more disaggregated level, the European Union accounted for an increased share of the ESCWA region's exports in 1995 at 17.9 per cent compared with 16.7 per cent the previous year. This share was approximately the same as in 1990.

The United States' share of the region's exports continued to drop in 1995 from 14 per cent in 1990 to 11 per cent in 1994 and to 9.6 per cent in 1995 as it diversified its oil import sources. The share of Japan, usually the largest importer of the ESCWA region's exports (mainly oil), increased slightly from 21.7 per cent in 1994 to 22.2 per cent in 1995. Japan's share of the region's exports has remained at around this level throughout the 1990s.

With regard to the developing countries, Asia (Asian countries other than the ESCWA member countries) continued to account for the largest share in the ESCWA region's total exports. The Asian countries' share increased from 26.8 per cent in 1994 to 28.6 per cent in 1995 as the growing economies in that region continued to import more oil and gas, mainly from the GCC countries. Asia continues to prove

BOX 6. TRADE PROSPECTS IN THE WEST BANK AND GAZA STRIP

The signing of the peace agreements with Israel and a trade agreement with Jordan in early 1995 should improve general economic conditions and the trade prospects of the West Bank and Gaza Strip. However, since a significant portion of trade by the West Bank and Gaza Strip is conducted with Israel, overall trade has been hampered by the repeated border closures during 1995 and early 1996. Available and estimated trade data for the area, illustrated in the table below, show that trade patterns and remittances have been adversely affected in recent years.

WEST BANK AND GAZA STRIP CURRENT ACCOUNT IN THE BALANCE OF PAYMENTS, 1992-1995
(Millions of US dollars)

	1992	1993	1994	1995
Current Account	--	--	-8.7	-143.5
Trade Balance	-933.0	-902.0	-961.5	-1 009.9
Exports (f.o.b.)	299.0	236.0	164.5	230.9
Imports (c.i.f.)	1 232.0	1 138.0	1 126.0	1 240.9
Services (net)	549.0	366.0	346.9	85.0
Unrequited transfers	384.0	536.0	605.9	781.3

Source: IMF, "West Bank and Gaza Strip—Recent Economic Developments and Prospects and Progress in Institution Building", *IMF Staff Country Report No. 95/106*, October 1995.

Note: 1993-1995 data are estimates, (--) denotes zero value or insignificant amount.

Exports, comprising mainly agricultural products and some light manufactured goods, have been dropping since 1992, reaching a low of $164.5 million in 1994, and although exports and imports both increased during 1995, according to preliminary estimates, exports were still 23 per cent below their 1992 level. Imports fell by 8 per cent in 1993 but recovered to their 1992 level during 1995. The balance of trade deficit has widened since 1993, reaching over $1 billion in 1995. Since the bulk of exports and imports of the West Bank and Gaza Strip are with Israel (79 per cent of exports and 90 per cent of imports in 1994), the border closures have had a severe impact on overall trade. In early 1996 the closure was strict and severe enough to be considered an embargo. By March 1996, the agricultural industry in Gaza, which employs about 30,000 people, was losing $350,000/day as a result of the closures.

Border closures between the West Bank and Gaza Strip and Israel impeded labour movements and thus have also had adverse effects on remittances, which have consistently fallen since 1992 reaching a low of $232 million in 1995, less than one third of their 1992 level. Remittances may remain low after border closures are halted since Israel is undertaking measures to replace workers from the West Bank and Gaza Strip with workers from the Far East.

The economic agreement between Israel and the Palestinian Authority holds advantages for the West Bank and Gaza Strip in that imports and exports to Israel are duty free and Palestinian goods receive some exposure in Israel's foreign markets. But eliminating trade restrictions between the West Bank and Gaza Strip and neighbouring countries, such as Jordan, could enhance the trade prospects of the region as well. An agreement signed in 1995 with Jordan improved trade ties but impediments pertaining to the transport of goods and certain trade restrictions remain to be solved. Jordan is considered a natural trading partner for the West Bank and Gaza Strip owing to its proximity, historical and cultural ties and could be a possible route to wider trade with other ESCWA member countries.

a growing market for exports from the ESCWA region, especially for energy and energy-related products. The share of Latin America, which was more important to the region as an export outlet during the 1980s, remained a very small market for ESCWA region exports owing in part to economic setbacks in Mexico during the year. Africa purchased 6.7 per cent of the region's total exports in 1995, which represented an increase over its 1994 share of 5.5 per cent. The African region's share in the ESCWA region's exports during the past two years, though small, has increased notably compared with its 1990 level of 2.7 per cent.

The developed market economies remained the largest source of imports for the ESCWA region. Their share of total imports in the region's total increased from 63.3 per cent in 1994 to 65.1 per cent in 1995, though this share remained about the same compared with 1990 levels. The developing countries' (other than the ESCWA region) share of imports in the ESCWA region total increased in 1995 to 28.9 per cent, compared with 26.3 per cent in the previous year, and represented a significant increase over these countries' 1990 share of 21.9 per cent. In contrast, the share of intraregional imports continued the decline noted since 1990, dropping from 9.1 per cent in 1990 to 7.7 per cent in 1994 to 5.9 per cent in 1995.[68] Imports from Eastern Europe and the former Soviet Union remained at less than 5 per cent, falling slightly from 4.6 per cent in 1994 to 4.5 per cent in 1995. Imports from China, though low, rose slightly from 2.5 per cent to 2.7 per cent in 1995.

On a more disaggregated level, imports into the ESCWA region from the European Union remained roughly the same, at 33.9 per cent in 1995, compared with shares recorded in 1990 and 1994. The share of imports from the United States increased only slightly over 1994 levels from 13.4 per cent to 13.6 per cent, which was approximately 1 per cent higher than that recorded in 1990. In contrast, Japan's share declined from 11 per cent in 1990 to 9.1 per cent in 1994 and to 7.4 per cent in 1995. Asia (other than the ESCWA region) has become of greater importance to the region as a source of imports during the 1990s; its share increased from 14.1 per cent in 1990 to 17 per cent in 1994 and to 18.5 per cent in 1995. The share of imports from Latin America and the Caribbean increased from 1.4 per cent in 1994 to 3 per cent in 1995. Imports from Africa remain a small share of total imports, having decreased slightly from 3.3 per cent in 1994 to 2.9 per cent in 1995.

2. *Intraregional trade*

Based on partial and preliminary data, indications are that the share of intraregional exports in total exports decreased from 7.2 per cent in 1994 to 4.2 per cent in 1995 (table 17), and was considerably lower than the pre-Gulf war level of 10.9 per cent recorded in 1990. For the GCC countries as a group, the share of intraregional trade to total trade was also lower in 1995, amounting to 2.8 per cent compared with 6.1 per cent in the previous year. On a country level within this group, the largest decline was noted by Saudi Arabia, though this may reflect the incomplete nature of the data available for 1995. Figures for Saudi Arabia in 1994, however, indicate that the share of intraregional trade to total trade was still less than that recorded in 1990. Of the countries in this group, only Qatar and the United Arab Emirates witnessed an increase in this figure compared with the pre-Gulf war levels. Qatar's share was 6 per cent in 1995 compared with 5.7 per cent in 1990, though this represented a decline over the 7.6 per cent share noted in 1994. The United Arab Emirates' share in 1995 was 22.1 per cent, changing only slightly from the previous year but representing an increase compared with the country's 17 per cent share recorded in 1990. The more diversified economies of the region also witnessed a decline in the overall share of intraregional trade to total trade from 15.9 per cent in 1994 to 13.8 per cent in 1995. However, a significant increase was noted by

[68] Data for 1995 may underrepresent intraregional trade owing to incomplete reporting.

Jordan, which recorded an increase from 23.9 per cent in 1994 to 28.3 per cent in 1995 but was still below the 40.3 per cent share of 1990. Egypt, Lebanon and the Syrian Arab Republic recorded decreases in their shares, though their shares have more than recovered from the pre-Gulf war levels of 1990. Yemen's share of intraregional trade to total trade remains low at 2.9 per cent.

TABLE 17. ESCWA REGION: SHARE OF INTRAREGIONAL TRADE IN TOTAL TRADE, 1990, 1994 AND 1995
(*Percentage*)

	Exports (f.o.b.)			Imports (c.i.f.)		
	1990	1994	1995[a/]	1990	1994	1995[a/]
ESCWA region	*10.9*	*7.2*	*4.2*	*9.1*	*7.7*	*5.9*
GCC countries	*10.4*	*6.1*	*2.8*	*9.9*	*9.6*	*6.8*
Bahrain	5.7	6.5	5.3	53.3	40.0	42.4
Kuwait	5.7	0.9	0.0[b/]	0.0	11.8	0.0[b/]
Oman	58.1	3.4	2.7	26.7	27.6	29.1
Qatar	5.7	7.6	6.0	11.6	12.4	10.1
Saudi Arabia	9.2	6.6	0.6[b/]	3.7	5.2	1.7[b/]
United Arab Emirates	17.0	22.5	22.1	5.0	3.6	5.6
More diversified economies	*15.3*	*15.9*	*13.8*	*7.1*	*3.8*	*4.3*
Egypt	6.8	8.1	7.0	1.3	1.0	0.9
Jordan	40.3	23.9	28.3	25.2	7.8	9.1
Lebanon	42.9	51.6	48.3	0.0	6.6	9.5
Syrian Arab Republic	17.0	22.5	22.1	5.0	3.6	5.6
Yemen	1.9	4.0	2.9	19.3	10.6	9.4

Sources: ESCWA, compiled from data in IMF, *Direction of Trade Quarterly Bulletin*, December 1995 and *Direction of Trade Statistics Yearbook*, 1995.

a/ Figures cover January to July only as available in international sources.
b/ Data for Saudi Arabia and Kuwait may be less than actual figures owing to incomplete reporting.

The region's share of intraregional imports in total imports, based on partial and preliminary data, decreased during 1995 to 5.9 per cent from 7.7 per cent the previous year, and represents a decline compared with the 9.1 per cent recorded in 1990 (table 17). While the GCC countries' share had almost reached its pre-Gulf war level by 1994, at 9.6 per cent, it dropped in 1995 to 6.8 per cent. Among this group of countries Bahrain, Oman and the United Arab Emirates recorded slight increases in their shares, while Kuwait, Qatar and Saudi Arabia recorded decreases. The region's more diversified economies witnessed an increase in their share of intraregional imports, which rose to 4.3 per cent in 1995 compared with 3.8 per cent in 1994, but this was still lower than the 1990 share. Within this group, every country witnessed an increase in its share except Egypt and the Republic of Yemen. The former recorded a slight decrease and remained very low, at 0.9 per cent, while the latter's share dropped further to 9.4 per cent compared with 10.6 per cent in 1994, almost half its 1990 level.

The participation of the countries in the region in overall intraregional trade as measured by their intraregional exports to the total (table 18) showed a decline in the importance of the GCC countries from

BOX 7. THE BARCELONA DECLARATION AND THE FREE TRADE AREA

The Euro-Mediterranean conference, held in Barcelona, Spain on 27 and 28 November 1995, was attended by representatives of the Council of the European Union, the European Commission, the European Union member countries and Mediterranean countries including Egypt, Jordan, Lebanon and the Syrian Arab Republic as well as the Palestinian Authority. The participants agreed to establish a comprehensive partnership through political dialogue, economic and financial cooperation and a greater emphasis on the social and cultural and human dimension. The economic and financial cooperation aspect of the agreement was undertaken to achieve a number of broad economic objectives including socio-economic development, improvement of living standards and employment rates, and the encouragement of regional cooperation and integration. To achieve these objectives the participants agreed to establish a free trade area, the implementation of appropriate economic cooperation and concerted action, and a substantial increase in the European Union's financial assistance to the Mediterranean countries.

The free trade area will be established through the new Euro-Mediterranean agreements and free trade agreements currently under negotiation in many of the ESCWA member countries participating in the Euro-Mediterranean partnership. The partners set the year 2010 as their target date for establishing the free trade area, and trade reforms consistent with obligations resulting from WTO will be gradually implemented up to then. Tariff and non-tariff barriers to trade in manufactured products will be eliminated. Agricultural trade, taking into account traditional trade flows and results achieved in GATT negotiations, will be progressively liberalized through reciprocal preferential access. Trade in services will also be liberalized with due regard to the GATT agreement. Furthermore, the free trade area will be facilitated by the adoption of suitable measures regarding rules of origin, certification and protection of intellectual property rights, market-based economic policies, and the adjustment and modification of economic and social structures giving priority to the private sector, as well as the promotion of mechanisms to encourage the transfer of technology. Specific time schedules for trade liberalization and other reforms are subject to negotiation—on a country-by-country basis—for the Mediterranean countries with the European Union.

Negotiations are under way with a number of Mediterranean countries, including ESCWA member countries, and Tunisia signed an agreement in July 1995 (with an immediate impact on its textile industry in which exports increased by 15 per cent). Agreements will replace the existing protocols between the EU and some Mediterranean countries which had been renewed and updated in the past. The EU has approved a $6.3 billion aid package to 12 non-European Mediterranean countries over the next five years as part of the new agreements. Recent discussions with Egypt have focused on tariffs on manufacturing goods and free trade in agriculture.

Though not included in this initiative, the GCC countries have also undertaken trade talks with a view to promoting free trade with the EU, its major trading partner. Discussions have focused on the carbon tax in Europe (plans for which have been postponed), European import taxes on petrochemicals produced by several GCC countries, and the unification of customs tariffs among the GCC countries.

75 per cent in 1994 to 58.7 per cent in 1995. This represents a considerable decrease over the 85.4 per cent noted during 1990 and throughout most of the 1980s. The largest decline was noted in Saudi Arabia, which saw its participation fall from 41 per cent in 1994 to only 7.1 per cent in 1995.[69] All other countries in this group recorded increases, with the share of the United Arab Emirates the largest and increasing from 21.6 per cent to 33.6 per cent. The participation in intraregional exports by the more diversified economies of the region increased in 1995 to 41.3 per cent from 25 per cent recorded during the previous year. Every country in this group witnessed increases in their shares, which ranged from 1.1 per cent noted by Yemen to 15.9 per cent recorded by the Syrian Arab Republic. Though the participation in intraregional trade was broader during 1995, countries of the region tended to trade mostly with one or two countries rather than trading widely throughout the region.

[69] Since the 1995 data are partial and preliminary, this decline may in part be due to incomplete data.

TABLE 18. ESCWA REGION: PARTICIPATION IN INTRAREGIONAL TRADE, 1990, 1994 AND 1995
(Percentage)

	Exports			Imports		
	1990	1994	1995[a/]	1990	1994	1995[a/]
ESCWA region	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*
GCC countries	*85.4*	*75.0*	*58.7*	*77.7*	*83.8*	*76.8*
Bahrain	2.2	6.1	10.6	32.6	22.2	30.5
Kuwait	4.5	1.0	0.0[b/]	0.0	10.7	0.0[b/]
Oman	27.6	2.3	2.9	12.0	17.6	17.8
Qatar	1.8	3.0	4.5	3.2	3.4	4.3
Saudi Arabia	40.1	41.1	7.1[b/]	14.7	16.5	7.9[b/]
United Arab Emirates	9.2	21.6	33.6	15.2	13.5	16.2
More diversified economies	*14.6*	*25.0*	*41.3*	*22.3*	*16.2*	*23.2*
Egypt	1.7	6.2	10.8	2.0	2.1	2.7
Jordan	3.7	3.4	6.1	10.8	3.4	5.1
Lebanon	1.9	5.2	7.4	0.0	5.5	9.0
Syrian Arab Republic	7.0	9.6	15.9	1.9	2.6	3.8
Yemen	0.3	0.6	1.1	7.6	2.6	2.6

Sources: ESCWA, compiled from data in IMF, *Direction of Trade Quarterly Bulletin,* December 1995 and *Direction of Trade Statistics Yearbook,* 1995.

a/ Figures cover January to July only as available in international sources.
b/ Data for Saudi Arabia and Kuwait may be less than actual figures owing to incomplete reporting.

Table 19a shows the cumulative share of the three leading intraregional export partners of 11 ESCWA member countries in 1994, illustrating the degree of concentration of intraregional trade. The weighted average of the first export partner for the region was 49 per cent, with five countries recording shares higher than that. The lowest share of exports was 25 per cent recorded by Lebanon. The weighted average of the second partner was significantly lower at 20 per cent, while that of the third partner was only 12 per cent. On the import side, shown below in table 19b, the concentration is higher with the region's weighted average of the first partner imports noted at 63.2 per cent.

Three countries had first country import shares higher than the weighted average, while the lowest share of 25 per cent was recorded by Saudi Arabia. The weighted average of the second partner was 13 per cent, while that of the third partner was only 8 per cent.

C. BALANCE OF PAYMENTS DEVELOPMENTS

The combined current account balance for those countries of the region for which comprehensive data are available—namely Bahrain, Egypt, Jordan, Kuwait, Saudi Arabia, the Syrian Arab Republic and Yemen—recorded a negative balance in 1994 of $7.2 billion (table 20). This, however, compares favourably with the

TABLE 19A. ESCWA REGION: CUMULATIVE SHARE OF THE THREE LEADING INTRAREGIONAL EXPORT PARTNERS, 1990 AND 1994

	1990						Cumulative share	1994						Cumulative share
	1st partner		2nd partner		3rd partner			1st partner		2nd partner		3rd partner		
Bahrain	Saudi Arabia	49.1	Qatar	30.9	United Arab Emirates	11.3	91.3	Saudi Arabia	34.2	United Arab Emirates	28.6	Oman	15.4	78.2
Egypt	Saudi Arabia	39.5	Iraq	15.9	Yemen	9.7	65.1	Saudi Arabia	41.4	Kuwait	12.4	United Arab Emirates	12	65.8
Jordan	Iraq	48.1	Saudi Arabia	19.1	United Arab Emirates	8.6	75.8	Saudi Arabia	28.4	United Arab Emirates	19.2	Syrian Arab Republic	12.8	60.4
Kuwait	Iraq	50.9	Saudi Arabia	14.3	Jordan	7.4	72.6	Syrian Arab Republic	100					100
Lebanon	Saudi Arabia	36.9	United Arab Emirates	21.8	Kuwait	15.6	74.3	Saudi Arabia	25	United Arab Emirates	21.8	Syrian Arab Republic	17.8	64.6
Oman	United Arab Emirates	76	Saudi Arabia	12	Iraq	3.7	91.7	Yemen	34.9	Bahrain	27.7	Saudi Arabia	24	86.6
Qatar	United Arab Emirates	54.1	Saudi Arabia	21.8	Kuwait	13.4	89.3	United Arab Emirates	50	Saudi Arabia	28.6	Kuwait	8.2	86.8
Saudi Arabia	Bahrain	43	United Arab Emirates	19.7	Egypt	15.9	78.6	Bahrain	45.5	United Arab Emirates	28.1	Kuwait	11.7	85.3
Syrian Arab Republic	Saudi Arabia	37.7	Lebanon	37.2	United Arab Emirates	8.2	83.1	Lebanon	58.2	Saudi Arabia	16.7	Kuwait	8.4	83.3
United Arab Emirates	Oman	56.3	Saudi Arabia	15.1	Kuwait	5.8	77.2	Oman	64.4	Saudi Arabia	17.2	Kuwait	7.8	89.4
Yemen								Saudi Arabia	69.1	United Arab Emirates	14.3	Jordan	9.5	92.9
Weighted Average		53.7		18.3		9.8	81.8		48.9		20.0		12.0	80.9

Sources: Compiled by the ESCWA secretariat from IMF, *Direction of Trade Statistics Yearbook*, 1995 and *Direction of Trade Quarterly Bulletin*, December 1995.

Note: 1990 data for Yemen are unavailable. The weighted average for the region is calculated, for each of the three leading export partners, as the sum of each country's exports to that partner divided by the total intraregional exports of the countries listed in the table.

TABLE 19B. ESCWA REGION: CUMULATIVE SHARE OF THE THREE LEADING INTRAREGIONAL IMPORT PARTNERS, 1990 AND 1994

	1990						Cumulative share	1994						Cumulative share
	1st partner		2nd partner		3rd partner			1st partner		2nd partner		3rd partner		
Bahrain	Saudi Arabia	95.4	United Arab Emirates	3	Qatar	0.7	99.1	Saudi Arabia	92.1	United Arab Emirates	3.4	Jordan	1.6	97.1
Egypt	Saudi Arabia	58.9	Lebanon	11.6	Syrian Arab Republic	10	80.5	Saudi Arabia	53.4	Syrian Arab Republic	14.8	Lebanon	14.7	82.9
Jordan	Iraq	62.8	Saudi Arabia	18.3	Kuwait	6	87.1	Saudi Arabia	28.9	Syrian Arab Republic	21.3	Egypt	18.6	68.8
Kuwait	Saudi Arabia	40.3	Iraq	14	United Arab Emirates	12	66.3	Saudi Arab	48.5	United Arab Emirates	17	Syrian Arab Republic Egypt	8.2	73.7
Lebanon	Syrian Arab Republic	70.8	Kuwait	9.4	Saudi Arabia	8	88.2	Syrian Arab Republic	80	Saudi Arabia	12.1	Jordan	7.9	100
Oman	United Arab Emirates	85.4	Saudi Arabia	8	Bahrain	3.3	96.7	United Arab Emirates	91.1	Saudi Arabia	6.9	Qatar	2.0	100
Qatar	United Arab Emirates	54.2	Saudi Arabia	21.8	Kuwait	13	89.0	Saudi Arabia	35.6	United Arab Emirates	27.6	Bahrain	12	75.2
Saudi Arabia	Bahrain	43	United Arab Emirates	19.7	Egypt	16	78.7	United Arab Emirates	24.4	Egypt	17.8	Bahrain	13.8	56
Syrian Arab Republic	Saudi Arabia	37.7	Lebanon	37.2	United Arab Emirates	8.2	83.1	Lebanon	38.5	Egypt	28.7	Saudi Arabia	19.3	86.5
United Arab Emirates	Oman	56.3	Saudi Arabia	15.1	Kuwait	5.8	77.2	Saudi Arabia	47.6	Bahrain	14	Qatar	11.9	73.5
Yemen								Saudi Arabia	39.1	Oman	33.3	Egypt	13.5	85.9
Weighted Average		63.2		10.7		7.5	81.4		61.5		13.1		7.9	82.5

Sources: Compiled by the ESCWA secretariat from IMF, *Direction of Trade Statistics Yearbook*, 1995 and *Direction of Trade Quarterly Bulletin*, December 1995.

Note: 1990 data for Yemen are unavailable. The weighted average for the region is calculated, for each of the three leading import partners, as the sum of each country's imports to that partner divided by the total intraregional imports of the countries listed in the table.

TABLE 20. ESCWA REGION: BALANCE OF PAYMENTS,* 1990-1994

(Millions of US dollars)

	1990	1991	1992	1993	1994
Trade balance (f.o.b.)	*23 760.6*	*12 937.7*	*13 342.1*	*11 400.3*	*16 089.9*
GCC countries	*29 373.7*	*19 393.6*	*20 990*	*20 919.1*	*24 682*
Bahrain	420.7	(-190.4)	(-266)	(-147.9)	(-282)
Kuwait	3 179	(-3 993)	(-689)	3 210	4 483
Oman	2 885	1 759	1 928	1 336	--
Saudi Arabia	22 889	21 818	20 017	16 521	20 481
More diversified economies	*(5 613.1)*	*(6 455.9)*	*(7 647.9)*	*(9 518.8)*	*(8 592.1)*
Egypt	(6 379)	(5 667)	(5 231)	(6 378)	(5 953)
Jordan	(1 236.9)	(1 172.7)	(1 779.7)	(1 898.8)	(1 579.4)
Syrian Arab Republic	2 094	1 084	159	(322)	(1 015)
Yemen	(91.2)	(700.2)	(796.2)	(920)	(44.7)
Services (net)	*(20 134.6)*	*(37 617.2)*	*(29 779.1)*	*(22 251)*	*(15 496.4)*
GCC countries	*(21 890.1)*	*(40 666.9)*	*(32 079.7)*	*(24 358.1)*	*(17 928.1)*
Bahrain	223.9	227.1	251.3	805.9	918.9
Kuwait	(2 080)	(4 098)	(3 096)	(3 240)	(3 119)
Oman	(651)	(900)	(919)	(883)	--
Saudi Arabia	(19 383)	(35 896)	(28 316)	(21 041)	(15 728)
More diversified economies	*1 755.5*	*3 049.7*	*2 300.6*	*2 107.1*	*2 431.7*
Egypt	2 183	3 419	2 849	2 528	2 425
Jordan	179.3	228.7	124.5	226.5	169.3
Syrian Arab Republic	(18)	63	179	270	335
Yemen	(588.8)	(661)	(851.9)	(917.4)	(497.6)
Balance on goods and services	*3 625.1*	*(24 679.5)*	*(16 437.9)*	*(10 850.7)*	*594*
GCC countries	*7 483.7*	*(21 272.3)*	*(11 090.6)*	*(3 439)*	*6 753.4*
Bahrain	644.7	36.7	(14.6)	658	636.4
Kuwait	1 099	(8 091)	(3 786)	(30)	1 364
Oman	2 234	859	1 009	453	--
Saudi Arabia	3 506	(14 077)	(8 299)	(4 520)	4 753
More diversified economies	*(3 858.6)*	*(3 407.2)*	*(5 347.3)*	*(7 411.7)*	*(6 159.4)*
Egypt	(4 196)	(2 248)	(2 382)	(3 850)	(3 528)
Jordan	(1 057.6)	(944)	(1 655.2)	(1 672.3)	(1 410.1)
Syrian Arab Republic	2 075	1 146	338	(52)	(679)
Yemen	(680)	(1 361.2)	(1 648.1)	(1 837.4)	(542.3)
Net unrequited transfers	*(79.7)*	*(28 836)*	*(2 118.3)*	*(5 528)*	*(7 787.8)*
GCC countries	*(6 396.8)*	*(33 790.1)*	*(8 388.2)*	*(12 718.3)*	*(12 885.5)*

TABLE 20. *(continued)*

	1990	1991	1992	1993	1994
Bahrain	(397.8)	(831.1)	(738.2)	(635.3)	(725.5)
Kuwait	2 787	(18 387)	3 318	2 187	1 661
Oman	(1 128)	(1 104)	(1 504)	(1 522)	--
Saudi Arabia	(7 658)	(13 468)	(9 464)	(12 748)	(13 821)
More diversified economies	*6 317.1*	*4 954.1*	*6 269.9*	*7 190.3*	*5 097.7*
Egypt	4 381	4 151	5 194	6 149	3 559
Jordan	830.4	550.4	819.9	1 043.3	1 012.1
Syrian Arab Republic	(313)	(447)	(282)	(555)	42
Yemen	1 418.7	699.7	538	553	484.6
Balance on current account	*3 545.4*	*(53 515.4)*	*(18 557.2)*	*(16 378.9)*	*(7 193.8)*
GCC countries	*1 086.8*	*(55 062.4)*	*(19 478.9)*	*(16 157.4)*	*(6 132.1)*
Bahrain	246.8	(794.4)	(752.9)	22.6	(89.1)
Kuwait	3 886	(26 478)	(467)	2 157	3 025
Oman	1 106	(244)	(496)	(1 069)	--
Saudi Arabia	(4 152)	(27 546)	(17 763)	(17 268)	(9 068)
More diversified economies	*2 458.6*	*1 547*	*921.7*	*(221.5)*	*(1061.7)*
Egypt	185	1 903	2 812	2 299	31
Jordan	(227.1)	(393.5)	(835.2)	(629.1)	(398)
Syrian Arab Republic	1 762	699	55	(607)	(637)
Yemen	738.7	(661.5)	(1 110.1)	(1 284.4)	(57.7)
Net capital flows	*(13 440.2)*	*63 259.8*	*24 176.2*	*14 542.5*	*8 449*
GCC countries	*(853.7)*	*66 533.9*	*23 796.6*	*15 223.9*	*9 706.1*
Bahrain	456.3	(348.1)	317.6	(76.1)	(101.9)
Kuwait	413	38 766	11 067	(3 512)	886
Oman	(499)	521	314	49	--
Saudi Arabia	(1 224)	27 595	12 098	18 763	8 922
More diversified economies	*(12 586.5)*	*(3 274.1)*	*379.6*	*(681.4)*	*(1 257.1)*
Egypt	(11 039)	(4 706)	(168)	(762)	(1 450)
Jordan	572.7	2 097.3	615.1	(530)	188.9
Syrian Arab Republic	(1 836)	(515)	(50)	571	572
Yemen	(284.2)	(150.4)	(17.5)	39.6	(568)
Errors and omissions	*(6 085)*	*(8 353.8)*	*(7 256.8)*	*(1 073.7)*	*(3 332.2)*
GCC countries	*(6 189)*	*(9 334.9)*	*(7 932.5)*	*(112.9)*	*(3 663.8)*
Bahrain	(521)	1 424.1	353.5	56.1	193.2
Kuwait	(5 196)	(11 012)	(8 748)	(130)	(3 857)
Oman	(472)	253	462	(39)	--

TABLE 20. *(continued)*

	1990	1991	1992	1993	1994
Saudi Arabia					
More diversified economies	*104*	*981.1*	*675.7*	*(960.8)*	*331.6*
Egypt	630	730	716	(1 519)	255
Jordan	75.4	321.4	83.1	298	(55.8)
Syrian Arab Republic	110	(112)	70	124	188
Yemen	(711.4)	41.7	(193.4)	136.2	(55.6)
Overall balance	*(15 979.7)*	*1 390.6*	*(1 637)*	*(2 908.1)*	*(2 078)*
GCC countries	*(5 955.8)*	*2 136.6*	*(3 614.9)*	*(1 044.4)*	*(90.8)*
Bahrain	182.2	281.6	(81.9)	2.6	2.2
Kuwait	(897)	1 276	1 851	(1 485)	53
Oman	135	530	280	(1 058)	--
Saudi Arabia	(5 376)	49	(5 664)	1 496	(146)
More diversified economies	*(10 023.9)*	*(746)*	*1 977.9*	*(1 863.7)*	*(1 987.2)*
Egypt	(10 224)	(2 073)	3 360	18	(1 164)
Jordan	421	2 025.2	(137.1)	(861.1)	(264.9)
Syrian Arab Republic	36	72	76	88	123
Yemen	(256.9)	(770.2)	(1 321)	(1 108.6)	(681.3)
Counterpart items, exceptional finance and others	*12 994.4*	*5 873.8*	*4 516.3*	*4 182.9*	*3 724.2*
GCC countries					
Bahrain					
Kuwait					
Oman					
Saudi Arabia					
More diversified economies	*12 994.4*	*5 873.8*	*4 516.3*	*4 182.9*	*3 724.2*
Egypt	12 733	4 849	2 970	2 791	2 357
Jordan	(9.5)		569.1	458.1	481.7
Syrian Arab Republic					
Yemen	270.9	1 024.8	977.2	933.8	885.5
Total change in reserves	*2 986.3*	*(7 263.4)*	*(2 879.3)*	*(1 274.9)*	*(1 646.2)*
GCC countries	*5 955.8*	*(2 136.6)*	*3 614.9*	*1 044.4*	*90.8*
Bahrain	(182.2)	(281.6)	81.9	(2.6)	(2.2)
Kuwait	897	(1 276)	(1 851)	1 485	(53)
Oman	(135)	(530)	(280)	1 058	--
Saudi Arabia	5 376	(49)	5 664	(1 496)	146
More diversified economies	*(2 969.5)*	*(5 126.8)*	*(6 494.2)*	*(2 319.3)*	*(1 737)*

TABLE 20. *(continued)*

	1990	1991	1992	1993	1994
Egypt	(2 508)	(2 775)	(6 330)	(2 809)	(1 193)
Jordan	(411.5)	(2 025.2)	(432)	402.9	(216.8)
Syrian Arab Republic	(36)	(72)	(76)	(88)	(123)
Yemen	(14)	(254.6)	343.8	174.8	(204.2)

Source: Compiled from data in IMF, *Balance of Payments Statistics Yearbook,* part I, 1995.

Notes: ( ) indicates negative; (--) indicates that data are unavailable; no entry indicates a zero value.

* Coverage includes Bahrain, Kuwait, Oman, Saudi Arabia, Egypt, Jordan, the Syrian Arab Republic and Yemen according to available data.

$16.4 billion recorded the previous year[70] and indicates a continuation of the trend towards smaller deficits witnessed since 1991 when the deficit reached $53.5 billion following a surplus of $3.5 billion in 1990. The improvement is a result of a higher surplus in the trade balance in 1994 of $16.1 billion compared with $11.4 billion in 1993 and a lower deficit on the services balance, which dropped from $22.3 billion in 1993 to $15.5 billion in 1994. The overall balance on goods and services recorded a surplus of $594 million in 1994 for the first time since 1991, though deficits have been progressively smaller since then. Net unrequited transfer payments amounting to $7.8 billion more than outweighed the positive balance in goods and services, thus resulting in the negative balance in the current account. Net capital inflows, which have been on the decline since 1992 following the record level of $63.3 billion in 1991, amounted to $8.5 billion in 1994; though lower than the previous year, this amount was high enough to cover the current account deficit, but a negative $3.3 billion in errors and omissions caused a negative overall balance of $2.1 billion. This was somewhat lower than the negative overall balance of $2.9 billion in 1993. This amount was covered by exceptional financing of $3.7 billion, mainly by the countries of the region with more diversified economies, and the residual increased reserves by $1.6 billion.

Owing to its status as a major oil exporter, the balance of payments flows for the region are heavily influenced by merchandise trade of the major oil-exporting countries of the region, namely the GCC countries since Iraq has been excluded from the international oil market since August 1990.

The trade balance of the GCC countries achieved a large increase during 1994, from $20.9 billion the previous year to $24.7 billion, despite lower oil prices due to larger exports and lower imports. Though detailed balance of payments data for 1995 are not yet available, estimates indicate that figure is higher since oil prices increased, raising the value of the exports. The trade deficit of the more diversified economies is chronic. Though it dropped in 1994 by almost $1 billion compared with 1993 to a total $8.6 billion, it is still higher than the levels reported during the period 1990-1992, which ranged between $5.6 billion and $7.6 billion. Mainly owing to the departure of the troops following the end of the Gulf war, the GCC countries' services deficit dropped again during 1994 to $17.9 billion compared with $24.4 billion in 1993 and a record level of $40.7 billion in 1991. The more diversified economies recorded a surplus of $2.4 billion in this category, but this was not enough to cover the deficit of the GCC countries and an overall trade in services

[70] Oman is included in data from 1990 to 1993, but, owing to lack of data, not in 1994. This may account for some of the decline in the deficit on the current account noted in 1994.

deficit was recorded for the region as a whole. The balance on goods and services was positive for the GCC countries in 1994, amounting to $6.8 billion, and the first surplus recorded since the large deficit of $21.2 billion reported in 1991. The more diversified economies, however, noted another deficit in this category of $6.2 billion, though this was an improvement over the 1993 level. The GCC countries' outflow of unrequited transfers totalled $12.9 billion, i.e. about the same as in the previous year. The more diversified economies received unrequited transfer payments amounting to $5.1 billion, i.e. about 30 per cent lower than the amount received during 1993 of $7.2 billion. The decline was almost entirely caused by the drop in the receipts of Egypt (usually the region's largest receiver of unrequited transfers) from $6.1 billion in 1993 to $3.6 billion, as workers' remittances declined reflecting the final stage of what is believed to have been a one-time-only relocation of Egyptian surplus savings held abroad, particularly in the Gulf States. This relocation took place during the years 1992-1993 in response to uncertainty resulting from the Gulf war, high interest rates in Egypt and a stable exchange rate for the Egyptian pound.

The deficit on the current account of the GCC countries continued its declining trend following the record level of $55.1 billion in 1991 and decreased considerably, again from $16.2 billion in 1993 to $6.1 billion in 1994, while that of the more diversified economies increased by $840 million reaching $1.1 billion in 1994. Among the GCC countries the largest deficit was recorded by Saudi Arabia, $9.1 billion, but this represented a significant decrease over the $17.3 billion of the previous year. Kuwait recorded a surplus on its current account during 1994, and this represented an increase over the surplus of the previous year but was not yet at the pre-war level of $3.9 billion in 1990 and $9.6 billion in 1989. As for the more diversified economies, Egypt witnessed a small surplus of $31 million on its current account, which represented a significant decline over the previous year's surplus of $2.3 billion, owing primarily to the large drop in its unrequited transfers. Further declines may result as the trade deficit increases in part owing to rising costs of wheat imports and possible decreases in unrequited transfers as employment opportunities abroad become more limited and as concessional aid decreases on schedule by late 1997. However, revenues from the Suez Canal are expected to increase and recent investment in the tourism industry may result in higher earnings. The other countries in this group recorded deficits ranging from $637 million by the Syrian Arab Republic to $58 million by Yemen. The current account deficit witnessed by the Syrian Arab Republic in 1994 represents a continuation of the declining trend noted during the 1990s, starting from a surplus of $1.8 billion in 1990. Although the Syrian Arab Republic recorded a surplus in net services of almost $335 million in 1994, this was not nearly enough to outweigh the negative trade balance that year. The recent move to readjust the exchange rate should encourage exports and have a positive effect on services in 1996. Jordan's current account deficit dropped by 37 per cent to $398 million in 1994, continuing a decline noted since it reached a peak of $835 million in 1992. Recently announced merchandise trade data indicate a fall in the trade deficit for 1995 as noted above, and this should have a positive impact on the current account balance. Tariffs on many goods have been lowered and are expected to drop further as Jordan moves in line with WTO requirements. A trade agreement between Jordan and Israel was concluded in 1995 to lower tariffs between the two countries and is expected to increase trade between them. Yemen has achieved considerable success in reducing its current account deficit, which dropped from $1.3 billion in 1993 to $58 million in 1994. Yemen devalued the Yemeni rial from 12 rials per US dollar to 50 rials per US dollar in 1995 and in early 1996 basically floated the rial, which depreciated to $1= 130 Yemeni rials; this should help to curb imports and promote non-oil exports. If remittances remain stable, and with possible increases in oil exports, Yemen may record a surplus in its current account in 1996 or 1997.

The net capital inflow to GCC countries continued on a declining trend, following a peak level of $66.5 billion in 1991, and dropped to $9.7 billion, almost 60 per cent lower than the level of 1993. The decline has been reported every year since 1992 as the need for liquidating assets and borrowing from abroad has diminished with the payment of most of the Gulf war financial obligations. Saudi Arabia and Kuwait

have been the largest contributors. The more diversified economies of the region witnessed in 1994 a net outflow of capital of $1.3 billion, 85 per cent higher than the previous year, owing to significant net outflows recorded by Egypt and Yemen. Jordan and the Syrian Arab Republic witnessed net inflows of capital of $189 million and $572 million respectively, reflecting success in structural adjustment policies and efforts to attract private capital. The region's errors and omissions were a negative $3.3 billion mainly as a result of a large entry in this category of Kuwait. Consequently, the overall balance of the region was a negative $2.1 billion, of which a deficit of $91 million was recorded by the GCC countries and a deficit of almost $2 billion was recorded by the more diversified economies. Owing to a surplus on counterpart items, exceptional finance and others, of $3.7 billion (mainly representing postponement of debt payments and grants) reported by Egypt, Jordan and Yemen, the region's overall balance deficit was covered and a residual of $1.7 billion contributed to an increase in the reserves of the more diversified economies.

D. INTERNATIONAL RESERVES

Partial data for 1995 indicate that the international reserves of the region (excluding Iraq, the Syrian Arab Republic and Yemen owing to lack of data) increased by $4.3 billion or 9.4 per cent above the level of 1994, reaching over $50 billion (table 21). This was a result of increases noted in every country except Kuwait, Lebanon and Oman, which witnessed slight declines in their reserves during 1995. Reserves of the GCC countries rose by approximately 10 per cent in 1995, reaching $24.2 billion after declining during the previous year. Reserves of this group of countries had been fluctuating since 1990, and the 1995 level represented an increase over reserves accrued at the beginning of the decade. The international reserves of the more diversified economies of the region continued the increase witnessed since 1990 and totalled $25.9 billion in 1995, which represented an increase of approximately 9 per cent above the 1994 level. On a country level, Saudi Arabia, with the largest reserves of the GCC countries, recorded an increase of almost 20 per cent reaching $9.8 billion in 1995. However, this was still below the $12.3 billion level of 1990. The United Arab Emirates, with the second largest reserves among the GCC countries, came next and its reserves increased by 11 per cent in 1995 to a total of $7.8 billion. Increases in reserves of approximately 5 per cent were noted by both Bahrain and Qatar, while other GCC countries either remained the same or declined slightly in their international reserve levels. Among the more diversified economies, the largest increase in reserves was recorded by Egypt, which has the largest reserves in the region and for which increases have been noted since 1990 mainly due to the implementation of a set of procedures to attract Egyptian private savings abroad. Egypt's reserves increased by approximately 18 per cent in 1995, totalling $16.9 billion. Jordan's reserves have increased yearly since 1992 and in 1995 reached $2.2 billion, which represented an increase of over 10 per cent compared with the previous year. Lebanon's reserves decreased in 1995 from $7.4 billion in 1994 to $6.8 billion in 1995 which was the country's first decrease in reserves since 1990.

The reserve/import ratio (table 22), which indicates the region's ability to provide for its imports with reserves on hand, shows that at current import levels, the region was able to cover 6.3 months of imports in 1995, slightly lower than the level of 6.4 months the previous year. This ratio has been on the rise for the region as a whole each year since 1992, when it was 5.5 months. In terms of 1990 imports, the rise is more evident and even greater than those in terms of current imports. It went without interruption from 5.7 months in 1990 to 9 months in 1995. In terms of current imports, the ratio of the GCC countries maintained the 1994 level of 4.5 months, while that of the more diversified economies declined from 10.6 months in 1994 to 9.9 months in 1995 reflecting the greater rise in imports than reserves witnessed by this group of countries. In terms of 1990 import levels, however, both groups of countries have noted increases compared with 1994 ratios reflecting the rise in reserves in 1995. The ratio for the GCC countries, which fluctuated during the

TABLE 21. ESCWA REGION: INTERNATIONAL RESERVES*
(Millions of US dollars)

	1990	1991	1992	1993	1994	1995
ESCWA region	*31 632.4*	*37 203.0*	*39 221.4*	*43 759.1*	*45 722.2*	*50 037.2*
GCC countries	*22 972.1*	*25 582.8*	*22 117.0*	*22 413.0*	*21 987.7*	*24 176.9*
Bahrain	1 269.5	1 550.8	1 436.2	1 349.7	1 218.5	1 280.8[a/]
Kuwait	2 070.9	3 631.6	5 348.3	4 488.1	3 748.9	3 448.5[a/]
Oman	1 765.9	1 754.3	2 091.2	1 014.2	1 083.7	1 082.3[b/]
Qatar	689.9	727.9	761.0	769.0	730.0	765.3[c/]
Saudi Arabia	12 284.0	12 245.0	6 428.0	8 343.0	8 217.0	9 845.0[c/]
United Arab Emirates	4 891.9	5 673.2	6 052.1	6 449.0	6 989.6	7 755.0[c/]
More diversified economies	*8 660.3*	*11 620.2*	*17 104.4*	*21 346.1*	*23 734.5*	*25 860.3*
Egypt	3 413.0	6 070.0	11 573.0	13 667.0	14 307.0	16 872.0[d/]
Jordan	1 014.6	995.8	949.8	1 796.4	1 990.0	2 197.7[d/]
Lebanon	4 232.7	4 554.4	4 581.6	5 882.7	7 437.5	6 790.6[d/]

Source: IMF, *International Financial Statistics,* vol. 48, No. 12, December 1995.

* End of period data on gold (national valuation) and foreign exchange reserves holdings by monetary authorities; reserve position in the IMF plus special drawing rights (SDRs), where applicable; and the annual changes depicted and time of recording. In this table, however, data may differ from those reported as "change in reserves" in the balance of payments owing to differences in coverage and time of recording.

a/ January through October.
b/ January through July.
c/ January through September.
d/ January through August.

TABLE 22. ESCWA REGION: RESERVES/IMPORTS COVERAGE, 1990-1995*

	1990	1991	1992	1993	1994	1995
ESCWA region						
1990 imports[a/]	5.71	6.71	7.08	7.90	8.25	9.03
Current imports[b/]	5.71	6.11	5.46	6.08	6.42	6.30
GCC countries						
1990 imports[a/]	5.83	6.49	5.61	5.69	5.58	6.14
Current imports[b/]	5.83	5.42	3.91	4.31	4.49	4.53
More diversified economies						
1990 imports[a/]	5.40	7.25	10.67	13.32	14.81	16.14
Current imports[b/]	5.40	8.48	11.26	10.69	10.64	9.94

Source: Compiled by the ESCWA secretariat based on national and international sources.

* Number of months covered by available reserves.
a/ Coverage of reserves for 1990 level of imports.
b/ Coverage of reserves for current imports.

period 1990-1994, was 6.1 months in 1995 which represented an increase compared with 5.6 months noted in 1994. The same ratio for the more diversified economies has been increasing since 1990, reflecting the steady rise in reserves of this group of countries during this period. The ratio increased from 14.8 months in 1994 to 16.1 months in 1995, a figure considerably higher than the 5.4 months noted in 1990. While this figure may not always indicate improvement in the economic well-being of a country if it results from a drop in capital goods imports, this may not be the case for the ESCWA region as both imports and reserves have been rising, with the latter at a faster rate.

E. CAPITAL FLOWS

As the ESCWA region undertakes structural reforms and privatization measures and participates more fully in the increasingly globalized economic order, capital flows into the region will become more important as a potential source of investment funds, partly replacing public sector investment upon which many countries of the region relied in the past. Capital flows to the region have been in the form of loans and grants with minor participation by foreign direct investment. FDI is now the largest source of development financing in the developing world and is expected to become more important as a future source of capital for the ESCWA region as many ESCWA member countries are undertaking economic reforms specifically aimed at attracting foreign investment. Jordan, for example, recently announced a number of such reforms including allowing 100 per cent foreign investment in projects in the tourism, agricultural and services sectors as well as some industrial sectors. Egypt has also announced measures to attract foreign investment mainly centred around reducing bureaucratic obstacles such as removing a ceiling of LE 50 million on capital allowed without registration with the Investment Authority and lifting controls on investment in Upper Egypt. Other member countries have made efforts at reforming and formalizing national stock markets to attract foreign investment.

Data for 1995 for the Middle East and North Africa, which include the ESCWA region, show that foreign direct investment declined significantly, by 42 per cent, after steadily increasing from 1988 to 1993, though overall resource flows increased mainly owing to an increase in grants.[71] A decline was also noted in 1994. Egypt and Lebanon both received significant increases in foreign investment during 1995, which for Lebanon amounted to $35 million and came after many years of almost zero foreign direct investment.

Despite the efforts to attract foreign private investment, restrictions on foreign direct investment are still considered formidable barriers by investors. Bureaucratic procedures, limited capital market and banking capabilities and ownership rules act as an obstacle to foreign investment even though the ESCWA region is perceived to have many advantages, including excellent communications facilities, ports and roads as well as its proximity to large markets in India and eastern Africa.[72] The lack of viable investment opportunities has been cited as a reason for lower foreign direct investment in comparison with other developing areas.[73] The recent ratings of regional stock exchanges carried out by international investment firms constitute a

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[71] World Bank, *World Debt Tables: External Finance for Developing Countries,* vol. 1, 1996 (Washington, D.C.). The Middle East and North Africa include the ESCWA region, the Islamic Republic of Iran and the countries of North Africa.

[72] *Jordan Times,* 14-15 March 1996, p. 4.

[73] E. Riordan and others, "The world economy and implications for the MENA region, 1995-2010", Economic Research Forum, Working Paper No. 9519, Cairo, 1995.

positive step towards providing foreign investors with investment information to attract capital to the region.[74]

BOX 8. INTERNATIONAL TRADE AND THE ENVIRONMENT IN THE ESCWA REGION

The ESCWA region remains a very limited contributor to global environmental degradation and its environmental concerns are, for the most part, local in nature. Concerns exist about the degradation of water, land and air resources as industrialization is encouraged by economic growth and restructuring policies which stress trade and export-oriented industries. The most notable example of deteriorating air quality in the region is Cairo, which is considered one of the worst examples of urban air pollution in the world. Industries located in Cairo and nearby cities have been major contributors to pollution in Cairo, along with the growing transportation sector. Water, as a scarce resource in its own right in the ESCWA region, has also been adversely affected by economic growth and industrialization. Though the pollution of the Nile River is the most publicized in this respect, water quality has deteriorated in other ESCWA region rivers and waterways as well, for a variety of reasons. When the environment is treated as a "free" input into the production process, the costs of producing the good are actually borne in part by those affected by adverse environmental conditions. The good produced is sold at a price below the true cost of production and more of the good is consumed. Such costs must be internalized in the production process for an efficient allocation of resources and for sustainable development goals to be met.

The ESCWA region may also be affected by measures enacted by international, regional and national entities to safeguard the environment at the global, regional and local levels. As a major oil- exporting region, ESCWA region economies would be adversely affected by broad-based taxes on fuels based on carbon content in consuming countries, as proposed by many European countries during the 1990s. Other measures often proposed include eco-labelling, tradeable pollution permits as well as countervailing measures and harmonization measures under the newly established global trading system. In addition to specific environmental measures, other trade-related policies may affect the environments of developing countries including those of the ESCWA region. Structural adjustment policies such as exchange rate depreciation and export promotion may lead to the undervaluation of natural resources in a newly globalized international trading system.

ESCWA is undertaking a series of studies to examine the environmental aspects of trade policies on the region. The first in this series will examine the theoretical relationship between environmental measures and trading policies in the ESCWA region as well as the effects of measures undertaken on an international level on the trade prospects of the region. Individual ESCWA region export-oriented industries likely to be affected by environmental measures will be identified and the possible impact of such measures analyzed. This initial effort will be followed up by related activities including a follow-up study on the impact of environmental policy on the textile and leather product industries in the ESCWA region as well as a study dealing with foreign investment legislation reflecting environmental concerns in Western Asia.

F. SHORT-TERM OUTLOOK

The outlook for the region's trade in 1996 depends on a number of factors, mainly the international price of oil owing to the importance of oil in the region's exports, especially in the GCC countries and Iraq. The value of oil exports is not expected to increase in 1996 owing to expectations that oil prices will change very little during the year or decline slightly. In the early months of 1996, Iraq and the United Nations undertook discussions for a partial lifting of the economic sanctions imposed on Iraq since 1990. If the sanctions are lifted during 1996, oil prices could decrease somewhat, lowering the value of oil exports of other ESCWA member countries. However, Iraq's exports and imports would increase from the current very low levels, and overall economic conditions in the country would improve. Since oil prices depend in part on the amount of oil supplied at a given level of demand, the overall effect on the region's trade of a partial

[74] *Jordan Times,* 27 March 1996, p. 8.

lifting of the sanctions on Iraq is difficult to predict since the OPEC reaction in terms of production level is not yet known.

The outlook for non-oil exports is positive, mainly owing to the commitment to and continuation of economic restructuring policies and privatization plans in many countries of the region. GCC countries with natural gas reserves have implemented export-oriented projects, and Oman and Saudi Arabia have opened their non-oil mining industries to private investors with a view to increasing exports. The United Arab Emirates has been successful in promoting non-oil exports (including re-exports) and now accounts for one fifth of the total value of GCC non-oil exports. Export financing schemes, such as those of the Arab Monetary Fund, the Arab Trade Financing Programme and the Organization of the Islamic Conference, are well funded and represent another way to promote non-oil exports in the region. Countries such as Egypt and Jordan, which have been implementing such policies in a consistent manner over a number of years, are benefiting in terms of higher exports. This trend is expected to continue since export goods are being actively promoted, as witnessed by Egypt's creation of a council specifically to promote exports as well as to undertake measures to reduce bureaucratic impediments to trade and investment. Jordan is also actively promoting export-oriented industries and seeking ways and means to increase bilateral trade and economic cooperation, although the recent decision to limit government export credits for trade with Iraq is expected to affect adversely trade in 1996 and 1997. The Syrian Arab Republic's recent effort in further adjusting the official exchange rate as a move towards a free market rate should have positive implications for exports in the coming year. Despite active efforts on the part of many ESCWA member countries to promote exports, the region faces a formidable challenge to remain competitive in the light of increasing globalization trends and the advent of WTO and free trade policies.

The trade of the region is also expected to benefit from the reduced tariffs and non-tariff trade barriers within and outside the region as ESCWA member countries initiate trade reforms in compliance with WTO membership rules. Such policies should also have a positive impact on intraregional trade as well. By January 1996, Bahrain, Egypt, Kuwait and Qatar had joined the WTO, and the United Arab Emirates membership is expected to be finalized by mid-1996. Jordan, Lebanon and Saudi Arabia have requested membership while Oman, which has observer status, and the Syrian Arab Republic are considering joining the WTO in the near future.

Further advancements related to the peace process in the region could also have a positive effect on overall trade prospects during 1996 as well as on foreign investment and tourism. The reopening of the borders between the West Bank and Gaza Strip and Israel would have an immediate impact on the trade and general economic conditions in the West Bank and Gaza Strip.

IV. PUBLIC FINANCE

A. RECENT TRENDS IN FISCAL POLICIES

The past few years have witnessed new trends in fiscal policies in most ESCWA member countries. In the GCC countries, the fluctuation in their major source of revenues, namely oil, necessitated a number of revisions in government spending priorities, aimed at reducing the growth rate in budget expenditure. To reduce the budget deficit and increase the role of non-oil revenues in funding budget expenditure, a number of these countries, notably Saudi Arabia and the United Arab Emirates, sought to establish certain fundamentals for a stable long-term fiscal policy, entailing the introduction of policies aimed at raising non-oil revenues and reducing expenditure. Both countries raised the prices and user fees of public utilities and services and cut subsidies on a number of items, particularly electricity and water.

Most GCC countries have resorted increasingly during the past few years to the domestic market to raise funds for financing budget deficits and development projects. The financial instruments used included treasury bills and development bonds. In a number of these countries, in particular Bahrain and Saudi Arabia, the portion of these sources in financing the budget deficit amounted to over 70 per cent of total financing needs. This trend is expected to increase in the coming years, as the use of financial instruments has been considered a significant step in developing the domestic financial markets.

Another development in the fiscal policies of the GCC countries has been the replacement of the tax rate of between 10 and 15 per cent, levied on foreign companies operating in these countries, by a flat tax rate ranging between 30 and 35 per cent. The cut in subsidies and the rise in the prices and user fees for public utilities and services have been considered replacements for other taxation measures, particularly income and sale taxes which proved difficult to introduce.

The budgets of most countries in the ESCWA region with more diversified economies have been deflationary during the past few years, with government expenditure increasing at a rate below that of inflation, thus reducing expenditure in real terms. In addition, these countries have increasingly resorted to instruments of domestic resources mobilization, such as improving tax collection methods; introducing new taxes and raising the rates of existing ones; as well as increasing the use of financial instruments, such as bonds and treasury bills. Other means resorted to by these countries to curb the high level of government expenditures included reducing subsidies and granting lower increases in public sector wages and salaries.

B. BUDGETARY DEVELOPMENTS

1. *GCC countries*

Budgetary conditions in the GCC countries in 1995 are considered to have improved significantly in 1995 with the overcoming of the aftermath effects of the Gulf crisis and war. Higher oil revenues in 1995 turned projected budget deficits of a number of these countries into surpluses.

Following is a summary of budgetary developments in five GCC countries.

(a) *Kuwait*

Kuwait's 1995/96 budget[75] projects expenditure at KD 4.2 billion, up by around 2.2 per cent from 1994/95 (KD 4.1 billion). With revenues at KD 2.9 billion, up by around 12 per cent from 1994/95 (KD 2.6 billion), the resulting budget deficit of KD 1.3 billion will be lower by around 12 per cent than that of the preceding year (KD 1.5 billion) (table 23). Although the increase in revenues was significantly higher

[75] The Kuwaiti fiscal year starts on 1 July and ends on 30 June of the following year.

than the increase in expenditure, the budget deficit remained sizeable, owing mainly to supplementary allocations for autonomous governmental institutions, estimated at around KD 474 million.

TABLE 23. KUWAIT: BUDGET, 1991/92 - 1995/96

(Millions of Kuwaiti dinars)

	1991/92	1992/93	1993/94	1994/95	1995/96
	A	A	A	B	B
Revenues	**647.3**	**2 363.7**	**2 775.1**	**2 637.2**	**2 910.0**
Oil	495.9	2 085.3	2 324.3	2 234.9	2 490.0
Non-oil	151.4	278.4	450.8	402.3	420.0
Taxes	4.6	79.2	104.9	148.0	129.9
Other	146.8	199.2	345.9	254.3	290.1
Expenditure[a/]	**6 111.5**	**3 936.3**	**4 514.0**	**4 140.0**	**4 230.0**
Wages and salaries	828.8	968.0	1 003.5	1 144.0	1 164.5
Goods and services	231.2	250.7	248.8	263.0	261.0
Transportation and equipment	61.5	65.7	34.7	35.0	30.0
Development projects	298.0	345.8	400.4	340.0	379.5
Defence and security	n.a.	n.a.	n.a.	492.8	527.8
Other expenditure	4 691.9[b/]	2 306.1[b/]	2 553.4[b/]	1 865.2	1 867.2
Allocation for RFFG[c/]	64.7	236.4	277.5	263.7	291.0
Total expenditure[d/]	**6 176.2**	**4 172.7**	**4 791.5**	**4 403.7**	**4 521.0**
Net deficit[e/]	**5 464.2**	**1 572.6**	**1 738.9**	**1 502.8**	**1 320.0**
Gross deficit[f/]	**5 528.9**	**1 809.0**	**2 016.4**	**1 766.5**	**1 611.0**

Sources: For 1991/92 - 1994/95, see *Review of Developments and Trends in the Monetary and Financial Sectors in the ESCWA Region,* 1994 (E/ESCWA/ED/1995/10); for 1995/96, see Central Bank of Kuwait, *Quarterly Statistical Bulletin,* July - September 1995; for defence and security 1994/95 and 1995/96, see *Middle East Economic Survey,* 9 September 1995.

Notes: Exchange rate: KD 1 = $3.42; $1 = KD 0.292; n.a. = not available; A = actual figures; and B = budgeted figures.

a/ Excluding allocation for RFFG.
b/ Including defence and security and public accounts.
c/ Reserve Fund for Future Generations.
d/ Expenditure plus allocation for RFFG.
e/ Expenditure minus revenues.
f/ Total expenditure minus revenues.

The cut in the deficit, however, is in line with the Government policy aimed at eliminating the deficit by the year 2000. The cut is planned to result from an 11 per cent rise in forecast oil revenues, from KD 2.2 billion in 1994/95 to KD 2.5 billion in 1995/96. Since the Kuwaiti Government is obliged by law to divert 10 per cent of total revenues to Kuwait's Reserve Fund for Future Generations, the gross deficit will be KD 1.6 billion, up by around 22 per cent above the net deficit, but down by around 9 per cent below that of 1994/95 (KD 1.8 billion).

However, since revenues from the Government's foreign assets do not appear in the budget, the real budget deficit is usually considered to be significantly lower than the one published. Prior to the Gulf crisis,

in 1988 and 1989, for instance, revenues from these assets were estimated to have exceeded oil revenues and were more than enough to cover budget deficits. Following the significant drawdown on these assets, as a consequence of the Gulf crisis, revenues from the remaining assets were not sufficient to finance the 1995/96 budget deficit. The options for financing the deficit would appear to be a further drawdown on assets as well as the domestic bond and treasury bill market.

Oil revenues continued to dominate the revenues side of the budget, accounting for around 86 per cent of the total in 1995/96, against 84.7 per cent in 1994/95. Non-oil revenues, which consist mainly of taxes (customs and excise), and income from public utilities and services and other sources, are projected to increase from KD 402 million in 1994/95 to KD 420 million in 1995/96. The share of non-oil revenues in total revenues, however, is projected to drop from 15.3 per cent to 14 per cent, owing to the expected rise in oil revenues. The 1995/96 budget assumes that the rates of taxes, customs and duties will remain unchanged during the fiscal year; however, in line with other GCC countries, Kuwait considered in 1995 the introduction of a flat tax rate of 35 per cent on foreign companies, which currently are the only entities subject to taxation.

The share of wages and salaries in total budget expenditure for 1995/96 was projected to remain at almost the same level as in 1994/95, namely around 27.5 per cent. However, the share does not include the wages and salaries of defence and security personnel which are usually under "other expenditures". Defence and security expenditure, which used to be recorded under "other expenditures", but which were disclosed for the first time in the 1994/95 budget, are projected to increase from KD 492.8 million in 1994/95 to KD 527.8 million in 1995/96. Except for expenditure on development projects and land purchases, which it is planned to increase from KD 340 million in 1994/95 to KD 379.5 million in 1995/96, expenditures in the other headings would remain almost at the same levels as in 1994/95.

(b) *Oman*

Expenditures in the Omani budget for 1995 were set to increase by 6.2 per cent, from 2,033 million rials Omani (RO) in 1994 to RO 2,159 million in 1995 (table 24). Although revenues were projected to increase by a higher rate, namely 6.6 per cent, from RO 1,732 million to RO 1,847 million, they remained insufficient to push the budget deficit below its 1994 level. The deficit was estimated to increase by around 3.7 per cent, from RO 300.9 million to RO 312 million.

Most of the increase (RO 126 million) in expenditure in 1995 compared with 1994 is attributed to the increase in current expenditure by around 8 per cent, against a drop in capital expenditure by around 0.9 per cent, from RO 431.6 million to RO 427.5 million.

A breakdown of current expenditure indicates that defence and security averaged around 43 per cent of current expenditure and around 33 per cent of total expenditure during the period 1991-1994. Nevertheless, although defence and security expenditure increased to RO 667 million in 1995, they remained lower than their levels in 1993 and 1992.

The civil ministries benefited most from the increase in expenditure in the 1995 budget. Allocations for this item were projected to increase by over 8 per cent, from RO 765.7 million in 1994 to RO 828.9 million. Expenditure on Petroleum Development Oman were set to decrease only slightly, namely from RO 94.2 million to RO 92.7 million, with the interest paid on loans rising from RO 114 million to RO 125.5 million.

TABLE 24. OMAN: BUDGET, 1991 TO 1996

(Millions of rials Omani)

	Actual			Budget		
	1991	1992	1993	1994	1995	1996
Revenues	**1 585.1**	**1 680.2**	**1 723.9**	**1 732.1**	**1 847.0**	**1 934.0**
Of which:						
Oil revenues	1 240.7	1 275.8	1 302.8	1 311.4	1 352.4	n.a.
Gas revenues	48.8	63.1	57.9	69.0	65.0	n.a.
Other current revenues	274.9	315.6	342.6	318.5	400.0	n.a.
Capital revenues	6.0	6.5	6.2	6.5	6.5	n.a.
Capital repayments	14.7	19.2	14.4	26.7	23.1	n.a.
Expenditure*	**1 868.1**	**2 258.7**	**2 242.4**	**2 033.0**	**2 159.0**	**2 152.0**
Of which:						
Current expenditure	*1 463.0*	*1 738.3*	*1 727.6*	*1 585.9*	*1 714.1*	*n.a.*
Defence and security	643.3	777.8	738.2	612.0	667.0	n.a.
Civil ministries	674.1	779.8	796.7	765.7	828.9	n.a.
Interest paid on loans	69.4	98.5	100.3	114.0	125.5	n.a.
Petroleum Development Oman (PDO)	76.2	82.2	92.4	94.2	92.7	n.a.
Capital expenditure	*391.7*	*471.1*	*477.6*	*431.6*	*427.5*	*n.a.*
Civil ministries: tied to project	221.8	290.7	288.7	267.0	250.0	n.a.
Civil ministries: furniture and equipment	19.4	29.7	24.9	21.3	13.1	n.a.
Petroleum Development Oman (PDO)	142.3	142.3	156.5	134.0	155.4	n.a.
Gas exploration	8.2	8.4	7.5	9.3	9.0	n.a.
Participation and subsidy to private sector (net lending and equity participation)	**13.4**	**49.3**	**37.2**	**15.5**	**17.4**	**n.a.**
Deficit	**283.0**	**578.5**	**518.5**	**300.9**	**312.0**	**218.0**
Financing	283.0	578.5	518.5	300.9	312.0	n.a.
Net grants received	-1.3	-6.0	7.4	10.9	10.3	n.a.
Net loans received	4.9	-23.4	-26.0	21.0	79.6	n.a.
Drawings on reserves	50.0	149.2	292.0	221.0	111.0	n.a.
Governments development bonds (net)	40.7	138.3	103.3	48.1	111.1	n.a.
Short-term financing	--	-63.0	--	--	--	n.a.

Sources: Central Bank of Oman, *Al-Markazi,* January/February 1995; for 1996 various publications.

Notes: A dash (--) indicates that the amount is negligible; n.a. = not available; and exchange rate: RO 1 = $2.598; $1 = RO 0.385.

* Including current and capital expenditure plus participation and subsidy to private sector.

Oman's budget deficits were financed during the past few years by drawing on reserves, selling government development bonds (which amounted to RO 222.1 million in 1995 compared with RO 269.1 million in 1994) and by external borrowing, which totalled RO 89.9 million in 1995 compared with RO 31.9 million in 1994.

Total expenditure in the Omani budget for fiscal year 1996, published in early January 1996 within the framework of Oman's Fifth Five-Year Development Plan (1996-2000), are set to drop only slightly, namely by around 0.3 per cent, from RO 2,159 million in 1995 to RO 2,152 million in 1996, while total

revenues are projected to increase by around 4.7 per cent, from RO 1,847 million to RO 1,934 million, resulting in a deficit of RO 218 million, lower by around 30 per cent than the one projected for 1995 (RO 312 million). The drop in expenditure is considered to be in line with the new Omani fiscal policy, aimed at reducing government involvement in a number of economic sectors, particularly infrastructure, in favour of the private sector.

(c) *Qatar*

The Qatari actual budget deficit for fiscal year 1994/95 was significantly lower than projected, owing, on the one hand, to higher oil prices and, on the other hand, to unrealized spending targets. While actual revenues (10 billion Qatar riyals [QR]) were around 20 per cent higher than budgeted (QR 8.4 billion), actual expenditure (QR 11.1 billion) was around 6.3 per cent lower than anticipated (QR 11.8 billion). Most of the drop was in capital expenditure, which totalled QR 1.6 billion, compared with the budgeted QR 2.3 billion (table 25).

TABLE 25. QATAR: BUDGET, 1990/91 TO 1994/95
(Millions of Qatar riyals)

					1994/95		1995/96
	1990/91	1991/92	1992/93	1993/94	B	A	B
Revenues	**7 786**	**8 438**	**9 607**	**10 373**	**8 360**	**10 035**	**9 204**
Expenditure	**11 709**	**11 706**	**12 399**	**13 976**	**11 830**	**11 081**	**12 731**
Current expenditure	9 920	9 811	10 114	10 368	9 509	9 492	10 507
Capital expenditure	1 789	1 895	2 285	2 708	2 321	1 589	2 224
Deficit	**3 923**	**3 268**	**2 792**	**2 703**	**3 470**	**1 046**	**3 572**
Deficit, including off-budget expenditure	4 868	3 468	3 013	2 938	n.a.	n.a.	n.a.

Sources: For 1990/91 - 1994/95, see *Review of Developments and Trends in the Monetary and Financial Sectors in the ESCWA Region*, 1994 (E/ESCWA/ED/1995/10); for 1994/95 (actual) and 1995/96 (budgeted), see Qatar Central Bank, *Eighteenth Annual Report, 1994.*

Notes: A = actual; B = budgeted; n.a. = not available; and exchange rate: $1 = QR 3.64; QR 1 = $0.27.

Financing the budget deficit for fiscal year 1994/95 was achieved, as in previous years, by drawing on the country's commercial as well as non-commercial reserves and by resorting to domestic and external borrowing.

The Qatari budget figures for fiscal year 1995/96 indicate an increase in revenues as well as expenditure. The former increased by around 10 per cent, from QR 8.4 billion in 1994/95 to QR 9.2 billion in 1995/96, and the latter increased by 7.6 per cent, from QR 11.8 billion to QR 12.7 billion, resulting in a budget deficit of QR 3.6 billion, up by around 1.6 per cent from 1994/95. The main objectives of the budget are meant to be consistent with the general framework of the Government's fiscal policy, aimed at reducing the budget deficit by rationalizing expenditure and increasing non-oil revenues.

(d) *Saudi Arabia*

Saudi Arabia's budget for fiscal year 1996 projects a deficit of SRls 18.5 billion, up by around 23 per cent (SRls 3.5 billion) from 1995 (SRls 15 billion) (table 26). The deficit is expected to constitute

around 12 per cent of total expenditure compared with 10 per cent in 1995. Expenditure is planned to remain steady at SRls 150 billion, while revenues are projected to decline from SRls 135 billion in 1995 to SRls 131.5 billion in 1996. The steady holding down of expenditure is meant to curtail the size and dominance of the public sector and encourage economic activities of the private sector. Indeed, most of the non-oil exports in 1996 are expected to be generated by the private sector rather than by the State-controlled Saudi Basic Industries Corporation (SABIC).

TABLE 26. SAUDI ARABIA: BUDGET, 1990-1996

(Billions of Saudi Arabian riyals)

	1990		1991[a/]	1992	1993	1994		1995	1996
	B	A	B	B	B	B	RB	B	B
Revenues	118	155	118	151	169	160	120	135	131.5
Expenditure	143	210	143	181	197	160	160	150	150
Deficit	25	55	25	30	28	0	40	15	18.5

Sources: For 1990-1995, see *Review of Developments and Trends in the Monetary and Financial Sectors in the ESCWA Region,* 1994 (E/ESCWA/ED/1995/10); for 1996, see *Middle East Economic Survey,* 8 January 1996.

Notes: A = actual figures; B = budgeted figures; RB = revised budget; and exchange rate: $1 = SRLs 3.75; SRLs 1 = $0.27.

a/ No budget was issued for 1991. The budget for 1990 was rolled over into 1991.

The budget deficit in fiscal year 1996 is expected to be financed, as in 1995, through the issuance of government development bonds, thus ruling out a resort to external borrowing or drawing on the country's foreign assets. It has been a Government policy not to draw on net official foreign assets from their end-1994 level.

Since the Government has not yet published actual figures concerning the 1995 budget, it is difficult to assess the success of the revenue-raising measures introduced in 1995, which included raising the prices and user fees of a number of public utilities and services. It is also difficult to identify the reasons behind the downgrading—by around 3 per cent—of the estimate for the 1996 budget revenues, which actually should have been revised up rather than down, since the Government has built in a safety cushion by assuming an oil price of $14 per barrel in its projection, and oil revenues have historically constituted between 70 and 75 per cent of total revenues.

With respect to budgetary allocations in 1996, expenditure on defence and security, though not indicated in the budget, is expected, as in previous years, to remain the largest single item, constituting around a third of total government expenditure. Expenditure on education, the second largest item, is planned to increase from around SRls 27 billion in 1995 to SRls 27.6 billion in 1996, thus constituting around 18 per cent of total expenditure (table 27); however, expenditure will remain significantly lower than the level in 1993 (SRls 34 billion). Another increase in budgetary allocations, compared with 1995, has been recorded in expenditure on transport and communications (9.8 per cent) and infrastructure development (18.6 per cent), with the increase in both items resulting mainly from the rise in the cost of upgrading and maintenance of facilities.

TABLE 27. SAUDI ARABIA: BUDGETARY ALLOCATIONS, 1990-1996
(Millions of Saudi Arabian riyals)

	1990	1991	1992	1993	1994	1995	1996
Education	24 000	26 191	31 118	34 093	n.a.	26 987	27 627
Health and social development	10 550	11 791	12 247	14 087	n.a.	13 366	13 329
Municipal services and water	n.a.	n.a.	6 296	6 980	5 220	5 968	5 378
Transport and communication	8 280	9 228	8 250	9 078	n.a.	8 374	9 195
Infrastructure development	2 570	n.a.	2 090	2 096	n.a.	5 150	6 108
Economic resources	5 000	n.a.	7 990	8 928	n.a.	n.a.	n.a.
Defence and security	73 855	51 893	54 270	61 636	n.a.	49 492	n.a.
Subsidies	5 325	7 183	7 967	9 167	n.a.	6 915	6 859

Sources: For 1990-1995, see *Review of Developments and Trends in the Monetary and Financial Sectors in the ESCWA Region*, 1994 (E/ESCWA/ED/1995/10); for 1996, see *Middle East Economic Survey*, 8 January 1996.

Note: n.a. = not available.

(e) *United Arab Emirates*

The 1995 projected budget deficit of slightly over 1 billion UAE dirhams (Dh) was expected to turn into a surplus in consequence of the rise in oil revenues and the new fiscal policy introduced in 1994 which aimed at rationalizing expenditure and developing new sources of revenues. The introduction of charges and user fees for a number of public services and utilities is an example of the new fiscal policy.

In late 1995, the Government of the United Arab Emirates was advised by the IMF to embark on a fiscal reform programme to reduce the budget deficit, which otherwise was projected to rise to as high as 10 per cent of the federal GDP and remain at that limit until the year 2000. The Government is expected to respond to the advice of the IMF by further reducing growth in expenditure and introducing revenue-raising measures.

The 1996 federal budget of the United Arab Emirates envisages expenditures of Dh 18.3 billion and revenues of 17.4 billion, resulting in a deficit of Dh 0.9 billion, lower than that in 1995 by 18.3 per cent (table 28). The small rise in both expenditures and revenues in the 1996 budget, however, is an indication of the expected improvement in the economic conditions in the United Arab Emirates. The 1996 projected

TABLE 28. UNITED ARAB EMIRATES: BUDGET, 1990 TO 1995
(Billions of UAE dirhams)

	1990	1991	1992	1993	1994	1995	1996
	A	A	A	A	B	B	B
Revenues	14.98	15.20	15.91	15.90	16.20	16.90	17.40
Expenditure	15.65	16.40	17.38	17.63	17.61	17.95	18.25
Deficit	0.67	1.20	1.47	1.73	1.41	1.05	0.85

Sources: Middle East Economic Survey, vol. 38 (6 February 1995); for 1996, based an information compiled during a mission by ESCWA staff to the United Arab Emirates, 29 March to 2 April 1996.

Notes: A = actual figures; B = budgeted figures; and exchange rate: $1 = Dh 3.672; Dh 1 = $0.272.

budget deficit (Dh 0.9 billion) is the lowest since 1991, though the actual budget deficit dropped to around Dh 1.1 billion in 1995, after having reached a peak of Dh 1.7 billion in 1993. The latter was in consequence of an increase in expenditure and a drop in revenues, particularly oil revenues, which constitute around 85 per cent of total revenues. The 1996 budget projection is based on an average oil price of $16 per barrel and an increase in non-oil revenues, from around Dh 4 billion in 1995 to around Dh 4.5 billion.

The federal budget is usually small compared with total official spending in the United Arab Emirates since most spending is normally carried out under the local budgets of the member emirates; thus there is no reason for the Federal Government to raise funds from the domestic market through the issuance of treasury bills or development bonds. Consequently, the United Arab Emirates budget is more manageable compared with the budgets in other GCC countries. In addition, the Government fears that the introduction of such instruments, though important for the development of a domestic financial market, would only increase the Government's spending options, thus jeopardizing its hitherto cautious fiscal policy.

2. *Countries with more diversified economies*

The budgets of most countries in this group were deflationary in 1995, with government expenditure increasing at a rate below that of inflation, thus reducing expenditure in real terms.

The following is a summary of budgetary developments in this group of ESCWA member countries.

(a) *Egypt*

Total expenditure in Egypt's budget for fiscal year 1994/95 was projected to drop by around 10.4 per cent, from LE 65,313 million in 1993/94 to LE 58,526 million in 1994/95. With total revenues dropping only slightly, namely by around 0.5 per cent, from LE 56,330 million to LE 56,021 million, the budget deficit was expected to be reduced by around 72 per cent, from LE 8,983 million to LE 2,505 million (table 29).

However, the comparison between revised budget estimates for both fiscal years presents a different picture. Expenditure increased by 4.8 per cent, from LE 55,520 million in 1993/94 to LE 58,185 million in 1994/95, and revenues by 8.4 per cent, from LE 51,359 million to LE 55,685 million. With the 8.4 per cent increase in the revised estimate of revenues being 3.6 per cent higher than the increase in the revised estimate of expenditure, the revised budget deficit (LE 2,500 million) turned out to be only around 28 per cent of the projected deficit (LE 8,983 million) for 1993/94.

Actual data for the first nine months of fiscal year 1994/95 show that current expenditure and current revenues in relation to the revised estimates had almost the same ratio, 67.5 per cent and 67.8 per cent respectively, thus indicating that the revised estimate for fiscal year 1994/95 as a whole could turn out to be almost the same as the actual figures for the whole year.

The 1994/95 budget shows indications of a significant improvement in Egypt's fiscal conditions as a result of the policy recommendations of the IMF-sponsored economic structural adjustment programme which began to be implemented in May 1991. The improvements are especially obvious in the falling ratio of budget deficit to GDP, which declined from around 5 per cent in 1991/92 to 4 per cent in 1993/94, and to 2 per cent in 1994/95.

TABLE 29. EGYPT: BUDGET, 1993/94 - 1994/95

(Millions of Egyptian pounds)

	1993/94			1994/95		
	Projected	Revised estimate	Actual 9 months	Projected	Revised estimate	Actual 9 months
Total expenditure	**65 313**	**55 520**	**38 650**	**58 526**	**58 185**	**49 359**
Current expenditure of which:	*46 863*	*45 726*	*31 373*	*47 854*	*47 513*	*32 073*
Wages and salaries	11 600	11 000	7 358	12 231	12 231	8 400
Defence	5 417	5 890	4 215	6 401	6 401	4 776
Public debt interest (domestic)	11 700	11 628	7 826	11 874	11 474	6 351
Public debt interest (external)	4 850	4 666	3 217	4 000	4 000	2 933
Capital expenditure	*18 450*	*9 794*	*7 277*	*19 672*	*10 672*	*8 286*
Total revenues	**56 330**	**51 359**	**36 594**	**56 021**	**55 685**	**38 197**
Current revenues of which:	*49 280*	*48 859*	*34 778*	*53 226*	*52 890*	*35 873*
Tax revenues	21 007	31 075	22 278	34 359	33 909	24 107
Oil revenues	4 753	4 627	3 229	4 798	4 498	2 857
Net canal revenues	3 091	2 627	2 090	2 812	3 112	2 120
Central Bank revenues	1 205	954	712	1 272	1 772	1 454
Capital revenues	*7 050*	*2 500*	*1 816*	*2 795*	*2 795*	*2 324*
Deficit	**8 983**	**4 161**	**2 056**	**2 505**	**2 500**	**2 162**
Deficit financing						
Domestic	6 420	3 895	1 791	2 933	2 928	2 822
External	2 563	266	265	428	328	660

Sources: For 1993/94 (projected), see *Review of Developments and Trends in the Monetary and Financial Sectors in the ESCWA Region, 1994 (E/ESCWA/ED/1995/10)*; for other years, see Central Bank of Egypt, *Economic Review*, vol. XXXV, No. 3, 1994/95.

Notes: Exchange rate: $1 = LE 3.356 - 3.380.

The most striking features in the 1994/95 projected budget, compared with 1993/94, are the increase by around 18.2 per cent in defence and security expenditure; the increase by around 64 per cent in tax revenues owing mainly to greatly improved tax collection methods and application; and the drop by around 17.5 per cent in the expenditure for external debt servicing. Another important feature is the drop in capital revenues by around 60 per cent, from LE 7.1 billion to LE 2.8 billion. With the revision in Egypt's budget figures occurring mostly in capital expenditure owing to non-realization of planned capital revenues, the Government projected more realistic capital revenues for 1994/95 by setting them at a level close to the revised estimate of fiscal year 1993/94. The actual nine months result in 1994/95, which is close to the actual result of the corresponding period of 1993/94, underlines this trend.

The financing of the budget deficit was to be entirely from domestic sources; in addition, net repayments on external debt were to be made in accordance with the Government's policy of reducing the burdens of external borrowing. The actual nine months result of 1994/95 indicates that domestic sources covered the budget deficit of LE 2,162 million as well as the repayment of LE 660 million in external debt.

(b) *Jordan*

For the first time ever, Jordan projected a balanced budget for 1996 with total expenditure (current + capital) equalling total revenues. While projected expenditure increased by only JD 39 million above the

preliminary actual figure of 1995, from JD 1,759 million to JD 1,798 million, projected revenues increased by JD 125 million, from JD 1,673 million to JD 1,798 million (table 30). Domestic revenues, which are projected at JD 1,575 million, i.e. 9.4 per cent higher than the 1995 preliminary actual figure of JD 1,440 million, do not include the considerable contribution of Jordan's Telecom, which accounted for around 12 per cent of total revenues in 1995. The Telecom has been taken off the budget, pending privatization. The loss of this source of revenue, however, was more than compensated for by improved tax and customs revenues.

TABLE 30. JORDAN: BUDGET, 1993-1996

(Millions of Jordanian dinars)

	1993	1994	1995		1996
	Actual	Actual	Projected	Preliminary actual	Projected
Total expenditure	**1 647.7**	**1 580.3**	**1 674.0**	**1 758.8**	**1 798.0**
Current expenditure	*1 044.3*	*1 115.2*	*1 230.0*	*1 225.2*	*1 328.4*
Salaries, wages and allowances	274.3	276.4	n.a.	314.4	n.a.
Public debt interest (domestic)	30.4	39.1	n.a.	35.0	n.a.
Public debt interest (external)	91.6	70.3	125.0	121.8	167.4
Defence and security	299.6	348.2	296.0	386.6	418.1
Others[a/]	603.4	381.2	n.a.	367.4	n.a.
Capital expenditure[b/]	*603.4*	*465.1*	*387.9*	*533.6*	*440.0*
Land, buildings and construction	179.8	199.3	n.a.	239.7	n.a.
Settlement of loans and obligations	311.2	148.1	n.a.	145.7	n.a.
Others	112.4	117.7	n.a.	148.2	n.a.
Total revenues	**1 406.3**	**1 537.4**	**1 624.0**	**1 672.7**	**1 798.0**
Domestic revenues	*1 191.5*	*1 306.4*	*1 400.0*	*1 440.0*	*1 575.0*
Tax revenues	643.4	694.4	n.a.	786.5	n.a.
Non-tax revenues	548.1	612.0	n.a.	653.5	n.a.
External revenues (aid and loans repaid)	*214.8*	*231.0*	*165.0*	*232.7*	*223.0*
Deficit	**241.4**	**42.9**	**50.0**	**86.1**	**0.0**

Source: Central Bank of Jordan, *Monthly Statistical Bulletin*, January 1996.

Notes: Exchange rate: $1 = JD 0.70; and n.a. = not available.

a/ Including subsidies and various transfer accounts.
b/ Excluding loans repaid.

Usually, defence and security expenditures and salaries, wages and allowances are the main items in Jordan's budget. However, since data on the latter are not yet available, defence and security expenditures and servicing external debt are the two main items in the 1996 budget. The former increased by around 41 per cent, from JD 296 million in 1995 to JD 418 million in 1996, and the latter by around 34 per cent, from JD 125 million to JD 167 million. Preliminary actual figures for 1995, however, show that defence and security expenditures were 31 per cent higher than projected while external debt service payments were 2.6 per cent lower.

Jordan's budgets rely heavily on foreign aid and grants. Only since 1992 have domestic revenues been sufficient to cover current expenditure, while capital expenditure remains dependent to a considerable

degree on foreign aid and grants. The 1996 budget does not deviate from this trend. This source of revenue is usually seen as representing the real budget deficit.

As in previous years, the projected budget for fiscal year 1996 incorporates envisaged foreign aid and grants and/or rescheduled parts of Jordan's external debt, with the former contributing to a rise in budget revenues and the latter to a reduction in debt services payment, i.e. budget expenditure. In reality, Jordan's budget deficits have almost always turned out to be higher than the projected ones, and the 1995 budget did not deviate from this trend. Indeed, the projected JD 50 million deficit turned into a preliminary actual deficit of JD 86.1 million. By the same token, the 1996 projected zero budget deficit remains subject to some qualification, especially since it is based on the assumption that JD 223 million in external aid and grants for co-financing the account concerning settlement of loans and obligations, estimated at over JD 150 million, will be forthcoming and that external debt service payments set at JD 167 million will be rescheduled or forgiven. Since the JD 223 million in external aid and grants are as yet uncommitted, the 1996 budget deficit is expected to be between zero and JD 317 million (JD 150 million settlement of loans and obligations plus JD 167 million external debt service payments). However, if the amounts of external aid and grants materialize, the budget deficit will be between zero and JD 94 million (JD 317 million minus JD 223 million).

(c) *Lebanon*

Lebanon's budget for fiscal year 1996 projects a small deficit reduction of 2.1 per cent, from 2,480 billion Lebanese pounds (LL) in 1995 to LL 2,428 billion. Expressed as a percentage share of total expenditure, the reduction in the deficit/expenditure percentage relationship from 44 per cent in 1995 to 38 per cent in 1996 is essential, since it will be 5 per cent below the 43 per cent limit authorized by the Lebanese Parliament in the 1995 budget law. Expenditure is expected to increase by 14.6 per cent, from LL 5,630 billion in 1995 to LL 6,450 billion in 1996, while revenues are expected to rise by 27.7 per cent, from LL 3,150 billion to LL 4,022 billion (table 31).

TABLE 31. LEBANON: BUDGET, 1993-1996

(Billions of Lebanese pounds)

	1993	1994	1995	1996
	A	A	A	B
Expenditure	3150	4080	5630	6450
Revenues	1792	2245	3150	4022
Deficit	1358	1835	2480	2428

Source: *Middle East Economic Survey*, various issues.

Notes: A = actual; B = budgeted; and exchange rate: $1 = LL 1,650.

The 1996 budget allocates LL 2,600 billion (i.e., 40.3 per cent of total expenditure) for debt servicing, with LL 2,250 billion allotted for servicing domestic debt and LL 350 for external debt servicing.

Other allocations include LL 658 billion for defence; LL 314 billion for education; LL 261 billion for public works; and LL 150 billion for health.[76]

(d) *Syrian Arab Republic*

The budget of the Syrian Arab Republic for fiscal year 1996 projects expenditure at around LS 187 billion Syrian pounds (LS), up by around 15.6 per cent on projected expenditures for 1995. A similar level of revenues with the same rate of increase is also projected, as the Syrian Arab Republic usually publishes balanced planned budgets, with expenditure equalling revenues (table 32). However, the budget deficits can

TABLE 32. SYRIAN ARAB REPUBLIC: BUDGET, 1990 TO 1995

(Billions of Syrian pounds)

	1990	1991	1992	1993	1994	1995	1996
Expenditure	**67.6**	**84.8**	**93.0**	**123.0**	**144.3**	**162.1**	**187.0**
Government services including:	48.2	64.1	63.3	71.8	85.9	99.0	n.a.
Justice	10.8	13.1	15.0	18.1	21.2	24.2	n.a.
Defence and security	23.4	32.7	27.2	27.9	36.5	40.0	n.a.
Education	5.7	5.9	4.6	8.8	10.6	12.8	n.a.
National debt	3.4	7.4	8.0	8.9	7.4	10.2	n.a.
Agriculture, forests and fisheries	7.1	7.9	10.2	12.2	12.8	15.3	n.a.
Industry	4.0	3.7	6.6	14.1	17.4	15.9	n.a.
Infrastructure	5.3	6.2	8.8	20.8	22.7	25.3	n.a.
Other expenditure, including allocated expenditure	3.0	2.9	4.1	4.1	5.5	6.6	n.a.
Revenues	**67.6**	**84.8**	**93.0**	**123.0**	**144.3**	**162.1**	**187.0**
Taxes and duties	22.1	27.7	29.4	29.5	40.5	48.9	n.a.
Services and property	2.7	3.4	4.9	5.7	6.6	7.2	n.a.
Miscellaneous revenues including:	18.4	26.8	36.8	35.2	40.9	46.2	n.a.
Various revenues	15.2	15.5	25.3	25.3	39.8	44.7	n.a.
Grant-in-aid	0.6	0.0	0.0	0.0	0.0	0.0	n.a.
Concessional loans	1.8	10.3	13.9	9.0	0.0	0.0	n.a.
Surplus on public sector enterprises (PSE)	13.0	13.2	16.1	18.4	18.7	23.2	n.a.
Exceptional financing including:	11.2	13.7	5.8	34.2	37.6	36.6	n.a.
External financing	3.3	4.4	5.6	22.9	24.5	24.3	n.a.
Domestic financing	7.7	9.2	0.0	11.0	13.1	12.3	n.a.
Memoranda (percentage)							
Defence and security/expenditure	24.7	38.6	29.2	22.7	25.3	24.7	n.a.
Infrastructure/expenditure	7.8	7.3	9.4	16.9	15.7	15.6	n.a.
Taxes and duties/revenues	32.7	32.7	31.6	24.0	28.1	30.2	n.a.
Surplus on PSE/revenues	19.4	15.5	17.3	15.0	12.9	14.3	n.a.
Expenditures increase over previous year	17.6	25.5	9.8	32.2	17.2	12.4	n.a.

Sources: For 1990 to 1995, see *Review of Developments and Trends in the Monetary and Financial Sectors in the ESCWA region, 1994* (E/ESCWA/ED/1995/10); for 1996, see *REUTERS*, as quoted in the *Jordan Times* of 11-12 April 1996.

Notes: Figures are rounded; n.a. = not available.

[76] ESCWA calculations based on the *Middle East Economic Survey*, various issues.

be deduced from the total of grants, commercial loans and exceptional financing through domestic and external sources. The financial gap covered by these items in the 1995 budget is expected to constitute around 22.6 per cent (LS 36.6 billion) of the budget, around 3.4 per cent lower than the gap in the 1994 budget (26 per cent). The significant receipt from these items suggests their important contribution to budgetary growth during the last few years. Consequently, a drop in these receipts would lead to a slower increase in expenditure. An indication of such development is already apparent in the budgets of the last few years, as well as in the 1996 proposed budget, where expenditure is projected to increase by 1.4 per cent, considerably less than in 1995 (17 per cent).

The projected increase in expenditure in the 1996 budget by around 15.6 per cent is around 2 per cent below the forecasted rate of inflation of around 18 per cent, underlining a new trend in the Government's fiscal policy of deflationary budgets aimed at reducing the rate of inflation.

(e) *Republic of Yemen*

The 1996 budget of the Republic of Yemen projects a deficit of 25.5 billion Yemeni rials (YRls), down by around 29 per cent (YRls 10.7 billion) from 1995 (YRls 36.2 billion), thus resulting in an expected budget deficit of 6 per cent of GDP, compared with an estimated 9 per cent in 1995. While budget expenditure is projected at YRls 181.4 billion, up by around 46 per cent from 1995 (YRls 124.1 billion), budget revenues are projected to increase by over 77 per cent to YRls 155.9 billion (table 33). With the rate of increase in revenues higher than the rate of increase in expenditure, the Government's new fiscal policy which it initiated in 1995 is seen as an indication of enhanced efforts to achieve a level of budget deficits that, on the one hand, will not impose major financial burdens, and on the other hand, will not endanger the country's economic reform programme.

TABLE 33. YEMEN: BUDGET, 1994-1996

(Billions of Yemeni rials)

	1994	1995	1996
Revenues	**45.77**	**87.95**	**155.88**
Oil revenues	25.15	31.28	56.00
Tax and non-tax revenues	13.73	36.56	56.25
External aid and grants	3.17	4.11	30.00
Other revenues	3.72	16.00	13.63
Expenditure	**77.65**	**124.14**	**181.40**
Current expenditure	*62.55*	*108.23*	*118.25*
Wages and salaries	41.60	67.33	80.80
Defence and security	17.65	31.33	25.06
Others	3.30	9.57	12.35
Capital expenditure	*15.10*	*15.91*	*63.15*
Deficit	**31.88**	**36.19**	**25.52**

Source: ESCWA calculations based on various international sources.

In line with the deficit reduction policy, external aid and grants are expected to surge from slightly over YRls 4 billion in 1995 to around YRls 30 billion in 1996, thus constituting around 19 per cent of total

revenues and financing almost half of the planned capital expenditure, envisaged at YRls 63.2 billion, four times the level in 1995 (YRls 15.9 billion).

Tax and non-tax revenues are projected to increase from around YRls 36.6 billion in 1995 to around YRls 56.3 billion in 1996, exceeding by more than four times their 1994 level. The surpluses of public sector enterprises, which usually account for around 30 per cent of non-tax revenues, are expected to drop significantly during the next few years, owing to the increase in the selling off of these enterprises as part of the Government's privatization efforts in Yemen's economic reform programme which started in 1995. To avoid the negative impact of these developments on budget revenues, the Government introduced in early 1996 a unified company profit tax rate of 35 per cent and is planning to introduce other taxation measures and improve tax collection methods.

Although current expenditure is planned to increase from around YRls 108.2 billion in 1995 to around YRls 118.3 billion in 1996, its share in total expenditure will drop from 87 per cent in 1995 to 65 per cent in 1996; consequently, the share of capital expenditure will rise from 13 per cent to 35 per cent. To alleviate the social impact of the reduction in expenditure on subsidies, estimated at around $400 million in 1995, expenditure on wages and salaries is expected to increase by 20 per cent, from YRls 67.3 billion in 1995 to YRls 80.8 billion in 1996. Expenditure on defence and security, usually constituting around 28 per cent of current expenditure, is planned to drop from around YRls 31 billion to YRls 25 billion, or by almost 20 per cent.

In early 1996, the Government of Yemen approved an investment promotion programme, totalling around YRls 42 billion, to be implemented during the year. The Government contribution will be YRls 19.8 billion, while the rest is expected to come from foreign investors (YRls 16.4 billion) and the private sector (YRls 5.8 billion).

C. PUBLIC DEBT

Public debt (domestic and external) remained a major source of financing the budget deficit and development projects in most ESCWA member countries in 1995. In a number of these countries, such as Egypt, Jordan, Oman and Yemen, the reasons for resorting to domestic public debt have not been limited to financing budget deficits but also to developing domestic financial markets through diversifying the debt instruments. Domestic debt, however, has not been the domain of central governments in most ESCWA member countries, as government agencies and public sector enterprises have also resorted increasingly, during the past few years, to the domestic debt market for funding projects. Egypt, Jordan and Saudi Arabia are examples in this regard. The domestic public debt of ESCWA member countries was estimated—in dollar terms—at around $400 billion in 1995, up by around 5 per cent from 1994 ($380 billion), and it is expected to increase to over $410 billion in 1996.[77] This development in domestic public debt is considered one of the main reasons behind the maintenance of external debt of ESCWA member countries at almost the same level in 1994 and 1995, around $182 billion. However, compared with other developing regions, the ESCWA region is considered as being heavily indebted in terms of the ratio of external debt to GDP and the ratio of external debt to export of goods and services as well as in terms of debt per capita. The latter is estimated at around $810, compared with $750 for Latin America and the Caribbean and $550 for sub-

[77] ESCWA calculation based on various national and international sources.

Saharan Africa.[78] While ESCWA member countries aggregate GDP and their exports of goods and services are estimated to have constituted in 1995 around 5 per cent and 5.4 per cent of total developing countries' GDP and exports of goods and services respectively, the ESCWA region's external debt constituted around 12 per cent of the external debt of the developing countries.

Following is a summary of public debt developments disaggregated into domestic public debt and external public debt developments in a number of ESCWA member countries.

1. *Domestic public debt*

(a) *Kuwait*

The Government of Kuwait has resorted increasingly to the domestic debt market during the past few years as a source of funding its budget deficit. The Government started borrowing domestically, mainly in consequence of the Suk Al-Manakh crisis in 1982, in order to save the local banks which loaned most of the funds to the defaulting investors. According to a programme initiated for this purpose, called the "Difficult Debt Settlement Programme," the Government purchased the banks' debts, estimated at around $20 billion.

The instruments of domestic public debt (treasury bills and bonds) are considered an appropriate investment channel for utilizing the surplus KD funds of local banks and other financial institutions as well as a means for curtailing the outflow of capital.

The Central Bank of Kuwait (CBK) continued in 1995 to issue public debt instruments on behalf of the Kuwait Ministry of Finance. At the end of September 1995, a total of KD 4,498.8 million in treasury bills and KD 649.2 million in bonds was issued, up by around 2.5 per cent and 13.6 per cent respectively from the corresponding period of 1994 (table 34). In the meantime, the value of the total treasury bills that matured amounted to KD 4,487.7 million, up by around 5.9 per cent from the same period in 1994, thus resulting in an outstanding balance of treasury bills of KD 2,101.8 million, which is lower by around 5.4 per cent (KD 120.9 million) than that of end-September 1994 (KD 2,222.7 million). The balance of bonds issued, amounting to KD 768.1 million at the end of September 1995, was higher by around 33 per cent than that at end-September 1994 (KD 576.5 million).

The domestic banks remained the main holder of public debt instruments, accounting for 69.2 per cent (KD 1,986.2 million) of the total (KD 2,869.9 million), followed by investment and financial companies as well as individuals (28.5 per cent) and the CBK (2.3 per cent).

The increase in domestic public debt in Kuwait during the past few years indicates that domestically-sourced finance gained significance, especially since most of the debt could be placed with the domestic banks and other financial institutions. This trend is expected to continue in the coming years, since the Government is discouraging the banks from lending to public sector projects and instead wants them to use their resources for funding routine project expenditure, especially maintenance expenditure.

[78] ESCWA calculation based on various international sources.

TABLE 34. KUWAIT: DOMESTIC PUBLIC DEBT, 1989-1995

(Millions of Kuwaiti dinars)

	1989	1990	1991	1992	1993	1994	1994 (September)	1995 (September)
Issues	5 949.4	4 124.0	2 615.7	2 860.4	5 287.2	6 703.1	4 958.9	5 148.0
Bills	5 919.3	6 074.0	2 615.0	2 860.4	5 287.2	6 012.8	4 387.5	4 498.8
Bonds	30.0	50.0	--	--	--	690.3	571.4	649.2
Matured	5 157.6	5 971.3	3 536.6	2 653.2	4 832.9	6 001.8	4 239.5	5 059.1
Bills	4 873.1	5 881.3	3 401.6	2 498.4	4 797.7	5 996.8	4 239.5	4 487.7
Bonds	284.5	90.0	135.0	154.8	35.2	5.0	--	571.4
Balance at year-end	2 186.3	2 339.0	1 418.1	1 625.3	2 079.6	2 781.0	2 799.2	2 869.9
Bills	1 816.3	2 009.0	1 223.1	1 585.1	2 074.6	2 090.7	2 222.7	2 101.8
Bonds	370.0	330.0	195.0	40.2	5.0	690.3	576.5	768.1
Holders of instruments								
Central Bank	305.3	--	43.8	152.8	87.1	59.2	134.4	65.9
Domestic banks	1 206.2	--	897.5	1 091.1	1 629.9	1 786.2	1 827.6	1 986.2
Others	647.8	--	476.8	381.4	362.6	935.6	837.1	817.8

Source: Central Bank of Kuwait, *Economic Report*, 1994; and *Quarterly Statistical Bulletin*, July - September 1995.

Note: -- = the amount is nil or negligible.

(b) *Jordan*

The marked increase in Government revenues from JD 1,537 million in 1994 to JD 1,673 million in 1995 (table 30) led to a drop in government domestic borrowing by around 18 per cent, from JD 1,181 million in 1994 to JD 966 million in 1995 (table 35). Actually, the Government's policy on domestic public debt was aimed at controlling the expansion in government domestic borrowing in order not to crowd out the private sector from the bank lending market. The modest increase of domestic public debt during the period 1990-1994 is a reflection of this policy.

TABLE 35. JORDAN: SELECTED DOMESTIC PUBLIC DEBT INDICATORS, 1990-1995

	1990	1991	1992	1993	1994	1995[a/]
Domestic public debt outstanding[b/] (JD million)	1 037.6	1 061.7	1 041.5	1 143.8	1 181.3	966.1
Domestic public debt/GDP at current prices (%)	38.9	37.2	29.8	29.5	27.2	20.9
Total interest and prizes (JD million)	34.7	28.3	24.8	25.6	30.5	29.9
Interest and prizes/ Government revenues (%)	4.7	3.4	2.1	2.1	2.4	1.8

Sources: For 1990-1994, see Central Bank of Jordan, *Annual Report*, 1994; for 1995, see Central Bank of Jordan, *Monthly Statistical Bulletin*, January 1995.

a/ Preliminary.
b/ Effective December 1993, data were reclassified.

The percentage of domestic public debt in relation to GDP declined during the past six years, from 38.9 per cent in 1990 to 20.9 per cent in 1995, owing to the fact that while GDP grew by an average annual rate of around 5 per cent, domestic public debt dropped by an average rate of around 4 per cent. Moreover, as government revenues increased, while interest and prizes decreased, from JD 34.7 million to JD 29.9 million, the percentage of interest and prizes in relation to government revenues dropped from 4.7 per cent to 1.8 per cent.

Jordan's domestic public debt comprises the debt of the central Government and its agencies, with the former constituting an average of around 96 per cent of the total during the past six years. The domestic public debt increased through the issuance of treasury bills and bonds, government bonds and notes and public corporation bonds. While treasury bills and bonds and government bonds and notes remained the domain of the central Government, the public cooperation bonds were the only financial instrument at the disposal of the Government agencies. However, the financial instruments used most often by the central Government for raising funds were government bonds and notes (around 56.1 per cent of total domestic debt in 1995), followed by advances from the banking system, mainly from the Central Bank (36.1 per cent), treasury bills and bonds (4 per cent) and public corporation bonds (3.8 per cent).

(c) Lebanon

Total domestic debt amounted to around LL 11,997 billion in 1995, up by around 29 per cent from 1994 (LL 9,321 billion) and more than double the 1993 level (LL 5,823 billion) (table 36). Financing the increasing budget deficit during the last few years and covering unplanned off-budget expenditures were the main reason behind the increase in domestic debt. Financing was carried out mainly through the issuing of treasury bills which were placed with banks as well as non-bank financial institutions and individual investors.

TABLE 36. LEBANON: DOMESTIC PUBLIC DEBT, 1993-1995
(Billions of Lebanese pounds)

	1993	1994	1995
Domestic debt	5 823	9 321	11 997
Central Bank	473	78	103
Commercial banks	4 245	7 345	8 545
Non-banks	1 105	1 898	3 349
Public sector deposits	1 389	2 639	2 701
Net domestic debt	4 434	6 682	9 296

Source: Banque du Liban, *Monthly Bulletin,* No. 19, December 1995.

The share of bills placed with the banks in total domestic debt dropped from 79 per cent in 1994 to 72 per cent in 1995. The value of bills placed with the banks, however, increased by around 16 per cent,

from LL 7,345 billion to LL 8,545 billion. The rest of the placed bills were accounted for by the non-banking sector, which increased its subscription by 79 per cent, from LL 1,898 billion to LL 3,349 billion.

However, in considering the public sector deposits with the banking system, Lebanon's domestic public debt has to be viewed in its net value, which was lower than its gross value by 28.3 per cent and 22.5 per cent in 1994 and 1995 respectively.

2. *External debt*

Following is a summary of external debt developments in a number of ESCWA member countries.

(a) *Kuwait*

Kuwait's external debt, which is mainly official and officially guaranteed with market interest rates, amounted to around $4.6 billion at the end of 1995. This debt level represents a large drop from its 1994 level of around $6.2 billion, owing primarily to the repayment of two instalments of $800 million each, of the so-called jumbo loan of a $5.5 billion medium-term credit facility, which was raised in the Euromarket in 1991 to meet construction expenditure. Kuwait's officially guaranteed external debt has been mainly in the form of export credit facilities, which dropped from $716 million in 1994 to $656 million in 1995.[79]

Despite the external debt, Kuwait's creditworthiness is considered high, based on a strong current account position. Moreover, the budget deficits are usually smaller than the figures published, since they exclude revenues from foreign assets (i.e., investments) and classify allocations to Kuwait's Reserve Fund for Future Generations as expenditure. In addition, the Kuwaiti public sector has unrestricted access to foreign reserves which appear to be sufficient to meet the normal financing requirements of the Government in the medium term, even in the absence of measures to reduce significantly the budget deficit.

(b) *Egypt*[80]

Egypt's external debt is estimated to have increased to around $33.6 billion in 1995, up by around 10 per cent from 1994 ($30.4 billion), but lower than the 1993 level of $40 billion. The 1995 rise in Egypt's external debt is considered a turning point from a downward trend experienced since 1988, when Egypt's external debt amounted to around $51.7 billion. For more than two years, Egypt has been negotiating with the IMF on the final tranche ($4 billion) of the 50 per cent debt forgiveness envisaged by Egypt's official creditors in connection with Egypt's economic reform programme agreed to with the IMF in 1991.

Egypt's long-term debt continued in 1995 to constitute the bulk of its external debt, with 40 per cent of Egypt's external debt owed by public sector enterprises.

As early as 1989, Egypt started swapping parts of its external debt; the total amount swapped until the end of 1995 was around $3.2 billion. With no secondary market for Egypt's external debt, attempts by the Government to offer parts of the debt for sale were not successful during the past few years. However,

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[79] National Bank of Kuwait, *Economic and Financial Quarterly*, iv/1995.

[80] For more details on Egypt's external debt, see *Review of Developments and Trends in the Monetary and Financial Sectors in the ESCWA Region, 1994* (E/ESCWA/ED/1995/10).

Egypt, plans to reduce its external debt by promoting exports and narrowing the gap between the increase in the rate of investment and the increase in the rate of domestic savings.

(c) *Jordan*[81]

Jordan's external debt is estimated to have declined from $7.2 billion in 1994 to $6.6 billion in 1995, following the write-off, swapping and rescheduling of a considerable part of the debt. Following the significant GDP growth rates during the past few years, the external debt/GDP ratio dropped from 128 per cent to 104 per cent and to 91 per cent in 1993, 1994 and 1995 respectively. The most striking feature in the development of Jordan's external debt was the drop in debt service payments, which fell from $1,213 million in 1989 to $505 million in 1994 and to $502 million in 1995. The debt service payments in 1994 and 1995 amounted to only 13.7 per cent and 10.5 per cent respectively of Jordan's export of goods and services.

The improved position of Jordan's foreign currency reserves, from around $4.3 billion at the end of 1994 to around $5.2 billion at the end of 1995, enabled Jordan to borrow around $600 million in bilateral loans, $355 million of which were earmarked for project finance and the rest for the support of the balance of payments and foreign reserves.

(d) *Lebanon*

Lebanon's external debt, accumulated mainly because of the need to finance reconstruction projects, has increased significantly during the past few years, from $327 million in 1993 to $772 million in 1994, then to $1,282 million in 1995.[82] Despite the rise in external debt, Lebanon's creditworthiness in the international financial markets is still considered highly satisfactory: indeed, Lebanon's first venture in these markets in September 1995 was highly successful. A Lebanese Eurobond issue, originally set at $150 million, was raised to $400 million and was still heavily over-subscribed. In early 1996, the Government was authorized by the Parliament to borrow up to $1 billion during the year, which implies a further increase in Lebanon's external debt.

(e) *Republic of Yemen*

The external debt of the Republic of Yemen is estimated to have amounted to around $6.3 billion in 1995, down by around $0.3 billion from its estimated level of $6.6 billion in 1994, with the drop resulting mainly from forgiveness by some creditors of parts of the debt. Most of Yemen's external debt, around $5.8 billion, is owed to the former Soviet Union, and the rest to a number of GCC countries, European development banks and regional financial institutions; the latter two creditors are currently serviced by around $70 million annually. The servicing of the debt to the former Soviet Union and the GCC countries has been frozen since 1990. However, the Yemeni Government plans to negotiate in June 1996 the rescheduling of this debt.

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[81] Data in this section are based on announcements of Jordan's Ministry of Planning, quoted by various Jordanian and foreign publications, as of March 1996.

[82] Banque du Liban, *Monthly Bulletin*, No. 19, December 1995.

D. SHORT-TERM OUTLOOK

Opinions vary widely as to whether the stabilization of oil prices—projected to stabilize at an average of between $15 and $18 per barrel in the coming few years—would enable the GCC countries to keep budget deficits under control, taking into consideration the continuing upward trend in public sector wages and salaries bills; the half-hearted modest cuts in subsidies; the non-introduction of income and sale taxes; and, last but not least, the increasing defence and security expenditures. There is a consensus, however, that most of the GCC countries are still running budget deficits in the order of 5 to 7 per cent of GDP, though these deficits are on a declining trend. With net foreign assets—according to the Bank for International Settlements—of over $120 billion[83] and around half of proven world oil reserves, deficits of this magnitude are certainly sustainable in the short-to-medium term.

A review of fiscal developments in these countries in the ESCWA region with more diversified economies provides a mixed picture. On the positive side, domestic financial imbalances are expected to continue declining, as the Governments of these countries are planning to increase efforts to lower budget deficits and enhance private savings. The fiscal reform introduced by a number of these countries during the past few years included improvements in tax collection methods and expansion of the tax base, which are expected to boost government revenues, decrease the budget deficits and reduce external borrowing. On the negative side, domestic savings, which remained low during the past few years, are expected to remain so during the next few years, owing to higher consumption rates against lower rates of increase in disposable income. This development would continue to constitute a constraint on higher growth rates of investment. It would also force Governments to continue resorting to domestic borrowing, leading to higher domestic public debt. Here too, opinions vary as to whether this might or might not lead to the crowding out of the private sector from the domestic market: if this happens, the private sector might have to reduce its participation in economic development, which would lead to an increase in the Governments' financial obligations.

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[83] Bank for International Settlements, *International Banking and Financial Market Developments*, February 1996.

V. MONEY, BANKING AND FINANCE

A. MONETARY DEVELOPMENTS

The effectiveness of monetary policy in most ESCWA member countries was enhanced during the past few years by changes in the financial system, aimed at improving the mobilization, management and allocation of financial resources and strengthening the system of monetary control. In order to improve the process of mobilization, management and allocation of financial resources, it was necessary to enhance the role of market forces in the determination of rates of return and credit allocation (diagram 1). In some ESCWA member countries (for example, Egypt and Jordan) progress was made in liberalizing the structure of rates, initially deposit rates, and in reducing the scope of preferential rates, especially for public sector enterprises. Other ESCWA member countries have broadened the variety of assets available to domestic savers through the introduction of new financial instruments with market-determined rates. These instruments included certificates of deposits (Jordan and Kuwait), negotiable treasury bills (Egypt, Jordan and Lebanon) and commercial papers (Bahrain and Egypt). Significant progress was also made by a number of ESCWA member countries in strengthening their financial systems through the recapitalization of financial institutions and improvements in prudential regulations and supervision. Most ESCWA member countries made efforts to develop their respective capital markets, through the implementation of new securities market laws with a view to improving trading, reporting and accounting systems.

To improve the mechanisms of monetary control, especially in the context of financial liberalization, there was a move away from quantitative credit restrictions towards indirect instruments of monetary control. In most ESCWA member countries, the rediscount instrument was made more sensitive to market conditions, and the sale and repurchase of Central Bank papers and treasury bills were used more widely in the management of liquidity. Furthermore, the legal reserve requirement was made more uniform across financial institutions.

Following is a summary of monetary developments in a number of ESCWA member countries.

1. *Money supply*

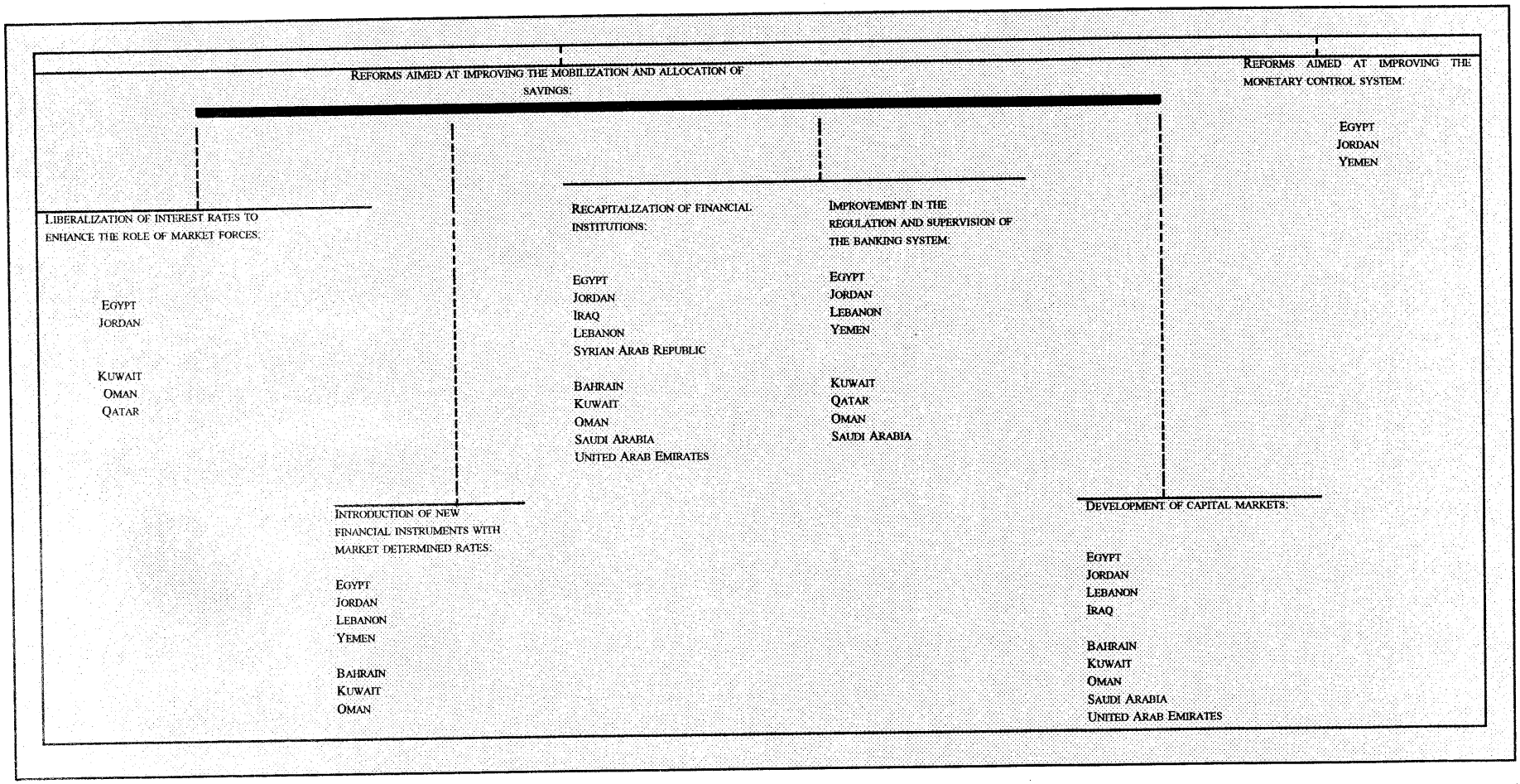
(a) *GCC countries*

(i) *Bahrain*

Money supply in its narrow definition (M_1) declined by 3.5 per cent, from 344.7 million Bahrain dinars (BD) in 1994 to BD 332.5 million in 1995, mainly as a result of the drop in demand deposits, from BD 239.2 million to BD 229.2 million (table 37). Money supply in its broad definition (M_2), i.e. private domestic liquidity, amounted to BD 1,397.5 million in 1995, up by around 2 per cent from 1994 (BD 1,307.4 million). The increase came from quasi-money (time and savings deposits), which rose by around 10.6 per cent, from BD 962.7 million in 1994 to BD 1,065 million in 1995, to constitute around 76 per cent of the total money supply.

The increase in the money supply resulted from both the increase in net domestic assets by BD 58.7 million in 1995 over 1994 and the increase in net foreign assets by BD 31.4 million, with the latter around 20 per cent lower than its 1994 level.

DIAGRAM 1. FINANCIAL SECTOR REFORMS IN ESCWA MEMBER COUNTRIES, 1989-1995



Source: Revised version of chart 9 in International Monetary Fund, *Macroeconomy of the Middle East and North Africa,* October 1995.

TABLE 37. BAHRAIN: MONEY SUPPLY, 1991-1995
(Millions of Bahrain dinars)

	1991	1992	1993	1994	1995
Currency in circulation	99.0	99.9	103.8	105.5	103.3
+ Demand deposits	205.8	252.0	261.1	239.2	229.2
= Money supply (M_1)	**304.8**	**351.9**	**364.9**	**344.7**	**332.5**
+ Quasi-money (time and savings deposits)	816.9	815.6	866.5	962.7	1 065.0
= Money supply (M_2)	**1 121.7**	**1 167.5**	**1 231.4**	**1 307.4**	**1 397.5**
FACTORS AFFECTING CHANGES IN MONEY SUPPLY					
Changes in net domestic assets	(-41.4)	202.6	89.7	36.6	58.7
Changes in net foreign assets	232.4	(-156.9)	(-25.9)	39.4	31.4

Source: ESCWA calculations based on Bahrain Monetary Agency, *Quarterly Statistical Bulletin,* December 1995.

(ii) *Kuwait*

The increase in M_1 by 3.5 per cent, from KD 1,042.4 million at the end of September 1994 to KD 1,078.8 million at the end of September 1995, resulted mainly from the increase in demand deposits, from KD 720.8 million to KD 743.3 million (table 38). M_2 stood at KD 7,424 million at the end of the third quarter of 1995, up by around 11.8 per cent over the corresponding period in 1994 (KD 6,639.8 million), with most of the rise being recorded in quasi-money, which rose from KD 5,597.4 million at the end of the third quarter of 1994 to KD 6,345.2 million.

TABLE 38. KUWAIT: MONEY SUPPLY, 1991-1995 (SEPTEMBER)
(Millions of Kuwaiti dinars)

	1991	1992	1993	1994 (Dec.)	1994 (Sept.)	1995 (Sept.)
Currency in circulation	445.6	379.1	355.2	351.3	321.6	335.5
+ Demand deposits	755.6	729.4	758.8	774.7	720.8	743.3
= Money supply (M_1)	**1 201.2**	**1 108.5**	**1 114.0**	**1 126.0**	**1 042.4**	**1078.8**
+ Quasi-money	4 815.6	4 950.0	5 282.5	5 616.9	5 597.4	6345.2
= Money supply (M_2)	**6 016.7**	**6 058.5**	**6 396.5**	**6 742.9**	**6 639.8**	**7424.0**
FACTORS AFFECTING CHANGES IN MONEY SUPPLY						
Changes in net domestic assets	(-356.6)	73.4	608.4	346.1	605.6	643.6
Changes in net foreign assets	317.0	(-31.6)	(-270.5)	0.3	(-170.2)	140.7

Source: ESCWA calculations based on Central Bank of Kuwait, *Quarterly Statistical Bulletin,* July-September 1995.

Note: ( ) indicates negative.

The significant share of quasi-money in M_2 indicates an improved banking awareness in Kuwait and a further strengthening of the country's banking market.

As for the factors affecting money supply, the increase in M_2 at the end of September 1995 was the outcome of the increase in net foreign assets by KD 140.7 million, compared with a decrease of KD 170.2 million at the end of the corresponding period of the previous year, and an increase in net domestic assets

by KD 643.6 million, compared with an increase of KD 605.6 million at the end of September 1994, the latter being significantly higher than the 1994 level (KD 346.1 million).

(iii) *Qatar*

M_1 declined by around 4.9 per cent, from QR 3.9 billion in 1994 to QR 3.7 billion in 1995, with most of the decline being recorded in demand deposits, which dropped by around 9.7 per cent, from QR 2.6 billion to QR 2.3 billion. Against this development in M_1, quasi-money, however, increased by around 2.7 per cent, from QR 14.6 billion to QR 14.9 billion, resulting in a rise in M_2 by 1.1 per cent, from QR 18.4 billion to QR 18.6 billion (table 39).

TABLE 39. QATAR: MONEY SUPPLY, 1992-1995
(Millions of Qatar riyals)

	1992	1993	1994	1995
Currency in circulation	1 321	1 350	1 450	1 407
+ Demand deposits	2 669	2 805	2 561	2 313
= Money supply (M_1)	**3 990**	**4 155**	**3 911**	**3 720**
+ Quasi-money	11 036	11 748	14 508	14 902
= Money supply (M_2)	**15 026**	**15 903**	**18 419**	**18 622**

Source: Qatar Central Bank, *Quarterly Statistical Bulletin*, December 1995.

These developments in M_1 and M_2 may indicate a certain degree of sluggishness in the Qatari economy in 1995, during which the private sector converted part of its liquidity (M_1) to time and savings deposits, as high levels of liquidity were not needed due to a contraction in business activity.

(iv) *Saudi Arabia*

The increase in M_1 at the end of the first half of 1995 compared with its level at the end of 1994 is attributed to payments of overdue government debt to domestic contractors and suppliers. However, the restricted government spending in the 1995 budget apparently reduced readily available liquidity (M_1) in the third quarter of 1995. This declined by around 5 per cent, from SRls 134.8 billion in the second quarter to SRls 128.1 million in the third quarter, with most of it being recorded in currency in circulation, which dropped from SRls 46.9 billion to SRls 42.7 billion (table 40). However, the drop in M_1 was partly compensated by the increase in quasi-money, from SRls 56.1 billion to SRls 58.4 billion, indicating partial conversion of liquid assets by the public to time and savings deposits with the banks.

TABLE 40. SAUDI ARABIA: MONEY SUPPLY, 1994-1995
(Billions of Saudi Arabian riyals)

	1994	1995 Q1	1995 Q2	1995 Q3
Currency in circulation	45.0	46.4	46.9	42.7
+ Demand deposits	84.5	86.6	87.9	85.4
= Money supply (M_1)	**129.5**	**133.0**	**134.8**	**128.1**
+ Quasi-money	51.4	54.6	56.1	58.4
= Money supply (M_2)	**180.9**	**187.6**	**190.9**	**186.5**

Source: National Bank of Kuwait, *Economic and Financial Quarterly*, iv/1995.

Note: Figures are rounded.

(v) *United Arab Emirates*

Table 41 shows that both M_1 and M_2 in the United Arab Emirates recorded visible increases at the end of the third quarter of 1995, with most of the increases being in quasi-money, which rose by around 14.8 per cent, from Dh 51.8 billion at the end of September 1994 to Dh 59.4 billion at the end of September 1995. This reflected an increase in the domestic interest rates in line with the upward trend of interest rates in the international financial markets. This is further underlined by the higher rate of increase in time and savings deposits in local currency than in foreign currency. The increase in M_1 by around 5.8 per cent, from around Dh 18.7 billion to around Dh 19.8 billion reflected an increase in domestic credit, leading to an expansion in economic activity.

TABLE 41. UNITED ARAB EMIRATES: MONEY SUPPLY, 1992-1995
(Millions of UAE dirhams)

	1993	1994	1994 (Sep.)	1995 (Sep.)
Currency in circulation	5 667	6 030	5 537	5 923
+ Sight deposits	12 507	13 152	13 143	13 836
= Money supply (M_1)	**18 174**	**19 182**	**18 680**	**19 759**
+ Quasi-money	50 292	54 700	51 770	59 441
in local currency	35 369	38 762	37 249	42 921
in foreign currency	14 923	15 938	14 521	16 520
= Money supply (M_2)	**68 466**	**73 882**	**70 450**	**79 200**

Source: Central Bank of the United Arab Emirates, *Statistical Bulletin,* July-September 1995.

(b) *More diversified economies*

(i) *Egypt*

M_2 in Egypt increased by around 7.4 per cent, from LE 136.8 billion at end-June 1994 to LE 146.9 billion at the end-March 1995 (no full year data are yet available). Most of the increase came from quasi-money which rose by 7.3 per cent, from LE 108.6 billion to LE 116.6 billion (table 42). The rise in quasi-money reflects a narrowed gap between interest rates on the Egyptian pound and the United States dollar. The significant contribution of the household sector by around 73.5 per cent to quasi-money is considered to have resulted from this development in the interest rate differential between the Egyptian pound and the United States dollar.[84]

TABLE 42. EGYPT: MONEY SUPPLY, 1991-1995
(Billions of Egyptian pounds)

	June				September	March
	1991	1992	1993	1994	1994	1995
Currency in circulation	13.1	14.3	16.3	19.1	20.4	21.0
+ Demand deposits	5.8	6.8	8.2	9.1	9.1	9.3
= Money supply (M_1)	**18.9**	**21.1**	**24.5**	**28.2**	**29.5**	**30.3**
+ Quasi-money	72.8	83.5	97.3	108.6	111.1	116.6
= Money supply (M_2)	**91.7**	**104.6**	**121.8**	**136.8**	**140.6**	**146.9**

Sources: For 1991 (June) - 1994 (September), National Bank of Egypt, *Economic Bulletin,* volume XXXXVIII, No. 2, 1995; for 1995 (March), Central Bank of Egypt, *Economic Review,* volume XXXV, No. 3, 1994/1995.

[84] Central Bank of Egypt, *Economic Review,* volume XXXV, No. 3, 1994/1995.

The increased share of the private sector in total domestic credit from an estimated 41.8 per cent in June 1994 to around 47.3 per cent in March 1995 was a consequence of the increased private sector activities, encouraged by the Government in the wake of its privatization efforts. This led to a drop in the share of the public sector in total domestic credit, from 38 per cent to around 32.5 per cent. The change in domestic credit structure is a sign of continued implementation of policies aimed at stimulating growth and investment of the private sector.

(ii) *Jordan*

During the past few years, the Central Bank of Jordan (CBJ) introduced a new monetary management policy, reflected in the issuance of certificates of deposits as an instrument of indirect monetary control to replace conventional instruments of direct monetary control, such as the reserve ratio of bank deposits to be held at the Central Bank and the restrictions on bank credit facilities. The major objective of the instruments of the new monetary management policy is to control money supply and consequently the rate of inflation. As a result, M_2 increased by only around 6.6 per cent in 1995, compared with 8 per cent in 1994 and 9.3 per cent in 1993 (table 43).

TABLE 43. JORDAN: MONEY SUPPLY, 1992-1995
(Millions of Jordanian dinars)

	1992	1993[a/]	1994	1995
Currency in circulation	1 003.9	1 047.9	1 072.6	1 050.9
+ Demand deposits	712.2	682.2	673.6	694.7
= Money supply (M_1)	**1 716.1**	**1 730.1**	**1 746.2**	**1 745.6**
+ Quasi-money	2 476.9	2 751.7	3 095.3	3 414.2
= Money supply (M_2)	**4 193.0**	**4 481.8**	**4 841.5**	**5 159.8**
FACTORS AFFECTING CHANGES IN MONEY SUPPLY				
Changes in net domestic assets	442.2	(-38.3)	257.4	122.2
Changes in net foreign assets	33.3	(-61.1)	102.3	196.1

Source: Central Bank of Jordan, *Monthly Statistical Bulletin,* June 1995 and January 1996.

Note: ( ) indicates negative.

a/ Effective December 1993, data were reclassified according to new definitions of monetary sectors.

The increase in M_2 resulted mainly from the increase in time and savings deposits by 10 per cent, from JD 3.1 billion in 1994 to JD 3.4 billion in 1995. M_1 remained almost unchanged in 1995 from its 1994 level, with the decline in currency in circulation by around JD 22 million almost entirely compensated for by the increase in demand deposits. The expansionary effect of the change in net foreign assets in 1995 apparently exceeded the change in net domestic assets. While the contribution of the former to the increase in money supply amounted to around 61.6 per cent, against 28.4 per cent in 1994, the contribution of the latter dropped from 71.6 per cent in 1994 to 38.4 per cent in 1995.[85]

(iii) *Lebanon*

The high yield on the treasury bills of the Central Bank of Lebanon is considered to have been the main factor behind the significant rise in time and savings deposits of the private sector, by around 13.3 per cent, from LL 7,150 billion in 1994 to LL 8,102.6 billion in 1995 (table 44). M_1 increased only slightly,

[85] Central Bank of Jordan, *Annual Report,* 1995.

from LL 1,437 billion to LL 1,561 billion. The small increase in demand deposits indicates that bank credit in Lebanese pound to the private sector remained minimal. In fact, bank credit in dollar to the private sector is estimated at around 82 per cent of total bank lending and dollar deposits at around 58 per cent of total bank deposits in 1995.

TABLE 44. LEBANON: MONEY SUPPLY, 1991-1995
(Billions of Lebanese pounds)

	1991	1992	1993	1994	1995
Currency in circulation	484.6	798.0	714.7	938.7	1 046.2
+ Demand deposits	204.8	401.4	428.7	498.1	514.4
= Money supply (M_1)	**689.4**	**1 199.4**	**1 143.4**	**1 436.8**	**1 560.6**
+ (Quasi-money)	1 461.6	3 193.7	4 165.4	7 150.0	8 102.6
= Money supply (M_2)	**2 152.0**	**4 393.1**	**5 308.8**	**8 586.8**	**9 663.2**

Sources: For 1991-1994, see Banque du Liban, *Quarterly Bulletin,* first and second quarters, 1995; for 1995, see Banque du Liban, *Monthly Bulletin,* December 1995.

The rise in quasi-money was actually the main factor behind the rise in M_2 by around 12.5 per cent, from LL 8,586.8 billion in 1994 to LL 9,663.2 billion in 1995. M_2 increased gradually during the last few years and amounted in 1995 to over four times its 1991 level.

2. *Interest rate*

(a) *GCC countries*

(i) *Kuwait*

Currency and Banking Law No. 38 of 1968 and the legislative amendment to article 166 of Kuwait's Commercial Law of 1961 authorized the Central Bank of Kuwait to determine and set limits on KD interest rates.[86]

Prior to 1987, the CBK carried out domestic liquidity management with a fixed interest rate structure through the use of treasury bills and CBK deposits. This use, however, was phased out in 1988, following the introduction of treasury bills. Since December 1988, interest rates in Kuwait have been determined in relation to the CBK discount rate, which is usually adjusted to changes in the interest rates on the United States dollar. The minimum rate on deposits of more than 30 days has been set at equal to the discount rate. However, the decision of the CBK in February 1995 to do away with minimum interest rates on deposits and saving accounts broke the direct link that had existed between the discount rate and the interest rate structure. Nonetheless, the discount rate itself still serves as a benchmark interest rate.

In line with the 1993 general trend in the developed countries towards lower interest rates, especially in the United States, the CBK cut the discount rate four times during the period from 25 April to 21 November 1993 by a total of 1.25 percentage points, from 7 per cent to 5.75 per cent (table 45). With the first rate cut to 7 per cent, the CBK allowed banks to determine their own interest rate yield curve as long as a minimum rate equal to the discount rate was paid for 30 days or more. The margins above the discount rate were also raised, resulting in a widening of the spread between maximum lending and minimum deposit

[86] National Bank of Kuwait, *Economic & Financial Quarterly,* III/1995.

rates by 0.5 to 2.5 percentage points. These actions lowered the banks' average cost of funds, improved bank profitability and enhanced the role of market forces in interest rate determination.

TABLE 45. KUWAIT: DISCOUNT RATE DEVELOPMENT, MARCH 1987-APRIL 1995

Prior to March 1987	Percentage*
March 1987	5.50
November 1987	5.00
December 1988	7.50
April 1993	7.00
July 1993	6.75
September 1993	6.25
November 1993	5.75
August 1994	6.25
September 1994	6.50
November 1994	7.00
February 1995	7.50
April 1995	7.25

Source: National Bank of Kuwait, *Economic & Financial Quarterly,* III/1995.

* Discount borrowing was affected at rates which increased in line with the maturity of commercial papers concerned

In 1994, the discount rate was adjusted upwards again in three stages by a total of 1.25 percentage points, from 5.75 per cent to 7 per cent. It was further adjusted to 7.5 per cent in February 1995, but dropped to 7.25 per cent in April of the same year. This in turn increased the minimum interest rate on KD deposits and maximum contractual interest rate on KD loans. The minimum rate on saving accounts, which was first introduced in the late 1970s, and remained at 4.5 per cent during most of the following years, was first lowered to 3.5 per cent in November 1993. In August 1994, the rate was raised to 3.75 per cent and has remained at the same level since then.

The deregulation of deposit interest rates started in February 1995 when the CBK removed minimum interest rates on deposits and savings accounts along with the removal of the ceiling on fees and commission which banks can charge.

(ii) *Qatar*

The development of interest rates in Qatar is usually associated with interest rates on the United States dollar in the international financial markets, since the Qatari riyal is pegged to the United States dollar. However, during the first nine months of 1995, the Qatar Central Bank issued a number of directives related to regulation of the interest, discount and rediscount rates. Most important among these directives were:

(a) Directive No. 106/95 concerning the reactivation of previous discount and rediscount regulations in order to support the liquidity requirements of the banking sector;

(b) Directive No. 107/95 concerning fixing the discount and rediscount rate at 6 per cent. This rate is to replace the Central Bank interest rate of 6.35 per cent with a margin of plus or minus 0.5 per cent, and is to be taken by the banks as an anchor to determine interest on credit facilities. Furthermore, the directive instructed the banks to continue adopting the Central Bank margin of plus or minus 0.5 per cent of discount and rediscount on deposits in domestic currency.

from LL 1,437 billion to LL 1,561 billion. The small increase in demand deposits indicates that bank credit in Lebanese pound to the private sector remained minimal. In fact, bank credit in dollar to the private sector is estimated at around 82 per cent of total bank lending and dollar deposits at around 58 per cent of total bank deposits in 1995.

TABLE 44. LEBANON: MONEY SUPPLY, 1991-1995
(Billions of Lebanese pounds)

	1991	1992	1993	1994	1995
Currency in circulation	484.6	798.0	714.7	938.7	1 046.2
+ Demand deposits	204.8	401.4	428.7	498.1	514.4
= Money supply (M_1)	**689.4**	**1 199.4**	**1 143.4**	**1 436.8**	**1 560.6**
+ (Quasi-money)	1 461.6	3 193.7	4 165.4	7 150.0	8 102.6
= Money supply (M_2)	**2 152.0**	**4 393.1**	**5 308.8**	**8 586.8**	**9 663.2**

Sources: For 1991-1994, see Banque du Liban, *Quarterly Bulletin,* first and second quarters, 1995; for 1995, see Banque du Liban, *Monthly Bulletin,* December 1995.

The rise in quasi-money was actually the main factor behind the rise in M_2 by around 12.5 per cent, from LL 8,586.8 billion in 1994 to LL 9,663.2 billion in 1995. M_2 increased gradually during the last few years and amounted in 1995 to over four times its 1991 level.

2. *Interest rate*

(a) *GCC countries*

(i) *Kuwait*

Currency and Banking Law No. 38 of 1968 and the legislative amendment to article 166 of Kuwait's Commercial Law of 1961 authorized the Central Bank of Kuwait to determine and set limits on KD interest rates.[86]

Prior to 1987, the CBK carried out domestic liquidity management with a fixed interest rate structure through the use of treasury bills and CBK deposits. This use, however, was phased out in 1988, following the introduction of treasury bills. Since December 1988, interest rates in Kuwait have been determined in relation to the CBK discount rate, which is usually adjusted to changes in the interest rates on the United States dollar. The minimum rate on deposits of more than 30 days has been set at equal to the discount rate. However, the decision of the CBK in February 1995 to do away with minimum interest rates on deposits and saving accounts broke the direct link that had existed between the discount rate and the interest rate structure. Nonetheless, the discount rate itself still serves as a benchmark interest rate.

In line with the 1993 general trend in the developed countries towards lower interest rates, especially in the United States, the CBK cut the discount rate four times during the period from 25 April to 21 November 1993 by a total of 1.25 percentage points, from 7 per cent to 5.75 per cent (table 45). With the first rate cut to 7 per cent, the CBK allowed banks to determine their own interest rate yield curve as long as a minimum rate equal to the discount rate was paid for 30 days or more. The margins above the discount rate were also raised, resulting in a widening of the spread between maximum lending and minimum deposit

[86] National Bank of Kuwait, *Economic & Financial Quarterly,* III/1995.

rates by 0.5 to 2.5 percentage points. These actions lowered the banks' average cost of funds, improved bank profitability and enhanced the role of market forces in interest rate determination.

TABLE 45. KUWAIT: DISCOUNT RATE DEVELOPMENT, MARCH 1987-APRIL 1995

Prior to March 1987	Percentage*
March 1987	5.50
November 1987	5.00
December 1988	7.50
April 1993	7.00
July 1993	6.75
September 1993	6.25
November 1993	5.75
August 1994	6.25
September 1994	6.50
November 1994	7.00
February 1995	7.50
April 1995	7.25

Source: National Bank of Kuwait, *Economic & Financial Quarterly,* III/1995.

* Discount borrowing was affected at rates which increased in line with the maturity of commercial papers concerned

In 1994, the discount rate was adjusted upwards again in three stages by a total of 1.25 percentage points, from 5.75 per cent to 7 per cent. It was further adjusted to 7.5 per cent in February 1995, but dropped to 7.25 per cent in April of the same year. This in turn increased the minimum interest rate on KD deposits and maximum contractual interest rate on KD loans. The minimum rate on saving accounts, which was first introduced in the late 1970s, and remained at 4.5 per cent during most of the following years, was first lowered to 3.5 per cent in November 1993. In August 1994, the rate was raised to 3.75 per cent and has remained at the same level since then.

The deregulation of deposit interest rates started in February 1995 when the CBK removed minimum interest rates on deposits and savings accounts along with the removal of the ceiling on fees and commission which banks can charge.

(ii) *Qatar*

The development of interest rates in Qatar is usually associated with interest rates on the United States dollar in the international financial markets, since the Qatari riyal is pegged to the United States dollar. However, during the first nine months of 1995, the Qatar Central Bank issued a number of directives related to regulation of the interest, discount and rediscount rates. Most important among these directives were:

(a) Directive No. 106/95 concerning the reactivation of previous discount and rediscount regulations in order to support the liquidity requirements of the banking sector;

(b) Directive No. 107/95 concerning fixing the discount and rediscount rate at 6 per cent. This rate is to replace the Central Bank interest rate of 6.35 per cent with a margin of plus or minus 0.5 per cent, and is to be taken by the banks as an anchor to determine interest on credit facilities. Furthermore, the directive instructed the banks to continue adopting the Central Bank margin of plus or minus 0.5 per cent of discount and rediscount on deposits in domestic currency.

(iii) *United Arab Emirates*

Domestic interest rates in the United Arab Emirates moved upward during the period from June 1994 to March 1995, with bank lending rates increasing from 7.14 per cent to 7.72 per cent, and bank deposit rates from 3.75 per cent to 4.98 per cent (table 46). In June 1995, however, interest rates dropped in line with those on the United States dollar, to which the UAE dirham is pegged, with lending rates dropping to 7.64 per cent and deposit rates to 4.97 per cent.

TABLE 46. UNITED ARAB EMIRATES: DEVELOPMENT OF INTEREST RATES ON BANK CREDIT AND BANK TIME DEPOSITS, 1992-1995 (JUNE)

	Bank credit	Bank time deposits
1992 - December	7.50	3.65
1993 - December	7.07	3.25
1994 - March	7.15	3.31
1994 - June	7.14	3.75
1994 - September	7.33	4.32
1994 - December	7.61	4.89
1995 - March	7.72	4.98
1995 - June	7.64	4.97

Source: Central Bank of the United Arab Emirates, *Economic Bulletin,* 1995.

In line with the trends of the interest rates on both bank credits and deposits, the first half of 1995 witnessed changes in the structure of bank credits and deposits, in accordance with the applicable rates of interest. As concerns bank loans to residents, the relative significance of loans with an interest rate of less than 4 per cent rose from 21.6 per cent of total bank loans at the end of 1994 to 22.3 per cent at the end of June 1995; the relative significance of loans with an interest rate of 4 per cent and higher dropped from 78.4 per cent to 77.7 per cent. The structure of time deposits also witnessed changes, with the relative significance of time deposits fetching interest rates of 4 per cent and higher rising from 81 per cent at the end of 1994 to 84.1 per cent at the end of June 1995. Meanwhile the relative significance of deposits earning interest rates of less than 4 per cent dropped from 19.1 per cent to 15.8 per cent.[87]

(b) *More diversified economies*

(i) *Egypt*

With the liberalization of the interest rates on the Egyptian pound in January 1991, in anticipation of the start of Egypt's economic structural reform programme to be agreed on with the IMF during that year, Egyptian banks were authorized to fix their own interest rates on bank lending and deposits. The high interest rates fixed by the banks on LE-dominated deposits and the subsequent wide spread between the rates on these deposits and those on foreign currencies, reaching around 12 per cent in 1993, led to a significant conversion of foreign currency deposits into LE-dominated deposits, and to the repatriation to Egypt of a considerable volume of foreign assets held abroad by Egyptians. This was helped by the stable exchange rate of the Egyptian pound, established within the context of the above-mentioned agreement. Despite the

[87] United Arab Emirates, Central Bank *Economic Bulletin,* 1995.

drop in the interest rates on deposits from 1993 to 1995 (table 47), the spread between these rates and the dollar rates in the international financial markets remained high, amounting to around 10 per cent in 1994 and around 8.5 per cent in 1995. Interest rates on bank credit, fixed at 22 per cent in June 1993, dropped to 14 per cent in March 1995. However, considering bank credit management fees and commission, estimated at between 3 and 6 per cent, bank credit interest rates are considered to have averaged around 18 per cent in March 1995, dropping by around one percentage point at the end of the year.

TABLE 47. EGYPT: DEVELOPMENT OF INTEREST RATES ON BANK DEPOSITS AND CREDITS, 1993 (JUNE) - 1995 (MARCH)

	1993		1994		1995
	June	December	June	December	March
Time deposits					
1-3 months	11.60	7.60	9.00	7.50	7.50
6 months - 1 year	13.75	12.25	10.90	10.50	10.25
1-2 years	13.05	11.70	10.30	9.80	9.60
5 years and more	12.10	7.80	9.10	8.80	8.50
Savings deposits	12.90	12.25	11.00	10.90	10.55
Bank credit	22.00	19.50	16.00	16.00	14.00

Source: National Bank of Egypt, *Economic Bulletin,* vol. XXXXVIII, No. 2, 1995.

(ii) *Jordan*

The introduction of the high-yielding JD-denominated certificates of deposits by the Central Bank of Jordan in 1994 has been considered a major factor reflecting positively on the interest rate on time deposits. The rate increased from 7.09 per cent in 1994 to 7.68 per cent in 1995 (table 48). The rate remained, however, significantly lower than in 1991 when it was 8.11 per cent. The rise in the interest rates on bank time deposits led to a rise in the interest rates on bank credits to a level of between 11.5 and 14 per cent for credits of a maturity of less than one year, and to 15 per cent and more for credits of more than one year, depending on credit collaterals.

TABLE 48. JORDAN: DEVELOPMENT OF INTEREST RATES ON BANK CREDITS AND DEPOSITS, 1991-1995

	1991	1992	1993	1994	1995
Bank credits					
Overdrafts	11.74	11.44	11.11	10.94	11.39
Loans and advances	10.37	10.16	10.23	10.48	10.65
Bills	12.18	11.90	11.07	11.27	11.55
Bank deposits					
Sight deposits	1.43	0.76	0.93	1.03	1.04
Savings deposits	5.03	4.91	5.13	4.94	4.94
Time deposits	8.11	7.18	6.88	7.09	7.68
Certificates of deposits	--	--	7.27	7.66	8.22

Source: Central Bank of Jordan, *Thirty-second Annual Report,* 1995.

However, the noted preference of bank customers to hold significant parts of deposits in foreign currencies instead of Jordanian dinars and to cover their needs for dinars by borrowing from the banks is expected to put pressure on the interest rates to rise further. Given the trend of high interest rates, investing

in long-term bonds and even shares has become risky, thus forcing households and significant segments of private businesses to divert investments into bank deposits.

3. *Exchange rate*

The currencies of ESCWA member countries with flexible exchange rate arrangements underwent nominal effective exchange rate depreciation in 1995. The currencies of ESCWA member countries pegged to the United States dollar also experienced nominal effective exchange rate depreciation, resulting from the depreciation of the United States dollar. Reflecting their high price performance, only the GCC countries had both nominal and real exchange rate depreciation. Among the countries with currencies pegged to a basket of currencies, only Jordan experienced nominal as well as real effective exchange rate depreciation.[88]

Owing to its link to the dollar, the Saudi Arabian riyal experienced a nominal effective exchange rate depreciation of around 7 per cent during the year ending May 1995. However, the country's significant foreign exchange reserves were sufficiently high to enable it to continue to maintain the convertibility of its currency. With the UAE dirham pegged to the dollar, the dirham depreciated against most major international currencies in line with the dollar depreciation against these currencies. The UAE dirham's nominal effective exchange rate depreciation was estimated at around 6.5 per cent in 1995. During the year ending June 1995, the rial Omani underwent a real effective exchange rate depreciation of around 8.5 per cent, but remained relatively stable during the second half of the year.

Following is a summary of exchange rate developments of the currencies of a number of ESCWA member countries.

(a) *GCC countries*

(i) *Kuwait*

The Kuwaiti dinar continued to maintain a relatively stable exchange rate against major international currencies in 1995, within the context of the currency basket system. This relative stability could be concluded by comparing changes in the United States dollar exchange rate against the Kuwaiti dinar, on the one hand, and the major international currencies on the other hand. For example, the difference between the highest and lowest exchange rate of the United States dollar against the Kuwaiti dinar during 1995 was only 0.44 fils (0.14 per cent), from $1= KD 0.29923 in January 1995 to $1 = KD 0.29967 in December 1995. Meanwhile, the difference reached 4.3 per cent against the deutsche mark, 4 per cent against the Japanese yen, 3.8 per cent against the pound sterling and 3 per cent against the French franc.

The pegging of the KD exchange rate to a basket of major currencies, of countries that have significant trade and financial relations with Kuwait, proved to be effective in maintaining the relative stability of the KD exchange rate. However, this stability remains subject to the overall stability in the region; instability leads to a rise in the demand for cash dollars and dollar transfers abroad as well as KD cash withdrawals, as occurred in early October 1994, when Iraqi forces were said to have been mobilized close to the Kuwaiti borders, forcing the Central Bank of Kuwait to intervene swiftly by providing liquidity in KD and dollars to the local banks.

(ii) *United Arab Emirates*

With the UAE dirham's exchange rate remaining fixed to the dollar, the dirham depreciated against most major currencies during the first half of 1995. Compared with its average during 1994, the dirham

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[88] International Monetary Fund, *Macro-economy of the Middle East and North Africa: Exploiting Potential for Growth and Financial Stability* (Washington, D.C., October 1995).

exchange rate declined at the end of the first quarter of 1995 by 9.2 per cent against the Swiss franc; 8.8 per cent against the deutsche mark; 8.7 per cent against the Netherlands guilder; 6.9 per cent against the French franc; and by 3.1 per cent against the pound sterling.

With the continued slow-down in the American economy and the subsequent depreciation of the dollar, the UAE dirham further depreciated against most of the above-mentioned currencies during the second quarter of 1995. It depreciated by 6.9 per cent against the Swiss franc; 5.5 per cent against the deutsche mark; 5.7 per cent against the Netherlands guilder; and by 4.8 per cent against the French franc.

(b) *More diversified economies*

(i) *Jordan*

To quell the fears that the Jordanian dinar would be devalued and to offer the opportunity to dealers in the dinar to take advantage of the interest rate differential between dinar and dollar deposits, the Central Bank of Jordan decided in October 1995 to discontinue pegging the dinar to a basket of major international currencies and to peg it instead to the dollar at a rate of $1 = JD 0.709. Consequently, the JD depreciated against most major currencies at rates ranging between 0.3 per cent against the dollar and 13.8 per cent against the Swiss franc.

(ii) *Lebanon*

Following the improvement in the exchange rate of the Lebanese pound against the dollar, from an average of $1 = LL 1,647 in 1994 to $1= LL 1,596 in 1995, the Lebanese Government decreed in late 1995 that all retail transactions should be denominated in Lebanese pounds instead of United States dollars. With this decree, the Government aimed also at encouraging bank depositors to convert their deposit accounts from dollars to Lebanese pounds.

(iii) *Yemen*

In early 1996, the Republic of Yemen abolished its official exchange rate for the Yemeni rial, a step that was within the framework of Yemen's economic reform programme. The Yemeni rial was devalued in March 1995 from YRls 12 = $1 to YRls 50 = $1. Before abolishing the official exchange rate, the free market rate was around YRls 130 = $1. For budgetary considerations, the Yemeni Government calculates an exchange rate of YRls 100 = $1.

B. BANKING

The tighter conditions that characterized the banking markets in the ESCWA region throughout most of 1994 continued during the first half of 1995 but eased significantly during the second half of that year following an upturn in economic activity. The increase in the oil revenues of the GCC countries and the revenues of other ESCWA member countries from trade in services, particularly tourism, contributed to this development. The business upswing resulted in most banks in the ESCWA region making record profits in 1995, despite a number of obstructing factors, the most important among which are the relatively high interest rates; the continued need of the banks for further provisioning against non-performing loans made during the 1980s and early 1990s; the drop in income generated from trading in securities; and the continued pressure to maintain internationally accepted capital adequacy standards.

However, most banks in ESCWA member countries continued in 1995 to strive for further development in the retail and consumer banking business, which resulted in an increase in the latter's share in the region's banking market to 55 per cent, compared with 45 per cent in 1994. In 1995, banks in a number of ESCWA member countries enjoyed the benefits of the rationalization imposed on them by their monetary authorities, particularly in terms of merger and structural reforms. The banks also benefited from

participation in government privatization efforts by underwriting and providing financial advisory services through arranging sales of public sector enterprises. The government privatization efforts in a number of ESCWA member countries, notably Egypt and some GCC countries, encouraged banks in these countries to set up mutual funds investing in local as well as regional equities, thus increasing the opportunities for the banks to diversify their sources of income on the one hand, and to contribute to the development of the region's financial markets and the building of closer linkages among these markets on the other hand.

Following is a summary of banking developments in a number of ESCWA members.

1. *GCC countries*

(a) *Bahrain*

The consolidated balance sheet of the Bahraini commercial banks increased only slightly in 1995 over 1994, from BD 2,618.9 million to BD 2,622.5 million (table 49). Although most of the balance sheet items recorded an increase, this was neutralized by the drop in both foreign assets and liabilities. While foreign assets dropped by around 7.6 per cent, from BD 1,403.6 million in 1994 to BD 1,296.4 million in 1995, foreign liabilities dropped by around 17 per cent, from BD 629.5 million to BD 522.6 million.

TABLE 49. BAHRAIN: CONSOLIDATED BALANCE SHEET OF COMMERCIAL BANKS, 1991-1995
(Millions of Bahrain dinars)

	1991	1992	1993	1994	1995
Assets					
Cash	11.6	11.8	13.6	11.6	14.3
Balance with BMA[a/]	129.9	104.7	59.2	54.7	110.3
Credit facilities[b/]	595.2	654.4	789.4	883.0	924.7
Foreign assets	1 069.5	1 004.9	1 140.9	1 403.6	1 296.4
Balance with local banks	33.3	35.3	31.8	25.2	32.4
Other assets	175.7	236.9	226.2	240.8	244.4
Total assets = total liabilities	**2 015.2**	**2 048.0**	**2 261.6**	**2 618.9**	**2 622.5**
Liabilities					
Deposits	1 483.7	1 429.9	1 500.3	1 657.5	1 756.4
Private sector deposits	1 022.7	1 067.6	1 127.6	1 201.9	1 294.3
Public sector deposits	461.0	362.3	372.7	455.6	462.1
Foreign liabilities	585.7	334.0	458.5	629.5	522.6
Due to local banks	33.2	35.3	31.8	25.2	41.4
Other liabilities	100.7	93.3	101.8	112.2	116.7
Capital and reserves	111.3	155.7	169.1	194.5	185.4
Memoranda (percentage)					
Credit facilities/assets	29.5	32.0	34.9	33.7	35.3
Credit facilities/deposits	40.1	45.8	52.6	53.3	52.6
Deposits/liabilities	73.6	69.8	66.3	63.3	67.0

Source: Bahrain Monetary Agency, *Quarterly Statistical Bulletin*, December 1995.

a/ Bahrain Monetary Agency.
b/ Loans, advances and bills discounted.

As in 1994, Bahraini commercial banks experienced mixed results in 1995, owing to continued reversals in the international bank bond markets and to subdued economic activities in Bahrain. Most Bahraini commercial banks, especially the smaller ones, increased their profits in 1995, although at a lower rate than in 1994. The two largest banks, however, the National Bank of Bahrain and the Bank of Bahrain and Kuwait, which together account for around 75 per cent of total bank assets and 60 per cent of total bank

credit, reported a decline in profit as a result of reduced investment income. However, the underlying profitability of most Bahraini banks remained within the internationally accepted limits of prudence. Their performance over the next few years will depend in large part on macroeconomic developments within the Bahraini economy and on the extent to which government spending can continue to ensure a reasonable level of growth.

Foreign inter-bank lines (foreign liabilities), which in 1994 accounted for around 24 per cent of total liabilities, dropped in 1995 to BD 522.6 million, or around 20 per cent of total liabilities. Public sector deposits which were on the decline during the last few years and recovered only in 1994, recorded another recovery in 1995 when increased by around 1.4 per cent, from BD 455.6 million to BD 462.1 million. Conversely, private sector deposits were on the increase during the last few years. Their share in total deposits and liabilities averaged 74 per cent and slightly less than 50 per cent respectively.

Given the above elements, the Bahraini commercial banks, which are conservative by nature as reflected in the low ratio of credit facilities to deposits (table 49), are not expected to face major problems on the funding side over the next few years.

There are in Bahrain around 170 international and domestic financial institutions (banks and non-bank financial institutions and investment and brokerage companies). The number of offshore banking units (OBUs) operating in Bahrain dropped from around 75 in their heyday during the late 1970s and early 1980s to 48 in 1995. Total assets of OBUs, however, remained significant, fluctuating between $53.4 billion and $73 billion during the last decade, and amounting to around $64.3 billion in 1995, almost the same as in 1994 (table 50).

TABLE 50. BAHRAIN: OFFSHORE BANKING UNITS, ASSETS AND LIABILITIES, 1989-1995
(Billions of US dollars)

	1989	1990	1991	1992	1993	1994	1995
Assets							
Loans to non-banks	11.9	9.4	9.8	11.3	16.9	21.3	12.3
Interbank funds	56.6	47.2	39.8	53.0	37.5	36.8	45.1
Commercial banks in Bahrain	0.4	0.8	0.3	0.2	0.2	0.2	0.4
Offshore banking units	4.8	2.3	1.9	2.4	2.4	1.9	2.8
Outside Bahrain	51.4	44.1	37.6	50.4	34.9	34.7	41.9
Other assets	4.1	3.3	3.8	5.4	5.9	6.3	6.9
Total assets = total liabilities	**72.6**	**59.9**	**53.4**	**69.7**	**60.3**	**64.4**	**64.3**
Liabilities							
Deposits of non-banks	22.4	17.3	16.9	15.9	19.3	24.5	14.5
Interbank funds	44.8	37.7	31.3	47.4	34.7	34.7	43.6
Commercial banks in Bahrain	1.2	0.7	0.8	0.8	0.7	0.7	0.8
Offshore banking units	4.8	2.3	1.9	2.4	2.4	1.9	2.8
Outside Bahrain	38.8	34.7	28.6	44.2	31.6	32.1	40.0
Other liabilities	5.4	4.9	5.2	6.4	6.3	5.2	6.2
Memoranda (percentage)							
Loans to non-banks/assets	16.4	15.7	18.4	16.2	28.0	23.1	19.1
Deposits of non-banks/liabilities	30.1	28.9	31.6	22.8	32.0	38.0	22.6
Interbank funds (in assets)/assets	78.0	78.8	74.5	76.0	62.2	57.1	70.1

Source: Bahrain Monetary Agency, *Quarterly Statistical Bulletin,* December 1995.

In spite of the drop in the number of OBUs, however, all locally incorporated OBUs are expecting a profitable business environment in Bahrain during the next few years, in the light of the revival of the GCC

syndication markets and the increasing trend towards privatization in the region, each of which is expected to form a major area of banking activity.

OBUs lending to non-bank clients, which in 1994, with an amount of $21.3 billion, constituted around 33 per cent of total assets, but dropped to only $12.3 billion in 1995, i.e., 19 per cent of total assets, in line with the drop in the deposits of this sector, from $24.5 million to $14.5 million (table 50). Around 70 per cent of total assets of OBUs were inter-bank funds in 1995, more than 13 per cent over 1994, with most of the funds (93 per cent) being invested outside Bahrain.

Deposits from as well as claims on Arab countries dropped significantly during the last seven years, with the former reflecting a decrease in mainly GCC countries' financial surpluses, and the latter a slow-down in economic activities in these countries. Deposits from Arab countries amounted to $31.8 billion in 1995, around 29 per cent below their level in 1989 ($45.1 billion) (table 51). With the drop in claims on Arab countries lower by 26 per cent than their deposits, Arab countries had a credit line of $9.5 billion with Bahrain's OBUs. Deposits of and claims on most regions of the world recorded an increase during the period 1989-1995, with the highest increase being recorded in North America, where deposits increased by 28 per cent and claims by 47 per cent.

TABLE 51. BAHRAIN: OFFSHORE BANKING UNITS, GEOGRAPHIC CLASSIFICATION OF ASSETS AND LIABILITIES, 1989-1995

(Billions of US dollars)

	1989	1990	1991	1992	1993	1994	1995
Assets							
Arab countries	30.0	25.3	21.3	22.8	21.6	24.2	22.3
North America	7.9	8.5	7.7	14.0	10.2	11.8	11.6
Western Europe	14.2	13.4	11.9	16.8	13.7	15.2	15.7
Offshore Centers[a/]	7.6	4.9	3.8	5.1	4.6	4.1	4.8
Other locations	12.9	7.8	8.7	11.1	10.0	9.2	9.8
Total assets = Total liabilities	**72.6**	**59.9**	**53.4**	**69.8**	**60.1**	**64.5**	**64.2**
Liabilities							
Arab countries	45.1	34.5	31.9	32.9	30.2	30.7	31.8
North America	5.8	8.1	5.1	12.6	9.5	11.0	7.4
Western Europe	12.7	11.5	8.6	14.3	12.2	12.9	17.5
Offshore Centers[a/]	5.6	3.2	4.2	4.9	5.2	5.9	4.1
Other locations	3.4	2.6	3.6	5.1	3.0	4.0	3.4

Source: Bahrain Monetary Agency, *Quarterly Statistical Bulletin,* December 1995.

a/ Bahamas, Hong Kong, Singapore and Lebanon.

(b) *Kuwait*

The consolidated balance sheet of Kuwaiti banks shows an increase in total assets (= total liabilities) by around 5.4 per cent in 1995, from KD 11 billion in 1994 to KD 11.6 billion (table 52). While holding of government debt bonds (that is, claims on the public sector) dropped from KD 5.6 billion in 1994 to KD 5.4 billion in 1995, claims on the private sector increased from KD 2 billion to KD 2.8 billion, with the former indicating an easing of the Government's Difficult Debt Settlement Programme, and the latter an increased involvement of Kuwaiti banks in private sector activities. However, claims on the public sector

still constituted around 47 per cent of total bank assets, an improvement of around 4 per cent over 1994 and 11 per cent over 1993.

Deposits rose by around 10.3 per cent, from KD 6.8 billion to KD 7.5 billion, with private sector deposits accounting for around 87 per cent of total deposits, more than 5 per cent over 1994 (KD 5.6 billion).[89] The rise in bank credit to the private sector and the latter's deposits with the banks indicate an increased confidence of both the private sector and the banks in the ongoing recovery of Kuwait. However, the credit facilities to deposits ratio, though improving over the past few years, from 126 per cent in 1991 to 109 per cent in 1995, indicates a still-tightened bank liquidity, in which demand for credit exceeded bank deposits, thus forcing the banks to resort to inter-bank funds (in assets), which dropped from KD 0.8 billion in 1994 to KD 0.6 billion in 1995.

TABLE 52. KUWAIT: CONSOLIDATED BALANCE SHEET OF LOCAL BANKS, 1991-1995
(Billions of Kuwaiti dinars)

	1991	1992	1993	1994	1995
Assets					
Cash and due from the Central Bank	0.1	0.2	0.1	0.2	0.2
Credit facilities	7.7	8.1	7.3	7.6	8.2
Claims on public sector	5.8	6.5	5.8	5.6	5.4
Claims on private sector	1.9	1.6	1.5	2.0	2.8
Foreign assets	2.0	1.6	1.8	1.9	2.1
Inter-bank funds	0.0	0.1	0.4	0.8	0.6
Total assets = total liabilities	**10.0**	**10.4**	**10.0**	**11.0**	**11.6**
Liabilities					
Deposits	6.1	6.3	6.6	6.8	7.5
Foreign liabilities	0.4	0.6	0.5	0.7	0.7
Inter-bank funds	0.1	0.1	0.4	0.8	0.5
Capital and reserves	1.0	1.0	1.1	1.1	1.2
Other liabilities	2.7	2.4	1.4	1.6	1.7
Memoranda (percentage)					
Credit facilities/assets	74.8	77.9	73.0	69.1	70.1
Credit facilities/deposits	126.2	128.6	110.6	111.8	109.3
Deposits/liabilities	59.2	60.6	66.0	61.8	64.7

Source: Central Bank of Kuwait, *Quarterly Statistical Bulletin,* October-December 1995.

Note: Figures are rounded.

(c) *Qatar*

Total assets of the Qatari commercial banks amounted to around QR 34.2 billion in 1995, up by around 9.3 per cent from 1994 (QR 31.3 billion) (table 53), with most of the increase being in inter-bank placements (in local and foreign currency) which rose by around 32 per cent, from QR 7.1 billion in 1994 to QR 9.4 billion in 1995. The table shows that bank credit remained higher than bank deposits in 1995, in spite of the fact that the increase in the latter (4.7 per cent) was significantly higher than the increase in the former (1.9 per cent), thus resulting in a continued, though eased, tightened bank liquidity, as reflected in the credit facilities/deposits ratio which in 1995 (105.9 per cent) was lower than in 1994 (108.9 per cent). To meet the continued high demand for credit, the banks were forced to resort to foreign borrowing, which increased from QR 5 billion in 1994 to QR 6.4 billion in 1995.

[89] Central Bank of Kuwait, *Quarterly Statistical Bulletin,* October-December 1995.

TABLE 53. QATAR: CONSOLIDATED BALANCE SHEET OF COMMERCIAL BANKS, 1991-1995
(Millions of Qatar riyals)

	1991	1992	1993	1994	1995
Assets					
Cash and due from Qatar Central Bank	662	768	830	680	739
Total inter-bank placements	7 679	7 795	8 232	7 120	9 350
Local currency inter-bank	123	183	180	150	290
Foreign currency inter-bank[a/]	7 556	7 612	8 052	6 970	9 060
Credit facilities[b/]	13 344	18 113	18 724	20 663	21 063
Domestic investments	960	183	1 486	1 516	1 531
Foreign investments	1 651	393	230	362	359
Other assets	1 221	742	896	982	1 206
Total assets - total liabilities	**25 517**	**27 994**	**30 399**	**31 323**	**34 248**
Liabilities					
Total deposits	15 068	18 725	18 871	18 972	19 884
Local currency deposits	9 425	12 135	12 309	12 885	13 026
Foreign currency deposits	5 643	6 590	6 562	6 127	6 859
Total interbank borrowing	1 435	3 161	5 025	5 075	6620
Local currency borrowing	165	116	106	67	213
Foreign currency borrowing	1 270	3 045	4 918	5 008	6 407
Other liabilities	6 489	3 345	3 507	4 000	4 208
Capital resources	2 525	2 762	2 997	3 236	3 536
Memoranda (percentage)					
Credit facilities/assets	52.3	64.7	61.6	66.0	61.5
Total deposits/liabilities	59.1	66.8	62.1	60.0	58.1
Local currency deposits/liabilities	36.9	43.3	40.4	41.1	38.0
Credit facilities/deposits	88.6	96.7	99.2	108.9	105.9
Inter-bank placements/assets	30.1	27.7	27.1	22.7	27.3
Inter-bank Liabilities/liabilities	5.6	11.3	16.5	16.2	19.3

Source: Qatar Central Bank, *Quarterly Statistical Bulletin,* December 1995.

a/ Including balances with banks in Qatar, with banks abroad and with head office or branches abroad.
b/ Including loans, advances, overdrafts and bills discounted.

The main developments in the Qatari banking market during the past few years are as follows:

(a) Local currency deposits, which in 1992 were QR 12.1 billion, or more than 28.7 per cent higher than in 1991 (QR 9.4 billion), recorded only slight growth during the following years, mainly as a result of the drop in government deposits, which usually constitute over half of total bank deposits;

(b) Inter-bank borrowing increased significantly during the past five years, from QR 1.4 billion in 1991 to QR 6.6 billion in 1995, with most of the increase being in foreign currency borrowing, from QR 1.3 billion to QR 6.4 billion. In line with this development, the ratio of inter-bank liabilities (borrowing) to total liabilities increased from 5.6 per cent to 19.3 per cent;

(c) Demand for credit facilities almost absorbed total deposits by 8.9 per cent and 5.9 per cent in 1994 and 1995 respectively. To meet the increased demand for bank credit, that is, to soften tightened liquidity in the banking market, the Qatari banks resorted to foreign currency inter-bank borrowing.

(d) *Saudi Arabia*

Published Saudi Arabian bank results for 1995 indicate three major features: first, an increase by around 14.6 per cent in net earnings, from SRls 4.8 billion in 1994 to SRls 5.5 billion in 1995; second, a rise by around 5.4 per cent in aggregate assets, from SRls 328.9 billion to SRls 346.7 billion; and third, an increase in capital from SRls 34.6 billion to SRls 36.3 billion (table 54). This development was reflected in a significant improvement in both ratios, namely the profit/capital ratio and the profit/asset ratio, with the former increasing from 13.9 per cent to 15.2 per cent and the latter from 1.4 per cent to 1.6 per cent. The two ratios, which are considered worldwide as the main performance indicators of banking activities, were significantly high by international standards: between 4 and 7 per cent for the former and 0.8 to 1 per cent for the latter. Although the capital/assets ratio dropped from 10.5 per cent in 1994 to 10.4 per cent in 1995, it remained 2.4 per cent higher than the ratio recommended by the Bank for International Settlements.

TABLE 54. SAUDI ARABIAN BANK RESULTS, 1994 AND 1995

		Capital	Assets	Capital/ assets ratio	Profit	Profit/ Capital ratio	Profit/ assets ratio
		(SRls billions)	*(SRls billions)*	*(percentage)*	*(SRls billions)*	*(percentage)*	*(percentage)*
National Commercial Bank	1995	7.3	76.7	9.5	0.7	9.6	0.9
	1994	7.1	68.7	10.3	0.6	8.4	0.8
Riyad Bank	1995	7.1	54.2	13.1	0.8	11.3	1.5
	1994	7.0	53.9	13.0	0.6	8.6	1.1
Al Rajhi Banking and Investment Corporation	1995	4.4	30.6	14.4	1.1	25.0	3.6
	1994	4.0	28.7	13.9	0.9	22.5	3.1
Saudi American Bank	1995	4.1	40.8	10.0	1.1	26.8	2.7
	1994	3.6	43.4	8.3	1.0	27.8	2.3
Saudi British Bank	1995	2.7	26.1	10.3	0.4	14.8	1.5
	1994	2.6	27.1	9.6	0.3	11.5	1.1
Saudi French Bank	1995	2.7	27.5	9.8	0.3	11.1	1.1
	1994	2.5	23.7	10.5	0.3	12.0	1.3
Arab National Bank	1995	2.6	32.4	8.0	0.4	15.4	1.2
	1994	2.5	30.4	8.2	0.4	16.0	1.3
Saudi Cairo Bank	1995	1.7	18.9	9.0	0.2	11.8	1.1
	1994	1.6	18.1	8.8	0.2	12.5	1.1
United Saudi Commercial Bank	1995	1.5	10.9	13.8	0.3	20.0	2.8
	1994	1.4	10.3	13.6	0.3	21.4	2.9
Saudi Hollandi Bank	1995	1.1	15.7	7.0	0.1	9.0	0.6
	1994	1.3	14.6	7.0	0.1	7.7	0.7
Saudi Investment Bank	1995	0.5	8.2	6.1	0.1	20.0	1.2
	1994	0.4	6.2	6.4	0.1	25.0	1.6
Bank Al-Jazira	1995	0.5	4.7	10.6	0.0	0.0	0.2
	1994	0.5	3.8	13.2	0.0	0.0	0.2
Total	**1995**	**36.3**	**346.7**	**10.4**	**5.5**	**15.2**	**1.6**
	1994	**34.6**	**328.9**	**10.5**	**4.8**	**13.9**	**1.4**

Source: ESCWA calculation based on *The Banker*, April 1996.

Notes: Figures are rounded; exchange rate: $1 = SRls 3.745.

The developments in the Saudi Arabian banking market in 1995 are considered to be a significant improvement over 1994, when the Saudi Arabian banks had less flexibility to take on new lending than in the past, owing to pressures on their liquidity caused by increased government borrowing. Both the upturn in the Saudi Arabian economy during the second half of 1995, following improvement in the oil prices, and the Government's policy aimed at increasing the role of the private sector in the economy, created significant business opportunities for the Saudi Arabian banks, particularly in the area of project finance. In addition, the banks benefited from higher demand for credits by contractors and suppliers to finance accounts receivable on delayed government payments, in effect increasing bank lending to the Government. Indeed, bank loans and credits are estimated to have increased from SRls 147 billion ($39.2 billion) in 1994 to SRls 151.7 billion ($40.4 billion) in 1995. The increased awareness of customers in the Saudi Arabian banking market, as reflected in their demand for sophisticated banking services, was a major reason for the introduction of new technologies by most Saudi Arabian banks, particularly in the area of on-line banking, the automated teller machines (ATMs), and the point of sale (POS) payment systems. To keep up with this development, the Saudi Arabian Monetary Agency (the Central Bank in the Kingdom) introduced an electronic fund transfer system to increase the speed of transfers. It has further improved procedures aimed at security and confidentiality of transactions and at developing new financial products.

(e) *United Arab Emirates*

Banks in the United Arab Emirates form one of the most diversified communities of financial institutions in the ESCWA region. Their combined assets of Dh 176 billion at the end of September 1995 are considered to have exceeded the GDP of the country for the whole year (estimated at around Dh 160 billion). There are 19 domestic and 27 foreign commercial banks operating in the United Arab Emirates. The significant number of domestic banks[90] is seen as a consequence of the way the country has developed. Banking pluralism is part of the heritage of the United Arab Emirates, a State formed by seven emirates less than a quarter of a century ago. It was not until 1973 that the UAE dirham was created to replace the Bahrain dinar and the Qatari/Dubai riyal, both of which were legal tender in the federation.

The United Arab Emirates banks made record profits in 1995 owing to a surge in credits caused by an upswing in economic activity, including trade and industry. The Government spending programmes in infrastructure contributed to this development. Credit facilities of the country's banks amounted to Dh 89.4 billion at the end of September 1995, up by around 6.7 per cent from the end of December 1994 (Dh 83.8 billion) (table 55), with around 78 per cent (Dh 69.6 billion) being given to the private sector. Although the increase in deposits by 7.2 per cent was higher than the increase in credit facilities, banking development in the United Arab Emirates remained associated with tightened liquidity, as demand for credit facilities exceeded deposits, with the credit facilities/deposits ratio amounting to 103.7 per cent, a slight improvement over 1994, when the ratio was 104.2 per cent. The difference is considered to have been made up by a drawdown on foreign assets and inter-bank funding. However, the country's banks remained net placers of significant amounts of foreign funds, with the foreign assets/foreign liabilities ratio increasing from 197.3 per cent in 1994 to 287.4 per cent at end-September 1995.

[90] The number of United Arab Emirates domestic banks is larger than that of any other GCC country.

TABLE 55. UNITED ARAB EMIRATES: CONSOLIDATED BALANCE SHEET OF COMMERCIAL BANKS, 1991-1995

(Billions of UAE dirhams)

	1991	1992	1993	1994	1995 (September)
Assets					
Cash and due from the Central Bank	6.6	8.6	7.2	10.4	11.7
Due from banks	4.2	5.8	8.5	7.1	4.8
Foreign assets	70.2	68.5	66.5	65.5	64.6
Credit facilities	62.9	67.0	74.7	83.8	89.4
Claims on private sector	11.4	12.3	15.1	18.4	18.1
Claims on public sector	50.4	53.4	57.4	63.6	69.6
Other claims	1.1	1.3	2.2	1.8	1.7
Domestic investments	0.6	1.1	1.1	1.2	1.3
Unclassified assets	2.9	2.9	3.1	3.6	4.5
Total assets = total liabilities	147.4	153.9	161.1	171.6	176.3
Liabilities					
Due to the Central Bank	0.9	0.1	0.1	0.0	0.2
Due to banks	4.4	5.9	8.4	7.4	4.7
Deposits	72.4	75.4	77.6	80.4	86.2
Foreign liabilities	26.3	26.6	26.7	33.2	31.1
Government lending funds	0.3	0.3	0.2	0.2	0.5
Capital and revenues	16.1	16.9	17.6	19.6	21.1
Unclassified liabilities	27.0	28.7	30.4	30.8	32.5
Memoranda (percentage)					
Credit facilities/assets	42.7	43.5	46.3	48.8	50.7
Credit facilities/deposits	86.9	88.9	96.2	104.2	103.7
Foreign assets/ foreign liabilities	266.9	257.5	249.1	197.3	287.4
Deposits/liabilities	49.1	49.0	48.1	46.9	48.9

Sources: Central Bank of the United Arab Emirates, *Economic Bulletin,* 1995; and *Statistical Bulletin,* July -September 1995.

Note: Figures are rounded.

2. *More diversified economies*

(a) *Egypt*

Bank investments in treasury bills (T-bills) and other financial instruments, offered in Egypt's banking market, increased only slightly, by around 2.5 per cent as at end-March 1995 (no full year data were available at the time of this writing), after they dropped by over 41 per cent in 1994, from LE 19.9 billion in 1993 to LE 11.7 billion. Despite the rebound, however, the share of investments in total assets (6.2 per cent) remained lower than in 1994 (6.4 per cent) (table 56). Bank credit facilities continued increasing, reaching LE 78.3 billion at the end of March 1995, compared with LE 74 billion at the end of 1994.

TABLE 56. EGYPT: CONSOLIDATED BALANCE SHEET OF COMMERCIAL BANKS, 1991-1995

(Billions of Egyptian pounds)

	1991	1992	1993	1994	1995 (March)
Assets					
Cash and due from Central Bank	1.2	1.4	1.3	2.0	2.3
Due from banks	54.8	49.0	53.0	58.3	58.5
Securities and investments	13.3	22.5	19.9	11.7	12.0
Credit facilities[a/]	45.1	46.0	55.5	74.0	78.3
Other assets	16.5	34.0	36.1	37.4	40.5
Total assets = total liabilities	**130.9**	**153.0**	**166.3**	**183.4**	**191.6**
Liabilities					
Due to banks	14.9	10.0	12.1	13.3	14.4
Deposits	89.6	111.0	120.4	132.0	134.3
in local currency	45.3	75.5	86.6	94.1	94.0
in foreign currency	44.3	35.5	33.8	37.9	40.3
Loans	0.3	0.3	0.3	0.9	1.1
Provisions	6.1	8.5	9.9	11.7	12.0
Other liabilities	14.4	17.2	17.0	18.0	22.0
Capital and revenues	5.6	6.0	6.6	7.5	7.8
Memoranda (percentage)					
Credit facilities/assets	34.4	30.1	33.4	40.3	40.9
Credit facilities/total deposits	50.3	41.4	46.1	56.1	58.3
Deposits/liabilities	68.4	72.5	72.4	72.0	70.1
Local currency deposits/liabilities	34.6	49.3	52.1	51.3	49.1

Source: National Bank of Egypt, *Economic Bulletin,* vol. XXXXVIII, No. 2, 1995.

a/ Loans, advances and bills discounted.

Egypt's four public sector banks (National Bank of Egypt, Banque Misr, Banque du Caire and Bank of Alexandria) continued to dominate Egypt's banking market. Their share in total bank assets (LE 191.6 billion) was estimated at around 76 per cent (LE 145 billion) at the end of March 1995, more than 11.5 per cent over their 1994 level (LE 130 billion).

Commercial bank deposits increased from LE 132 billion in 1994 to LE 134.3 billion at the end of March 1995, with deposits in local currency constituting around 70 per cent of the total. The cut in the interest rate by around 1.5 per cent in early 1995 reduced the interest rate differential between the Egyptian pound and the United States dollar, from around 10 per cent in 1994 to around 8.5 per cent during the first quarter of 1995. The cut apparently led Egyptian depositors as well as (domestic and foreign) investors to increase their deposits in foreign currency. The speculation about a possible depreciation of the Egyptian pound, as had been recommended by the IMF for over two years, enhanced this trend. Indeed, foreign currency deposits rose from the equivalent of LE 33.8 billion in 1993 to LE 37.9 billion in 1994 and to LE 40.3 billion in March 1995.

Egyptian banks continued provisioning for non-performing loans. The provisioning increased gradually during the past few years, reaching LE 12 billion at the end of March 1995, or around twice the

amount in 1991 (LE 6.1 billion), indicating that the problem of non-performing loans has not been completely solved.

(b) *Jordan*

Total assets of licensed banks in Jordan amounted to JD 8.4 billion in 1995, up by 12 per cent over 1994 (JD 7.5 billion), with most of the increase (13 per cent) being recorded in credit facilities, which constituted around 41.7 per cent of total assets, over 0.4 per cent on 1994 (table 57). Bank loans and advances are estimated at around 60 per cent of the total, thus reflecting increased involvement of the banks in private sector activities. This involvement was encouraged by the CBJ during the past few years. To this end, the CBJ abolished bank credit ceilings and liberalized interest rates on bank lending, in order to increase competition among banks and enhance their role in Jordan's economic activities. The CBJ also amended requirements concerning the so-called concentration of credits, where these are extended to a single customer or a group of customers with interrelated links or links to members of the board. The amendments raised the amount of total credits to 25 per cent of the bank capital base; formerly the amount was 15 per cent of indirect credits of the bank capital base and obligatory reserves.

TABLE 57. JORDAN: CONSOLIDATED BALANCE SHEET OF LICENSED BANKS,[a/] 1991-1995
(Billions of Jordanian dinars)

	1991	1992	1993[b/]	1994	1995
Assets					
Cash and due from the Central Bank[c/]	0.6	0.7	1.4	1.6	1.8
Due from banks[d/]	0.2	0.1	0.1	0.1	0.1
Portfolio investments (residents)[e/]	0.5	0.5	0.5	0.4	0.4
Credit facilities	1.9	2.2	2.6	3.1	3.5
Foreign assets	2.0	2.3	1.6	1.7	1.9
Other assets	0.4	0.5	0.5	0.6	0.7
Total assets = total liabilities	**5.6**	**6.3**	**6.7**	**7.5**	**8.4**
Liabilities					
Due to the Central Bank and other banks	0.4	0.4	0.3	0.3	0.4
Deposits	3.0	3.4	3.7	4.0	4.4
Foreign assets	1.3	1.6	1.5	1.8	2.1
Capital and reserves	0.3	0.3	0.5	0.6	0.7
Other liabilities	0.6	0.6	0.7	0.8	0.8
Memoranda (percentage)					
Credit facilities/assets	33.9	34.9	38.8	41.3	41.7
Credit facilities/deposits	63.3	64.7	70.3	77.5	79.5
Deposits/liabilities	53.6	54.0	55.2	53.3	52.4

Source: Central Bank of Jordan, *Thirty-second Annual Report*, 1995.

Note: Figure are rounded.

a/ Including commercial banks, investment banks and the Housing Bank.
b/ Data were reclassified according to new definitions of monetary sectors.
c/ As of January 1993, foreign currency deposits of licensed banks are considered foreign assets of the Central Bank.
d/ Including banks and other financial institutions, according to new classification.
e/ Including investments of non-financial public sector organizations.

Portfolio investments remained in 1995 at almost the same level in 1994 (JD 0.4 billion). Investments in shares in the primary market are estimated to have increased from around JD 180 million in 1994 to JD 200 million in 1995.

The Jordanian banks attracted significant amounts of deposits, totalling JD 4.4 billion in 1995, up by 10 per cent over 1994 (JD 4 billion). However, the deposits/liabilities ratio, though improved during the period 1991-1993, was on the decline in 1994 and 1995, indicating a problem for the Jordanian banks in increasing deposits in line with the increase in other liabilities.

(c) *Lebanon*

Lebanon's 80 banks are considered highly profitable, with a return on capital averaging between 15 and 20 per cent and a return on assets of between 2 and 4 per cent during the past few years. Total deposits increased from the equivalent of around LL 6,774.8 billion in 1991 to around LL 28,653.2 billion in 1995, with much of the deposits being invested, at relatively low risk, in remunerative government treasury bills.

Apart from retained earnings and other internal sources, much of the bank credit facilities, particularly corporate finance, come from bank lending. Medium- and long-term funding, project finance and term lending are virtually absent in Lebanese banking business. Indeed, most bank lending takes the form of callable overdraft facilities. The plans of the Central Bank of Lebanon to introduce financial instruments in the banking market, such as commercial papers, bonds and equities, are expected to lead to a structural change in the sources of bank finance.

The consolidated balance sheet of Lebanon's banks indicates an increase in total assets by 19.6 per cent, from LL 24,285 billion in 1994 to LL 29,055 billion in 1995, with most of the increase coming from bank credit facilities, especially to the private sector, which rose by 32 per cent, from LL 7,800 billion to LL 10,320 billion (table 58). Foreign assets increased only slightly, namely by around 1.1 per cent, from LL 6,269 billion to LL 6,337 billion.

Lebanon's banks are considered highly liquid, as reflected in the ratio of credit facilities to deposits, amounting to 72 per cent in 1995. However, the ratio is expected to reach a ceiling of 65 per cent by the end of 1996, following the regulations of the Central Bank issued in early 1996.

(d) *West Bank and Gaza Strip*

Prior to the Israeli occupation of the West Bank and Gaza Strip in 1967, there were 38 branches of banks in the occupied territories; 32 in the West Bank and 6 in the Gaza Strip. The closure of these banks following the occupation led to the creation of work for a significant number of money-changers, whose numbers reached 195 at the end of 1995.

Following the start of the peace process, a significant number of local and foreign banks were established. At the end of 1995, there were 3 local banks (with 13 branches), 12 Jordanian banks (with 43 branches), 2 British banks, 2 Israeli banks (with 3 branches) and 1 Egyptian bank.

Total assets of the banks are estimated to have amounted to around $1.8 billion at the end of 1995, up by around 80 per cent over 1994 (around $1 billion). Total deposits are estimated to have increased by around 75 per cent, from $0.8 billion in 1994 to around $1.4 billion in 1995. Only around 26 per cent of the deposits are considered to have been traded in the occupied territories, mainly in commercial lending and letters of credit.

TABLE 58. LEBANON: CONSOLIDATED BALANCE SHEET OF COMMERCIAL BANKS, 1991-1995
(Billions of Lebanese pounds)

	1991	1992	1993	1994	1995
Assets					
Cash and due from the Central Bank	282.5	669.2	1 434.9	2 786.4	3 541.5
Credit facilities	3 280.5	7 902.4	9 911.1	14 703.4	18 268.8
Claims on private sector	1 971.1	4 804.1	5 897.9	7 799.8	10 320.0
Claims on public sector	1 309.4	3 098.3	4 013.2	6 908.6	7 948.8
Foreign assets	3 061.2	5 824.9	7 040.6	6 269.3	6 337.3
Fixed assets	90.0	144.3	258.7	405.7	738.5
Unclassified assets	83.6	93.4	163.5	115.2	168.8
Total assets = total liabilities	**6 797.8**	**14 634.2**	**18 808.9**	**24 285.0**	**29 054.9**
Liabilities					
Deposits, of which:	5 932.9	12 867.2	16 611.8	21 543.6	25 360.0
Private sector deposits (residents)	5 051.0	11 062.1	14 409.2	18 686.4	21 805.8
Public sector deposits	40.0	106.4	151.7	255.4	261.0
Non-resident deposits	841.9	1 698.7	2 050.9	2 601.8	3 293.2
Capital and reserves	147.9	263.6	444.1	675.7	1 145.9
Unclassified liabilities	717.0	1 503.4	1 753.0	2 065.6	2 549.0
Memoranda (percentage)					
Credit facilities/assets	48.2	54.0	52.7	60.6	62.9
Credit facilities/deposits	55.3	61.4	59.7	68.2	72.0
Deposits/liabilities	87.3	87.9	88.3	88.7	87.2

Sources: Banque du Liban, *Quarterly Bulletin,* first and second quarter, 1995 and *Monthly Bulletin,* December 1995.

Note: Exchange rate at the end of the year:
1991: US $1 = LL 928.2.
1992: US $1 = LL 1,712.8.
1993: US $1 = LL 1,741.4.
1994: US $1 = LL 1,679.7.
1995: US $1 = LL 1,596.0.

The consolidated balance sheet of the branches of Jordanian banks operating in the West Bank and Gaza Strip in 1995[91] indicates that the branches accounted for around 73 per cent ($1,309 million or JD 872 million) of total bank assets and 78 per cent ($1,092 million or JD 728 million) of total bank deposits. A significant amount under the heading "due from head office and other banks", around $946 million (JD 631 million), which represents 72 per cent of total assets of the branches and around 87 per cent of their total deposits, indicates that most of the assets as well as deposits of these branches were transferred to Jordan, meaning a capital outflow from the West Bank and Gaza Strip to Jordan. In fact, credit facilities of the branches to customers in the West Bank and Gaza Strip amounted to only JD 143 million, or 16 per cent of total assets and 20 per cent of total deposits in 1995.

[91] Central Bank of Jordan, *Thirty-second Annual Report,* 1995.

To avert this business direction of foreign banking in the West Bank and Gaza Strip, the Palestinian Monetary Authority, which was established in late 1994, planned in 1995 to issue regulations aimed at increasing involvement of foreign banks in the economic activities in the occupied territories, particularly in the areas of reconstruction and development.

C. STOCK MARKETS

Stock markets in ESCWA member countries emerged as a major constituent of the financial system of these countries. To banks and non-bank financial institutions as well as to other corporations, stock markets proved to be the adequate vehicle for raising private capital. To the public sector, they proved to be the proper channel to place privatization stocks through flotation. To the private sector, in general, the stock markets are considered an important medium for the diversification of investments. However, in 1995 most stock markets in the ESCWA region remained far from being considered emerging markets by international standards. Their insufficiently developed legal, administrative and institutional infrastructure has helped to improve their ability to mobilize, manage and allocate satisfactorily the required financial resources for development.

The impetus for stock markets in the ESCWA region comes from local investors looking to place funds, and from banks, non-bank institutions and corporations, for which public share issues have become a realistic option for fund-raising to increase capital and to finance expansion plans. The development of stock markets in the region has been actively encouraged by the Governments of ESCWA member countries. With most of the Governments running budget deficits and available funds not being sufficient to finance major industrial and other projects, the Governments expect that developing stock markets will assist in raising needed capital to finance these projects, although privatization of public sector companies is considered to be a more effective way of expanding the role of private capital in economic activities.

The insistence of the Governments in a number of ESCWA member countries on low offer prices of shares (in the primary market) to make the shares attractive for the small investor is considered a reason for the reduced range of companies coming into the market. The low offer prices of shares act against many of these companies, which understandably would like to have the largest possible premium on the book price.

Following is a summary of stock market developments in a number of ESCWA member countries.

1. *Kuwait*

The Kuwaiti Stock Market (KSM) surged to record levels in 1995 as Kuwait pressed ahead with reforms to revive its economy. The trade on the KSM was helped by a number of positive developments, most important among which was the relaxation of repayment terms of a number of listed companies with "bad debt". The turnover jumped by around 226 per cent to nearly KD 1.9 billion ($6.5 billion) (table 59).

This development reflected the growing confidence of the investors in the KSM and was due to the country's economic reform programme; a growth in the profits of trading institutions; and—to a lesser extent—speculation by investors. The development also made the KSM the biggest stock market in the ESCWA region, in terms of turnover in 1995. The turnover could have been significantly higher had it included the shares sold off by the Government to the public in the wake of the Government's privatization programme. The number of companies listed on the KSM increased from 48 at the end of 1994 to 50 at the end of 1995. The market capitalization of these companies amounted to around KD 3.9 billion ($13.3 billion), up by around 18 per cent over 1994 (KD 3.3 billion = $11.3 billion).

In late 1995 Kuwait launched the ESCWA region's first fully computerized stock trading system, bringing the KSM up to international standards. The bilingual Arabic/English system, which is called the "Kuwaiti Automated Trading System" (KATS), replaced the paper-based manual trading system used since 1993. It allows traders, i.e., brokerage firms, to match volume and prices of stocks instantly and publishes the deals within seconds. The system is expected to improve competitiveness, fairness and confidentiality, thereby boosting transaction volume, and to hasten the day when international investors may trade directly.

TABLE 59. KUWAIT: STOCK MARKET INDICATORS, 1990-1995

	1990[a/]	1991	1992[b/]	1993	1994	1995
Number of listed companies	55	--	39	47	48	50
Capitalization (KD million)	3 238	2 666	2 879	3 302	3 331	3 900
Size of trading						
Number of shares (KD million)	753.6	--	299.8	2 924.6	2 519.3	9.058
Value of shares (KD million)	260.2	--	115.8	788.6	584.9	1 906.0

Sources: For 1990 to 1994, Central Bank of Kuwait, *Quarterly Statistical Bulletin,* July-September 1995, and National Bank of Kuwait, *Economic & Financial Quarterly,* various issues; for 1995, *Al-Hayat* (Arabic), 13 January 1996.

a/ January-June 1996.
b/ The Kuwaiti Stock Market resumed activities on 28 September 1992.

2. *Egypt*

Complementing measures adopted during the past few years, aimed at developing the Cairo Stock Exchange (CSE), the Egyptian Government took additional measures during 1995 aimed at reinforcing transparency of activities on the CSE. The measures included the promulgation of Law No. 4/1995 pertaining to the quoting of the Egyptian treasury bonds on the CSE official tables to stimulate the bond market. They also included Law No. 11/1995, replacing the relative stamp taxes on securities. The law came into effect on 1 January 1996. Other measures were reflected in the reduction of a number of fees, including the issuance fees and the so-called sight fees, the latter imposed by the Capital Monetary Authority on the companies' documents.

The number of companies listed on the CSE increased from 672 at the end of 1994 to 717 at the end of March 1995 (no full-year data were available at the time of this writing) (table 60). The number of traded securities increased from 424 million at the end of June 1994 to 935 million at the end of March 1995.[92] It included listed as well as unlisted LE-denominated shares. In fact, companies listed on the CSE are capitalized in Egyptian pounds as well as in foreign currencies, with the capitalization of the first group amounting to around LE 5.8 billion, and the second to the equivalent of around LE 1 billion in foreign currencies. However, only 120 companies are quoted on the CSE with shares of only 35 companies being available for trading. The tradeable portion of the market capitalization of the 35 companies, estimated at around $1.3 billion, is considered small, since most of the equities are owned by the large public sector investors, notably the four public sector banks, which usually do not sell their holdings. The turnover of the CSE is estimated to have amounted to around $1.5 billion, almost three times its level in 1994 ($500 million) and slightly less than nine times its level in 1993 ($175 million). The turnover is expected to reach $2 billion in 1996.

[92] Central Bank of Egypt, *Economic Review*, vol. XXXV, No. 3, 1994/1995.

Most of the laws concerning the CSE are considered to have been issued. Daily trading in the 35 companies with tradeable shares is estimated to have been in the range of $0.75 million to $1.8 million in 1995, compared with a range of $0.5 million to $1.5 million in 1994. Furthermore, the CSE is considered as having a significant number of financial institutions which could broker new shares any time as they become available. The Government's commitment to use the stock market as a vehicle for the implementation of its privatization programme is expected to enhance the development of the CSE. The Government's privatization strategy changed in 1994; instead of asking investors to tender for companies, with only a small portion of the available stocks, if any, being reserved for a public issue, the preference is now for the shares to be made available through public issues. The change is expected to ensure greater transparency of sales and result in a larger number of new shares being listed on the CSE.

TABLE 60. EGYPT: CAIRO STOCK EXCHANGE INDICATORS

	July/March 1993/94		July/March 1994/95	
	Quantity	Value	Quantity	Value
Trade in LE-denominated shares (0.000)	**13 622**	**366 959**	**38 332**	**1 851 287**
On the floor	7 213	218 014	15 215	860 473
On the counter	6 409	148 945	23 117	990 814
Trade in dollar-denominated shares (0.000)	**2 126**	**59 238**	**3 166**	**90 842**
On the floor	1 526	29 920	1 992	57 710
On the counter	600	29 318	1 174	33 132

	End of June 1994			End of March 1995		
	Number of companies	Capital in LE	Capital in foreign currencies	Number of companies	Capital in LE	Capital in foreign currencies
Total	672	4 139	1 412	717	5 836	1 021
Joint stock companies	154	1 304	381	155	1 957	390
Closed companies	518	2 835	1 031	562	3 879	631

Source: Central Bank of Egypt, *Economic Review,* vol. XXXV, No. 3, 1994/1995.

3. *Lebanon*

The Beirut Stock Exchange (BSE), which was founded in 1920 and was the most active in the Middle East before it was forced to close in 1982 as a result of the civil war in Lebanon, was reopened on 25 September 1995, but official trading was delayed until 22 January 1996, and resumed initially in stocks of only three companies, namely the Société des Ciments Libanaise, the Société des Ciments Blancs and Eternit SAL Libanaise. The BSE market capitalization at the time of the start of official trading was around $1 billion. SOLIDERE, with a market value of $2.16 billion and in charge of rebuilding the commercial area of Beirut, was listed and quoted on the BSE in May 1996.

The authorities plan that for trading on the BSE to be done through an electronic trading system which will be operated by five authorized brokerage houses. The primary market in the BSC was expected to start in early 1996 with the listing of shares of existing large companies in operation for some time. The secondary market will list shares of newly established companies and small and medium-sized companies. Certificates of deposits, treasury bills and other financial instruments are also planned to be traded on the secondary market. In recognition of the need for these two types of markets, the Government presented a draft bill to the Parliament in early 1996 to transform the BSE into a private company and allow for the creation of other financial markets in Lebanon. For listing on the secondary market, regulations stipulate that

a company should have a minimum capital of LL 150 million ($94,340), with 25 per cent of its shares being made available for trading and a satisfactory degree of transparency in its accounts being rated.

Further plans for the development of the BSE are for a BSE with three tiers: an official market for companies with only $3 million capital; a parallel market for companies with $1 million - $3 million capital; and an over-the-counter market for companies with less than $1 million capital.

D. SHORT-TERM OUTLOOK

The reform of the monetary system in most ESCWA member countries is expected to continue during the next few years, either within the context of these countries' economic structural reform programmes agreed upon with the IMF, or in consequence of plans of the monetary authorities aimed at improving the process of mobilization, management and allocation of financial resources for development, and strengthening the mechanisms of monetary control. New financial instruments with market-determined rates are expected to be introduced in the market, not only because of the significance of these instruments for the planned financial market development, but also because they will widen the menu of assets available to the private sector. In fact, the gradual increase of time and savings deposits in banks of most ESCWA member countries during the last few years will be a reason for the monetary authorities of these countries to introduce financial instruments aimed at diverting private sector savings from bank deposits to investments in assets to enhance the process of mobilization and the allocation of domestic financial resources for economic development.

Bank performance during the next few years will largely depend on macroeconomic developments within the economies of ESCWA member countries, as well as on the extent to which government spending can continue to ensure a reasonable level of growth.

The relatively low ratio of credit facilities to deposits in most ESCWA banking sectors—a sign of conservative banking—is an indication that banks in these countries are not expected to face major problems on the funding side over the next few years. The revival of the syndication market in most of these countries and the increasing trend towards privatization in the region will form a significant area of banking activity. However, the small size of most banks in ESCWA member countries may not enable these banks to compete with giant international banks for these businesses. The Governments of ESCWA member countries are therefore expected to encourage mergers among banks, not the least for the sake of the banks' survival.

Stock markets in the region are expected to continue on the path of development. Since stock markets have proved to be a major component of the financial system of ESCWA member countries, they will be increasingly resorted to for investment and raising of private capital. The linkage established among a number of stock markets in the ESCWA region is expected to enhance capital flow among ESCWA member countries during the next few years.

VI. ENVIRONMENTAL ISSUES

A. ENVIRONMENTAL CONDITIONS

The countries of the ESCWA region are characterized by great differences of surface area, natural resources endowment, population, income, and level of socio-economic development. The environmental degradation of the region is continuing in many areas. However, the regional identity, shaped by a similar environment and ecosystem, as well as a common heritage and history, compels member countries to find remedies for the underlying causes of environmental degradation.

The ESCWA member countries are facing critical problems of environmental degradation that are radically new in scale and urgency. These problems need to be addressed immediately, for two reasons. First, failure to act now will greatly compound the cost and complexity of later remedial efforts. And, second, environmental degradation is already posing a major threat to regional economic growth prospects and human well-being, especially among the poor.[93] To illustrate the urgency of the need for action, the following critical areas of environmental pressure in the region are reviewed.

1. *Degradation of land resources*

The land use pattern in the ESCWA region has undergone continuous changes, reflecting the impact of the complex interplay of socio-economic, political and technological forces. A comparison of land use patterns in the ESCWA region with the rest of the world shows the relative scarcity of arable land in the region (table 61).

TABLE 61. SHARE OF LAND USE IN THE WORLD, ASIA-PACIFIC AND ESCWA REGION, 1994
(Percentage)

Region	Arable and cropland	Forest and woodland	Permanent pasture	Other lands
World	11	30	26	33
Asia-Pacific	15	22	35	28
ESCWA	4.2	1.0	31.8	63

Sources: ESCAP, *State of the Environment in Asia and Pacific* (Bangkok, 1995).

Land use patterns are influenced by a combination of physical and socio-economic factors. For example, a large area which has been classified as "other lands" globally and in the ESCWA region is in the majority of countries desert terrain with unfavourable agro-ecological conditions.

The limited arable land of the region is suffering from intense development and population pressure. There is a tendency towards more intensive and extensive cultivation in countries with the most croplands, which also have high population densities. The human pressure on arable land is noticeable in Egypt, Iraq, Jordan, the Syrian Arab Republic and Yemen. The irrigated land is being cultivated year-round, with increasing applications of water, fertilizer and pesticides. Simultaneously, large areas of fertile land are being taken out of production for urban, transport and industrial needs, and land of low capability is being overused as herds overgraze ranges. Marginal farmers cultivate low rainfall areas without adequate fallowing or

[93] The World Bank, *The Middle East and North Africa: Issues in Development, Fall 1993* (Washington, D.C.), p. 27.

fertilization. In addition, forest products, particularly in Iraq, Lebanon and Yemen, are harvested at rates far in excess of their annual growth.

The historical process that has shaped the ESCWA region's landscape are continuing at accelerating rates and at great socio-economic costs. There are few areas with agricultural production that are not already in production, and new areas of cultivation are unlikely to compensate for the loss of agricultural land to urbanization and related transport networks. In most ESCWA member countries, no net increase in cultivated land has taken place since the 1980s. Nonetheless, expensive land reclamation and intensification efforts are proceeding as productive and scarce arable lands are irreversibly lost to urbanization, municipalities and industrial uses. The few reported cases of expansion in arable land area in the ESCWA member countries have been at the expense of natural rangeland.

Soil erosion is one aspect of the complex process of desertification that, in most ESCWA member countries, typically begins with intensive livestock grazing. Ruminant livestock, which represent part of agricultural income, depend mostly for their total feed requirements on natural rangelands, crop residues and fallow fields. There is a noticeable correlation between livestock population increase in the region and the percentage decrease of the rangeland area. Since range production does not meet the needs of current herds, especially seasonally and in unusually dry years, livestock production either performs poorly on deteriorating native ranges, or requires imports of feed supplements.[94]

Dry land salinity is another serious problem in Western Asia, caused by reduced evaporation, allowing salts to concentrate in the low-lying parts of the landscape. In Egypt an estimated 32 per cent of the Nile Delta and 30 per cent of the Nile Valley are affected by salinization and waterlogging, lowering or totally eliminating their potential for crop production. Much of Egypt's salinization is recent, the result of excessive water use and inadequate drainage. In Iraq, salinity and waterlogging are problems in more than 50 per cent of the lower Rafidain Plain. In the Syrian Arab Republic, about 50 per cent of the irrigated land in the Euphrates Valley is seriously affected by salinity and waterlogging.[95]

Among the causes of unsustainable agricultural practices and degradation of agricultural land in the region are inadequate or inappropriate policies, which include pricing, subsidy and tax policies that have encouraged the excessive and often uneconomic use of inputs such as fertilizers and pesticides, and the over-exploitation of land. These policies, together with supporting economic and financial policies, have contributed to a rate of depletion of land and water resources in many ESCWA member countries which cannot be sustainable in the long run. Although it is not difficult to predict the long-run environmental impact of these policy measures, the concept of economic valuation of natural resources has not been fully incorporated into conventional economic analysis, since natural resources are by and large still perceived at their market value.

Although various other economic and social factors are responsible for land degradation in the region, the deterioration of agricultural land is contributing to decreasing food security in many ESCWA member countries in the short run and to an over-exploitation of the natural resource base on which agriculture depends in the long run. Taking population increases into consideration, the per capita arable land, and consequently per capita food production in most ESCWA member countries, are deteriorating further than

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[94] For further details, see Council of Arab Ministers Responsible for Environment (CAMRE) and League of Arab States, Report of the Steering Committee to Combat Desertification in the Arab Region (Cairo, March 1996) (in Arabic).

[95] Essam El-Hinnawi, "Population, environment and development in the Arab world", paper presented to the Arab Population Conference, Amman, 4-6 April 1993 (E/ESCWA/POP/1993/SAPC/5).

the levels in the 1980s. This situation is particularly acute in Egypt, Iraq, Jordan and Yemen, where the decrease in per capita food production was partly due to inefficiencies of land use, fragmentation and reduction in arable land per capita agricultural population.

2. *Urban degradation*

During the first half of the 1990s, about 56 per cent of the population of the region was estimated to be living in urban areas. However, with current rates of growth, the region is expected to become predominantly urban in the next 25 years, with the proportion of the region's population living in urban areas expected to reach 59 per cent by the year 2000, as shown in table 62.

TABLE 62. PERCENTAGE OF POPULATION IN URBAN AREAS IN THE ESCWA REGION, 1990-1995 AND 2000

Country/territory	Population in urban areas 1990-1995	Population in urban areas 2000
Bahrain	83.6	85.5
Egypt	44.35	46.4
Iraq	73.2	77.1
Jordan	69.75	74.5
Kuwait	96.4	97.7
Lebanon	85.5	89.5
Oman	12.1	15.7
West Bank and Gaza Strip[a/]	77.95	80.6
Qatar	90.65	92.6
Saudi Arabia	78.75	81.8
Syrian Arab Republic	51.3	54.9
United Arab Emirates	82.45	86.2
Yemen	31.25	38.4
ESCWA region	56.0	59.0

Source: United Nations, *World Urbanization Prospects: The 1994 Revision* (ST/ESA/SER.A/150) (New York, 1995).

a/ The figures apply to the Gaza Strip only.

Such an increase has considerable environmental implications, not least of which is that if present densities are maintained (countries/territories with an urbanization rate of over 70 per cent include Bahrain, Iraq, Jordan, Kuwait, Lebanon, Qatar, Saudi Arabia, United Arab Emirates and the West Bank and Gaza Strip), the overall extent of urban areas will increase with tremendous pressure on infrastructure and deterioration of environmental conditions.

One particularly acute problem confronting big cities in the region relates to waste, viewed from the economic, environmental and social points of view. There are a few fairly well-known examples of economic waste. The first of these relates to that part of the urban material endowment (roads, for example) whose size is not determined on the basis of actual hours of peak use. Another example relates to the premature economic obsolescence of some urban property in expensive areas of cities where buildings are razed when

still in good condition and replaced by others which allow for denser occupation of the land and hence for greater financial returns from it (for example in Cairo, Beirut and Damascus). In environmental terms, another problem is traffic congestion, whose solution is of key importance to clean air and the future of urban centres in the region.

Urban population growth and the accompanying industrialization in and around large cities of the region in recent years have created massive air pollution problems, especially in the capital cities of the region. In Cairo, for example, sulfur dioxide emissions into the air from oil-burning power plants are causing lung disease in children at much higher rates than in rural communities. Cairo also suffers from very high levels of desert dust pollution, along with dangerous dust emissions from industries such as the cement plants in Helwan adjacent to the city. Dust pollution causes respiratory tract diseases, gastro-duodenal ulcers and cancer. Dust levels in Cairo are up to 10 times WHO safe levels. Concentrations of lead in Cairo's air, caused by vehicles using leaded gasoline and emissions from lead smelters, are known to contribute to mental retardation and neurological problems and are well above global norms.[96] These and other air pollution problems are also affecting cities such as Baghdad, Damascus, Beirut and Sana'a.

In conclusion, the issue of urbanization is closely linked to the state of the environment and poverty. Although this is a worldwide phenomenon, in the ESCWA region the link between environment, poverty and urbanization is more pronounced owing to specific socio-economic and demographic characteristics of the region. These include rapid urbanization and economic growth of large cities and coastal areas, very low arable land-to-person ratios and the persistence of poverty in rural and urban areas of the region. Such factors are contributing significantly to the deterioration of the environment.

B. ENVIRONMENTAL STRATEGIES AND PLANS OF ACTION

Before the first United Nations Conference on the Human Environment in Stockholm (1972), most ESCWA member countries had a compendium of national laws relating in one way or another to the environment (usually by sector). The administrative units responsible for implementing national laws and policies were generally similarly sectoralized, but there was increasing recognition that environmental policies and administrative units needed to be drawn together in some more comprehensive way. These trends found their expression in the slow development of policies, laws and institutions in most ESCWA member countries, particularly after the Stockholm Conference.

The primary environmental concern in the ESCWA region is the management of natural resources. Many countries have published national development strategies during the past two decades, although few have produced national conservation strategies and environmental plans. Environmental profiles were produced for Bahrain, Kuwait, Qatar and Saudi Arabia during the period 1987-1989 as a first step in resource assessment, and as a base on which full environmental strategies might be developed.

1. *Environmental laws, institutions and management*

The environmental laws in the region are diverse. Some countries have relatively wide-ranging and sophisticated series of laws, while others have rather less developed environmental legislation. While the primary thrust of such legislation, like that of policy, has been to regulate the use of natural resources in agriculture, water, energy and land use, pollution control has also been covered and a number of countries

[96] According to a recent report by the United States Agency for International Development. Cairo could save 4,000 to 16,000 lives a year by reducing the levels of air pollution. The report also notes that Cairo's air has the highest levels of particulate matter and lead in the world.

(under donor pressure in many cases) have also required environmental impact assessment (EIA) and have established agencies entrusted with environmental protection tasks.[97] Though some ESCWA member countries have introduced EIA as part of their planning process, the limiting factor is not the adequacy of the written legislation but the efficiency with which it can be enforced.

Since the Stockholm Conference environmental issues have steadily gained prominence in world affairs. The world responded to the challenge of harmonizing economic development with the environment by convening the United Nations Conference on Environment and Development (UNCED) at Rio de Janeiro, Brazil, in June 1992 and adopted a global environment and development agenda for the twenty-first century (Agenda 21). No doubt, many issues included in Agenda 21 had been deliberated in different forums, at different times. However, its unique feature is the fact that all issues—from forests to the marine environment, from technology transfer to institutional reforms—were brought together under one policy heading.

In the last decade, various public institutions were created to focus on promoting environmental management. However, success in promoting sustainable development and the implementation of appropriate policies and programmes depends largely on the commitment and effectiveness of public environmental authorities.

The majority of ESCWA member countries have assigned the strategic function of designing policies for environmental protection either to a single environmental ministry or to a national commission or council. This trend in institutional development was brought about by the recognition that:

(a) A national institution responsible for environmental strategy needs to contribute significantly to the planning process, in order to set realistic targets and priorities and to obtain political endorsement for them;

(b) An institution that seeks to regulate the activities of the major sectors such as water, land use, energy, transport and industry needs to be fully represented at a high level of government;

(c) Environmental management at a national level involves not only policy-making but planning and coordination;

(d) The formulation and implementation of environmental policies must be based on reliable information and continuous assessment of new information, including monitoring and assessment of the effectiveness of the action taken.

Table 63 is an illustration of a functional description of recent trends and developments in environmental administration in ESCWA member countries. For each country, the specific institutional form depended not only on the function of the institution, but also on existing national characteristics, the constitutional system of the country concerned and its administrative traditions.

Most ESCWA member countries have restructured their environmental institutions with the issuance of regulations and environmental standards in the areas of guidelines, standards, laws, and rules and regulations for proper environmental management.

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[97] In Saudi Arabia, the Meteorology and Environment Protection Agency (MEPA) has had prime responsibility for environmental management since 1980, while wild life conservation in the Kingdom is the responsibility of the National Commission for Wild Life Conservation and Development.

At the regional level, a number of intergovernmental initiatives led to the creation of the Council of Arab Ministers Responsible for Environment (CAMRE), under the League of Arab States, which oversees priority environmental issues in the region. In 1993 ESCWA and CAMRE initiated the establishment of the Joint Committee on Environment and Development in the Arab Region (JCEDAR) to enhance the adoption of a regional action plan for Agenda 21.

TABLE 63. GOVERNMENTAL ENVIRONMENT PROTECTION INSTITUTIONS IN THE ESCWA REGION

Country/territory	Policy institutions	Executing agency
Bahrain	Environmental Protection Commission	Ministry of Housing, Municipalities and Environment
Egypt	Office of the Prime Minister	Egyptian Environmental Affairs Agency
Iraq	National Council for the Protection and Improvement of Environment	Ministry of Health
Jordan	Council of Ministers Ministry of Municipalities; Rural Affairs and Environment	General Corporation for Environmental Protection
Kuwait	Environmental Protection Council	Various Ministries
Lebanon	Ministry of Environment	Various Ministries
Oman	Council of Ministers	Ministry of Provisional Municipalities and Environment
Qatar	Council of Ministers	Ministry of Municipalities and Agriculture
Saudi Arabia	Ministerial Committee on Environment	Meteorology and Environmental Protection Administration
Syrian Arab Republic	Minister of State for Environmental Affairs	General Authority for Environmental Affairs
United Arab Emirates	Council of the Federation	Federal Environmental Agency
West Bank and Gaza Strip	Council of Ministers	Ministry of Agriculture
Yemen	Council of Ministers	Environmental Protection Council

Source: ESCWA, based on national and international sources.

Note: Institutional strengthening for environmental administration has normally been of three basic types in the region:

(a) Minor adjustments to already well-established agencies;
(b) Restructuring of agencies to give greater emphasis to environment or expanding the role of agencies;
(c) Setting up a new agency to address environmental issues.

2. *Key international agreements*

More treaties on environmental protection have been formulated. These treaties are basically comprehensive umbrella agreements which state the general goals of the parties, but do not impose any mechanisms that oblige them to achieve those goals.

Key international agreements can be broadly divided into two categories: "green" (flora and fauna, natural resources), and "brown" (pollution control and prevention).

BOX 9. AGENDA 21 AND THE CONCEPT OF SUSTAINABLE DEVELOPMENT

The United Nations Conference on Environment and Development (UNCED) held at Rio de Janeiro, Brazil, in June 1992 drew up a global environment and development agenda for the twenty-first century.

Agenda 21 covers virtually every aspect of human activities as they relate to the environment. The four basic dimensions in Agenda 21 are: (1) socio-economic dimensions; (2) conservation and management of resources for development; (3) strengthening the role of major groups; and (4) means of implementation. As such there are 120 different action programmes with the environmental components. The number and content of the programme areas reflect not only the significance but also the complexity of the concept of sustainable development.

The World Commission on Environment and Development (1987) defined sustainable development as development that should "meet the needs of the present without compromising the ability of future generations to meet their own needs". In simple terms this definition means that consumption of natural resources—in particular renewable resources—should be commensurate with regeneration. However, it is important to realize some key points about sustainable development:

(a) It is a continually evolving process—a process which we must all build as society moves progressively from where it is today to a point where the three pillars of sustainable development interact in a sustainable manner. Those pillars are: economic growth, ecological balance and social progress;

(b) Sustainable development involves local, national, as well as global issues. It is not the same in all countries. The emphasis between development, job creation, improvement in social conditions and the environment will and must differ depending on each country's natural resources endowment and socio-economic conditions;

(c) The development aspect of sustainable development should be stressed and integrated in specific environmentally sound strategies;

General Assembly resolution 47/190 endorsed Agenda 21 and urged "Governments, organs, organizations and programmes of the United Nations system as well as other intergovernmental and non-governmental organizations to take the necessary action" to implement the provisions of Agenda 21 and the other important results of UNCED. Since this endorsement, Agenda 21 has become the blueprint for development. In its resolution 47/191, the General Assembly requested the Economic and Social Council to set up a high-level Commission on Sustainable Development, which was subsequently established: its main tasks are to ensure effective follow-up of UNCED; enhance international cooperation and catalyse intergovernmental decision-making; and examine the progress in implementing Agenda 21 at the national, regional and global levels. An Inter Agency Committee on Sustainable Development was also created to coordinate the work of organs, organizations and programmes of the United Nations system on the implementation of Agenda 21.

Agreements related to biological diversity and natural habitats (the green treaties) include the Convention on Biological Diversity (Rio de Janeiro, 1992), which has been ratified by four countries in the ESCWA region. The Convention on International Trade in Endangered Species of Wild Fauna and Flora (Washington, D.C., 1973) has been ratified by three countries in the ESCWA region: Egypt, Jordan and the United Arab Emirates (table 64).

TABLE 64. STATUS OF ESCWA MEMBER COUNTRIES REGARDING SELECTED INTERNATIONAL TREATIES ON THE ENVIRONMENT

ESCWA member countries	Convention on International Trade in Endangered Species of Wild Fauna and Flora	Montreal Protocol on Substances that Deplete the Ozone Layer	Basel Convention on the Control of Transboundary Movement of Hazardous Wastes and Their Disposal	Convention on Biological Diversity	United Nations Framework Convention on Climate Change	United Nations Convention to Combat Desertification in those Countries Experiencing Serious Drought and/or Desertification, Particularly in Africa	Convention for the Protection of the Mediterranean Sea against Pollution	Kuwait Action Plan	Red Sea and the Gulf of Aden Action Plan
	1973	1987	1992	1992	1992	1994	1975[a/]	1978[a/]	1982[a/]
Bahrain	-	X	X	-	X	-	-	X	-
Egypt	X	X	X	X	X	X	X	-	X
Iraq	-		-	-	-	-	-	X	-
Jordan	X	X	X	X	-	-	-	-	X
Kuwait	-	X	X	-	X	-	-	X	-
Lebanon	-	X	X	X	X	-	X	-	-
Oman	-	-	X	X	X	-	-	X	X
Qatar	-	-	X	-	-	-	-	X	-
Saudi Arabia	-	X	X	-	X	-	X	X	X
Syrian Arab Republic	-	X	X	-	-	X	-	-	-
United Arab Emirates	X	X	X	-	-	-	-	X	-
Yemen	-	-	-	-	-	-	-	-	X

Source: ESCWA, based on various environmental treaties.

Note: X indicates membership.

a/ UNEP initiated regional seas programmes.

Agreements relating to the prevention and control of pollution (the brown treaties) include the United Nations Framework Convention on Climate Change (1992), which has been ratified by six countries in the ESCWA region; the International Convention to Combat Desertification in those Countries Experiencing Serious Drought and/or Desertification, particularly in Africa (1994), which has been ratified by two countries in the ESCWA region; the Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and their Disposal (1989), which has been ratified by 10 countries in the ESCWA region; and the Montreal Protocol on Substances that Deplete the Ozone Layer (1987), which has been ratified by eight countries in the ESCWA region.

As can be noted from a review of table 64, the level of participation by ESCWA member countries in international environmental agreements is weak. With the exception of Egypt (100 per cent participation in international treaties on the environment), most ESCWA member countries are only moderately represented among participants in the key environmental conventions, and at least two countries of the region (Iraq and Yemen) have no representation at all. In some cases, the reason may be lack of support or disagreement with the objectives or specific provisions of treaties. The main reason, however, is that many ESCWA member countries have not been able to give priority to treaty implementation because implementation through domestic legislation is a complicated legal and administrative task requiring a large amount of professional and administrative expertise and resources which may be lacking.

4. *Conclusions*

It is clear from this review that environmental policy is now a concern of all ESCWA member countries. However, the programmes, laws and institutions that have been created have grown haphazardly and are largely sectoral in nature.

In recognition of the inter-sectoral nature of many environmental concerns, an increasing number of Governments are developing cross-cutting policies, laws and institutions, and many are also seeking to bridge the gaps between the public and private sectors and NGOs. Within Government, the machinery commonly takes the form of inter-ministerial or interdepartmental committees, while the policies are often expressed in national environmental strategies, developed in consultation between the sectoral departments. Even then, the policies are generally implemented through the traditional sectoral machinery. Only a few Governments (in Oman, for instance) have created high-level, cross-cutting procedures under the direct control of the head of Government or a very senior minister, and assigned to all ministers responsibility for accounting for the environmental impact of their departmental policies.

A national integrated environmental policy should be incorporated in each country's national conservation strategies (as in Jordan in 1994 and Saudi Arabia in 1989). However, in many ESCWA member countries, the weakness is in organizational structure, consultative machinery and resources available for the implementation of agreed policy or enforcement of law. Furthermore, environmental departments in almost all ESCWA member countries have limited staff and budgets in relation to the demands made on them. In addition, revenues from natural resource use or tourism often bypass local communities so that they have little incentive to conserve the resources on which these activities depend.

Another problem is the lack of information and data. Formal and informal education, training and other supportive measures that would help to increase environmental awareness fall far short of meeting the needs of sustainable environmental management. The result is that most ESCWA member countries lack the scientific base and the human resources to develop either the policies or the legislation for effective management of natural resources and the physical environment.

BOX 10. FORMULATING NATIONAL ENVIRONMENTAL STRATEGY

Despite growing evidence that environmental degradation is an important socio-economic problem, concerned authorities in many countries have been unable to stop it. It is often said that environmental control is too costly and that countries should concentrate on other development priorities.

Experience in the industrialized countries shows that the costs of preventing environmental degradation are frequently much lower than those required for the remedies. The ESCWA member countries can learn from this experience by anticipating environmental problems and learning how to use their scarce resources more efficiently in order to prevent environmental damage. The need to use resources efficiently and effectively also calls for the preparation of sound environmental strategies and action plans.

There is no standard approach for addressing environmental problems. Each environmental strategy varies depending on the physical, biological, social and economic attributes of the particular country involved. None the less, experience from around the world suggests that the most important ingredient in the preparation of successful environmental strategies is achieving an adequate balance between rigorous analysis and participation by key stakeholders. Consultation in the strategy-making process should involve those who are responsible for environmental problems, those who are adversely affected, those who control the instruments for solving the problems, and those who have relevant information and expertise. Experience so far shows that the most effective environmental strategies include three key elements: (a) identifying priority problems; (b) defining priority actions; and (c) ensuring effective implementation as shown below.

Key element	Description
1. Identifying priority problems	Consists of analysing the extent and severity of environmental concerns and identifying those considered to be most critical based on specified criteria.
2. Defining priority actions	Probably the most important component of a strategy, this comprises three major steps: (a) Identifying the causes of problems; (b) Setting goals; (c) Identifying alternative policy instruments to address the causes of problems based on the expected benefits and costs, and other relevant criteria and considerations.
3. Ensuring effective implementation	Involves integrating the proposed actions with the government's macroeconomic and sectoral policies; participation by key stakeholders in the planning and implementation phases; finding incentives that ensure clear assignment of institutional responsibilities, consistent and transparent legislation, and adequate implementation capacity; mobilizing resources to finance strategy implementation; and making provisions for monitoring, evaluation, and revision of priorities during implementation.

BOX 10. *(continued)*

In practice, environmental strategy-making is not linear and countries do not necessarily carry out these three sets of activities in sequence. Defining a national environmental strategy may involve building on existing sectoral policies and plans, while pilot programmes or demonstration projects may be undertaken before planning is completed. The work involved in preparing a plan often contributes to the achievement of some of its subsequent objectives. Indeed, plan preparation and implementation are frequently intertwined. Government agencies involved in preparing environmental strategies need to seek to achieve consistency in the policies they adopt, and coordinate those policies better. Preparing a strategy also has educational benefits. The more diverse the participants—government agencies, local communities, technical experts, NGOs—the greater the opportunities for exchanging information, improving understanding, and building the capacity of the main elements in a strategy or an action plan, which is likely to be prepared as implementation proceeds, and as environmental conditions and institutional capacities change over time. To sum up, national environmental strategy-making is a dynamic process subject to periodic review and revision as well as the participation of different agents.

Source: World Bank, *National Environmental Strategies: Learning from Experience*, 1995.

National, regional and international actions are clearly closely linked. The articulation of regional programmes and institutions, backed by regional conventions and other legal instruments, will help to extend the shared interest among the countries in the region to protect the environment. The increasing recognition of global problems is in turn leading to a rapid proliferation of international legal instruments concerned with environment. Again, this increase in international obligations poses serious problems for many Governments in the region, because the obligations they incur are far from cost- or resource-free. There is also increasing international scrutiny of compliance with treaty commitments with understandable criticism of non-compliance. ESCWA member countries thus find themselves under dual pressure: to join in international agreements and to commit scarce resources to their implementation.

C. SHORT-TERM OUTLOOK

Resource endowment, economic policies and, to some extent, the political situation have determined the patterns of economic development in the region. In no area have the various strategies and approaches to achieve economic progress been free of cost. They have influenced, in varying degrees, the various human conditions, including demographic dynamics, urbanization, health and poverty. They have had a more direct impact on the resource base—which generally tends to deteriorate with growing industrialization—and on consumption as well as poverty. The most seriously affected sectors are land, freshwater, air and coastal areas. Urbanization, coupled with industrialization and the increase in the number of motor vehicles, has had serious consequences for the environment, contributing to a rise in the level of water and air pollution as well as solid wastes. Table 65 summarizes major environmental and development trends up to the year 2000.

TABLE 65. SHORT-TERM ENVIRONMENTAL OUTLOOK FOR THE ESCWA REGION

Environmental issues and development challenges	Current and likely trends 1995-2000	
	Increase ↑	Decrease ↓
1. Land resources		
Arable land		
Land degradation	↑	↓
Desertification	↑	
2. Agriculture		
Food security		↓
Agro-chemical use	↑	
3. Freshwater		
Consumption	↑	
Quality		↓
4. Industry		
Industrialization	↑	
Industrial pollution	↑	
Resource use	↑	
5. Energy		
Commercial use	↑	
Pollution	↑	
6. Transport		
Vehicles	↑	
Vehicular pollution	↑	
7. Atmosphere		
Air pollution	↑	
8. Population		
Growth rate	↑	
Poverty	↑	

TABLE 65. (*continued*)

Environmental issues and development Challenges	Current and likely trends 1995-2000	
	Increase ↑	Decrease ↓
9. Human settlements		
Urbanization	↑	
Slums and urban poverty		
10. Solid waste		
Generation	↑	
Management	↑	
11. Marine environment		
Coastal pollution	↑	
Resource losses	↑	
12. Tourism		
Volume	↑	
Environmental degradation of national Heritage		↓
13. Human health		
Life expectancy	↑	
Traditional diseases		↓
Infant mortality		↓
14. Policy responses		
Public authorities action	↑	
Environmental awareness	↑	
Environmental research	↑	
Subregional cooperation	↑	
Participation in global conventions	↑	

Source: ESCWA based on international sources.

VII. SOCIAL ISSUES AND DEVELOPMENTS

A. MAJOR SOCIAL DEVELOPMENTS AND TRENDS IN THE ESCWA REGION

As a result of the massive investments in building the infrastructure for social services in the ESCWA region over the past two decades, social development indicators showed dramatic progress in terms of mortality rates, life expectancy at birth, nutrition, and the provision of health services. Nevertheless, the region registered a deterioration in the overall social situation which, aside from political factors, mainly resulted from a combination of high fertility rates, high rates of unplanned urbanization (rural/urban migration) and inadequate education systems that did not properly equip graduates to find productive employment. Those three factors seem to be unrelated, with separate causes, yet they all feed into the escalating problems of unemployment and poverty.

The high fertility rates over the past 20 years have resulted in extreme youthfulness of the region's present population; in 1995, it was estimated that 41 per cent of the population were under 15 years of age. This rapid population growth resulted in increasing pressures on the social infrastructure, which required sacrificing quality for quantity. Moreover, the failure to generate economic growth adequate for the large increase in population has increased the number of unemployed and poor people in the region.

As a result of the huge investment in building the infrastructure for urban centres, there was a dramatic shift of population from rural to urban areas. Between 1960 and 1980, rural to urban migration grew at an extremely rapid rate, averaging 8.7 per cent annually. By 1995, the majority of the population in ESCWA member countries, with the exception of Egypt, Oman and Yemen, resided in urban areas. Such demographic expansion exerts pressures on the social services provided in urban centres (health, education and recreation) and thus lowers the quality of such services. The urban labour force is growing at a rapid rate of 4 to 6 per cent a year in most member countries, with added pressures on already saturated urban labour markets thus resulting in exacerbating the unemployment problem in the cities.

According to the 1995 World Development Report, the rate of adult illiteracy in the ESCWA region is twice the average for middle income countries and is even higher than that for low income countries. Adult illiteracy among the female population is particularly high by any standard.[98] The fact that such low rates of adult literacy were recorded after the massive investment in education during the past two decades indicates the ineffectiveness of the educational systems and the neglect of formal education.

According to figures from UNESCO, the illiteracy rate in the Arab world is not expected to fall below 40 per cent of the total population by the year 2000. The effective drop in the standards of regular education, coupled with the dominance of theoretical education in the region, produced a discrepancy between the output of the educational system and the technical requirements of the labour market. The educational system could not match the fast rate of social, economic and political transformation that took place during the past two decades, which led to a situation wherein the change in the quality of the labour force in terms of skills, training and education was significantly below that required by the parallel structural changes. Accordingly, more efforts need to be devoted to the quality of education in order to link it to the present development needs and to produce a workforce able to find productive employment. The quality of education needs to be upgraded to the technical requirements of the twenty-first century with emphasis shifted to cognitive skills and technically advanced skills.

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[98] World Bank, *World Development Report 1995: Workers in an Integrating World* (New York, Oxford University Press, 1995).

The failure of the educational system to adapt to the rapidly changing requirements of modern open economies eventually resulted in the rapid rise in unemployment among youth (59 per cent of the unemployed are first-time job seekers). The roots of the youth unemployment problem stem from the past dominance of the economy by the civil service; guaranteed employment of skilled labour in the public sector obscured the fact that many graduates lacked skills relevant to job requirements. With the saturation of the public sector, graduates were found to lack requirements of productive employment, resulting in a twofold dilemma: the inability of the private sector to grow and the increasing number of unemployed graduates. Other forms of unemployment increased, such as underemployment in the public sector, discouraged unemployment and long-term unemployment.

The above developments have resulted in double-digit unemployment rates for the region as a whole during the 1990s. Unemployment rates in the ESCWA member countries with more diversified economies are among the highest in the world, with real wages falling more than any other region and with the average worker earning no more in real terms than in the early 1970s.[99] This deterioration in wages occurred even as massive investment in human capital outpaced other regions. With the high unemployment rates persisting in many countries of the region for the past decade, and with no solution foreseeable in the near future, the situation will eventually result in long-term unemployment. Such a situation is of particular concern because the longer people remain unemployed, the more difficult it will be to integrate them into productive employment, given their declining level of skills after a long period of unemployment.

Moreover, the present trend to privatize the public sector, in an effort to reduce the dependence on the "Welfare State" situation that prevailed in the past, adds to the unemployment dilemma. More people will be laid off from government jobs that they have been occupying for the past few decades with skills that do not allow them easily to join the private sector.[100] Privatization in particular and structural adjustment policies in general may be economically feasible, but their negative consequences for the social front are vast. In addition, the present drive to globalize the world economy adds to the vulnerability of all non-competitive enterprises and thus will result in further laying off of employees, although efficient enterprises should expand and employ more workers. What is needed is an integrated critical approach to the transformation process that addresses the social consequences of adjustment policies, including those resulting from the globalization of markets and rapid technological changes in communication and capital flows.

To sum up, ESCWA member countries are facing a great number of emerging challenges regarding the labour markets: problems related to labour absorption; restructuring of education; creation of productive employment opportunities; structural imbalances in the labour market of each country; rehabilitation of the unemployed, especially those who suffered from long-term unemployment; integration of new entrants to the labour markets, especially youth; restructuring and downsizing of the public sector; and increasing pressures to pursue market-oriented growth paths and to open to the global economy. Solving such problems requires a new look at human capital that differs vastly from the past. With the ongoing trend to globalize the international economy that implies open access to large markets but at the same time increased global competition, the countries in the ESCWA region should plan their future to resolve the above problems collectively.

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[99] World Bank, *Will Arab Workers Prosper or Be Left Out in the Twenty-first Century*? (Washington, D.C., 1995), pp. 2-7.

[100] For more details, see Jacques van der Gaag "Social development during adjustment in the MENA region: contradiction or opportunity", paper presented to the World Bank/AMF Meeting on Social Impact of Economic Reform on Arab Countries, Abu Dhabi, January 1996.

Other social ills currently faced by the ESCWA region relate to crime, family disintegration, drug abuse and the marginalization and alienation of certain social groups. Although the magnitude of such problems is small compared with other regions in the world such as Latin America or Europe, their fast growth during the past decade warrants special attention. The spread and growth of such social problems are directly linked to the rise in poverty and lack of job creation to absorb the new entrants to the labour force. Poverty, coupled with the inability to find a proper job, can result in frustrations that lead to extremism and violence and hence social instability. As such, a social contract that fits in better with the new global realities is needed to alleviate the interlinked problems poverty and unemployment.

B. POPULATION SIZE AND GROWTH

The population of the ESCWA region was estimated at 143.3 million in mid-1994, representing approximately 2.5 per cent of the world population (5.6 billion). During the preceding 12 months, the population grew by 3.5 million, and it is expected to grow by an additional 3.5 million or 4 per cent of the world's annual increment (87 million) during the subsequent 12 months to reach 150.2 million in mid-1996.

There have been marked differences in the population size of the ESCWA members. In mid-1994, Egypt alone (62.1 million) comprised 43.3 per cent of the total population in the ESCWA region. Far behind are the population figures of Iraq (18 million) and Saudi Arabia (19 million), which account for 12.6 and 13.3 per cent respectively of the ESCWA region's total population. Next come the Syrian Arab Republic (13.5 million) and Yemen (14 million), representing 9.4 and 9.8 per cent respectively of the region's population, then Lebanon and Jordan with 3.5 million and 4.5 million, or 2.4 and 3.1 per cent respectively of the population of ESCWA region. The West Bank and Gaza Strip, United Arab Emirates, Oman and Kuwait follow with a population size of between 1.5 million and 2.5 million or 1 per cent and 1.7 per cent of the region's total, and finally the populations of Qatar and Bahrain which are less than 1 million or 0.7 per cent of the ESCWA region's populations. Egypt is projected to remain the region's most populous country in mid-1996, with a population size accounting for 43 per cent of the ESCWA region, Bahrain and Qatar will remain the least populous countries, with less than 1 million inhabitants in each country (table 66).

The ESCWA region's population growth rate has held steady at about 2.4 per cent per annum since 1994. Assuming that the annual net migration rate will be steady in the future, two factors are expected to contribute to decreasing the population growth in the future. These factors are the fertility decline in the most populous country (Egypt), and the fact that both Jordan and the Syrian Arab Republic, will experience a change in the age structure of their populations.

The annual population growth rate varies considerably among the members in countries and territories in the ESCWA region. During the period 1994-1996, the population was growing fastest in Kuwait (7.07 per cent per annum) and slowest in Egypt and Qatar (1.79 and 1.31 per cent per annum respectively). As the rapid change in the population size of Kuwait resulted mainly from the migration streams of nationals and non-nationals who returned to the country after the Gulf crisis, Kuwait's population growth is expected to slow in the near future. The West Bank and Gaza Strip also had a high population growth rate (3.91 per cent per annum), and since this high growth rate is related to the increasing fertility in the Gaza Strip and the migration flows which entered the territory after the start of the Middle East peace process, it is expected to decrease in the near future.

TABLE 66. POPULATION SIZE AND AVERAGE ANNUAL GROWTH RATES IN THE ESCWA REGION, 1994-1996

Country/area	Year	Nationals			Non-nationals			Total population			Average annual growth rate 1994-1996	Average annual growth rate 1994-1996
		Total	Males	Females	Total	Males	Females	Total	Males	Females	Total population	Nationals
ESCWA region	1994	132 930 082	67 279 858	65 650 224	10 326 263	7 039 929	3 286 334	143 256 345	74 319 787	68 936 558		
	1996	139 321 281	70 511 082	68 810 199	10 872 492	7 449 833	3 422 659	150 193 773	77 960 915	72 232 858	2.36	2.35
Bahrain	1994	345 733	174 820	170 913	204 759	143 259	61 500	550 492	318 079	232 413		
	1996	366 513	185 206	181 307	211 323	146 479	64 844	577 836	331 685	246 151	2.42	2.92
Egypt	1994	61 330 972	31 181 717	30 149 255	770 094	559 852	210 242	62 101 066	31 741 569	30 359 497		
	1996	63 525 433	32 315 174	31 210 259	840 121	623 705	216 416	64 365 554	32 938 879	31 426 675	1.79	1.76
Iraq	1994	19 092 826	9 789 001	9 303 825				19 092 826	9 789 001	9 303 825		
	1996	20 063 355	10 278 832	9 784 523				20 063 355	10 278 832	9 784 523	2.48	2.48
Jordan	1994	3 780 912	1 938 868	1 842 044	276 753	178 618	98 135	4 057 665	2 117 486	1 940 179		
	1996	3 996 854	2 046 366	1 950 488	290 565	185 313	105 252	4 287 419	2 231 679	2 055 740	2.75	2.78
Kuwait	1994	671 345	339 096	332 249	948 743	654 960	293 783	1 620 088	994 056	626 032		
	1996	723 932	366 054	357 878	1 142 391	831 543	310 848	1 866 323	1 197 597	668 726	7.07	3.77
Lebanon	1994	3 481 264	1 751 686	1 729 578				3 481 264	1 751 686	1 729 578		
	1996	3 625 786	1 823 279	1 802 507				3 625 786	1 823 279	1 802 507	2.03	2.03
Oman	1994	1 510 870	769 183	741 687	538 253	425 588	112 665	2 049 123	1 194 771	854 352		
	1996	1 611 884	820 336	791 548	548 503	429 307	119 196	2 160 387	1 249 643	910 744	2.64	3.24
Qatar	1994	128 986	64 581	64 405	403 301	281 312	121 989	532 287	345 893	186 394		
	1996	137 763	68 977	68 786	408 615	283 303	125 312	546 378	352 280	194 098	1.31	3.29
Saudi Arabia	1994	13 053 341	6 590 220	6 463 121	5 127 154	3 563 199	1 563 955	18 180 495	10 153 419	8 027 076		
	1996	13 951 235	7 043 539	6 907 696	5 289 498	3 676 022	1 613 476	19 240 733	10 719 561	8 521 172	2.83	3.33
Syrian Arab Republic	1994	13 198 084	6 694 537	6 503 547	535 556	271 653	263 903	13 733 640	6 966 190	6 767 450		
	1996	13 839 763	7 017 939	6 821 824	564 967	286 582	278 385	14 404 730	7 304 521	7 100 209	2.39	2.37
United Arab Emirates	1994	628 664	321 457	307 207	1 521 650	961 488	560 162	2 150 314	1 282 945	867 369		
	1996	664 378	339 102	325 276	1 576 509	987 579	588 930	2 240 887	1 326 681	914 206	2.06	2.76
West Bank and Gaza Strip	1994	2 238 664	1 126 716	1 111 948				2 238 664	1 126 716	1 111 948		
	1996	2 420 843	1 219 364	1 201 479				2 420 843	1 219 364	1 201 479	3.91	3.91
Yemen	1994	13 468 421	6 537 976	6 930 445				13 468 421	6 537 976	6 930 445		
	1996	14 393 542	6 986 914	7 406 628				14 393 542	6 986 914	7 406 628	3.32	3.32

Sources: 1994 figures are those published in the *Demographic and Related Socio-Economic Data Sheets for Countries of the Economic and Social Commission for Western Asia, as assessed in 1994* (ESCWA publication, No. 8). 1996 figures are calculated by ESCWA on the basis of the 1994 *Data Sheets* assessment.

BOX 11. PARTICIPATION OF WOMEN IN MANUFACTURING IN THE ESCWA REGION

A joint UNIDO/ESCWA study was undertaken in 1995 on the "Participation of Women in Manufacturing: Patterns, Determinants and Future Trends".[a/] The purpose of the study was to present a systematic quantitative analysis of women's economic and manufacturing roles, and to identify key economic and social determinants that affect women's involvement and specific country and/or region strategies and plans of action for enhancing women's economic development.

The results of the study showed a strong relation between social and demographic indicators which characterize women's employment opportunities and economic status. The educational level and female fertility rates in the region were important indicators of the size and quality of female labour. The advancement of women's economic and social status is strongly linked to: the level of economic and industrial development in a country; cultural awareness of gender issues; female educational attainments; female fertility rates; female access to resources; and female access to productive employment outside the agricultural sector.

With respect to the participation of women in manufacturing, the study covered the year 1993 and it indicates that women's share reached on the average 8.6 per cent of the total manufacturing labour force and 9.26 per cent of the total female labour force in the ESCWA region.[b/] Variations in the participation rates of women in manufacturing reflect the overall industrial level of the different countries on the one hand, and variations in the socio-economic and cultural determinants governing women's participation in industry on the other hand. The lowest rates of women's participation in manufacturing were found in countries with a relatively short history of industrialization, high socio-economic levels in terms of GDP, high levels of tertiary education for women, and cultural norms favouring women's employment in the services sector, as in the GCC countries.

Countries with relatively high rates of women's employment in manufacturing—such as Egypt, Iraq, the Syrian Arab Republic, Lebanon and lately Jordan—had experienced earlier industrialization efforts, have lower per capita GDP levels, and were generally less gender-segregated compared with the GCC countries. Some have lower education attainment levels among their female populations. Generally, the employment of women in manufacturing in the region is limited to labour-intensive industries such as food-processing and textiles, and low-skill jobs. Some of these jobs are in electronic assembly industries. Female manufacturing labour is also largely absorbed by the informal sector in the more diversified economies.

A high correlation was detected between higher women's participation in manufacturing activities and lower rates of urbanization, poor levels of industrialization and low GDP per capita. Female manufacturing activities are higher in countries with high female agricultural activity, high dependency ratios, wider gender gaps in primary, secondary and tertiary school enrolment, low female secondary enrolment, and low age at first marriage for women. Such relations suggest that within the more diversified economies, significant structural factors affect women's participation in the formal manufacturing sector, leaving most of the female manufacturing activity in the informal domain. With regard to the more affluent Gulf region, however, women's exclusion from the industrial and manufacturing sectors is primarily a cultural rather than a structural challenge. Another obstacle facing women is access to job opportunities. Case-studies have found that women's manufacturing activities are concentrated at the low end of the occupational hierarchy.

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a/ See UNIDO, *Participation of Women in Manufacturing: Patterns, Determinants and Future Trends—Regional Analysis, ESCWA Region*. This study was prepared in 1995 as part of a UNIDO global study,entitled *Participation of Women in Manufacturing: Patterns, Determinants and Future Trends*, in collaboration with the five United Nations regional commissions.

b/ Data were not available on Lebanon, Yemen and the West Bank and the Gaza Strip.

1. *Population structure by age*

The population structure by age and sex is considered one of the major factors which reflect the levels and trends of demographic, social and economic change in a given country. In mid-1994, 40.72 per cent of the total population in the ESCWA region were under 15 years of age, and 3.47 per cent were older than 65. By mid-1996 it is expected that 40.36 per cent of the total population will be under 15 years of age and 3.45 per cent will be older than 65.

This means that there was a slight contraction of the base of the population pyramid in the ESCWA region during the period 1994-1996, but to a greater or lesser extent in various countries or territories. In mid-1994 Yemen reached record levels with 51 per cent of its population under 15 years. The Syrian Arab Republic and the West Bank and Gaza Strip were not far behind (49 and 48 per cent respectively). Qatar, however, has had the lowest level in the region (26 per cent), and in general the GCC countries had low levels, which can be explained by the large number of non-national population aged 15 years and above in these countries.

In mid-1994, the ESCWA region's age pyramid had a bulge in the 15-24 age group, representing 19 per cent of the total population. This trend, which outstrips the capacity of the region's economy to absorb new entrants to the labour market, was expected to remain unchanged in mid-1996.

2. *Fertility*

The crude birth rate for the total population in the ESCWA region was 31.3 births per 1,000 population in mid-1994, exceeding that of the less developed regions of the world (25 per 1,000 in 1990-1995) and more than twice the crude birth rate of the world's more developed regions (13 per 1,000 in 1990-1995). By mid-1996, this situation is expected to be the same, with the crude birth rate for the ESCWA region equal to 30.1 births per 1,000 population.

In 1994, there were 4.16 million births in the ESCWA region, accounting for 3 per cent of the world's annual number of births during 1990-1995 (137 million) and not far less than one third of the annual number of births in the world's more developed regions during 1990-1995 (15 million). By mid-1996 it is expected that this situation will remain unchanged, when 4.19 million births are added to the ESCWA region. In 1994 the highest number of births occurred in Egypt (38.3 per cent of the total births in the ESCWA region), and the lowest number of births occurred in Qatar (0.1 per cent of the total births in the ESCWA region), and this situation is expected to remain unchanged in 1996.

Although the number of births is the indicator that is relevant for policy formulation and programme planning, it is directly affected by the trends in fertility and age structure of the population. Thus, the total fertility rate (TFR) is the basic indicator of fertility reflecting the fertility level of a certain country or region. In mid-1994 the ESCWA region's TFR, was 4.6 births per woman, and by mid-1996 it was expected to decline to 4.5 births per woman; this 2.1 per cent decline in fertility can be attributed to the fertility decline in the most populous country (Egypt) and also to the fertility declines in Jordan and the Syrian Arab Republic. Nevertheless, the TFR is relatively high in many countries of the ESCWA region and it also differs considerably from one country or area to another. In mid-1994 while Kuwait, Oman, Saudi Arabia, the West Bank and Gaza Strip, and Yemen maintained a TFR of between 6 and 7.5 births per female national, TFR was less than 4 in Egypt and less than 3 in Lebanon (table 67). This situation was expected to continue in mid-1996, with the TFR highest in Yemen (7.4 births per woman) and lowest in Lebanon (2.76 births per woman).

TABLE 67. TOTAL BIRTHS, TOTAL FERTILITY RATE AND AGE-SPECIFIC FERTILITY RATES BY COUNTRY OR AREA, 1994-1996 (NATIONALS)

Country/area	Year	Total births	Total fertility rate	Age-specific fertility rates						
				15-19	20-24	25-29	30-34	35-39	40-44	45-49
Bahrain	1994	11 339	4.33	13.6	151.5	237.3	212.5	174.5	49.4	26.4
	1996	11 473	4.16	10.9	141.6	226.2	205.7	180.1	43.3	24.1
Egypt	1994	1 592 149	3.75	9.2	121.4	183.5	174.0	162.8	70.5	27.8
	1996	1 539 352	3.49	7.8	111.6	163.7	161.7	157.0	68.7	26.6
Iraq	1994	651 436	4.90	50.0	175.5	206.9	247.3	173.3	99.6	28.2
	1996	704 101	4.90	50.0	175.5	206.9	247.3	173.3	99.6	28.2
Jordan	1994	133 963	4.69	33.8	177.2	251.3	225.9	158.3	76.8	15.6
	1996	138 504	4.45	30.3	167.0	240.4	216.0	149.0	73.3	14.5
Kuwait	1994	29 751	6.52	38.3	205.3	320.3	363.5	253.1	95.4	27.3
	1996	32 019	6.57	34.3	195.7	314.4	382.3	257.0	101.5	27.9
Lebanon	1994	86 643	2.91	32.6	124.4	166.2	132.5	80.5	37.9	8.8
	1996	84 838	2.76	30.9	117.8	157.4	125.5	76.2	35.9	8.3
Oman	1994	57 253	6.87	68.4	279.2	337.6	312.3	238.5	102.8	34.4
	1996	63 495	6.87	68.4	279.2	337.6	312.3	238.5	102.8	34.4
Qatar	1994	4 763	4.99	25.3	157.1	229.1	280.2	226.9	50.9	27.5
	1996	4 995	4.94	22.4	145.8	218.7	288.5	235.5	48.7	29.3
Saudi Arabia	1994	492 909	6.10	58.8	168.8	293.1	247.8	208.3	180.6	62.2
	1996	485 873	5.62	54.2	155.7	270.4	228.5	192.1	166.5	57.3
Syrian Arab Republic	1994	369 131	4.74	65.8	178.0	230.5	214.1	164.1	76.9	18.4
	1996	395 250	4.74	65.8	178.0	230.5	214.1	164.1	76.9	18.4
United Arab Emirates	1994	19 821	5.27	40.7	147.2	197.0	261.3	221.5	122.5	64.3
	1996	20 455	5.08	34.1	127.2	173.1	256.2	226.0	131.6	67.3
West Bank and Gaza Strip	1994	102 885	6.90	107.1	282.1	305.2	358.6	203.2	98.9	24.6
	1996	112 716	6.90	116.0	287.4	299.1	359.8	196.5	96.6	25.1
Yemen	1994	606 355	7.42	122.8	288.0	316.3	295.9	246.1	142.4	71.8
	1996	648 453	7.42	123.0	288.4	316.7	296.3	246.3	142.5	71.8

Sources: Figures for 1994 are those published in the *Demographic and Related Socio-Economic Data Sheets for Countries of the Economic and Social Commission for Western Asia, as assessed in 1994*; 1996 figures are calculated by ESCWA on the basis of the 1994 *Data Sheets* assessment.

3. *Mortality*

In mid-1994, the crude death rate for the ESCWA region was 6.98 deaths per 1,000 population, which is less than the world's crude death rate (9.3 deaths per 1,000 during 1990-1995), and is also less than the crude death rate for the world's more developed regions (10.1 deaths per 1,000 during 1990-1995). This situation is a consequence of large reductions in mortality at every age, and the absence of significant counter-balancing age structure changes, such as those which occurred in the more developed regions. By mid-1996 the crude death rate for the ESCWA region was expected to decrease to 6.82 deaths per 1,000 population.

The life expectancy at birth for the ESCWA region was 65.58 years during 1994-1996: 63.83 years for males and 67.43 years for females. This level is a little higher than the world's life expectancy at birth (64.4 years during 1990-1995), and it is less than the life expectancy at birth in the more developed regions (74.4 years during 1990-1995) by 9 years. However, it is higher than the life expectancy at birth in the least developed regions (51.2 years during 1990-1995) by more than 14 years. In mid-1994, the GCC countries boasted the highest life expectancy in the ESCWA region, with the highest figure in Kuwait (76.62 years). Qatar, the United Arab Emirates and Bahrain follow with a life expectancy at birth between 70 and 75 years. Life expectancy was lowest in Iraq and Yemen, where life expectancy at birth was less than 59 years. By mid-1996 this order was expected to be the same, with Kuwait having the highest life expectancy at birth (76.62 years) and Yemen having the lowest (57.51 years) (table 68).

The infant mortality rate for the ESCWA region was 58.38 deaths per 1,000 live births during 1994-1996, 61.24 per 1,000 for males and 55.32 per 1,000 for females. In mid-1994, there were large variations in mortality among the countries of the ESCWA region. In Iraq the infant mortality rate reached a record level with more than 90 deaths per 1,000; Yemen follows in close proximity with more than 80 deaths per 1,000. Kuwait had the lowest level with less than 16 deaths per 1,000, and by mid-1996 this situation was expected to be maintained with Iraq having the highest level (91.94 per 1,000) and Kuwait the lowest level (15.9 per 1,000) (table 68).

4. *International migration*

During 1990-1995, the Gulf crisis had an enormous impact on migratory movements in the ESCWA region. About 800,000 persons returned to Yemen from Saudi Arabia; more than 216,000 Jordanian nationals returned to Jordan from Kuwait and the other GCC countries. Moreover, about 1 million persons returned to Egypt from Kuwait and Iraq. In general, while most of the GCC countries are maintaining the flow of foreign workers to their countries on temporary work permits, international migration started to be rolled back between the labour-sending countries in the ESCWA region (Egypt, Jordan, Lebanon, the Syrian Arab Republic and Yemen) and the labour-receiving countries (Gulf States), and accordingly international migration between these countries will no longer play the demographic role it played during the years which followed the quadrupling of the price of oil in the Gulf.

The population in the ESCWA region is composed mainly of nationals. However, the non-national population in the GCC countries accounts for a large portion of the total population, and it is composed mainly of males in the working age group of 15-24. In mid-1994 while the non-national population comprised less than 30 per cent of the total population in Oman and Saudi Arabia, it comprised more than 50 per cent of the total population in Kuwait, the United Arab Emirates and Qatar. The portion of non-national population in the total population of the GCC countries was expected to remain unchanged by mid-1996, despite efforts to localize the labour force.

TABLE 68. LIFE EXPECTANCY AT BIRTH AND INFANT MORTALITY RATES (NATIONALS)

Region/ESCWA member	Year	Life expectancy at birth (both sexes)	Infant mortality rate, per 1,000 (both sexes)
World	1990-1995	64.40	64.00
More developed regions	1990-1995	74.40	10.00
Less developed regions	1990-1995	62.30	70.00
Least developed regions	1990-1995	51.20	110.00
ESCWA region	1994-1996	65.58	58.38
Bahrain	1994	70.64	23.80
	1996	71.04	23.30
Egypt	1994	67.45	58.17
	1996	68.26	54.80
Iraq	1994	58.82	91.94
	1996	58.82	91.94
Jordan	1994	67.59	33.01
	1996	68.29	31.13
Kuwait	1994	76.62	15.90
	1996	76.62	15.90
Lebanon	1994	75.17	28.00
	1996	75.17	28.00
Oman	1994	67.30	28.89
	1996	67.30	28.19
Qatar	1994	72.26	17.63
	1996	72.38	16.28
Saudi Arabia	1994	68.56	25.26
	1996	69.98	22.16
Syrian Arab Republic	1994	69.86	29.55
	1996	69.86	29.55
United Arab Emirates	1994	72.16	18.20
	1996	72.16	18.20
West Bank and Gaza Strip	1994	66.64	41.82
	1996	66.64	41.82
Yemen	1994	57.51	82.46
	1996	57.51	82.46

Sources: United Nations, Department for Economic and Social Information and Policy Analysis, *World Population Prospects, the 1994 Revision*. (ST/ESA/SER.A/145); 1994 figures are those published by ESCWA in issue No. 8 of the *Demographic and Related Socio-Economic Data Sheets as assessed in 1994*; 1996 figures were calculated by ESCWA on the basis of the 1994 ESCWA *Data Sheets* assessment.

5. *Policies concerning population growth*

All countries in the ESCWA region started to realize the effects of rapid population growth, its linkages to socio-economic development and the high dependency ratios resulting from the young age structure due to high fertility levels. In 1993, these countries were classified into five groups according to their perception of the level of population growth and whether intervention was required to change it.

(a) Egypt, Jordan and Yemen viewed their growth rates as too high and have intervened to lower them by formulating explicit policies or strategies to slow population growth. Egypt has had such policies in effect since the mid-1960s and Yemen recently adopted a population strategy intended to reduce fertility levels. Jordan is adopting a birth spacing policy through an active family planning programme.

(b) The United Arab Emirates, which viewed its population growth rates as too high, has not intervened to lower them.

(c) Bahrain and the Syrian Arab Republic considered their population growth rates satisfactory and did not intervene to change them.

(d) Kuwait considered its population growth rates to be satisfactory and has intervened to maintain them.

(e) Iraq, Oman, Qatar and Saudi Arabia viewed their population growth rates as too low, and they implicitly intervene to raise them.

6. *Policies concerning international migration*

Policies on international migration are of primary concern for the different countries of the region because of their contradictory implications. In 1993, ESCWA member countries were classified into the following four groups according to their own views of their level of immigration.

(a) Bahrain, whose primary population policy is related to reducing the country's dependence on foreign workers, considered its level of immigration to be satisfactory and had no plans to intervene to change it.

(b) Egypt, Jordan and Kuwait viewed their immigration levels as satisfactory, but planned to intervene to lower them. Although Kuwait depends upon immigration to compensate for the shortage in its labour force, it is also concerned about the growing proportion of non-nationals within its total population. Although Jordan has a surplus of educated and skilled workers, it has a shortage of the unskilled workers needed for menial jobs. Jordan is concerned about the growing proportion of non-nationals within its population.

(c) Iraq, Qatar and the Syrian Arab Republic viewed their immigration levels as satisfactory and planned to intervene to maintain them.

(d) Lebanon, Oman, Saudi Arabia, the United Arab Emirates and Yemen viewed their immigration levels as too high and planned to intervene to lower them. With the exception of Lebanon, the total number of non-national migrants to these countries decreased after the Gulf crisis as a consequence of the general economic slow-down. This decrease can also be attributed to the population strategies in these countries which are related to promoting the reduction of the non-national labour force by limiting the

number of permanent foreign workers and by training and educating the national population in modern job skills.

In 1993, ESCWA member countries were classified into six groups according to their views of their level of emigration.

(a) Bahrain, Jordan, Kuwait and the United Arab Emirates viewed their emigration levels as satisfactory and had no plans to intervene to change them.

(b) Yemen viewed its emigration level as satisfactory, but planned to raise it.

(c) Iraq, Oman, Qatar and Saudi Arabia viewed their emigration levels as satisfactory, and planned to maintain them.

(d) Lebanon and the Syrian Arab Republic viewed their emigration levels as too high, and planned to intervene to lower them. These countries are considering the problem of the brain drain and the selectivity of migration in favour of professionals required for development programmes.

(e) Egypt viewed its emigration level as too low, and planned to raise emigration. Egypt looks on emigration as a tool to ease the pressures of high population growth and considers remittances from workers abroad essential for improving its economic and financial conditions.

C. URBANIZATION AND HUMAN SETTLEMENTS DEVELOPMENT

The development of human settlements in the ESCWA region is at a critical juncture. The region faces sweeping demographic, socio-political, economic and technological changes which affect the structure and shape of human settlements and their existing and potential roles in generating and sustaining growth. Rapid urbanization is putting considerable pressure on these settlements, as they have to absorb continuously growing numbers of people in need of adequate housing, infrastructure, income and social services.

1. *Urbanization trends*

The urbanization trend, which in four decades has become a permanent reality in the ESCWA region, has maintained a steady level of growth for the past 15 years. At the regional level, urban population grew from 47 per cent in 1980 to 54 per cent in 1990, and 55.8 per cent in 1995, and is expected to reach 58 per cent by the turn of the century. During the period 1990-1995, all ESCWA member countries, except the United Arab Emirates, registered higher rates of urban population growth than growth in their total population (table 69). Thus, the United Arab Emirates had a 2.24 per cent average annual growth rate for both total and urban population during the period 1990-1995. In most other countries, urban population growth exceeded total population growth by 0.5 to 1 per cent for the same period. In the cases of Oman and Yemen, which are the least urbanized countries in the region, the differential growth rates are more striking. Urban population has grown in Oman at an average rate of 7.35 per cent between 1990 and 1995 compared with 3.75 per cent for the total population; in Yemen, average annual growth rates were 6.60 per cent and 3.67 per cent for the urban population and the total population respectively. Lebanon, Kuwait and the United Arab Emirates registered the lowest rates of urban growth among ESCWA member countries during the period 1990-1995. These countries also had the highest percentages of urban population: 96 per cent in Kuwait, 84 per cent in Lebanon and 78 per cent in the United Arab Emirates (table 69). This suggests that they have reached a relatively higher level of stability in urban population growth which characterizes advanced stages of urbanization.

TABLE 69. POPULATION AND ITS GEOGRAPHIC DISTRIBUTION IN THE ESCWA REGION BY COUNTRY

Country/area	Population 1990 (000)	Annual average growth rate 1990-1995 (%)		Percentage of urban population			Population of largest city, 1990	
		Total population	Urban population	1960	1990	2000	Population (000)	Ratio to total population percentage
Bahrain	516	3.08	3.37	82	83	85	134	26.0
Egypt	52 426	2.15	3.69	38	47	54	9040	17.2
Iraq	18 920	3.39	3.95	43	71	75	4044	21.4
Jordan	4 009	3.34	4.26	43	68	74	1025	25.6
Kuwait	2 039	2.82	3.04	72	96	97	1079	52.9
Lebanon	2 701	2.20	2.69	40	84	87	1563	57.9
Oman	1 502	3.75	7.35	4	11	15	444	29.6
West Bank and Gaza Strip	-	-	-	-	-	-	-	-
Qatar	368	3.41	3.65	72	90	91	326	88.6
Saudi Arabia	14 134	3.84	4.56	30	77	82	1975	14.0
Syrian Arab Republic	12 530	3.60	4.56	37	50	58	2049	16.4
United Arab Emirates	1 589	2.24	2.24	40	78	78	589	37.1
Yemen	11 687	3.67	6.60	9	29	37	500	4.3

Source: ESCWA, "The situation of the Arab dwelling: availability, cost, and adequacy", by M.N. Bakir, in *Proceedings of the Regional Expert Group Meeting in Preparation for Habitat II* (E/ESCWA/HS/1995/1), table 1-1 (in Arabic).

Cities in the ESCWA region have been growing very rapidly. Large cities and capitals had the greater share of this growth. The number of large cities with over 1 million inhabitants in the ESCWA region increased from five in 1970 to nine in 1995. However, this growth in cities was largely in favour of primate cities, whose population rose from 11 million in 1970 to 28 million in 1995, and is expected to rise to 33 million by the year 2000. Thus cities such as Abu Dhabi, Manama, Baghdad, Kuwait, Doha, Beirut

and Cairo constituted respectively 37 per cent, 26.5 per cent, 22 per cent, 51 per cent, 68 per cent, 57 per cent and 16 per cent of total population in their individual respective countries in 1990.[101]

As elsewhere, urbanization in the ESCWA region is positively correlated with economic growth. Thus countries with the highest levels of urbanization—Kuwait (96 per cent); Qatar (90 per cent); Bahrain (83 per cent); the United Arab Emirates (78 per cent); and Saudi Arabia (77 per cent)—are either oil-producing or oil-refining countries. Their per capita incomes are among the highest in the region, ranging in 1990 from around $7,000 (at current 1990 prices) for Bahrain, Saudi Arabia and Kuwait, to close to $15,000 and $18,000 for the United Arab Emirates and Qatar respectively. Among the oil-producing countries with a per capita income of around $7,000, only Oman still has a low level of urbanization (11 per cent), in which case other factors—such as size of the country, existing settlements pattern, and geographical and socio-political considerations—have more weight in shaping the urbanization process. The high rate of urbanization in the Gaza Strip (82 per cent) could also be explained by the small size of the settlement and its spatial and economic enclosure within Israel.[102]

Rapid urbanization has also been shaped by a massive flow of population between labour-sending and labour-receiving countries in the ESCWA region, generating in turn a whole array of urban-related activities at both ends. Whereas the 1960s and 1970s witnessed an influx of labour migration from Jordan, Egypt, Lebanon and the Syrian Arab Republic into the GCC countries, this process has gradually slowed over the past 15 years, owing to a recessionary period in the early 1980s, followed by structural and policy changes in the economies of the GCC countries. As a result, a stream of returning labour to their countries of origin over the past decade was paralleled by substantial investments in the housing and service sectors in the labour-sending countries, particularly in urban areas.

Crises and wars—in addition to the dynamics of economic activities which reinforced urbanization in the region—have in turn played an important role in shaping urban growth. Since 1948 the ESCWA region has witnessed the displacement of at least 6.5 million Arab nationals in the region either on a temporary or long-term basis.[103] The 1990-1991 Gulf crisis alone accounted for the displacement of 1.994 million Arab nationals across the region. Most of these refugees, returnees, or migrants have moved to urban areas, with expectations that cities offer work opportunities and better living standards. It is against this background that urban growth and change should be looked at in the ESCWA region, drawing not only on the implications of economic growth, but also on the significance of displacement and poverty on access to housing, employment and services for national, resident and refugee groups in host countries.[104]

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[101] ESCWA, "The situation of Arab urbanization", by Ali Faour, in *Proceedings of the Regional Expert Group Meeting in Preparation for Habitat II* (E/ESCWA/HS/1995/1), tables 17-18 (in Arabic).

[102] Based on demographic and economic indicators in: ESCWA, "Urbanization in the Arab world", by Ahmad Hamoudah, in *Proceedings of the Regional Expert Group Meeting in Preparation for Habitat II* (E/ESCWA/HS/1995/1) (in Arabic).

[103] ESCWA, "Overview of human settlements policies and programmes in the Arab region" in *Proceedings of the Regional Expert Group Meeting in Preparation for Habitat II* (E/ESCWA/HS/1995/1) (in Arabic), p. 263.

[104] Ibid.

2. *Managing the urban environment*

Despite some variations at national and local levels, the impact of urbanization on urban areas, and particularly on large cities, can be clearly seen in the boom in housing construction coupled with the twin effects of soaring land and housing prices. Between 1981 and 1991, housing stock throughout the ESCWA region increased at an average rate of 4 to 5 per cent per annum, matching more or less the population growth and urbanization trends observed for this period. The expansion of built-up areas in all cities of the region and the dynamic growth in the construction industry, particularly in relation to residential development, point to the growth of this sector across the region. Housing markets still remain beyond the reach of a growing category of lower income people, however. In Beirut, by the end of the civil war in 1990, 67 per cent of the built-up area was estimated to be covered by informal settlements.[105]

The lack of access to affordable housing for lower income groups is reflected in the increase in overcrowding, the failure to replace substandard housing units, the spread of squatter settlements, paralleled by high vacancy rates in luxurious dwellings in cities such as Amman, Cairo, Damascus and Beirut. Thus in Cairo, the housing deficit is preliminarily estimated at 265,000 dwelling units per annum, for the period 1996-2000, while Egypt has an estimated 1.8 million vacant housing units. Similarly in Amman, 13,000 dwelling units per year are needed for the period 1991-2000, while the vacancy rate is estimated at around 14 per cent of the existing housing stock.[106] In the GCC countries, high vacancy rates depict a different aspect of the housing problem. The percentage of vacant units out of the total housing stock ranged from 6 per cent in Kuwait (1985) to 15 per cent in the United Arab Emirates (1982) (table 70). This is indicative of the dependence of these countries on an expatriate labour force, which is vulnerable to fluctuations in the labour market.

TABLE 70. OCCUPIED AND VACANT DWELLING UNITS IN SELECTED COUNTRIES IN THE ESCWA REGION

Country	Occupied dwelling units (number)	Vacant dwelling units (number)	Total	Ratio of vacant units to total (percentage)
Bahrain (1991)				
Total	63 212	8 393	71 605	11.7
Kuwait (1985)				
Building	8 986	409	9 395	4.4
Villa	44 065	5 437	49 502	11.0
Oriental House	31 309	2 117	33 426	6.3
Informal House	92 672	3 322	95 994	3.5
Others	2 230	216	2 446	8.8
Total	179 262	11 501	190 763	6.0
Oman Muscat (1989)				
Villa				7.4
Arabic House				10.1
Flat				8.6
Others				36.5
Qatar (1986)				
Total	56 056	8 487	64 543	13.1
United Arab Emirates (1982)				
Total	185 543	32 615	218 158	15.0

Source: ESCWA, "The situation of the Arab dwelling: availability, cost and adequacy", by M.H. Bakir, in *Proceedings of the Regional Expert Group Meeting in Preparation for Habitat II* (E/ESCWA/HS/1995/1) (in Arabic), table 1-1.

[105] ESCWA, *Housing and Basic Services in Rapidly Changing Urban Regions: Housing in a Situation of Crisis* (E/ESCWA/HS/1993/3) (in Arabic), 1993, p. 5.

[106] Ibid., p. 6.

Over the past four decades, the growth of human settlements in the ESCWA region has proceeded with major infrastructure development projects, involving land servicing for urban expansion, extending or upgrading water supply, electricity and sewerage systems. These projects were in line with the rapid urbanization process which characterized the early development phases of cities in GCC countries. They also marked the era of major public work projects undertaken in Jordan, Iraq and the Syrian Arab Republic in the 1970s and early 1980s by central governments. Although these projects were essential in enabling the expanding human settlements to cope with rapid urbanization, they none the less did not operate with much consideration for maintaining efficiency in service delivery. Often services were operating below their full capacity.

Most countries in the ESCWA region have achieved considerable progress in terms of extending infrastructure facilities to individual households, particularly in urban areas. Available data indicate (tables 71 and 72) that most GCC countries have between 75 and 95 per cent of households with access to an indoor water network. However, household access to a public sewage network is much lower while access to electricity is above 90 per cent for most of these countries. Over 95 per cent of dwellings in the GCC countries are connected to kitchen and bathroom facilities. The figures are much lower in the lower income countries of the region, such as Egypt where household access to indoor water is about 41.6 per cent, kitchen facilities 46 per cent, and bathroom facilities 54 per cent. Furthermore, these are aggregate figures which hide significant differences between urban and rural areas and spatial disparity within the same urban areas. Squatter settlements in Sana'a, and Hodeidah in Yemen, Gaza and the West Bank, Beirut, Baghdad, Amman and Aqaba, to name a few, lack access to adequate housing, sanitation and refuse collection; this results in serious environmental problems, with overspill effects beyond these informal settlements.

3. *Human settlements policies*

The past decade has brought a shift in approach to public service delivery. Services are increasingly provided piecemeal, in an attempt to contain the growing urban crisis. Provisions are motivated by pressure to meet the needs of the growing population, while abiding by cost constraints. The most characteristic feature of the past decade has been an attempted withdrawal of the public sector from direct provision of housing and services. This has caused a marked drop in the standards, quality and frequency of service distribution. Under stringent macroeconomic conditions, the structural adjustment policies adopted in countries such as Jordan (1989) and Egypt (1991) are paving the way for deregulation of the housing market. It is not yet fully clear how these measures are affecting the cost, quality and standards of the service delivered and ultimately the impact on people's living standards and quality of life. A rise in the level of urban poverty has already been noted in these countries and seems to coincide, as indicated in table 73, with the downward trend in direct public expenditure on housing and basic amenities.

In terms of human settlements planning and policy orientation, the past decade was also marked by a move from the predominance of master planning for major cities. By the early 1980s, all cities and urban centres in the ESCWA region had master directive plans, although in many cases, these have been limited to land use and zoning ordinances. The past decade has witnessed an active attempt by Governments to address the issues of institutional development in human settlements planning. A number of programmes and strategies addressing specifically the needs of municipalities were introduced in order to strengthen the managerial capacity and financial bases of local authorities.

TABLE 71. DISTRIBUTION OF HOUSEHOLDS ACCORDING TO SOURCE OF WATER, SEWAGE NETWORK, ELECTRICITY AND TELEPHONES IN SELECTED COUNTRIES AND AREAS IN THE ESCWA REGION

(Percentage)

Country/area	Water source				Refuse water				Electricity	Telephone
	Indoor network	Outdoor network	Others	Total	Public network	Septic tank	Others	Total		
Bahrain (1991)										
Nationals	96.6	3.4[b/]		100	-	-	-	-	-	-
Non-nationals	86.9	13.1[b/]		100	-	-	-	-	-	-
Egypt (1986)										
Urban	68.7	23.7	7.6	100	-	-	-	-	97.0	-
Rural	17.3	35.7	47.0	100	-	-	-	-	76.1	-
Iraq (1987 and 1988)										
Urban	93.3	2.4	4.3	100	46.0	46.5	7.5	100	98.2	36.6
Rural	32.5	9.0	58.6	100	-	-	100.0	100	85.0	4.2
Jordan (1992)										
Urban	98.2[a/]		1.8	100	63.1	36.9	-	100	99.3	41.9
Rural	93.1[a/]		6.9	100	4.6	92.5	2.9	100	92.8	23.2
Oman/Muscat (1989)										
Nationals	66.4	28.8	4.8	100	-	-	-	-	97.5	-
Non-nationals	85.9	11.6	2.6	100	-	-	-	-	98.9	-
Occupied territories (1992)										
West Bank	92[a/]		8	100	20	80	-	100	85	15
Gaza Strip	99[a/]		1	100	56	39	6	100	99	22
Camps	98[a/]		2	100	33	45	22	100	93	4
Qatar (1986)	75.2	24.8	-	100	50.5		49.5[c/]	100	93.2	75.3
United Arab Emirates (1980)	91.6		8.4[b/]	100	27.0		73.0[c/]	100	66.4	-
Yemen (1986 and 1988)	42.8[a/]		57.2	100	-	-	-	-	48.6	-

Source: ESCWA, "The situation of the Arab dwelling: availability, cost and adequacy", by M.H. Bakir, in *Proceedings of the Regional Expert Group Meeting in Preparation for Habitat II* (E/ESCWA/HS/1995/1) (in Arabic), table 4-2.

a/ Corresponds to both "Indoor network" and "Outdoor network".
b/ Corresponds to both "Outdoor network" and "Others".
c/ Corresponds to "Septic tank" and "Others".

TABLE 72. DWELLING UNITS SUPPLIED WITH BATHROOM AND KITCHEN IN SELECTED COUNTRIES AND AREAS IN THE ESCWA REGION
(Percentages)

Country/area	Kitchen	Bathroom
Bahrain (1991)		
Nationals	98.7	99.8
Non-nationals	95.4	98.5
Total	97.2	99.2
Egypt (1986)		
Urban	69.7	83.3
Rural	24.9	28.2
Total	46.0	54.2
Iraq (1988)		
Urban	98.3	92.1
Rural	92.7	81.5
Total	96.8	89.3
Jordan (1992)		
Urban	97.5	-
Rural	92.8	-
Total	96.5	-
West Bank and Gaza Strip (1992)		
West Bank	-	60
Gaza Strip	-	82
Camps	-	59
Total	-	65
Qatar (1988)		
Total	95.7	97.0

Source: ESCWA, "The situation of the Arab dwelling: availability, cost and adequacy", by M.H. Bakir, in *Proceedings of the Regional Expert Group Meeting in Preparation for Habitat II* (E/ESCWA/HS/1995/1) (in Arabic), p. 171.

TABLE 73. PROPORTION OF EXPENDITURE BY CENTRAL GOVERNMENT ON HOUSING AND COMMUNITY AMENITIES TO TOTAL GROUP EXPENDITURE (1983-1991) IN SELECTED ESCWA MEMBER COUNTRIES
(Percentage)

	Year								
Country	1983	1984	1985	1986	1987	1988	1989	1990	1991
Bahrain	7.81	8.56	6.71	8.34	4.04	5.10	4.43	2.42	-
Egypt	2.55	2.81	3.71	4.12	6.30	5.86	5.76	-	-
Jordan	1.19	0.71	0.80	1.05	1.08	3.62	2.00	-	-
Kuwait	7.09	8.47	8.03	9.88	9.22	7.15	7.89	-	-
Oman	1.95	1.55	1.46	1.39	1.19	6.07	5.56	6.66	-
Syrian Arab Republic	-	-	-	2.16	0.51	0.62	0.89	-	-
United Arab Emirates	1.59	1.19	-	-	0.65	0.44	0.41	-	

Source: IMF, *Government Finance Statistics Yearbook*, 1991.

Another major feature that has characterized human settlements since the early 1990s is the initiation of the reconstruction decade. Beirut, the occupied territories, Kuwait and Iraq are cases in point which illustrate full-scale reconstruction activities (or the prospect of such activities in the case of the occupied territories) following the destruction incurred by wars and civil strife. In Iraq, reconstruction after the 1991 Gulf war proceeded at full speed under government planning, execution and financing. Community concerns, however, were not addressed and reconstruction was geared towards "quick-fix" solutions.

In the case of the Beirut central business district (CBD), the restoration project was conceived as a joint public-private venture, with a private holding established for the management and implementation of the project.[107] However, the project has become subject to much controversy, over issues of equity, valuation of shares, distribution of profits and socio-political implications of the project. Critics have openly attacked the Government for mobilizing resources into a high-income project localized in the capital's central business district when basic needs throughout the country remained unattended, including the needs for low-income infrastructure and housing developments, employment generation and the settling of over 300,000 displaced people.

Since the end of the civil strife in Lebanon and the war in Iraq, neither country has formulated an overall national reconstruction strategy to coordinate specific physical, social, economic and institutional rehabilitation programmes. This can only reinforce the tendency to overemphasize physical planning with the assumption that other sectors, namely social and economic, will be automatically revitalized as a by-product of reconstruction activities. Furthermore, the questions of affordability and public participation at all stages of the reconstruction process have not been raised, particularly in the case of Lebanon, where private initiative is considered vital for the reconstruction of Beirut CBD, yet the cost of sharing in the implementation remains prohibitive for a large segment of the population.

Another perspective on reconstruction planning is illustrated in the cases of Yemen and Egypt, which have been devastated by earthquakes and floods on successive occasions. The role of community participation was paramount in the reconstruction of Dhamar in Yemen after the 1982 earthquake. Similarly in Egypt, NGOs played a leading role in providing assistance to the homeless, following the 1991 earthquake originating in an area only 30 km away from Cairo. The reconstruction of Dhamar was planned and implemented on the a self-help basis, using local building materials and techniques, and training communities in safer construction methods and early warning management systems.[108]

The High Council for the Reconstruction of Areas Damaged by Earthquakes (established in 1982) and well-trained local communities were capable of efficiently mobilizing local resources in reconstruction after the 1991 earthquake which devastated the province of Ibb in Yemen. In Cairo, community-based organizations assisted the Government by working with the community in clearing the rubble, providing first aid, emergency shelter and assisting in reconstruction.

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[107] Beirut CBD is intended to function as a modern urban park covering an area of 1.6 million m^2 capable of absorbing and generating urban activities on an international scale. With an estimated total of 300,000 property owners, tenants and claimants, a system of shareholding was devised as a viable alternative for ensuring the coordinated implementation of the project. Land and property were valued at current market prices (prior to servicing) and accordingly distributed to claimants and Government, while a portion was available for market dealing. (See SOLIDERE, "Beirut in the Midst of Questioning", Beirut, 1993).

[108] ESCWA, Housing and Basic Services in Rapidly Changing Urban Regions: Housing in a Situation of Crisis (in Arabic), 1993, p. 11.

It is important at this stage to redefine and strengthen the role of cities within the emerging environment of greater regional integration and integration into the global economy. Cities in their new redefined role are required to offer efficient infrastructure networks, a competitive business environment and externalities such as entertainment and tourist facilities. The prospects for cities in the ESCWA region to fulfil such a role remain constrained by a number of factors. It is becoming increasingly evident that the public sector on its own cannot face up to this challenge. It calls for a partnership between the public, private and community sectors, under a new system of urban governance. Hence the responsibility of managing the urban environment is shared by the different role players who become accountable to each other and to the end-users of the public services delivered.

D. POVERTY IN THE ESCWA REGION

Poverty is a complex phenomenon, with several facets: economic, social, political, cultural, and environmental. It is a state of deprivation which is reflected in lower consumption of nutrients, lower health status, lower educational attainments, poor housing conditions, and a lack of capital assets and savings. All these factors make the individual or family extremely susceptible and vulnerable to outside changes and shocks.

On the whole, poverty is seen as a state which, unless curbed, tends to regenerate itself. The chances are that a poor child will grow up into a poor adult. Lower health status coupled with lower educational levels are likely to result in lower employability. Lower employability in turn results in a lower income and, therefore, the increased likelihood of marrying a poor spouse. In the absence of external intervention or a change in the poor's conditions or access to assets, the cycle of poverty will be perpetuated through the next generations.

1. *Measuring poverty*

Measuring the actual extent and prevalence of poverty in the countries in the ESCWA region has not yet been attempted in any fully systematic or consistent manner. This is primarily due to a general lack of attempts at social analyses of economic surveys (especially Income-Expenditure) rather than to a lack of accurate or reliable data sets. Family/household expenditure surveys exist for Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, and Qatar. Statistical data comparisons are, however, complicated by the fact that available date are usually for different years, different groups, or simply presented as an aggregated figure; other data sets are so out-of-date as to make them unusable for any policy formulation exercise, as in the case of Lebanon. Hence, with a few exceptions of poverty line assessments, the poverty profile of the region relies more on anecdotal-type data.

Based on private consumption, nutritional intake, enrolment in primary education, and the infant mortality rate in the countries of the region, the percentage of the poor in total population in the different ESCWA member countries was estimated for 1992. As table 74 shows, the region exhibits a relatively high level of poverty with 27 per cent of the total population estimated to fall under the poverty line. In two countries in the region, Iraq and Yemen, 45 and 47 per cent respectively of the population are poor. The United Arab Emirates stands out as the exception, with only 3 per cent of the population being poor while the other countries in the region vary between 11 and 23 per cent in poverty.

Table 75 compares the levels of poverty in the ESCWA region with other regions of the world.

TABLE 74. POVERTY INCIDENCE IN THE ESCWA REGION BY COUNTRY, 1992

Country	Percentage of poor
Bahrain	15[a/]
Egypt	22
Iraq	45
Jordan	23
Kuwait	11[a/]
Lebanon	19
Oman	17[a/]
Qatar	11[a/]
Saudi Arabia	..[a/,b/]
Syrian Arab Republic	22
United Arab Emirates	3[a/]
Republic of Yemen	47
Western Asia	27

Source: ESCWA, "Qiyas Al-Faqir fi Duwal Gharbi Asia" (Measuring Poverty in Western Asia), by M. Bakir (E/ESCWA/SD/1995/8/Add.1/Rev.1) (in Arabic).

a/ For GCC countries, the total population included non-nationals.

b/ The application of the model gives a figure of 21 per cent, which is believed to be overinflated and which may be attributed to the low rate of female enrolment in education.

TABLE 75. PERCENTAGE OF POVERTY IN SELECTED WORLD REGIONS (1980-1990)

Region	Percentage poverty
Western Asia	28
Arab countries[a/]	25
Sub-Saharan Africa	54
South Asia	43
East Asia	9
South-East Asia	35
Latin America and Caribbean	40
Least developed countries	64
Developing countries	31

Source: ESCWA, "Qiyas al-Faqir fi Duwal Gharbi Asia" (Measuring Poverty in Western Asia), by M. Bakir (E/ESCWA/SD/1995/8/Add.1/Rev.1) (in Arabic). All except Western Asia from the UNDP *Human Development Report 1994*.

a/ Excluding Djibouti, Mauritania, Somalia and the Sudan.

Using any numerical values for the estimation of poverty is, however, always tricky. If the case of Jordan is taken as an example, one finds that in spite of Jordan having the most comprehensive and sound

database in the ESCWA region, several discrepancies in the official reports on poverty prevalence within the population emerge. Using government figures and estimates, one finds that the percentage of the poor in Jordan has decreased as shown in table 76.

TABLE 76. JORDAN: PERCENTAGE OF POPULATION IN ABSOLUTE POVERTY (1992-1994),

Year	Percentage of absolute poor
1992	21.3
1993	18.3
1994	14.7

Source: ESCWA, Secretariat.

Such differences and discrepancies require the user to be very selective and careful, in order to avoid drawing hasty conclusions. The fact remains, however, that no matter which definition is adopted, poverty will always have a certain comparative dimension to its perception.

2. *Different poverty paths in the ESCWA member countries*

In discussing any social or economic issue in ESCWA member countries, it is important to bear in mind the distinctions between and particularities of the different individual countries in the region as well as between the oil-rich/labour-receiving GCC countries and the resource-poor/labour-sending countries (such as Jordan, Egypt and Lebanon). Iraq, with its oil-producing capacities yet more diversified economic structure, lies somewhere in between, while the Republic of Yemen is by far the poorest and most underdeveloped country within the region, with its development indicators trailing behind those of the other ESCWA member countries. The 1994 World Bank *World Development Report*, in fact, classified the countries of the region into four categories, ranging from low- to high-income as shown in table 77.

TABLE 77. CLASSIFICATION OF ESCWA MEMBER COUNTRIES AND AREAS BY LEVEL OF INCOME

Low income	Yemen and Egypt,
Lower-middle income	Iraq, Jordan, Lebanon, Syrian Arab Republic, West Bank and Gaza[a/]
Upper-middle income	Bahrain, Oman, Saudi Arabia
High income	Kuwait, Qatar, United Arab Emirates

Source: World Bank, *World Development Report 1994.*

a/ As classified by the World Bank (1995) in *Social Indicators of Development*, assumed to fall in GNP per capita range of $696-$2,785 in 1993.

Although distinctions are important, the countries in the region often share a common political and social history. Historically, and until the middle of the century, the whole region was classified as poor and predominantly rural. The economy of the region was heavily reliant on small-scale agricultural production,

some pastoralism and fishery. In some countries of the region, such as Lebanon, the service sectors played significant roles. A few small, urban-based low-technology manufacturing industries also existed but on a scale too small to affect the economy significantly. With oil production outputs increasing and international oil prices increasing, oil revenues took the leading role in determining growth policies and rates in most countries in the region.

Despite today's differences, the region continues to maintain a certain level of commonality and cooperation, at times stronger than others. In discussions of issues such as poverty, social development and change, population dynamics, and employment trends, the ESCWA member countries commonly have been viewed as a unified region among the developing regions of the world. With the exception of the GCC members, the countries of the region are characterized by low GNP per capita, low share of the manufacturing industry in GDP, low productivity of the agricultural sector, high share of primary products in the export balance, and large foreign debt. These economic indicators are coupled with a high rate of population growth, high levels of illiteracy, medium rates of life expectancy at birth, and medium rates of infant mortality.[109]

Nevertheless, generally speaking, poverty levels in the ESCWA region, and for the Arab countries as a whole, are lower than those prevalent in other developing countries. For the GCC countries, recent estimates point to unexpectedly high percentages of the population falling under the poverty line. These estimates[110] place the proportion of the total population (including non-nationals) living in poverty at: 15 per cent in Bahrain, 11 per cent in Kuwait, 17 per cent in Oman, 11 per cent in Qatar, and 3 per cent in the United Arab Emirates, while the estimate for Saudi Arabia was unreasonably high at 21 per cent, presumably due partly to low female educational enrolment rates. Unfortunately, no research has yet been carried out on levels, determinants or characteristics of poverty in the GCC countries.

For the countries with more diversified economies, the 1970s to mid-1980s constituted an important turning-point in their economies and the development of their social sectors. This came in the form of a significant increase in foreign lending to these countries and through receiving a share of the oil revenue in several forms. Direct transfers from the oil-rich countries as loans or grants for development projects and infrastructure-building started to flow into the other Arab countries. Increasing numbers of their nationals were recruited by the oil-producing GCC countries to fill the need for skilled and trained manpower. Those workers were in turn contributing to their home countries economies and to the welfare of their own families by sending their earnings home. This growth was accompanied by imbalances in the economic infrastructure, rendering it more fragile and vulnerable to outside factors and changes. The largest part of these resources was spent on consumption and armaments, while investments were increasingly unfavourable to the agricultural and industrial sectors. The balance of the resources was directed at building infrastructure and basic services which, however, remained concentrated in the urban areas.

This concentration of the population in urban areas and centres has direct implications for poverty, especially as it relates to the characteristics of the poor. This is not to ignore the large numbers of persons living in poverty in rural areas of the region, notably Egypt, Oman, the Syrian Arab Republic and Yemen,

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[109] ESCWA, "Al Faqir fil Watan al 'Arabi" (Poverty in the Arab World), by N. Issa (E/ESCWA/SD/1994/WG.2/5) (in Arabic).

[110] ESCWA, "Qiyas al-Faqir fi Duwal Gharbi Asia" (Measuring Poverty in Western Asia), by M.H. Bakir (E/ESCWA/SD/1995/8/Add.1/Rev.1) (in Arabic).

for even if larger numbers of poor people are to be found in urban areas, a larger proportion of rural dwellers have been found to be poor, as evidenced from a recent survey in Jordan.

One Arab writer described the reality of life in the larger Arab cities by saying that there is a general deterioration of living conditions, a spread of extreme poverty, a declining per capita income, and soaring unemployment. Moreover, the actual physical living space often lacks basic services such as water, sanitation, electricity and roads, which results in a further deterioration of the urban environment.[111]

Such a situation is soon reflected in deteriorating social services, social conditions and social development indicators. Poverty, poor health, and lower levels of education have been on the increase. The countries with more diversified economies in the region found themselves trapped in a difficult economic situation. Gradually, by the late 1980s and early 1990s, they began adopting and implementing, in varying degrees, the stabilization and structural adjustment policies advocated and promoted by the World Bank and the IMF.

At present, the situation in several ESCWA member countries is, to varying degrees, one of increased economic strain, deteriorating social sectors and high unemployment. This has resulted in the impoverishment of the middle class and is creating a new set of poor, adding to the complexity of defining the poor and poverty in the ESCWA region. The problems generated by this new category of poor will require particular policies and measures to deal with them. In certain respects, they are very different from the other "traditional poor" in that they tend to be better educated, in better general health, have smaller families, and are possibly more employable with properly guided retraining.

The ESCWA region has had the misfortune of experiencing a succession of unstable—and in some cases explosive—political situations and military threats together with an already deteriorating economic situation. The combination has been to the detriment of the poor and vulnerable sectors of the region's population; causing increasing poverty and added hardships. Continued conflicts have drained economic resources, which have been diverted to security and armaments instead of socio-economic development. They have also influenced population distribution, contributing towards urbanization and the primacy of major cities. Perhaps most serious, they have contributed to increasing unemployment and poverty and have negatively influenced the quality and availability of social services, resulting in deteriorating living standards and a poorer quality of life.[112]

3. *Recommendations for poverty alleviation*

(a) Direct transfers, from the better-off to the poor, are not a "developmentally sound" practice; it stems almost directly from charity. However, in the fight against poverty, especially in the short term, transfers have a significant role to play. Transfers can be in cash or in kind, and they can be distributed privately or through the State. ESCWA member countries have a long history of transfers. The origins of this have been traced by some researchers to Arab and Muslim traditions and culture when, historically, survival at times of hardship depended on transfers of food and resources within the tribal unit. Islam came to institutionalize this practice through the promotion of *zakat*, whereby it is the duty of every Muslim to put

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[111] See ESCWA, Waqi al-Tahhadur Wattigahatihi Al Mustaqbalya Wamtidadatihi Al makanya wa Atharihi A'la AL Mustawtanat Al Basharya Al Arabi (The Situation of Urbanization and its Future Direction: Population Spread and Effects on Human Settlements), by A. Faour (E/ESCWA/HS/1995/WG.1/3) (in Arabic), p. 68.

[112] ESCWA, *The Impact of Crisis on the Social Situation in the ESCWA Region* (E/ESCWA/SD/1994/5).

BOX 12. EGYPT'S SOCIAL DEVELOPMENT FUND

The Social Development Fund in Egypt was established in 1991 as a temporary step to enhance the economic reform and structural adjustment programme and to contribute to the well-being and protect the vulnerable population and low income groups from the long term adverse effects of the economic reform and structural adjustment programme.

Objectives

(a) To mobilize international and domestic funds concessional terms;

(b) To finance selected labour-intensive projects in public works, small enterprises and community development;

(c) To develop and implement a labour mobility programme that complements the public enterprise reform programme;

(d) To strengthen government capacity to design and monitor poverty alleviation policies in the long run.

Benefiting group

(a) Vulnerable groups most affected by the economic reform and structural adjustment programme;

(b) Working class and low-income groups;

(c) Population of least developed communities;

(d) Population in areas deprived of basic services;

(e) Unemployed including new graduates;

(f) Women.

Note: Identification of individuals to benefit from the Fund among each group is based on surveys and specialized field surveys.

The Fund executes six different programmes that deal with the following:

(a) The Public Works Programme executes intensive labour projects that help to raise the standards of living of target groups through improving the infrastructure for needy communities. The Programme is aimed at creating some 26,000 temporary jobs each year during the four-year term of the Fund, and around 15,000 permanent jobs that deal with maintaining and operating the projects. Total indirect beneficiaries are estimated at around 2 million persons who will benefit through improvement in their standard of living.

(b) The Community Development Programme mobilizes and encourages personal initiatives for both urban and rural areas. It encourages individuals to initiate income-generating projects through providing easy credit facilities. It aims at creating some 76,000 income-generating job opportunities.

(c) Enterprise Development Programme provides finance to pioneer projects that are proven successful and effective in the field of small industries by disbursing soft loans for entrepreneurs to initiate small projects. It provides an integrated package of finance, training and technical assistance to establish small enterprises.

(d) The Labour Mobility Programme supports labour mobility by developing and funding most needed job creation and training activities arising from the economic reform and structural adjustment programme. This Programme targets some 48,000 employees to be mobilized through training and retraining of workers displaced from the State-owned enterprises as a result of the economic reform and structural adjustment programme.

(e) The Institutional Development Programme enhances government capacity to monitor the impact of its economic policies on the living conditions of the population and the capabilities of the Fund in targeting, monitoring and evaluation.

(f) The Essential Public Transport Services Programme is aimed at improving public transport system services in Greater Cairo and Alexandria and at facilitating the movement of low-income workers to nearby labour markets.

Although all the programmes were created to cater to both the poor and the unemployed, they are not exclusively targeted at these two groups. Some programmes have more emphasis on the poor while others are more geared to the unemployed. By end-October 1995, the Fund was able to create about 74,000 temporary job opportunities and 177,000 permanent ones with total finance of $665 million and with the total number of beneficiaries (direct and indirect) estimated at 12 million.

Sources: Arab Fund for Economic and Social Development, 1996 "Social safety nets: the case of the Social Development Fund in Egypt", paper presented to the Seminar on the Social Impact of Economic Reform on Arab Countries, Abu Dhabi, 17-18 January, 1996; various information booklets of the Social Development Fund.

aside a fixed proportion of his/her income for distribution to the less fortunate on a yearly basis. It is recommended that practical ways and means should be found to institutionalize the *zakat* to meet both the welfare and developmental needs of the poor.

(b) The quality of education must be improved in order to increase social mobility and social integration. Education and retraining programmes must also address the special requirements of the newly impoverished middle classes. More resources need to be directed towards the education of children.

(c) Efforts should be directed towards retraining and the upgrading of skills, enabling the poor to better compete in the job market. This needs to be done in the context of the National Human Resources Plans, in order that employment and employability are ensured at the end of the training. For that to happen, better cooperation needs to be achieved between Governments, the private sector and the funding sources of training programmes.

(d) Since in the ESCWA region poverty appears to be linked with large family size, reproductive health programmes can help to relieve the pressure on poor families. Reproductive health programmes could be particularly aimed at the poorer segments of society, especially young couples.

(e) Equal opportunities and equal treatment for women must be guaranteed in education, health services and employment.

(f) With the declining role of agriculture and the increasing modernization and mechanization of the agricultural production system, explicit policies are needed to encourage rapid growth of employment in the rural non-agricultural sector.

(g) Investment must be directed towards rural areas in order to improve levels of income and the provision of social services such as health care and education. This may delay or even discourage migration from the rural to the urban centres which are increasingly unable to absorb the high and fast rate of newcomers.

(h) Special attention should be focused on the poor urban areas, which seem destined to become the main areas of poverty and poverty-related problems in the region, if the rural to urban migratory movement continues at the current rate.

(i) There is an urgent need to design and implement additional development programmes targeting the extremely poor or vulnerable, in order to ensure that the needs of these special groups do not continue to be neglected.

VIII. DEVELOPMENTS IN THE ENERGY SECTOR

A. OIL

1. *World oil demand*

The relative stability in the oil markets that prevailed during the past few years continued through 1995. World crude oil demand is estimated to have grown by 1.7 per cent, to an average of 67.2 million barrels per day (mbd), up from an average of 66.1 mbd in 1994 (table 78). The highest growth in crude oil demand was achieved by Eastern Europe (9.1 per cent), followed by the Pacific Rim (7.9 per cent in 1995), and China (6.7 per cent). However, crude oil demand slowed in the OECD countries to 0.8 per cent in 1995, down from 2.4 per cent in 1994, reflecting mainly slower economic growth, particularly in Japan and Germany and to a lesser extent the United States. In the former Soviet Union, crude oil demand continued its downward trend in 1995, falling by 4.3 per cent to an average of 4.5 mbd, down from an average of 4.7 mbd in 1994. However, the pace of the drop in crude oil demand in the former Soviet Union slowed in 1995 compared with the previous years.

TABLE 78. WORLD CRUDE OIL DEMAND, 1991-1995
(Millions of barrels per day)

	1991	1992	1993	1994	1995[a/]	1995/1994 *(percentage change)*
OECD	36.6	37.0	37.5	38.4	38.7	0.8
Former Soviet Union[b/]	8.3	6.9	5.5	4.7	4.5	(4.3)
Eastern Europe	1.0	1.0	1.1	1.1	1.2	9.1
China[a/]	2.4	2.6	2.9	3.0	3.2	6.7
OPEC	4.2	4.5	4.8	4.9	5.1	4.1
Pacific Rim	2.9	3.3	3.6	3.8	4.1	7.9
Others	9.5	9.7	9.9	10.2	10.4	2.0
Total	64.9	65.0	65.3	66.1	67.2	1.7

Source: *OPEC Bulletin*, November-December 1995.

Note: ( ) indicates negative.

a/ Estimates.
b/ Production less net oil exports.

In the developing countries, crude oil demand continued to rise owing to higher population growth rates, high economic growth and a vigorous industrialization process. In this group of countries, excluding China, the Pacific Rim and the OPEC member countries, demand is estimated to have grown by 2 per cent in 1995 to 10.4 mbd, up from 10.2 mbd in 1994.

Crude oil demand in OPEC member countries is estimated to have grown by 4.1 per cent in 1995, to an average of 5.1 mbd, up from an average of 4.9 mbd in 1994. However, demand in this group of countries slowed in 1994 and 1995 compared with 1992 and 1993, when crude oil demand grew by 7.1 per

cent and 6.7 per cent respectively. This could be explained by both lower economic growth in both 1994 and 1995 and a higher rate of substitution of natural gas for oil in some member countries. The share of OPEC member countries in the world crude oil demand reached 7.6 per cent in 1995, up from 7.4 per cent in 1994.

In 1996, world crude oil demand is expected to grow by 2.4 per cent to an average of 68.6 mbd, up from an average of 67.2 mbd in 1995.[113] Most of this increase is expected to be achieved by non-OECD countries (3.1 per cent compared with 3 per cent in 1995), followed by OECD countries (2 per cent up from 0.8 per cent in 1995). Among the OECD countries, the United States is expected to register the fastest growth in oil demand (2.2 per cent), followed by Western Europe (1.4 per cent). However, the highest growth is expected to continue to be recorded by Asian countries (6.2 per cent, down from 7.6 per cent in 1995). On the other hand, oil demand in the former Soviet Union is expected to stabilize at an average of 4.5 mbd in 1996, down by 2.2 per cent from its 1995 level of 4.6 mbd.

2. *World crude oil production*

World crude oil production in 1995 continued to outpace demand and is estimated to have grown by 2 per cent to an average of 61.9 mbd, up from 60.7 mbd in 1994 (table 79). This growth was achieved despite the continuous drop in crude oil production in the former Soviet Union and the United States. In the former Soviet Union, crude oil production dropped by 1.4 per cent in 1995, to an average of 7.0 mbd, down from an average of 7.1 mbd in 1994 and an average of 10.4 mbd in 1991. This drop brought the total decline in crude oil production in the former Soviet Union during 1991-1995 to 3.4 mbd or 32.7 per cent. In the United States, crude oil production is estimated to have dropped by 2.0 per cent to an average of 6.53 mbd, down from an average of 6.66 mbd in 1994.[114] This drop led to an increase in oil imports by 2.1 per cent in 1995 to an average of 8.22 mbd, up from 8.05 mbd in 1994.[115] Most of the 1.2 mbd increase in world crude oil production is estimated to have been met by an increase in production from non-OPEC sources, particularly from the North Sea area. Crude oil production in the North Sea area (including Norway and the United Kingdom of Great Britain and Northern Ireland) rose from an average of 3.4 mbd in 1990 to an estimated average of 5.3 mbd[116] in 1995, reflecting an increase of 55.8 per cent, compared with an increase of only 8.2 per cent in OPEC crude oil production for the same period. Non-OPEC oil supply rose by 2.5 per cent in 1995, despite the continued drop in oil production in both the United States and the former Soviet Union. The large increase in production by both the North Sea area and some of the developing countries more than compensated for the drop in crude oil production in both the United States and the former Soviet Union. In the developing countries (excluding OPEC members), crude oil production is estimated to have increased in 1995 by 5.5 per cent to an average of 11.6 mbd, up from an average of 11.0 mbd in 1994. In this group of countries, Latin America achieved the highest growth rate in crude oil production, led by Colombia (28.5 per cent), followed by Brazil (6.8 per cent) and Argentina (10.3 per

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113 *OPEC Bulletin*, November-December 1995, p. 36.

114 *Arab Oil and Gas Magazine*, October 1995, p. 22.

115 Ibid.

116 Calculated from *Oil and Gas Journal*, 25 December 1996, p. 37.

cent).[117] In Asia, the highest growth in crude oil production in 1995 is estimated to have been achieved by China (3.4 per cent) to an average of 3.0 mbd, up from an average of 2.9 mbd in 1994.

TABLE 79. WORLD CRUDE OIL PRODUCTION, 1991-1995*
(Millions of barrels per day)

	1991	1992	1993	1994	1995	1995/1994 *(percentage change)*
OECD	13.9	14.1	14.2	14.8	15.1	2.0
Former Soviet Union[a/]	10.4	9.0	7.8	7.1	7.0	(1.4)
China[a/]	2.8	2.8	2.9	2.9	3.0	3.4
OPEC	23.0	24.1	24.7	24.9	25.2	1.2
Others	10.0	10.3	10.6	11.0	11.6	5.5
Total	60.1	60.3	60.2	60.7	61.9	2.0

Source: *OPEC Bulletin*, November-December 1995, p. 36; and *Petroleum Economist*, February 1996, p. 48.

Note: ( ) indicates negative.

* Excluding OPEC and non-OPEC NGL (natural gas liquid).
a/ Including NGL.

Crude oil production in the OPEC member countries is estimated to have increased by 1.2 per cent in 1995 to an average of 25.2 mbd, up from an average of 24.9 mbd in 1994 (table 80). This growth has been achieved despite the production quota ceiling in effect for the last two years, and mainly as a result of over-production by some OPEC members, particularly Venezuela (7.9 per cent), followed by Gabon (5.8 per cent), Qatar (4.5 per cent), and Algeria (2.6 per cent) as well as the 5.3 per cent increase in production by Iraq. However, the increase in the crude oil production in Iraq has not affected the international oil markets, owing to the United Nations sanctions that prohibited the country from exporting crude oil with the exception of about 60,000 b/d to Jordan. The share of OPEC member countries in world crude oil production dropped in 1995 to 40.7 per cent, down from 41 per cent in 1994. This drop is mainly attributed to the robust growth in the non-OPEC crude oil production and the continued OPEC crude oil production ceiling. If this trend prevails, the share of OPEC member countries will decline further—at least until the non-OPEC crude oil production stabilizes.

OPEC countries are facing a policy problem in terms of supply management. If OPEC adheres effectively to its production ceiling of 24.52 mbd, its market share will dwindle further and hence oil revenues will suffer. On the other hand, if OPEC member countries left their production ceiling and pursued a free-for-all policy, using their current excess production capacity of about 5 mbd, prices will tumble and revenues will suffer even more, as was the case in 1986. The best solution to this dilemma is constructive cooperation between OPEC and non-OPEC oil producers to reach an understanding on supply management that stabilizes supply and prices simultaneously in order to reduce oil market volatility and stabilize oil prices for the oil-producing countries. In the absence of such coordination, and considering the continued increase

[117] *Petroleum Economist*, February 1996, p. 9.

in non-OPEC oil production, oil markets will continue to face an oversupply with a negative impact on oil prices.

TABLE 80. OPEC CRUDE OIL PRODUCTION, 1991-1995
(*Thousands of barrels per day*)

	1991	1992	1993	1994	1995[a/]	1995/1994 (*percentage change*)
Algeria	800	780.1	751.4	746.3	766	2.6
Gabon	294	296.9	296.6	327	346	5.8
Indonesia	1 439	1 379.5	1 326.7	1 327.7	1 358	2.3
Iran, Islamic Republic of	3 323	3 434.2	3 647.8	3 594.7	3 604	0.3
Iraq	281	421.7	495.5	569.9	600	5.3
Kuwait	187	1 031.3	1 852.7	2 010.7	2 010.7	0.0
Libyan Arab Jamahiriya	1 493	1 485.3	1 374.6	1 381.8	1 396	1.0
Nigeria	1 869	1 890.7	1 907.5	1 874.2	1 886	0.6
Qatar	386	397.1	416.4	403.8	422	4.5
Saudi Arabia	8 196	8 363.2	8 131.7	8 044.2	8 044.2	0.0
United Arab Emirates	2 389	2 287.1	2 191.7	2 183.8	2 200	0.7
Venezuela	2 334	2 286.6	2 323.6	2 459.5	2 653	7.9
Total	22 991	24 053.7	24 716.2	24 923.7	25 285.9	1.5

Source: *OPEC Bulletin*, May 1995 and *Petroleum Intelligence Weekly*, 8 January 1996.

a/ Estimates.

3. *Crude oil production in ESCWA member countries*

Crude oil production in the ESCWA region rose for the fourth consecutive year in 1995 to an estimated average of 15.89 mbd, up by almost 1 per cent from its 1994 level of an average of 15.75 mbd (table 81). The increase in crude oil production in the ESCWA region in 1995 was unevenly distributed among its members. The highest growth was recorded by Oman (6.3 per cent), Iraq (5.3 per cent), Qatar (4.5 per cent), the Syrian Arab Republic (4.3 per cent), the Republic of Yemen (1.5 per cent) and the United Arab Emirates (0.7 per cent). In the rest of the region, crude oil production remained unchanged from its 1994 level. While those ESCWA oil-producing countries that are OPEC members are bound by their quota obligations that prevent them from exceeding their current production levels, the non-OPEC ESCWA members are constrained by their limited proven oil reserves, which represent only about 2.7 per cent of the total proven oil reserves in the ESCWA region. Furthermore, some countries, such as Oman, are faced with a complex geological structure that requires advanced technology to be able to increase both proven reserves

and daily crude oil production. Financial constraints also played a major factor in slowing expansion programmes aiming at increasing production capacity in order to increase daily production substantially.

TABLE 81. CRUDE OIL PRODUCTION IN ESCWA MEMBER COUNTRIES, 1991-1995
(Thousands of barrels per day)

	1991	1992	1993	1994	1995[a/]	1995/1994 *(percentage change)*
Bahrain	42	40	40	40	40	0.0
Egypt	909	780	780	780	780	0.0
Iraq	299	421.7	495.5	569.9	600	5.3
Kuwait	129	1 031.3	1 852.7	2 010.7	2 010.7	0.0
Oman	700	733	761	800	850	6.3
Qatar	383	397.1	416.4	403.8	422	4.5
Saudi Arabia	8 230	8 363.2	8 131.7	8 044.2	8 044.2	0.0
Syrian Arab Republic	495	520	576	575	600	4.3
United Arab Emirates	2 368	2 287.1	2 191.7	2 183.8	2 200	0.7
Republic of Yemen	199	182	224	340	345	1.5
Total	13 754	14 755.4	15 469	15 747.4	15 891.9	0.9

Source: *Arab Oil and Gas*, various issues.

a/ Estimates.

The share of the ESCWA region in world total crude oil production dropped in 1995 to an estimated 25.75 per cent, down from 25.9 per cent in 1994, owing mainly to the higher growth in the oil production from non-OPEC countries and the production ceiling of 24.52 mbd imposed by OPEC on its member States that prevented those ESCWA member countries that are OPEC members from raising their crude oil production. In addition, as noted above, Iraq was not able to increase its oil production substantially, owing to the United Nations sanctions.

Several ESCWA oil-producing and oil-exporting countries have taken measures to increase their oil revenues while maintaining their current daily production. Egypt has, for the past few years, increased its reliance on natural gas for domestic energy consumption in an attempt to increase its daily exports of oil. In addition, during the past two years, Egypt has tried to increase its exports of refined products and reduce exports of crude oil to increase revenues and reduce the import of refined products. Moreover, the GCC major oil exporting countries, particularly Saudi Arabia and the United Arab Emirates, are increasing their oil-exports to Asian countries, where oil demand is expected to continue to grow at a higher rate. Major oil-exporting countries of the region have embarked upon joint downstream projects with Asian countries to increase their market share. This involved refining and distributing projects, including acquiring interests in oil companies in some Asian countries. Moreover, Saudi Arabia is planning to increase its production of light crude to maximize its oil revenues while maintaining its OPEC production quota. In this context, Saudi

Arabia has planned to develop its oilfields that produce Arab Light and by the year 2000 Saudi Arabia's production of light crude, which represented in 1994 about 78 per cent of its oil production, could reach an average of 7.86 mbd.[118] Moreover, oil production in Oman is expected to increase in 1996 to an average of 900,000 b/d, up from its 1995 level of an average of 850,000 b/d as a result of the completion of several expansion projects. The Republic of Yemen is implementing plans to raise its crude oil production in 1996 to an average of 400,000 b/d as the Government has given oil companies improved contract terms to encourage the development of small fields to boost production. In the United Arab Emirates, crude oil production is expected to increase in 1996 to an average of 2.23 mbd, up by 0.5 per cent from its 1995 level of 2.22 mbd.

The prospects for 1996 and onward, to the year 2000, do not involve any major pressure on world crude oil production as with both OPEC production capacity and a continued increase in the non-OPEC oil supply, it should be possible to meet the expected increase in world oil demand, which is projected at an average of 68.6 mbd,[119] up from 67.2 mbd in 1995.[120] This will be easily met from the expected increase in world oil production, particularly from non-OPEC sources, which is expected to meet about 70 per cent,[121] or 1.2 mbd, of the increase in world oil demand. Therefore, unless there are major supply shocks or unexpected political developments, world oil production is expected to outpace demand at least until oil production in the North Sea area reaches its peak of about 7.1 mbd in 1999.[122] This, coupled with the continued decline in the oil production in the United States and the stabilization of oil production in China, and provided that there is no major expansion in the production capacity of OPEC countries, may put pressure on oil production and thus increase oil prices, particularly taking into consideration the growing oil demand in the developing countries.

4. *Oil prices*

Oil prices in 1995 reversed the declining trend that had prevailed during the previous three years and appreciated by 8.7 per cent to $16.8 per barrel, the highest level since 1992 and up from $15.5 per barrel in 1994[123] (table 82). Most of the increase in prices was recorded during the first half of the year when the average was $17.4 per barrel, up by 19.2 per cent compared with the first half of 1994 and up by 3.6 per cent from the year's average. Oil prices during the first half of 1995 benefited from the OPEC decision in November 1994 to roll over its production quota of 24.52 mbd for the whole of 1995, as well as from the colder weather in Europe and the United States and the refusal of Iraq to implement Security Council Resolution 986 (1995) that allows for limited sales of oil for humanitarian purposes. However, during the second half of the year oil prices were 0.6 per cent higher than their level during the second half of 1994. Moreover, despite this rebound in oil prices in 1995, compared with the previous three years, oil prices are

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118 *Arab Oil and Gas*, 1 February 1996, p. 46.

119 *Middle East Economic Survey*, 27 November 1995, p. A6.

120 Ibid.

121 Ibid.

122 *Oil and Gas Journal*, 25 December 1995, p. 37

123 The average for the OPEC basket of seven crudes.

still only 46.7 per cent of their 1980 level of $36 per barrel in current prices, and in real terms they remain far below their 1974 level of $10.4 per barrel. In addition, oil prices in 1995 were still 20 per cent below the OPEC price target of $21 per barrel.

TABLE 82. AVERAGE PRICE OF THE OPEC BASKET OF SEVEN CRUDES, 1990 AND 1992-1995
(US dollars per barrel)

	1990	1992	1993	1994	1995	1995/1994 *(percentage change)*
January	19.98	16.71	16.71	13.71	16.67	21.6
February	19.02	16.89	17.66	13.76	17.29	25.7
March	17.69	16.61	18.15	13.29	17.15	29.0
April	15.63	17.69	18.12	14.52	18.28	25.9
May	15.45	18.70	17.89	15.74	18.13	15.2
June	14.05	20.18	17.11	16.50	16.98	2.9
July	15.68	19.80	15.96	17.43	15.63	(10.3)
August	24.69	19.16	15.90	16.86	15.95	(5.4)
September	32.06	19.40	15.24	15.71	16.35	4.1
October	34.58	19.55	15.75	16.13	15.85	(1.7)
November	31.04	18.73	14.47	16.72	16.49	(1.4)
December	26.11	17.69	12.88	15.84	17.76	12.1
Average for the year	22.26	18.41	16.33	15.53	16.88	8.7

Source: *Arab Oil and Gas*, several issues.

Note: ( ) indicates negative.

Oil prices in 1996 will continue to be affected by world oil demand, the increase in energy efficiency and the increase in oil production, particularly from non-OPEC countries. Barring a major supply shock, oil prices in 1996 are expected to maintain their current average level of between $15-$18 per barrel despite the 2.2 per cent increase in world oil demand expected for 1996 and the rolling over of the OPEC production ceiling for at least the first half of 1996. The increase in non-OPEC oil production continues to put severe pressure on prices. Moreover, the return of Iraqi oil to the international oil market, even on a temporary basis, may lead in the short term to a price decline of between $2-$3 per barrel, while its long-term effect will depend on the ability of OPEC to absorb the Iraqi oil through production cuts by other OPEC members. However, the sharp drop in the OECD oil inventories, which ended in 1995 with a supply which could meet only 59 days of demand,[124] the lowest level since 1980, may exert pressure on oil prices during the first half of 1996.

[124] *Middle East Economic Survey*, 12 February 1996, p. A13.

5. *Value of crude oil export revenues in the ESCWA region*

Crude oil export revenues in the ESCWA region are estimated to have appreciated by 9.1 per cent in 1995 to $78.3 billion, the highest level since 1992, and up from the 1994 level of $71.8 billion (table 83). The increase of 8.6 per cent in oil prices was the main factor behind the rise in oil revenues. All oil-exporting countries in the region benefited from this increase. However, the largest increase was in those countries that managed to boost oil production in 1995, namely Iraq, Oman, Qatar and the Republic of Yemen, where revenues increased by 12.8 per cent, 14 per cent, 13.7 per cent and 10.3 per cent respectively. In the rest of the region, the increase in revenues was in proportion to that of the rebound in oil prices. However, it should be noted that despite this rebound in oil revenues in 1995, the combined oil revenues of the five ESCWA countries members of OPEC—namely Iraq, Kuwait, Qatar, Saudi Arabia and the United Arab Emirates—accounted for only about 40 per cent of their 1980 level of $171.23 billion. Changes in oil revenues, particularly in those ESCWA member countries that are OPEC members, will continue to be closely linked to fluctuations in the level of oil prices, as their oil production is limited to their quota obligations. For non-OPEC members, oil revenues are affected by changes in both prices and production levels. The increase in oil production, however, is limited by the size of their proven oil reserves.

TABLE 83. VALUE OF CRUDE OIL EXPORT REVENUES IN THE ESCWA REGION, 1993-1995
(Millions of US dollars)

	1993	1994	1995[a/]	1995/1994 *(percentage change)*
Bahrain	800	760	825	8.6
Egypt[b/]	1 169	1 329	1 443	8.6
Iraq	364	328	370	12.8
Kuwait	9 986	10 396	11 290	8.6
Oman	4 500	4 275	4 875	14.0
Qatar	2 594	24 191	2 750	13.7
Saudi Arabia	41 353	37 530	40 757	8.6
Syrian Arab Republic	2 080	1 976	2 145	8.6
United Arab Emirates	12 086	12 200	13 249	8.6
Republic of Yemen	591	562	620	10.3
Total	75 523	71 775	78 324	9.1

Source: *Middle East Economic Survey*, 6 November 1995, p. D6.

a/ ESCWA estimates.
b/ Net oil revenues.

As indicated above, oil prices are not expected to appreciate substantively in 1996, unless there are major oil supply shocks, or unexpected political developments. Oil revenues are therefore not expected to be substantially higher than 1995 levels. Unless OPEC decides to raise its production ceiling during the second half of 1996, which is highly unlikely taking into consideration the decline in demand in the summer season and the possibility of Iraq's return to the oil markets even on a temporary and limited basis, which would add about 700,000 b/d to the international oil markets. However, it should be noted that if the current

plans of Saudi Arabia to raise production of light crude are implemented, the country's oil revenues will benefit from the higher prices of light crude even if its total production remains unchanged at the current level of about 8 mbd. Moreover, the major oil-exporting countries of the region may increase their oil revenues through raising their exports of refined oil and lowering exports of crude oil. Several countries in the region are currently pursuing a policy of expanding their refining capacities to shift their export components to refined oil products.

6. *Refining capacities in the ESCWA region*

The refining capacity of the ESCWA oil-producing and oil-exporting countries is estimated to have remained unchanged in 1995 from its 1994 level of an average of 4.76 mbd, up by about 5.0 per cent from its 1993 level of an average of 4.54 mbd (table 84). However, the refining capacity in 1995 remained 0.4 per cent below its 1990 level of an average of 4.78 mbd, mainly because of the 10 per cent decline in the refining capacity of Saudi Arabia to an average of 1.676 mbd, down from an average of 1.86 mbd in 1990. Kuwait, which completed repairs to its damaged refineries, managed to increase its refining capacity in 1994 by 39 per cent to an average of 790,000 b/d, exceeding its 1990 level of an average of 635,000 b/d.

TABLE 84. REFINING CAPACITY IN THE ESCWA MEMBER COUNTRIES, 1990-1995
(*Thousands of barrels per day*)

	1990	1991	1992	1993	1994	1995[a/]	Percentage change
Bahrain	280	280	280	280	280	280	0.0
Egypt	583	585	585	585	585	585	0.3
Iraq	648	648	648	648	648	648	0.0
Kuwait	635	635	635	565	790	790	24.4
Oman	80	80	80	80	80	80	0.0
Qatar	63	63	63	63	63	63	0.0
Saudi Arabia	1 861	1 631	1 676	1 676	1 676	1 676	(9.9)
Syrian Arab Republic	233	233	233	233	233	233	0.0
United Arab Emirates	195	195	195	205	205	205	5.1
Yemen	200	200	200	200	200	200	0.0
Total	4 778	4 550	4 595	4 535	4 760	4 760	(0.4)

Source: *Middle East Economic Survey*, 15 January 1996, p. A13.

Note: ( ) indicates negative.

a/ ESCWA estimates.

The refining capacity of the ESCWA member countries has increased substantially during the past 15 years. During the period 1980-1995, the region's refining capacity rose by 68.7 per cent from its 1980

level of 2.82 mbd, mainly as a result of the sharp increase in the refining capacity of the major oil-producing and exporting countries, namely the United Arab Emirates, which increased its refining capacity from only 15,000 b/d in 1980 to 205,000 b/d in 1994, Saudi Arabia from 866,000 b/d to 1.67 mbd, Iraq from 228, 000 b/d to 648,000 b/d and Kuwait from 488,000 b/d to 790,000 b/d. Moreover, several ESCWA member countries are currently implementing plans to increase their refining capacity not only to meet their rapidly increasing domestic demand but also to boost their exports of refined products in order to maximize revenues while maintaining their current level of oil production. Egypt is expected to increase its refining capacity by 100,000 b/d when its planned Midor refinery is completed. In Kuwait, the refining capacity will be boosted by 100,000 b/d when the expansion of their Shuaiba refinery is completed in mid-1997,[125] while in the United Arab Emirates the refining capacity is expected to expand by 350,000 b/d by the year 2000, when the expansion of its Ruwais refinery is completed.[126]

The estimated 1995 refining capacity of Kuwait, Saudi Arabia and the United Arab Emirates represented 39.5 per cent, 21 per cent and 9.3 per cent respectively of these countries' 1995 average daily crude oil production. However, when the planned expansion of the refining capacity of both Kuwait and the United Arab Emirates is completed, these countries' shares of refined oil will increase to 44.5 per cent and 25 per cent respectively of their 1995 crude production. Moreover, Kuwait, Saudi Arabia and the United Arab Emirates are currently embarking upon downstream joint projects with Asian countries that include building or expanding oil refineries in these countries, which will expand further the refining capacity of the three countries.

7. *Proven oil reserves in the ESCWA region*

Proven oil reserves in the ESCWA region increased slightly in 1995 to an estimated 575.23 billion barrels, up from an estimated 574.3 billion barrels in 1994 (table 85), mainly because of the increase in the proven oil reserves of Egypt and Oman by 18.9 per cent and 6.4 per cent respectively. However, proven oil reserves remained unchanged in the major oil-producing and oil-exporting countries in the region, namely Iraq, Kuwait, Saudi Arabia and the United Arab Emirates. Despite the 0.2 per cent increase in the ESCWA region's proven oil reserves, its share of the world total proven oil reserves dropped slightly in 1995 to 57.1 per cent, down from 57.4 per cent in 1994. The share of the ESCWA region's oil reserves as a percentage of OPEC total reserves also dropped in 1995 to 73.9 per cent, down from 74.6 per cent in 1994, owing mainly to the increase in proven reserves of OPEC member countries by 1 per cent. However, despite this drop, the ESCWA region's proven oil reserves can maintain the region's 1995 crude oil production level for another 99.2 years, compared with 41.1 years for the world as a whole and 84.6 years for the OPEC member countries.

During the past 15 years there has been a decelerating trend in the growth rate of the region's proven oil reserves compared with the 1980s. While the proven oil reserves in the region rose by more than tenfold between 1980 and 1989, they rose by only 1.6 per cent between 1990 and 1995, reflecting a relative stability in the oil reserves of the region's major oil-producing and oil-exporting countries. The growth in the world proven oil reserves has also decelerated during the past 15 years. The world's proven reserves, which grew by 8.9 per cent during the period 1980-1989, rose by only 1 per cent between 1990 and 1995.

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[125] *Arab Oil and Gas*, 1 October 1995, p. 20.

[126] Ibid., 16 December 1995, p. 25.

TABLE 85. ESCWA REGION PROVEN OIL RESERVES, 1994-1995
(Millions of barrels)

	1994	1995
Bahrain	210	210
Egypt	3 260	3 879
Iraq	100 000	100 000
Kuwait	96 500	96 500
Oman	4 828	5 139
Qatar	3 700	3 700
Saudi Arabia	261 203	261 203
Syrian Arab Republic	2 500	2 500
United Arab Emirates	98 100	98 100
Republic of Yemen	4 000	4 000
Total ESCWA region	574 301	575 231
Total OPEC	770 248	778 214
Total world	999 760	1 007 474
ESCWA as percentage of the world	57.4	57.1
ESCWA as percentage of OPEC	74.6	73.9

Source: *Petroleum Economist*, February 1996, annex tables.

The deceleration in the growth of the world's proven reserves can be attributed to the lower oil prices that prevailed during the past few years, which did not encourage oil exploration, particularly in the relatively high-cost areas, despite the availability of advanced technologies. Moreover, the moderate growth in world crude oil demand also contributed to the slow-down in capital investment in oil exploration activities compared with the 1970s, when oil prices were relatively high.

The massive oil reserves in the ESCWA major oil-producing countries will boost their share in the world oil supply in the future, taking into consideration that proven oil reserves in other parts of the world will be exhausted well before those of the ESCWA region. In the North Sea area, oil production is expected to stabilize by 1999 before it starts to fall thereafter, while in the United States production is already declining and reserves fell by 2.2 per cent in 1995 to 22.4 billion barrels, which can maintain the country's 1995 oil production level for only 9.3 years. In the North Sea area, proven oil reserves can maintain 1995 crude oil production for only 6.7 years. Notwithstanding major new oil discoveries, OPEC member countries in general, and those of the ESCWA region in particular, are expected to play an increasingly important role in oil supply management in the near future, provided that they embark on projects to expand their current production capacities.

BOX 13. OIL TAX IN THE SEVEN MAJOR INDUSTRIALIZED COUNTRIES

The oil tax in the major industrialized countries increased during the period 1970-1993. Taxes on energy consumption in general have been levied by the consumer countries to meet several objectives, such as reducing energy consumption, increasing government revenues, and ensuring environmental protection.

During the period 1970-1993 the tax share in the price of the final product of each barrel of crude oil increased significantly in all members of the seven major industrialized countries, with the exception of Japan where the rate dropped from 37 per cent in 1970 to 32.1 per cent in 1993. The average share for the group as a whole increased from 32 per cent in 1970 to 42.9 per cent in 1993. However, the rate varied from one country to another in this group, ranging from 22 per cent in the United States to 54.8 per cent and 52.6 per cent in Germany and France respectively in 1970, to 69.5 per cent, 64.2 per cent and 30.6 per cent in Germany, France and the United States respectively in 1993.

The government tax share in gasoline prices is even higher in this group of countries. In 1994, the share reached 80.8 per cent in France, 76.9 per cent in Germany and 76.1 per cent in Italy.[a/]

This led to unfair distribution of rent between the producers and consumers. For example, in 1993, the net income per barrel for OPEC countries was only $12.33, compared with tax income of $65.87 per barrel in Italy, $59.82 per barrel in France and $51.25 per barrel in Germany.[b/] The share of OPEC in the price of the final product of each barrel of oil was only 18.7 per cent of Italy's tax income per barrel, 20.6 per cent of that of France and 24.1 per cent of that of Germany.

Even during the period of declining crude oil prices, oil tax rates in the consumer countries continued to rise. In 1986, for example, when the crude price dropped to only about $13 per barrel, the tax rate in the G7 increased by an average of 21.7 per cent. This increase eliminated any positive impact the drop in the price of crude oil might have had on the demand for oil, as the price of the final product had not been substantively affected by the sharp drop in crude oil price.

The major oil-exporting countries, which argued that there was no proof that fossil fuels were the main factors behind the greenhouse effect, have been trying for several years to reach an agreement with the major oil consumers, chief among them the European Union, on this important issue, particularly since the announcement by the EU of its new energy tax which would raise the rate to $10 per barrel by the year 2000. This will reduce further the share of OPEC countries in the price of the refined product, while at the same time increasing the oil tax revenues in this group of countries.

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a/ *Arab Oil and Gas*, 16 August 1995, p. 31.

b/ *OPEC Bulletin*, May 1995, p. 10.

B. GAS

1. *Gas reserves in the ESCWA region*

Throughout the ESCWA region, and in the GCC countries in particular, States rich in oil and gas resources are embarking on developing their natural gas reserves. The demand for natural gas is growing

worldwide owing to general concern over environment-related problems associated with hydrocarbon fuel use, as gas is the cleanest burning fossil fuel. The developed countries, which consume the lion's share of the world's energy resources every year, see this as an attractive alternative to oil and other fuels.

Oil-producing countries have been urged to develop their gas reserves to replace domestic oil consumption (as an energy source) with gas (where possible), to increase oil exports to some countries and to decrease oil imports from others, particularly those whose oil production is in decline, given the fact that gas is seen as an important alternative source of income and also to reduce the impact of a sudden fall in prices in the international oil market.

Estimates have shown increasing proven natural gas reserves in the ESCWA region throughout the 1990s owing to reassessment of reserves and new discoveries. These discoveries have been in tandem with efforts to focus on utilizing existing gas reserves in the ESCWA region, which serve international markets as well as domestic needs.

Natural gas reserves in the ESCWA region rose substantially from approximately 20.6 trillion cubic metres in 1990 to 24.5 trillion cubic metres in 1993, which represents an increase of 18.9 per cent over the three-year period, but they have increased slightly from approximately 24.5 trillion cubic metres in 1993 to 24.9 trillion cubic metres in 1995, which represents an increase of 1.31 per cent over the last two-year period. Despite the existence of a minor increase, in comparison with the world, the ESCWA region's gas reserves accounted for 17.8 per cent of the world's total gas reserves in 1995, and thus the region is in a position to increase significantly its share in world supplies, especially since global supplies are declining. During the period 1993-1995, the ESCWA region's gas reserves as a percentage of the world's total reserves increased by 3.01 per cent, while the world's total reserves decreased by 1.65 per cent. This indicates that the world may be more greatly dependent on the region's reserves in the near future. Table 86 provides details on the ESCWA region's natural gas reserves from 1993 to 1995 on a country-by-country basis, with the percentage change during the last two years.

It is clear from table 86 that the largest gas reserves are in the GCC countries. However, Bahrain's reserves are small; they are estimated at 150 billion cubic metres (BCM) and an amount which was stable in 1995, after declining the previous year. The Syrian Arab Republic has about 200 BCM of proven reserves. Proven reserves have increased in both Egypt and Oman owing to new discoveries. Egypt has a little more than 600 BCM, and Oman has about 700 BCM.

It is on the basis of these reserves that the development of the gas industry in the ESCWA region must begin and continue, until the market reaches a sufficient size to justify the transport of gas from every productive reserve in the GCC countries. The availability of such abundant gas reserves in the GCC countries should ensure a long-term trend towards gas projects; in addition, the large reserves in the Gulf area are a form of guarantee that gas supplies will be forthcoming in the future.[127] Gas reserves and exploration activities differed among ESCWA member countries.

(a) *Bahrain*

Bahrain's reserves of natural gas, mainly in non-associated form in the Khuff zone,[128] have been limited for the last two years, as shown in table 86.

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[127] *Arab Oil & Gas*, 1 January 1996, No. 583, pp. 44-45.

[128] Arab Petroleum Research Center, *Arab Oil & Gas Directory 1994* (Paris, 1994), p. 57.

TABLE 86. NATURAL GAS RESERVES IN THE ESCWA REGION, 1993-1995
(Billion cubic metres)

Country	1993	1994	1995	1994-1995 *(percentage change)*	1993-1995 *(percentage change)*
Bahrain	167	150	150	0	(10.25)
Egypt[a/]	436	546	626	14.57	43.51
Iraq	3 101	3 101	3 101	0	0
Jordan[b/]	5.7	5.7	6.2	10.00	10.00
Kuwait[c/]	1 498	1 498	1 498	0	0
Oman	566	630	714	13.27	26.00
Qatar	7 080	7 080	7 080	0	0
Saudi Arabia[c/]	5 264	5 265	5 265	0	0.02
Syrian Arab Republic	198	198	198	0	0
United Arab Emirates	5 794	5 794	5 794	0	0
Yemen[a/]	425	425	425	0	0
Total ESCWA region	24 535	24 693	24 857	0.66	1.31
Total world	142 059 9	141 041	139719	(0.94)	(1.65)
ESCWA as percentage of world total	17.27	17.51	17.79	1.62	3.01

Source: *Oil & Gas Journal*, fourth week of the December issues, 1993-1995.

Note: ( ) indicates negative.

a/ *Middle East Economic Digest*, 19 January 1996.
b/ Annual Report (Natural Resources Authority of Jordan), 1995 (in Arabic).
c/ Includes the Neutral Zone which is shared by Kuwait and Saudi Arabia.

(b) *Egypt*

As for Egypt, in many of the new exploration areas in the Western Desert, especially the Mediterranean and Upper Egypt, gas is seen as the most likely energy source. Estimates of gas reserves have been steadily revised upwards, and the estimates show more discoveries forthcoming. Egypt is maintaining a steady production and export level, despite rising domestic demand for petroleum products, owing to the success it has achieved in increasing its natural gas reserves and replacing fuel oil with gas for power generation and heavy industry during the past few years. Given its proven gas reserves, Egypt should now be able to meet the gas requirements of all electricity and other projects included in the country's development plan for the period 1996-2000. Egypt's aim is to expand the domestic pipeline network, as well as future projects for gas supplies, and to build a gas export pipeline to the Gaza Strip, Israel and Jordan. The gas will come from offshore East Mediterranean fields where its has been found in considerable amounts. Egypt is expected to sign an agreement with Israel during 1996 whereby Egypt would supply Israel with about 7.08 million cubic metres per day (MCM/d) of gas.[129]

[129] *Middle East Economic Digest*, 19 January 1996, p. 14.

A number of gas discoveries in the Nile Delta, the Mediterranean basin north of Sinai, the Gulf of Suez, and the Western Desert have led to an upward revision in Egypt's proven gas reserves in 1995 in comparison with the previous year. Approximately 30 per cent of the proven reserves are located in the Western Desert in the form of non-associated gas, 16.8 per cent in the form of associated gas in the Gulf of Suez, 38.5 per cent in the offshore Mediterranean and 14.7 per cent in the Nile Delta.[130]

New discoveries have been added, most notably in the Khalda basin, in Egypt's Western Desert, where two fields were discovered in mid-1994, Shrouk and Shrouk East, which tested at rates of 0.037 MCM/d and 0.04 MCM/d respectively, as well as new gas reserves found at the end of the same year, notably Shams-1XA, a re-entry of an older well which was deepened, and tested initially for 0.68 MCM/d of gas. Shams-1XA is located 13 kilometres north of the producing Salam field.[131] More recently, a significant new gas discovery was announced in the same Khalda block: Salam South-1X, which was tested at a combined rate of 1.28 MCM/d of gas from three zones, namely, 0.49 MCM/d in the Alam El Bueib Unit 3E formation, 0.41 MCM/d in the Alam El Bueib Unit 3D formation, and 0.39 MCM/d in the Alam El Bueib Unit 1 formation.[132] There were two more significant discoveries in the permit, the first associated with Southeast Salam-1, which tested for 0.08 MCM/d from Unit 3E of the Alam El Bueib formation, and the second made with the Tut-21, which flowed at a combined rate of 1.7 MCM/d of gas, testing 0.76 MCM/d in the bottom of Unit 2F, and 0.63 MCM/d in the top of Unit 2F, as well as the 0.3 MCM/d in Unit 2B of the Khatatba formation.[133]

Other noted gas discoveries were in the Mediterranean basin north of Sinai. Gas fields were found 50 km, north of the Port Said permit, where proven gas reserves were put at around 170-198 BCM as follows: Port Fuad 70.8 BCM, Wakar 28.3-42.5 BCM, and al-Timsah 70.8-85 BCM. Offshore Port Fuad, which was discovered earlier and is already under development, will go into production in the first quarter of 1996. Other gas discoveries were made at a site 8 km north-west of the earlier Port Fuad-3 discovery (1992) and 52 km north of the Port Said offshore permit, which tested for two zones at a combined rate of 1.33 MCM/d, as well as Port Fuad-1, which produced gas and Port Fuad-2, which was dry.[134] As for the offshore Wakar field discovery in the Mediterranean, north of Port Said, this tested at a rate of 0.9 MCM/d of gas.[135] The new discovery in the Timsah permit in Egypt's Mediterranean offshore, located about 70 km north-west of Port Said, tested at a rate of 0.5 MCM/d from a 95-metre pay zone, the first time that gas has been discovered in an area of such shallow depth.[136]

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130 *Middle East Economic Survey*, 26 December 1994/2 January 1995, p. A6.

131 Ibid., 9 January 1995, p. A12.

132 Ibid., 25 September 1995, p. A12.

133 Ibid., 15 January 1996, p. A10.

134 Ibid., 10 April 1995, pp. A18, A19.

135 Ibid., 27 March 1995, p.A10.

136 Ibid., 11 September 1995, p. A12.

In the offshore Baltim bloc north of the Nile Delta, two discovery wells were located: Baltim-2, which tested at a rate of 1.65 MCM/d of natural gas from two pay zones, and is located about 5 km from the first discovery well (Baltim-1 [1993], which tested at a rate of 0.9 MCM/d); and South Baltim Marine No.1, which tested at a rate of 1.05 MCM/d of gas. This well is located 11 km south of Baltim-1.[137] Another gas discovery was made in the Ras al-Barr offshore concession in the Mediterranean near Damietta in north-eastern Egypt, 40 km from the coast. The discovery well covered three zones, in the deepest zone yielding 0.78 MCM/d of gas. The discoveries gain added significance because they are located in the Mediterranean offshore from where most of the projected future gas supplies to the Gaza Strip and Israel and beyond are expected to be exported.[138]

Also in the Nile Delta area, south-west of the Abu Madi gas field which is currently producing 40 per cent of Egypt's total gas production, another offshore field was recently discovered at Halawa in the East Delta permit. The new discovery well is in the East Delta concession in the eastern part of Egypt's Nile Delta and is located at Batra village north of al-Mansura; it tested at a rate of 0.91 MCM/d of gas from a sandstone formation.[139]

In the area of the Gulf of Suez which is now averaging at 5.67 MCM/d of associated gas, discoveries have been made in the West Jabal al-Zeit tract in Egypt's Eastern Desert, west of the Gulf of Suez. The discovery well was located 8 km from Ras al-Bihar field and covered two pay zones; one zone tested at a rate of 0.14 MCM/d, while the other flowed at a rate of 0.33 MCM/d.[140]

(c) *Iraq*

Oil and gas operations in Iraq have been hindered, like other economic activities, by five years of sanctions. Exploration drilling, for example, has been limited to two or three wildcats a year because of the lack of casings, spare parts and equipment. Gas did not receive as much attention as oil although all Iraq's oilfields produce associated gas, the main sources being Ain Zalah, Butma, Kirkuk and Bai Hassan in the north and Rumaila and Zubair in the south of the country. In the discovery of gas reserves, 10 per cent of the reserves were found present in gas caps, and most of the reserves were traced in tertiary reservoirs in seven gas fields situated in north-eastern Iraq. In the early 1990s, gas was discovered in western Iraq when the authorities drilled an exploratory well in the western part of the country, where gas was discovered in commercial quantities at Aakas. The field is some 50 km south of Qa'im in western Iraq; it remains idle because of the lack of the necessary equipment.[141] The potential for more gas reserves is high since the probable and possible gas reserves are estimated at 4,531 BCM of non-associated gas.[142] Iraq utilizes natural gas as a major source of domestic energy, to enable a maximum volume of oil to be exported (when it is not

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137 Ibid., 3 July 1995, p. A13.

138 Ibid., 13 November 1995, p. A16.

139 Ibid., 16 January 1995, p. A12.

140 Ibid., 9 January 1995, pp. A12 and A13.

141 Ibid., 16 January 1995, p. A5.

142 Ibid., 20 March 1995, pp. A2, D4 and D5.

subjected to an international embargo), in addition to electricity generation, and domestic cooking and heating. This is because of the fact that, although Iraq has the sixth largest proven gas reserves among Arab countries and the fourth largest among ESCWA member countries, the country nevertheless faces a shortage of liquefied petroleum gas (LPG) in the domestic market, especially that which is used by most of the population for heating and cooking. Prior to the Gulf war, Iraq exported natural gas to Kuwait via pipeline.

(d) *Jordan*

The natural gas discovered in the north-eastern Risha fields is now a major source of energy in Jordan, and the contribution of the southern part of these fields to the country's energy resources is expected to increase substantially, particularly for meeting Jordan's electricity needs. The Risha area extends between the Basalt area in the west and the Iraqi border in the east, its area of gas potential being the entire area adjacent to the Iraqi border, bounded on the north by the Syrian Arab Republic and on the south by Saudi Arabia. The Risha field gas is very dry and sweet, which renders it easy to treat, and is the only known type of gas of this consolidation in the region. Dry gas was discovered in the RH-3 well, which was the first successful well in the Risha area to be drilled in the easternmost part. The first two wells (RH-1 and RH-2) far to the west had been drilled years before. RH-6 which is a producing well, RH-16, RH-18 and RH-20 are also successful producing wells. The well RH-26 to the south of the gas field, which was drilled in 1993, proved a capable producer. This discovery encouraged the authorities to plan more wells around it to develop the discovery. A well (RH-28) was drilled 22 km to the north of the new discovery and proved to be a gas producer but with small, commercially inviable quantities. Another well (RH-29) was drilled 3.5 km to the north of RH-26 but yielded nothing. Exploration has been carried out 14 km to the east, but no concrete plans have been made pending the results of the well (RH-30), which is still under investigation. If the results are positive and indicate good production capability, the authorities may decide to develop the area around this well before developing the area around the RH-26 well. Jordan's domestic gas demand is growing, which obliges it to exceed its plans for importing gas to satisfy domestic needs.[143]

(e) *Kuwait*

Kuwait's proven natural gas reserves were independently estimated although the Government has not published an official estimate for some years. In any case, official figures have tended to understate Kuwait's true gas potential. The whole of Kuwait's reserves consist of associated gas, since despite an intensive exploration programme during the 1980s, no non-associated gas fields have been discovered in the country, either onshore or offshore. Kuwait's problem in gas flaring has been reduced to a minimum, and gas gathering systems were installed in the partitioned zone to supplement Kuwait's domestic gas supplies, from an offshore system and another onshore system in the Wafra. The current estimate takes account of the wastage due to oilwell fires and blowouts (caused during the Gulf war) from which gas escaped along with oil. However, only a small volume of gas was lost and Kuwaiti gas gathering, transport and processing facilities suffered relatively minor damage during the Gulf war.

Despite its significant reserves, Kuwait still imports gas from other countries for domestic use. Having imported natural gas from Iraq prior to the Gulf war, it now has to look for alternative suppliers in the Gulf

[143] ESCWA, *Analytical Study of Recent Projects on the Development of Oil and Natural Gas in Selected ESCWA Member Countries (Jordan and Yemen)* (E/ESCWA/ENR/1995/15/Rev.1).

region to meet the growth in the demand for gas that is likely to accompany the progressive reconstruction of its economy.[144]

(f) *Oman*

Gas reserves are growing apace in Oman, accumulating to a large amount during the last three years since the total probable gas reserves, with further success realized, have more than doubled. The larger part of Oman's gas reserves are found in non-associated gas fields, where 87.5 per cent is estimated as non-associated and 12.5 per cent as associated gas. The big new gas finds in recent years have mostly been made in deep structures, sometimes under known oilfields that are already in production. The presence of natural gas in Oman is widespread, occurring mostly in northern and central Oman and only rarely in the south.[145]

In northern Oman, a promising new gas discovery was found during a deep test of the Haima and Huqf, Makarem-1, in a large structure between the Ghaba and Fahud salt basins. A large accumulation of natural gas was discovered in the Andam formation. This is located in north-central Oman, namely at Barik, Saih Rawl and Saih Nihayda, in the Ghaba salt basin. The gas reserves were from the successful Haima reservoirs of the Saih Rawl and Barik fields. The proven reserves of these fields have actually increased over the past few years.

Recently in the Saih Rawl Deep, additional non-associated gas reserves of 56.64 BCM were discovered in the Barik formation and 93.46 BCM in the Miqrat formation. Following estimate activities in the Barik Deep field, non-associated gas reserves were revised downward by 34 BCM. A performance review of the Yibal Natih reservoir added 5.66 BCM, which increased the growth in non-associated gas reserves to 121.78 BCM, and a total of 631.5 BCM of non-associated gas reserves. Adding associated gas reserves of 82 BCM, the total gas reserves stood at 714 BCM by the end of 1994,[146] in addition to the yields from two other discoveries made in 1995: Mahjoub 2ST1 in the Ghaba salt basin, which was estimated at 2.8 BCM in June 1995; and Barik North 1, also in the Ghaba salt basin, which was estimated at 2.8 BCM in July 1995.[147]

In central Oman, a new field wildcat—Burhaan West 1—was spudded and completed at the end of the year. The well is located 8 km west of Burhaan South field, the Shuaiba formation oil and gas, and the Gharif formation gas. Another new field wildcat—Wadi Umayri 2—was also spudded and completed. The well is located 14 km northeast of the Mussalim field.[148]

Oman's gas reserves now can cover both its export projects—one for a 6 million tons/year liquefied natural gas (LNG) scheme from the proven reserves of the north-central Oman fields (Barik, Saih Rawl and

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144 *Arab Oil & Gas Directory 1994*, p. 201.

145 Ibid., p. 298.

146 *Middle East Economic Survey*, 17 July 1995, pp. D1, D2 and D3.

147 Petroconsultants, *Foreign Scouting Service, Near East—Highlights and Summary*, January 1996 (Geneva), p. 24.

148 Ibid., *Oman*, January 1996, p. 5.

Saih Nihayda) and the other for a submarine pipeline to India which is currently under evaluation—as well as domestic requirements.[149]

(g) *Qatar*

Qatar is sitting on a large amount of gas reserves at the North gas field, which is the world's largest single offshore concentration deposit of a non-associated gas field. The North field provides almost all of Qatar's natural gas reserves, which represent 5 per cent of world reserves and 28.5 per cent of the ESCWA region's natural gas reserves. It lies offshore to the north-east of the Qatar peninsula, in relatively shallow water, and covers an area of 6,000 km^2. Depending on the rate of extraction and the final volume of recoverable reserves, it could have a productive life of about 200 years. The onshore Khuff reservoir under the Dukhan oilfield is the only other source of non-associated gas in Qatar, and it supplies domestic gas fuel requirements. It has 101 wells, of which 80 are oil-producing and 11 gas-producing. Natural and non-associated gas in this field has been discovered in the four subdivisions of the Khuff formation.[150] Studies have indicated that the North field's total gas in place exceeds 9,912 BCM, and that proven recoverable reserves in the North field are estimated at 7,080 BCM, including substantial volumes of condensate.

Associated gas reserves currently total about 270 BCM, of which the Dukhan field contains some 142 BCM (in the Arab C, Arab D and Uwainat reservoirs). The three offshore fields—Idd El Shargi, 80 km off the eastern coast of the peninsula; Maydan Mahzam field, next to it; and to the east of these two, Bul Hanine field—contain 128 BCM between them. The discovery of Arab B structure, which is associated with oil, has so far been known to be a gas-play, holding 1,840.8 BCM, of which 912 BCM are recoverable. Further drilling will be required to establish the true potential of this discovery.[151]

With Qatar's enormous gas reserves, evaluating and testing known gas reservoirs is more significant than exploring for new ones. Onshore, drilling deep wells has been taking place to estimate both the Khuff and pre-Khuff potential of the non-associated gas reservoir lying some 10,000 feet below the Dukhan oilfield, and some relatively small discoveries were made by the exploration acreage.[152] Despite these facts, and the fact that the North field was discovered in the 1970s, development has been modest, and Qatar has been slow in proceeding to develop its gas projects, primarily owing to financial constraints.

(h) *Saudi Arabia*

Saudi Arabia's natural gas reserves are less than those of Qatar, but considerably more than those of neighbouring Oman. However, not much effort has been directed towards estimating the Kingdom's gas-production potential. A slight increase has occurred over the previous year's estimate, and a 25 per cent increase in proven reserves from the early 1990s, but further exploration and evaluation could increase total proven gas reserves to over 7,000 BCM.

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149 *Middle East Economic Survey*, 30 January 1995, p. A1.

150 Petroconsultants, *Foreign Scouting Directory 1995*, p. 228.

151 Ibid., *Foreign Scouting Service, Near East—Highlights and Summary*, February 1996, p. 6.

152 *Arab Oil & Gas Directory 1994*, p. 320.

Most of Saudi Arabia's reserves are in the form of associated gas contained in the country's oilfields. The Ghawar field, the largest onshore source of natural gas and oil, accounting for around 35 per cent of all gas reserves, is one of the Kingdom's principal sources of gas production. However, new sources of non-associated gas were found in the centre of the country, close to the Najd fields of light crude, while a major gas and condensate structure was recently discovered in the north-western part of the country, on the Red Sea coast. In the central region, the first significant discovery was made at Dilam, 75 km south of Riyadh, which tested for 1.4 MCM/d of sweet gas. Another discovery was made in the same region, the al-Hilwah well, penetrating a gas reservoir which tested for an average flow of 0.4 MCM/d. Yet another discovery was made in North Kidan in the eastern region. There are other gas fields which were discovered, but are not in production for the time being. These include al-Hilwah in the central region and South Kidan and Suhal in the eastern region. In all, there are more than nine non-associated gas fields in the country.

The Master Gas Gathering System (MGGS), which allowed Saudi Arabia to start recovering and processing associated gas, will provide a chance to study the deep Khuff zone, which produces a small volume of non-associated gas in the southern onshore oilfields, to bring new sources of gas into the system. The choice is either to perform more with associated gas or drill deeper, more expensive wells to get to the non-associated reserves. There were new discoveries made in 1995 in Saudi Arabia, namely Abu Rakiz 1, which is located in the Central Arabian basin and tested for 25,686 MCM/d of gas.[153]

(i) *Syrian Arab Republic*

The recoverable reserves in the Syrian Arab Republic are mainly in the form of non-associated gas, in addition to cap gas and associated gas. Three quarters of the reserves, which comprise non-associated gas, are contained in the Palmyra fields. Before its significant reserve was discovered, most of the Syrian Arab Republic's proven reserves consisted of associated gas, in addition to the Sharifa and Ash Shaer fields,[154] which are the only other sources of non-associated gas. Most of the country's associated gas lies in the oilfields at the Omar field in the Dayr az-Zawr region, and since associated gas does not entail spending on exploration or the drilling of special gas-production wells, its utilization in various areas is given priority over non-associated gas, which involves enormous expenditure in the exploration and development stages. Other than the non-associated gas from the fields in the Suwayda region, gas was found in the Audeh field in the Jbeisseh gas treatment plant and non-associated gas was found in three other fields—al-Arak, al-Hil and al-Dubayyat, located about 60 km north-east of Palmyra—as well as the al-Sukhnah and Najib fields, Al Kadir (non-associated) and D'Bissan 11 (associated) in the Palmyra zone, the Karatchok 310 in the Zagros basin (non-associated), and Barakah 1 in the Khleisia basin (associated).[155]

More discoveries were made in 1995 in the Suwayda 1100 in the Zagros Fold Belt basin in the north-east of the country, which was roughly estimated for 2.8 MCM/d of non-associated gas in addition to another two discoveries located in the eastern part of the country, Kishma 1 in the Euphrates Graben basin, which tested for 181 MCM/d of associated gas and Barakah 1 in the Dayr az-Zawr basin, which was roughly estimated at 2.8 MCM/d of associated gas. The Syrian Arab Republic's domestic needs can be satisfied entirely with its associated gas, and the Palmyra reserves. Once developed, gas from the Palmyra reserves

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153 Petroconsultants, *Foreign Scouting Service, Near East—Highlights and Summary*, January 1996 (Geneva), p. 24.

154 *Arab Oil & Gas Directory 1994*, p. 412.

155 *Middle East Economic Survey*, 11 December 1995, p. A13.

could be available for export. Continued exploration for non-associated natural gas deposits is expected to result in higher reserve levels.[156]

(j) *United Arab Emirates*

Proven natural gas reserves in the United Arab Emirates account for 4.2 per cent of world reserves and 10.4 per cent of OPEC reserves. Around 91 per cent of the United Arab Emirates gas is found in Abu Dhabi in the form of associated and non-associated gas in the Khuff formation. In addition to the Thamama formations of the Bab oilfield, and the Arab A, C and D structures of the Bu Hasa field,[157] Abu Dhabi's reserves add up to 5,335.5 BCM of proven gas reserves from onshore and offshore, associated and non-associated fields. The latest discovery, found in 1995 in Abu Dhabi, was associated with condensate at Umm Shaif 226 in the Rub' al-Khali basin and was tested at a rate of 1.02 BCM/d.[158]

As for Al-Sharjah Emirate, it has sizeable gas reserves (estimated at about 303 BCM) in comparison with the other Emirates. The bulk of those reserves is contained in the onshore fields, since the remaining reserves of the offshore Mubarak field are estimated at no more than 42.5 BCM of associated gas. Apart from that, gas reserves are found in the onshore Saja'a field, and the Moveyeid fields also contain associated gas. More significant, a major accumulation of associated gas was found in the Kahaif and Hamidiyah fields.[159]

Dubai's proven natural gas estimates are 124.6 BCM, which consist of both non-associated gas from the Margham field and associated gas from the oilfields in the Fateh and Rashid fields.

In Ras al-Khaimah, the only other Emirate that has hydrocarbon fuels, reserves are of about 31 BCM and are mainly found in the Saleh field, which is an offshore field associated with condensate.

(k) *Yemen*

Gas has been found in Yemen, usually in association with oil, but exploration for reserves has not taken on as much importance as oil development and exploration. The bulk of these reserves are found in the Marib/al-Jawf fields, in the form of associated gas, and the rest are located in the Jannah Hunt tract.

In the Marib/al-Jawf area, associated and non-associated reservoirs were discovered mainly at Asad al-Kamil field in the form of associated gas, Alif and Lam fields as non-associated gas, and Meem field as associated gas, in addition to other gas fields found at Marib/al-Jawf, including Jabal Samadan, Raydan, Al-Shura, Al-Wihdah and Shaharah (associated gas fields) and Al-Tahreer, Ma'een, Mawza and Jabal Habah (non-associated gas fields).[160] Other than Destour al-Wihdah/al-Rajaa Jannah, a joined field between the

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156 Petroconsultants, *Foreign Scouting Service, Near East—Highlights and Summary*, January 1996 (Geneva), p. 25.

157 *Arab Oil & Gas Directory 1994*, p. 471.

158 Petroconsultants, *Foreign Scouting Service, Near East—Highlights and Summary*, January 1996 (Geneva), p. 24.

159 *Arab Oil & Gas Directory 1994*, p. 490.

160 Petroconsultants, *Yemen*, March 1996 (Geneva), p. 9.

Marib/al-Jawf and the Jannah Hunt tract, al-Sa'idah in Marib/al-Jawf was also estimated to contain reserves which more than doubles the total gas reserves of the Marib/al-Jawf acreage.[161]

In the Jannah tract, the first wildcat (Jannah-1) was tested for a flow of gas production at a rate of 0.35 MCM/d. The second well (Sabtain-1) and the third (Jamlah-1) also found gas. Finally, there was the discovery made in the Jeza passage, Wadi Taribah 1, which tested for oil and gas at a rate of 13.6 MCM/d of gas.[162]

2. *Gas production in the ESCWA region*

Gas production in the ESCWA region is relatively low in comparison with its reserves. In the past three years, however, gas production has increased slightly, mainly to support the domestic consumption of natural gas for electricity generation, domestic cooking and heating, as well as the use of gas for industrial purposes as a substitute for oil, in order to allow the export of more oil in the international markets.

Although gas production increased mainly for domestic utilization, other production was not so significant. However, ESCWA member countries have initiated a strategy to develop gas facilities for export purposes as well as enhancing intraregional trade of gas, which already exists between many countries in the region. Such trade is carried out among the GCC countries; for example, the United Arab Emirates purchases gas from Oman. Qatar, which plans to supply gas to Dubai and to the northern Emirates of the United Arab Emirates, is considering proposing a gas grid that would serve Bahrain and Kuwait.[163] There are also projects to export from Egypt's Northern gas to eastern Mediterranean countries as well as to the West Bank and Gaza Strip and eventually to Jordan, Lebanon and the Syrian Arab Republic.[164]

Nevertheless, the ESCWA member countries are not producing and exporting gas up to their potential owing to the significant transport costs associated with exporting gas and the major prime expenses for starting long-term projects. Gas has been previously viewed mainly as a domestic energy source, but development is now being undertaken by member States to increase the production rate for export purposes.

Production in the ESCWA region increased from about 91.9 BCM in 1993 to about 110.8 BCM in 1995, an increase of 20.6 per cent. The ESCWA region's natural gas production accounts for about 5 per cent of the world's total gas production today. This is an increase of 18.4 per cent over the ESCWA region's production rate in comparison with the world rate from 1993 to 1995. Owing to the large reserves in the region, it is planned to increase this percentage. Table 87 provides details of ESCWA region production from 1993 to 1995 on a country-by-country basis, with the percentage change for the last two years.

Table 87 indicates that the largest gas-producing countries in the ESCWA region are Saudi Arabia and the United Arab Emirates, despite the fact that Qatar has larger reserves than both these countries. As for Egypt, production has risen in accordance with the new discoveries. Overall, the production of the ESCWA member countries has increased in a notable way in 1995, in addition to the increase already

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161 *Arab Oil & Gas Directory 1994*, p. 516.

162 Petroconsultants, *Foreign Scouting Service, Near East—Highlights and Summary*, January 1996 (Geneva), p. 25.

163 *Middle East Economic Survey*, 15 May 1995, p. A5.

164 Ibid., 9 October 1995, p. A6.

recorded in the previous three years. This helps increase the potential for high revenues from gas exports in the future. Gas production levels varied widely among ESCWA member countries.

TABLE 87. NATURAL GAS PRODUCTION IN THE ESCWA REGION, 1993-1995
(Billion cubic metres)

Country	1993	1994	1995	1995-1994 *(percentage change)*	1995-1993 *(percentage change)*
Bahrain	5.106	5.177	5.248	1.4	2.8
Egypt	8.691	8.428	11.770	39.7	35.4
Iraq	1.912	2.486	3.427	37.8	79.3
Jordan[a/]	0.198	0.284	0.304	7.1	53.7
Kuwait[b/]	4.469	4.664	5.993	28.5	34.1
Oman	3.551	3.548	4.350	22.6	22.5
Qatar	7.989	6.885	13.497	96.1	68.9
Saudi Arabia[b/]	32.129	31.710	37.807	19.2	17.7
Syrian Arab Republic	3.704	4.160	4.412	6.1	19.1
United Arab Emirates	24.335	23.950	24.335	1.6	0.0
Yemen[c/]	n.a	n.a	n.a		
Total ESCWA region[d/]	92.085	91.293	111.143	21.7	20.7
Total world	2 181.549	2 177.293	2 222.234	2.1	1.9
ESCWA as percentage of world total	4.22	4.19	5.00	19.28	18.49

Sources: *Oil & Gas Journal*, cumulative production: 14 March 1994, p. 87; 13 March 1995, p. 110; and 11 March 1996, p. 109. *Oil and Energy Trends*, 15 December 1995, p. 25.

a/ Petroconsultants, *Foreign Scouting Service, Jordan*, January 1996.
b/ Kuwait and Saudi Arabia production, each including half of Neutral Zone.
c/ n.a. = not available.
d/ Excluding Yemen, where data are not available.

(a) *Bahrain*

Gas production in Bahrain has been stable for the past years. It is mainly utilized to meet the gas requirements of electricity generation plants, injection into oil wells, and for the aluminium industry and other major petrochemical industries in the country.[165]

Non-associated gas is produced from Khuff gas structures and from the Arab structure in the Awali field, of which 75 per cent is non-associated. About 30 per cent of the gas is re-injected into the Manddud reservoir.

165 Petroconsultants, *Bahrain*, January 1996 (Geneva).

(b) *Egypt*

Egypt's output of natural gas has maintained a steady production and export level. Nearly all the current production is consumed domestically. Most of the production is from the Western Desert in the form of non-associated gas.[166] The Abu Madi field remains the largest of Egypt's gas fields in the Nile Delta, which produces about 4 MCM/d of gas or 40 per cent of Egypt's total gas production; the second biggest gas field is the Badr el-Din field in the Western Desert.[167] In third place comes the Gulf of Suez, which produces an average of 5.66 MCM/d of associated gas from Abu Qir, Abu al-Gharadiq, Ras Shukheir and al-Qara'a fields.[168]

Another scheme to increase the volume of gas recovered from oilfields was completed in the Gulf of Suez area and is known as the Trans-Gulf Gas System. Future development of gas fields for production and export will occur in the near future at the Port Fuad and Wakar fields in the Mediterranean, where industry sources estimate their production potential at around 11 MCM/d, in addition to the Halawa field in the East Delta permit south-west of Abu Madi field. The combined output of the three fields is expected to reach 4.4 MCM/d of gas.

Although Egypt has given priority to meeting its domestic gas demand, it is also endeavouring to increase its gas exports. The project to export gas to the Gaza Strip and Israel from Egypt's Northern gas, as well as future aims that could extend further to exporting gas to West Bank, Jordan, and perhaps Lebanon and the Syrian Arab Republic.

(c) *Iraq*

Gas production in Iraq consisted only of gas associated with oil, and in gas caps in oilfields. All of Iraq's oilfields produce associated gas, from Ain Zalah, Butma, Kirkuk and Bai Hassan in the north, and Rumaila and Zubair in the south. Corresponding gross natural gas output in 1995 was estimated to have been approximately 7.08 MCM/d versus 15.2 MCM/d before the Gulf war. All the production (associated gas) now comes from the northern fields and meets the domestic demand.[169] In addition to the fact that production is nearly equal to consumption, larger amounts of gas output since the Gulf crisis consist of non-associated gas from the al-Anfal field in the North.[170] From there, the gas is fed into the regional network to supply the petrochemical industry and as fuel to the power stations.

Iraq utilizes gas mainly for local household use and (before the imposition of the United Nations sanctions) to enable large volumes of oil to be exported, as well as for industry. The downstream industry has been largely reconstructed despite the large damage during the Gulf war. The work was concentrated in the first two years after the war on raising the production capacity to pre-war levels. Thereafter, the lack of sufficient gas-processing facilities consumed 20 per cent of produced gas, but currently total gas processing

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166 *Middle East Economic Survey*, 26 December 1994/2 January 1995, p. A6.

167 *Middle East and North Africa 1995*, p. 385.

168 *Middle East Economic Survey*, 17 October 1994, p. A10.

169 Petroconsultants, *Iraq*, January 1996 (Geneva).

170 *Arab Oil & Gas Directory 1994*, p. 159.

is about 58.1 MCM/d, of which 15.6 MCM/d are in the northern gas project, and the remaining 42.5 MCM/d are the capacity of the southern gas project. This processing capacity is just sufficient for processing gas produced from a level of crude oil production. The increase of the production of crude oil depends on the rate of gas production, excluding the quantities of gas which are re-injected in some producing reservoirs.[171]

(d) *Jordan*

In Jordan, the Risha gas field is the only field that produces gas. An estimate of about 1.2 BCM has been produced so far from the whole of Risha's reserves. In production, gas is lifted from five wells of the Risha gas field in north-eastern Jordan.[172] Well RH-3 is a successful producing well. Well RH-6 is a producer with the capability of delivering 0.25 MCM/d; well RH-26 produces 0.11 to 0.14 MCM/d, and well, RH-28 is also a producer. A power station with two 30-MW turbines is powered from the two producing wells, RH-3 and RH-6.[173] The quantities of gas delivered are currently around 0.99 MCM/d for four turbines. Jordan's four turbines, with a capacity of 30 MW, increase the role of gas in Jordan's electricity generation to about 18 per cent.

(e) *Kuwait*

As for Kuwait's current gas output, it is in the form of associated gas. Kuwait's production is limited by the absence of any reserves independent of petroleum. Much of the gas is flared to facilitate oil production (which has now been reduced to a minimum), or re-injected, to maximize the petroleum production by maintaining pressure in the reservoirs. Kuwait has a three-train plant for the production of LPG, with a gas-gathering plant, which collects the gas and treats it for utilization. Almost all of Kuwait's oilfields are bound into the associated gas-gathering network. Natural gas is gathered from the Raudhatain and Sabriya oilfields in northern Kuwait, from Minagish, Umm Gudair and the South Umm Gudair oilfields in western Kuwait, while a separate system gathers gas from the Burgan and Magwa-Ahmadi fields.

All the LPG produced is exported, mainly to South-East Asia and Japan, and the rest to the Middle Eastern countries and Western Europe.[174]

(f) *Oman*

Associated gas production in Oman has increased in the past three years, and gross gas production is estimated at some 7.24 BCM for 1995, consisting of 4.76 BCM of associated gas and 2.48 BCM of non-associated gas.[175]

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171 *Middle East Economic Survey*, 20 March 1995, p. D10.

172 Petroconsultants, *Jordan*, January 1996 (Geneva).

173 ESCWA, *Analytical Study of Recent Projects on the Development of Oil and Natural Gas in Selected ESCWA Member Countries (Jordan and Yemen)* (E/ESCWA/ENR/1995/15/Rev.1).

174 *Arab Oil & Gas Directory 1994*, p. 202.

175 Petroconsultants, *Oman*, March 1996.

About 90 per cent of the production of associated gas was used for fuel, electric power generation and injection into oilfields to increase the pressure, or added to the Government Gas System. Gas is delivered to consumers through the Government Gas System, of which 83 per cent is non-associated gas from the Yibal field's Natih gas reservoir as well as the balance of associated gas from the Lekhwair field's Shuaiba reservoir and the Yibal field's Shucuba reservoir. In addition to the project at Yibal, which produces 20,000 tons/year of butane for domestic consumption, preparations have been made for the facilities of the LNG project to be exported in the near future in pipelines.[176]

(g) *Qatar*

Qatar produces natural associated gas from onshore and offshore fields and non-associated gas from the Al-Khuff field and the cap in the Dukhan onshore area, which supplies all onshore production. The Al-Khuff reservoir is the main source of supply for Qatar's domestic gas fuel requirements.[177] Development is being undertaken in two stages. The first phase of Qatar's North Field development project is designed to produce gas for domestic use. As for the second phase, it involves an export pipeline of LPG to neighbouring and/or world markets.

An LNG project is being implemented and is expected, upon completion, to allow Qatar to export gas to the Republic of Korea and Taiwan Province of China at an average of 4.5 million tons/year.[178]

Another new venture aims for the transport of around 22.66 MCM/d of natural gas by pipeline to short-distance locations to serve the regional markets, mainly Dubai and probably a gas grid that could serve Bahrain and Kuwait.[179] Different sources estimate the output of gas in Qatar at 18.4 BCM in 1995, of which 9.3 BCM were associated gas and 9.1 BCM were free gas from the North Field. This estimate includes 49.5 per cent associated gas and 50.5 per cent of non-associated gas of Qatar's production.[180]

Despite Qatar's large reserves in comparison with other ESCWA member countries in the region, production has not been as satisfactory as in other States. Gas production is very slow and most of Qatar's development in production is only in future projects and plans. Qatar spent some time in the 1990s developing a coherent project of a 4 million ton/year LNG plant at Umm Said.[181]

(h) *Saudi Arabia*

Most of the gas produced in Saudi Arabia is associated gas from the giant Ghawar field. It is delivered to the Master Gas System (MGS), for recovering associated gas that is produced at the Ghawar and other oilfields. Small quantities of non-associated gas are also produced and extracted from the Al-Khuff

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176 *Middle East Economic Survey*, 17 July 1995, p. D3.

177 *Financial Times Oil and Gas International Year Book 1995* (Essex, Longman, 1994), p. 228.

178 *Arab Oil & Gas Magazine*, vol. 33, February 1996, p. 15.

179 *Middle East Economic Survey*, 15 May 1995, p. A5.

180 Petroconsultants, *Qatar*, February 1996.

181 *Petroleum Economist*, December 1995, p. 3.

zones of the southern onshore oilfields. Saudi Arabia keeps a back-up of the extra gas production in the form of gas caps, which are created over the Abqaiq oil reservoir by the gas that was previously re-injected, whenever demand for gas increases. Up to 12.7 MCM/d of gas can be produced from these gas caps.

MGS is an industrial strategy for which gas is required as both fuel and feedstock in the two industrial structures in Jubail and Yanbu. It has the capacity to control 121.7 MCM/d of raw gas of which 70.8 MCM/d is associated gas and 50.9 MCM/d is non-associated gas. It yields gas to fuel power stations and desalination plants, and provides supplies for petrochemical plants, propane, butane and natural gasoline for export.[182]

The domestic gas plants in Saudi Arabia can process 113.3-121.7 MCM/d of associated and non-associated natural gas. Liquids limit fuel gas delivery capacity to around 79.3-85 MCM/d, and from those limited recovery rates the Uthmaniyah and Shedgum gas plants each contribute about 28.3 MCM/d. The Berri gas plant supplies an additional 17 MCM/d. Small processing plants at Safaniyah produce 5.7-11.4 MCM/d, which are added directly to the domestic gas grid.

The latest development plans in Haradh in the southern part of the giant Ghawar field involve the construction of a second gas-oil separation plant and related water injection facilities. One source estimates current gross gas production at about 44.995 BCM in 1995, of which about 20.7 MCM is non-associated gas from the Al-Khuff formation and the rest is associated gas from the Ghawar and other fields.[183] Saudi Arabia now produces, gathers and processes a limited amount of non-associated gas from the Al-Khuff field. As for associated gas, which is the bulk of Saudi Arabia's gas, this is fed to the MGS. It is considered a good producer in comparison with other countries in the region.

(i) *Syrian Arab Republic*

Most of the gas produced in the Syrian Arab Republic is consumed locally, two thirds of it by gas-fired power stations, and the rest is utilized as fuel for industrial plants and as feedstock in fertilizer complexes. Since non-associated gas is produced, total gas output no longer depends entirely on oil production. The development of non-associated gas production in the Syrian Arab Republic, in addition to the associated production with oil, has led to an increase in the rate of production in recent years.

The development of field projects expanded the associated gas production of the Omar and Palmyra fields. While associated gas is being produced in the Suwayda-Karatchok fields in the north-east and Omar field near Dayr as-Zawr, non-associated gas is produced at the Ghuna, al-Hol, Markaba and Jbeisseh gas fields in the eastern part of the country.[184]

As for the central gas area project, the development is in two phases. Phase I involves the production of 3 MCM/d of non-associated gas from three fields—al-Arak, al-Hil and al-Dubayyat—located about 6 km north-east of Palmyra. Phase II, which is due to be completed soon, involves the linking of two gas fields—al-Sukhnah and Najib—into the system and the raising of the project's total output to 6 MCM/d of

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182 *Arab Oil & Gas Directory 1994*, p. 365.

183 Petroconsultants, Preliminary Statistics 1995, *Saudi Arabia*, February 1996, p. 26.

184 *Arab Oil & Gas Directory 1994*, p. 413.

non-associated gas. This will almost double the Syrian Arab Republic's current output of gas.[185] Another source estimated the country's production at 18.1 BCM in 1995.[186]

(j) *United Arab Emirates*

Production and processing of natural gas in the United Arab Emirates has expanded. The percentage production of natural gas from onshore fields is 55.7 per cent and from offshore fields 44.3 per cent, and the overall gas utilization averages 93 per cent of production.[187]

About 91 per cent of the United Arab Emirates' production is in Abu Dhabi and the rest is in Dubai and the northern Emirates. Most of Abu Dhabi's output from the Khuff formation consists of associated gas developed for domestic use as a fuel and feedstock. The Khuff formation also has the capacity to produce LNG and LPG for export. The development of non-associated gas reservoirs both onshore and offshore was given priority to complement the associated gas-gathering and -processing facilities. Onshore, associated gas from the Murban field is fed into the Emirates' extensive gas-gathering system for supply to fractionation plants, while dry gas is consumed directly by power stations, and desalination plants. Furthermore, a project for injecting gas into the Thamama C & F reservoirs at Habshan in order to raise the gas pressure in the reservoir[188] is now under way.

Dubai's natural gas production consists of both non-associated gas from the Margham field and associated gas from the main oilfields, most of which is reinjected. Dubai consumes more gas than it produces and imports gas from neighbouring countries. About 80 per cent of Dubai's gas demand is met from its own sources and the other 20 per cent has been supplied by Sharjah producers under long-term agreements, in addition to the gas offered from Abu Dhabi by pipelines.[189]

Sharjah's gas production is extracted from the offshore Mubarak field and the onshore Saja'a and Moveyeid fields. Gas from the Saja'a fields is exported to power stations in Ras al-Khaimah, Fujairah, Ajman and Umm al-Qaiwain.

Large gas projects are planned for the future in the United Arab Emirates to supplement the recently completed ones.

(k) *Yemen*

Yemen has great potential as a gas producer, although up to now relatively few facilities for recovering and utilizing associated gas have been installed. The bulk of Yemen's associated and non-associated gas is in the Marib/al-Jawf fields, and the rest is in the Jannah tract.

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185 *Middle East Economic Survey*, 11 December 1995, p. A13.

186 Petroconsultants, Preliminary Statistics 1995, February 1996, p. 31.

187 *Middle East Economic Survey*, 24 July 1995, p. A14.

188 Ibid., 24 July 1995, p. A14.

189 *Middle East Economic Digest*, 1 December 1995, p. 40.

However, associated gas is reinjected into the fields at a rate of 34 per cent of the gross production.

3. *Gas prices in the ESCWA region*

The prices of gas in certain forms have increased owing to high demand, for energy security depends on natural gas today, particularly in power generation. Although marketing of gas remains regional, the pricing of gas continues to be based in most cases on oil prices, providing some link between regional markets.[190] Marketing prices in the ESCWA region are mostly determined by the countries with production potential.

Gas prices depend on fluctuations in crude oil prices as the pricing formula is indexed to a basket of benchmark crudes. Exporting prices differ from one country to another depending on the type of gas imported and exported. Gas prices are mainly set on LNG and LPG. LNG prices are subject to a maximum ceiling price of around $4.00/million BTU and a floor price of about $2.20/million BTU,[191] but, nevertheless, rates change from one agreement to another, depending on the country and the distance the gas is being exported to or imported from, as well as the transfer price rate. As for the LPG prices, competing Middle Eastern producers have long used Saudi Aramco posted prices to set their own LPG export rates, often charging premiums of between $18 and $23 per ton over official Saudi Arabian prices for spot supplies.[192] Table 88 provides us with the prices of Saudi Aramco LPG contract prices for the year 1995, where gas-producing ESCWA member countries have set those prices for exporting rates.

190 *Middle East Economic Survey*, 21 August 1995, p. A9.

191 Ibid., 29 May 1995, p. A4.

192 Ibid., 26 December 1994/2 January 1995, p. A10.

TABLE 88. SAUDI ARAMCO LPG CONTRACT PRICES FOR 1995
(US dollars/ton)

Month	Propane	Butane
January	190	207
February	230	233
March	215	215
April	185	190
May	165	177
June	162	172
July	152	162
August	147	155
September	147	155
October	159	165
November	180	180
December	195	188

Source: *Petroleum Economist*, all monthly issues from February 1995 - January 1996.

C. REGIONAL EFFORTS IN ELECTRICITY GRIDS

Ready access to electricity by all households has come to be a measurement of the degree of economic and social progress in a State. With demand for electricity rising rapidly, and with the increase in the growth of the population, consumption of electricity has widely increased. Electricity consumption may be measured on a per capita consumption basis. Consumption depends mainly on electrification (percentage of households linked to an electrical grid), as well as other factors. The highest per capita consumption of electricity is found in oil-producing and exporting countries in the region. The power generation capacity is provided by steam or gas turbine power stations or hydroelectric plants. The use of combined cycle technology, whereby a steam turbine gets its fuel from the waste heat of a gas turbine, is becoming more important. Besides converting energy in a much more efficient way than the conventional oil, gas and coal-fired power plants produce electricity at a much lower cost. In addition, gas-fired power plants emit less carbon into the atmosphere than either oil or coal-fired plants. This emphasizes the importance of gas in the region for efficient use of energy.

Table 89 provides details of the ESCWA region's electricity production and capacity for the period 1993 to 1994. As can be noted from the table, the amount of electricity produced in the ESCWA region is 2.02 per cent of the world's total electricity production.

Bahrain's electricity production, which depends mainly on gas turbines, totalled 5,000 gigawatt hours (GWh), while generation capacity for domestic consumption totalled 1,200 MW.

Egypt's total electricity production amounted to 78,000 GWh in 1994,[193] while peak power generation capacity totalled some 12,500 MW.[194] The current capacity is generated from 35 steam or gas turbine power stations and 3 hydroelectric plants. The Aswan High Dam alone has a design capacity of 2,355 MW, and there are other electricity plants in the country.[195] Natural gas accounts for 80 per cent of thermal energy production, and there are extra high pressure networks of 500,220 and 132 kilovolts (kV), which were introduced in the early 1960s and which have been extended to transmit energy to load centres all over the country.[196]

TABLE 89. ELECTRICITY PRODUCTION AND CAPACITY IN THE ESCWA REGION, 1994

Country	Capacity (MW)	Electricity production (GWh)	Consumption kWh/capita
Bahrain	1 200	5 000	8 300
Egypt	12 500	50 000	885
Iraq	9 500	29 000	1 450
Jordan	1 000	5 000	1 250
Kuwait	7 000	18 000	12 000
Lebanon	1 400	5 600	1 400
Oman	1 400	5 500	3 200
Qatar	1 400	5 500	11 000
Saudi Arabia	21 500	78 000	4 480
Syrian Arab Republic	2 500	11 500	900
United Arab Emirates	5 000	18 000	10 600
Yemen	700	3 000	220
Total ESCWA region	65 100	2 34 100	55 685
Total world[a/]		11 576 790	
ESCWA as percentage of world total		2.02	

Source: *Middle East Economic Survey,* 19 February 1996, p. A16.

a/ Net Electricity Production, *Oil and Energy Trends*, 15 December 1995.

Egypt has taken measures to be the centre of a broader regional electrical interconnection extending from Africa to Europe through the Middle East. There are four ongoing regional interconnection projects: the Egypt-Jordan Interconnection, the Five-Country Interconnection, the Arab-Maghreb Interconnection, and the Mediterranean Power Pool.

193 The Middle East/North Africa Summit, "Egypt's Prospective" (Amman, 1995), p. 71.

194 *Middle East Economic Survey*, 19 February 1996, p. A16.

195 *Arab Oil & Gas Directory 1994*, p. 162.

196 The Middle East/North Africa Summit, "Egypt's Perspective" (Amman, 1995), p. 71.

BOX 14. THE FIVE-COUNTRY REGIONAL ELECTRICITY INTERCONNECTION

Economic and industrial development have increased because of the high demand for electricity in the region. Constraints on the electricity resources in each country have been encountered owing to the absence of demand-side management and high consumption of energy supplies and reserves. The projects in the region for power interconnection within the electricity network grids will overcome the resource constraints by securing energy supplies with less consumption reserves. The electrical power interconnection has saved operational costs, provided higher levels of energy availability and reliability of the power system, and allowed for beneficial fuel diversification.

For all these benefits, an agreement was signed in the early 1990s to study the economic and technical benefits of the regional electricity interconnection project between the five countries of Egypt, Iraq, Jordan, the Syrian Arab Republic and Turkey.

The interconnection project consists of stages, which will include the reinforcing of the existing networks, the construction of switching stations to transfer electricity from source to target countries, and the interconnection of 400 kV tie lines between the participating countries:

Components of the five-country electricity interconnection project

TABLE 1. TRANSMISSION TIE LINES AMONG THE FIVE COUNTRIES OF THE ELECTRICITY INTERCONNECTION

Source country	Target country	Length of tie line (km)	Electromotive force of transmission tie line (kV)
Suez (Egypt)	Aqaba (Jordan)	300	400
Aleppo F (Syrian Arab Republic)	Birecik (Turkey)	124	400
Cizre (Turkey)	Kesek (Iraq)	129	400
Qa'im (Iraq)	Dayr az-Zawr (Syrian Arab Republic)	165	400
Adra (Syrian Arab Republic)	North Amman (Jordan)	210	400

TABLE 2. REINFORCEMENT OF EXISTING NETWORK PARTICIPATING COUNTRIES

Country	Length of transmission line (km)	Electromotive force of transmission line (kV)
Egypt	120	500
Jordan	40	400
Syrian Arab Republic	480	400
Turkey	28	400

TABLE 3. SWITCHING STATION IN PARTICIPATING COUNTRIES

Participating country	Number of switching stations
Egypt	1
Iraq	2
Jordan	1
Syrian Arab Republic	5
Turkey	2

BOX 14. (*continued*)

The estimated cost of the project is about $300 million financed by the Arab Fund for Economic and Social Development,[a/] in addition, some European countries support the project technically and economically, especially France, Italy and Spain.[b/]

Each participating country in the interconnection project will bear the cost of its own components, which will be the interconnection tie lines, the reinforcement of the existing networks and the construction of switching stations.

The Five-Country Interconnection Project will start with an interconnection between Egypt and Jordan, which is currently under execution and is expected to be completed by 1997. The Project will be achieved in two phases. The first phase, which consists of interconnection lines between Egypt, Jordan, the Syrian Arab Republic and Turkey, will be accomplished by 1997. The second phase, which consists of interconnection lines between Iraq, the Syrian Arab Republic and Turkey, is expected to be accomplished by the year 2002.

Source: Middle East/North Africa Summit, "Egypt's perspective" (Amman, 1995), p. 76.

a/ Ibid., pp. 76-77.
b/ *Al-Ra'i* (Amman), p. 20.

The Egypt-Jordan Interconnection is the first phase of the Five-Country Interconnection project, currently under execution and expected to be completed by 1997. The project will allow an energy transfer of 130 MW to 400 MW in both directions, and it will reduce the investment in power generation and decrease the cost per kilowatt hour (kWh) to both countries. The project connects a transmission line from the Suez Substation to the Oyoun Mousa Thermal Power Station in Sinai, next to Tabaa Substation, then through a 400-kV submarine cable across the Gulf of Aqaba to Jordan and finally to Aqaba Power Station.

After this comes the Five-Country Interconnection, which will be in two stages; the first between Egypt, Jordan, the Syrian Arab Republic and Turkey, and the second between the Syrian Arab Republic and Iraq on the one hand, and Turkey and Iraq on the other hand. There are also projects with the Arab Maghreb countries, which could become a major part of the Mediterranean Countries Electrical Interconnection Project. This Project, which is to be implemented in the near future, will make possible the interconnection of Africa and Europe.

Iraq's power generation and distribution system was almost completely destroyed during the Gulf war. Power generation capacity was slashed, owing to a 90 per cent destruction of the national power grid; nevertheless, efforts have been made to restore power to a level close to pre-war level. Iraq has 20 power stations with four steam plants and two hydroplants,[197] of which most were damaged during the war. Despite the shortage of parts and components, repairs have been made to place some of the power plants back on stream, and the national power grid has been rendered operational once again. Iraq's total annual electricity production is 29,000 GWh, while the power-generating capacity is a total of some 9,500 MW,

197 *Arab Oil & Gas Directory 1994*, p. 162.

without taking into account the plans for participating in the Five-Country Interconnection to connect the national electric power grids.

Jordan's electricity generation sources are the thermal power station at Zarqa and the power plant at Aqaba and the country's first gas-fired station at Risha. Since October 1994, four turbines at Risha, with a 30 MW capacity, have been operating, raising power generation. Two more turbines are being installed, one at Risha and the other at Irbid. A contract for a third turbine with a capacity of 100 MW has recently been awarded to a company.[198] There are plans for installing an electricity link with the Syrian Arab Republic and upgrading the existing one. The proposed installation of a 400-kV line connecting the two main power stations in Amman and Damascus is under consideration. This would be part of the electricity interconnection between the five countries which has been initiated through the interconnection with Egypt, via the Gulf of Aqaba.

The power and electricity generation and distribution sector in Kuwait has restored its capacity to pre-war level. Its production totalled to about 1,800 GWh, while its generating capacity has reached 7,000 MW. The country has five major power stations and desalination complexes and 13 electrical substations. Transmission lines are connected from West Doha power stations to the north, and power lines are connected from south al-Zour to Kuwait City. Plans have been made to interconnect the national grid with other GCC countries, starting with Saudi Arabia, Bahrain and Qatar.[199]

Lebanon's power-generating capacity is presently around 1,400 MW, with an electricity production of 56,000 GWh fuel; oil/steam power stations account for 70 per cent of its capacity while gas oil/turbine facilities and hydroelectric plants account for 11 per cent and 19 per cent respectively. Power transmission is ensured over an integral grid of 150 kV and 66 kV. Further capacity has been reduced owing to occasional damage to the power plants. Power consumption covers 50 per cent for the residential sector, 35 per cent for industry, and 15 per cent for the tertiary sector.

A proposal is being considered to supply gas to a new power station in the Bekaa area by a gas line between the Homs area in the Syrian Arab Republic and the Bekaa area in Lebanon. The plant would have an initial capacity of 200 MW, which could be increased to 330 MW at a later date. A second option would be to fuel a 200-MW combined-cycle power plant in the town of Zouk, which will also be expandable to 330 MW. Negotiations have taken place for power cooperation.

Oman's generating capacity reached 1,400 MW, while the production of electricity amounted to 55,000 GWh. Like other countries in the region, Oman has plans for the future; the country will be interconnected with the United Arab Emirates in a future electricity grid as part of a larger interconnection.

Electricity consumption is increasing rapidly in Qatar, with an installed capacity of 1,400 MW and an electricity production of 5,500 GWh. Qatar is taking the lead in developing new capacity by undertaking the long-delayed project for building a major power generation and desalination complex at al-Wusail. Older power plants have been expanded by placing new gas turbines as in the al-Wajbah, Ras Abu Fontas and Dukhan power plants. Qatar will also be connected with the regional interconnection with Kuwait, Saudi Arabia and Bahrain, with plans for interconnection with a larger electricity grid.[200]

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198 *Arab Oil & Gas*, 1 January 1996, p. 30.

199 *Jordan Times*, 6 May 1996.

200 *Arab Oil & Gas Directory 1994*, p. 330.

Expanding power generation in Saudi Arabia is a priority, owing to the rapid rise in the demand for electricity. Generating capacity was 21,500 MW, and electricity production has reached 78,000 GWh. Capacity is being further increased both through the expansion of existing power stations and the development of new plants. The four consolidated electricity companies in the eastern, southern, central and western portions of the country, in addition to some 14 other small-scale projects and utilities in the north, account for over 80 per cent, or a total of around 17,626 MW, as follows: East, 7,296 MW for 10 plants; West, 4,344 MW for 24 plants; Central, 3,723 MW for 10 plants; South, 1,278 MW for 9 plants; and North, 985 MW for 24 plants. The Saline Water Conversion Corporation, which operates large water desalination plants on the Kingdom's eastern and western coasts, and the Royal Commission's Yanbu Industrial City, make up the remaining approximately 3,400 MW of generating capacity, with some 2,600 MW and 800 MW respectively. The 2,400 MW Ghazlan power plant expansion and two other projects, including a 1,000 MW unit south at Shuqaiq and a 1,200 MW plant at Shuaiba, are important future projects in Saudi Arabia;[201] in addition, there is an interconnection plan among the GCC countries of Kuwait, Bahrain and Qatar for an electricity grid in the region which could later be expanded.

The Syrian Arab Republic's electricity production totalled about 11,500 MWh with a generating capacity of 2,500 MW. Despite the increase in the generating capacity in past years, the demand for electricity still exceeds the supply. Oil-fired steam power stations account for about half of the total installed capacity, and the rest account for gas-fired power stations and hydroelectric plants. There is a large gap between nominal and effective operational capacity, particularly in the hydroelectric plants. To meet the shortage of generating capacity, it is planned to install big power stations to expand capacity; in addition, other projects are planned to expand and build new power stations. The Syrian Arab Republic has also taken steps to interconnect its power grid with neighbouring countries. The project will interconnect the power grids of these countries with those of Gulf States.[202] In addition to the Five-Country Interconnection, the Syrian Arab Republic will participate in the first phase of the project by connecting with Egypt, Jordan and Turkey, and the second phase by connecting with Iraq.

Expanding power generation is a major priority in the United Arab Emirates. Generating capacity totalled 5,000 MW, with the production of electricity at 18,000 MW. In Abu Dhabi, the biggest project under way is the second phase of the Taweelah complex, with one of the largest power-generating capacities in the Gulf region. Work has been undertaken on the development of a gas turbine power station in Mirfa, and a new 80 MW power station came on stream at Medinat Zayed. The two power stations are to be tied into the western region grid, which is being installed to distribute electric power to users in the area. In addition to the new power plants developed, expansion is under way at the Abu Dhabi and al-Ain power stations.[203]

Dubai is steadily expanding its power-generating capacity to keep up with the domestic demand. Dubai relies on its own power stations rather than on the United Arab Emirates electricity grid which supplies power to the northern emirates. Dubai increased its power-generating capacity when the Jebel Ali power station was expanded. Future plans are going ahead to develop a new power station in al-Awir and other projects. As for Sharjah, the main development priorities are to expand power generation.[204] The United

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201 *Middle East Economic Survey*, 26 June 1995, pp. A7 and A8.

202 *Arab Oil & Gas Directory 1994*, p. 418.

203 Ibid., p. 475.

204 Ibid., p. 489.

Arab Emirates will also be linked in a future plan with Oman in the interconnection among the GCC countries.

As for Yemen, only 25 per cent of the Yemeni population is currently connected to the electricity supply network. Three power stations are presently operating, and project studies have been carried out to build an 80 MW-100 MW power station in Marib to provide electric power to Sana'a and the surrounding areas, in addition to other projects to build three smaller 30 MW power stations around the country.[205]

D. SHORT-TERM OUTLOOK

The growth in demand for electricity in the Arab region—particularly in the Gulf—has been the highest in the world. Electricity production and utilization per capita vary widely in the region, yet there are several common features, mostly the very rapid and high growth in electricity consumption and the lack of demand-side management programmes and efforts. Nevertheless, plans for the future in the region will overcome many of the common problems, mainly costs, by investing in electricity and energy efficiency as well as connecting electricity grids among the countries of the region.

The region has started with the development of electricity grids in many parts of the region (namely the five-country interconnection of Egypt, Iraq, Jordan, the Syrian Arab Republic and Turkey). In addition, the GCC countries will save around $752 million when they link their electricity networks in a single grid as part of economic integration. The grid linking the six GCC countries will reduce their costs of power generation. The project consists of two phases, the first covering Saudi Arabia, Bahrain, Kuwait and Qatar, and the second linking Oman and the United Arab Emirates.

The grid will eventually be connected to a greater power network linking most of the Arab League's 22 members.[206] With the Mediterranean countries Electrical Interconnection Project to be implemented in the near future, this will allow the interconnection of Africa and Europe. The prospects for increasing the amount of natural gas reserves in the region depend on the energy needs of the individual country and the size and location of gas fields. Egypt, for example, has increased its gas reserves in recent years and more discoveries are to come from new drilling. A higher estimate is due to be announced in the coming year and an estimated 1,132.8 BCM remains to be discovered. Iraq has large gas reserves, but few exploration attempts were made during the last five years, owing to post-Gulf war conditions in the country, which is self-sufficient with its present capacity. Jordan is seeking to explore its potential to the full and contracts have been secured with foreign companies in that connection. Oman made new discoveries recently, and it is quite probable that more discoveries are to come. Qatar has witnessed a slight increase in its reserves, yet its drilling activities remain in the northern area; there is the potential for more. Saudi Arabia has been very active in all aspects, taking full advantage of its existing potential. The Syrian Arab Republic, in the coming year, expects new discoveries. The United Arab Emirates has also sought to take full advantage of its potential, exercising full activity in all aspects. Yemen secured several contracts recently in the two areas known for their gas reserves, namely the Marib/al-Jawf block and the Jannah block.

A comprehensive survey shows the region to be most promising in terms of gas reserves, making it a vital source of world potential in the future, especially if reserves are exploited to the full.

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[205] Ibid., p. 522.

[206] *Jordan Times*, 6 May 1996.

IX. DEVELOPMENTS IN THE WATER SECTOR

The lack of adequate water supply in the ESCWA member countries has considerably affected their growth and development. The scarcity of water resources in the region is attributed in general to the fact that most of the ESCWA member countries are situated in arid and semi-arid zones characterized by large variations in rainfall and limited surface water. These variations contribute to the inadequacy of water resources in each individual country.

A variety of remarkable adjustments to water supply fluctuations and deficits has been made in the ESCWA member countries over the years. More recently, however, rapid population growth, socio-economic development, increased urbanization, and industrial and agricultural activities have placed great strains on the water resources, particularly in the GCC countries and Yemen. Many of the ESCWA member countries are now faced with the challenge of meeting increasing water demands in all sectors. While some countries have an adequate water supply to meet short-term requirements, others have limited sources with few possibilities for developing additional supplies without relying heavily on groundwater mining and the use of non-conventional sources, which requires substantial financial and technological investment. The water situation is further complicated by the fact that substantial volumes of available surface and groundwater are being withdrawn from rivers and aquifers, some of which are shared between countries within and outside the ESCWA region.

Intensive use of both surface and groundwater resources to meet rising demand has led to further exploitation of water resources in excess of natural renewability, as well as to the deterioration of water quality. This has compelled some of the ESCWA member countries to invest in the construction of hydraulic structures to store and regulate water flow, and to invest in water conveyance and reuse systems. GCC countries had to construct desalination plants to meet rising water demands in the domestic sector. Excessive over-utilization of available water sources in some of the ESCWA member countries has created water shortages. Rising demand is not only placing great strains on water resources, especially the most easily accessible sources, but also brings about an entirely new progression of environmental and technological concerns, and their associated development costs.

Solutions to water shortages must be based on a number of factors including accurate information about water resources in the region; reliable assessment of water requirements in all sectors; strengthening of both institutional arrangements and capacity-building; and the implementation of integrated water development and management approaches. Regional cooperation is particularly important in the case of shared water resources, both within and outside ESCWA member countries. Solutions need to be implemented at both the country and regional levels, taking into account the socio-economic circumstances and development needs of each country involved.

A. Overview of the water situation

1. *Water resources*

A survey of the availability of water resources indicated large variations from country to country within the ESCWA region, depending on the physiographical and hydrogeological setting. Among the ESCWA members, Egypt, Iraq, the Syrian Arab Republic, and Lebanon have relatively dependable surface water sources in the form of major rivers and springs. River flow in these countries originates both from within and outside the national boundaries. In addition to available surface water, water supply is supplemented through extraction from groundwater reserves in Egypt, Jordan, Lebanon, the Syrian Arab Republic, and the West Bank and Gaza Strip. Jordan is faced with water deficits, and the West Bank and

Gaza Strip have limited surface water and renewable groundwater sources to meet their needs. Relatively abundant surface water and groundwater reserves are frequently renewed through rainfall, perennial river flow, and floods. The Nile in Egypt; the Euphrates and the Tigris in Iraq and the Syrian Arab Republic; the Orontes in Lebanon and the Syrian Arab Republic; the Litani in Lebanon; and the lower Jordan River in Jordan, represent major water sources for domestic, industrial and agricultural requirements within these countries. In contrast, the GCC countries and Yemen are characterized by a harsh desert environment and are devoid of rivers and lakes. The water resources consist of limited quantities of run-off resulting from flush floods, groundwater in the alluvial aquifers, and extensive groundwater reserves in the deep sedimentary formations. Some of these countries also rely on non-conventional water sources such as desalination of sea and brackish water, and limited use of renovated wastewater.

Water allocation from the Nile River in Egypt is estimated at 56.5 BCM per year, while the estimates for the Euphrates and Tigris in the Syrian Arab Republic and Iraq are 26.8 BCM and 76.9 BCM respectively.[207,208,209] The average surface water flow in Lebanon is estimated at 2.5 BMC,[210] while for Jordan it is 0.875 BCM.[211] The major problem associated with management of surface water is the transboundary nature of rivers shared between member and non-member countries. Typical examples are the Nile and Euphrates rivers, where the headwaters are located outside the ESCWA region. Lack of formal agreements for sharing flow from the Euphrates and Tigris rivers has created serious shortcomings in efficient water utilization. A number of large dams have been constructed on these rivers to regulate the water flow. Water stored behind the dams is the main source for domestic uses, irrigation and industrial purposes in Egypt, Iraq and the Syrian Arab Republic and to a limited extent in Jordan and Lebanon.

Surface water in the extremely arid countries of the GCC countries and Yemen consists of run-off generated from flash floods. The average annual volume of water generated from flooding is estimated at 5.3 BCM.[212,213] The intermittent nature of flow renders it an unreliable source. The total average annual amounts of water generated in Saudi Arabia and Yemen are estimated at 2.2 BCM and 2.1 BCM respectively. The amounts of surface water available in Oman and the United Arab Emirates were estimated

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[207] Kamal Saad, "Implications of Agenda 21 for integrated water management in the ESCWA region", paper presented at the ESCWA-UNEP Expert Group Meeting on the Implications of Agenda 21 for Integrated Water Management in the ESCWA Region, held at Amman from 2 to 5 October 1995.

[208] "Towards Agenda 21 - chapter 18: Egyptian policy for implementation; country paper, Arab Republic of Egypt", paper presented at the ESCWA-UNEP Expert Group Meeting on the Implications of Agenda 21 for Integrated Water Management in the ESCWA Region.

[209] ESCWA, Water Resources Database in the ESCWA Region, 1992.

[210] Lebanon country paper presented at the ESCWA-UNEP Expert Group Meeting on the Implications of Agenda 21 for Integrated Water Management in the ESCWA Region (in Arabic).

[211] "Country paper: the Hashemite Kingdom of Jordan", paper presented at the ESCWA-UNEP Expert Group Meeting on the Implications of Agenda 21 for Integrated Water Management in the ESCWA Region.

[212] J. Khoury, "Water resources in the Arab world and their future projection", paper presented at the Symposium on Water Resources and Utilization in the Arab World, Kuwait, 1986.

[213] M.J. Abdulrazzak, "Water supplies versus demand in countries of the Arabian Peninsula", *Journal of Water Resources Planning and Management*, May/June 1995.

at 0.92 BCM and 0.12 BCM respectively. The remaining GCC countries have only negligible amounts of surface run-off.

In general, utilization of surface run-off is directed to traditional flood irrigation, especially in the south-western region of Saudi Arabia and most of Yemen. The regulated and unregulated flood flow is the main source of groundwater recharge of the shallow alluvial aquifers. More than 300 small dams have been constructed during the past two decades, mainly in Saudi Arabia, for the purposes of flood protection and groundwater recharge with a combined storage capacity exceeding 0.5 BCM. Fifty-two dams have been, or are being, constructed in Oman, the United Arab Emirates and Yemen for the same purpose.

Groundwater resources in the ESCWA region consist of water stored in both shallow and deep aquifers. Carbonate aquifers are predominant in Jordan, Lebanon and the Syrian Arab Republic while sandstone is prominent in northern Egypt and southern Iraq. Shallow quaternary wadi deposits located in the coastal plains and inland basins, as well as the alluviums of river flood plains, contain groundwater of good quality that is frequently recharged by perennial river flow. The shallow aquifers in Egypt's Nile delta, Iraq, Jordan, Lebanon, the Syrian Arab Republic and the West Bank hold groundwater reserves adequate to meet partially their respective water requirements. The region also contains large aquifers in which significant reserves of groundwater, with varying degrees of salinity, are stored. Water quality in relation to salinity, and the location of sources at considerable depths, however, determine how the water can be utilized.

The groundwater reserves of the shallow alluvial aquifers also represent one of the main sources for many of the countries in the Arabian Peninsula. Alluvial deposits along the main wadi channels and flood plains of drainage basins make up the shallow groundwater system in Kuwait, Oman, Saudi Arabia, the United Arab Emirates and Yemen. Groundwater in the shallow aquifers is the only renewable water source in these countries.

Another main source of water in Bahrain, Kuwait, Qatar and Saudi Arabia is the non-renewable fossil groundwater stored in the sedimentary deep aquifers. These aquifers store significant amounts of groundwater that are thousands of years old. The major aquifers are the Saq, Tabuk, Wajid, Minjur-druma, Wasia-Biyadh, Dammam, Um Er-Radhuma, and Neogene. These aquifers cover two thirds of Saudi Arabia and some of them extend into Bahrain, Kuwait, Oman, Qatar, the United Arab Emirates, and Yemen, as well as into Iraq, Jordan and the Syrian Arab Republic.

The vast amounts of groundwater stored in the deep aquifers serve as a dependable source of water for irrigation and limited domestic requirements in the central and northern regions of Saudi Arabia and, to a lesser extent, in the other countries of the Peninsula. Although water in the deep aquifers is ample in quantity, the quality varies greatly, and is suitable for domestic consumption in only a few areas. Total dissolved solids range from 400 to 20,000 parts per million (ppm). Good quality water is stored in only the Saq, Tabuk, Wajid, and Dammam aquifers. Although the estimated storage capacity of the deep aquifers is very large compared with annual extraction, currently there are constraints in some locations, associated with the allowable amount of decrease in artisan pressure, as well as limits on drilling and pumpage.

Non-conventional water sources are being utilized to supplement natural sources in order to satisfy the water requirements in many of the ESCWA member countries. Brackish and sea water desalination has also become a viable alternative to meet the rising demand. The GCC countries rely largely on desalination to help satisfy domestic water demand, and during the last 20 years these countries have become increasingly dependent on desalination to meet their water supply requirements. They have become, by necessity, world

leaders in desalination of sea water and brackish groundwater for domestic consumption. The high salinity of groundwater in most of the GCC countries has compelled them to rely on desalinated sea water. Current desalinated water output, produced from numerous desalination plants located in Bahrain, Kuwait, Oman, Saudi Arabia, the United Arab Emirates, and Yemen, reached 1.7 BCM in 1995, compared with a worldwide capacity of 5.7 BCM. Desalinated water is being produced in Egypt, Iraq and the Syrian Arab Republic, mainly through the private sector, but in limited amounts in comparison with the GCC countries, where desalination is relatively more common. These capacities cover all desalination plants and include numerous units in private sector ownership for industrial or other purposes. Kuwait, Saudi Arabia and the United Arab Emirates rely on large-scale plants capable of producing large volumes of water. There are small plants with an estimated production of 33 MCM in Egypt, Iraq, Jordan and the Syrian Arab Republic.

Wastewater treatment facilities in many of the ESCWA member countries face difficulties in handling the ever-increasing volumes of wastewater generated by increased water consumption and urbanization. Wastewater discharge from major urban centres is polluting shallow alluvial aquifers and coastlines, as well as causing urban water tables to rise. The emphasis has been simply to dispose of wastewater rather than to treat and reuse it, owing to the extensive capital investment required for water treatment systems. Planning for full utilization of treated effluent remains in the early stages, and the regional treatment capacity is sufficient to handle only 40 per cent of the domestic wastewater generated. However, reuse of renovated wastewater is being practised in varying degrees for urban landscaping and irrigation. The regional total reused volume of renovated wastewater and drainage water is estimated at about 5.5 BCM, which is far less than the treated and untreated volume usually available from domestic water consumption. Reuse of treated effluent is currently estimated at 60 MCM in Egypt, 52 MCM in Jordan, and 50 MCM in the Syrian Arab Republic. Approximately 4.8 BCM of drainage water is being used for irrigation in Egypt. The use of wastewater ranges between 217 MCM in Saudi Arabia and 9.1 MCM in Yemen (table 90). The percentages of reuse for domestic and industrial water requirements range between 27.7 per cent and 30 per cent. In the region as a whole, renovated wastewater meets a small fraction of water demand. Water resources estimates based on various hydrological and hydrogeological investigations carried out in the ESCWA region are given in table 90.

The quality of drinking water and sanitation services in most of the ESCWA member countries has improved over the last 10 years, with the exception of Iraq, Lebanon and Yemen. Progress has been made in achieving targets established for most urban areas; however, rural communities in the ESCWA region are still inadequately serviced in terms of safe drinking water, sanitation facilities and easy accessibility. The United Nations economic sanctions on Iraq have had a major adverse impact on water supply and sanitation facilities. Availability of safe drinking water and sanitation is also a major problem in the Gaza Strip. The conflict in Yemen had a detrimental impact on water supplies and sanitation facilities. Complicating the situation is the expectation of increased urbanization to nearly 75 per cent by the year 2025, which is expected to exert even more pressure on water supply and sanitation facilities.

2. *Water demand*

Imbalances between increasing water demand and existing limited water resources are being experienced by most of the ESCWA member countries. During the last decade, water demand in all sectors increased dramatically as a result of high population growth, improvements in the standard of living, and efforts to establish self-sufficiency in food and industrial development. Currently, agriculture is the primary water consumer. Industrial water demand varies among the nations in the region, but is roughly equivalent to domestic water requirements.

TABLE 90. WATER RESOURCES IN THE ESCWA REGION, 1995

(Million cubic metres)

Country/area	Population (in millions)[a/] 1994	Conventional water resources			Non-conventional water resources			Total
		Surface water[b/]	Groundwater[c/]	Subtotal	Desalination	Wastewater reuse	Subtotal	
Bahrain	0.55	0.2	90	90.2	75	9.5	84.5	174.70
Egypt	62.101	55 500	650	56 150	19	4 900	4 919	61 069.00
Iraq	19.092	76 880	1 500	78 380	7.4	N.A.	7.4	78 387.40
Jordan	4.057	660	275	935	2.5	52	54.5	989.50
Kuwait	1.62	0.1	182	182.1	240	83	323	505.10
Lebanon	3.481	2 500	12 000	14 500	1.7	N.A.	1.7	14 501.70
Oman	2.049	918	10 500	11 418	32	25	57	11 475.00
Qatar	0.532	1.35	2 500	2 501.35	92	25	117	2 618.35
Saudi Arabia	18.18	2 230	84 000	86 230	795	217	1 012	87 242.00
Syrian Arab Republic	13.733	22 688	3 000	25 688	2	50	52	25 740.00
United Arab Emirates	2.15	125	20 000	20 125	385	110	495	20 620.00
West Bank and Gaza Strip	2.238	30	150	180	N.A.	N.A.	N.A.	180.00
Yemen	13.468	2 000	13 500	15 500	9	9.1	18.1	15 518.10
Total	143.251	163 532.65	148 347	311 879.7	1 660.6	5 480.6	7 141.2	319 020.85

Source: Compiled by the ESCWA secretariat from country papers and international sources, 1994 and 1995.

Note: N.A. = information is not available.

a/ *Demographic and Related Socio-Economic Data Sheets for the Countries of the Economic and Social Commission for Western Asia*, No. 8, 1995.
b/ The flow of the Tigris and Euphrates rivers will be reduced by upstream abstraction in Turkey.
c/ Shallow aquifer groundwater reserve with deteriorating water quality.

Water requirements for all sectors in Egypt and Iraq are supplied mainly from river flow, while in Jordan, Lebanon, the Syrian Arab Republic and the West Bank and Gaza Strip, both groundwater and surface water are used to satisfy requirements. Drainage and renovated wastewater partially meet irrigation requirements in Egypt, Jordan and the Syrian Arab Republic.

Domestic and industrial water requirements for most of the GCC countries are satisfied through desalinization and a limited amount of groundwater from both shallow and deep aquifers. Yemen relies solely on groundwater resources for all sectors. In all GCC countries and Yemen, agricultural requirements are met through abstraction of water from shallow alluvial aquifers located in the coastal strips and inland basins, and from deep aquifers covering most of the Arabian Peninsula. In Saudi Arabia, rapid expansion of agricultural activities during the past two decades has resulted in substantial increases in water demand, leading to extensive mining of the deep aquifers. Agricultural water demand has sharply increased in Bahrain, Oman, Qatar, and the United Arab Emirates, where groundwater reserves are being mined. This agricultural development is a direct result of government policies encouraging self-sufficiency in food production. Government incentives and subsidies have made it possible for large areas to be cultivated, placing great strain on the existing groundwater resources.

Total water demand for agricultural, industrial and domestic purposes in the ESCWA region reached 139 BCM in 1990 (table 91), with the major consumers being Egypt, Iraq and the Syrian Arab Republic. Requirements are expected to reach 179.4 BCM by the end of the century, and 244.2 BCM by the year 2025, as shown in table 91. Agriculture accounts for the majority of water use, followed by the industrial sector.

Water requirements for the agricultural sector account for the majority of water use in the ESCWA region as a whole, with demand estimated at 117.8 BCM in 1990, with a combined demand of 98.2 BCM for the group of countries/areas that includes Egypt, Iraq, Jordan Lebanon, the Syrian Arab Republic and the West Bank and Gaza Strip, and 19.6 BCM for the group of countries that includes Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, the United Arab Emirates and Yemen. In 1990, the percentage of agricultural demand ranged between 62 and 90 per cent of the total water demand in the northern ESCWA region, while in the south it ranged between 21 and 93 per cent, as shown in table 92. Agricultural water demand in the ESCWA region is projected to reach 150.4 BCM and 187.5 BCM in the years 2000 and 2025, as shown in table 91.

Industrial activities in most of the ESCWA members have also contributed to increases in total water requirements, although not as dramatically as the agricultural sector. Industrial water demand reached 10.5 BCM as of 1990 in Egypt, Iraq, Jordan, the Syrian Arab Republic, and the West Bank and Gaza Strip, and only 0.3 BCM in the GCC countries and Yemen. The percentage of industrial water demand ranged between 0.4 and 11.3 per cent, with the smaller percentages being reported for the GCC countries. Countries with relatively well-established industrial infrastructures include Egypt, Iraq and the Syrian Arab Republic. Industrial establishment is still fairly limited in the southern region. Industrial demand is projected to reach 14.6 BCM and 25.6 BCM in the years 2000 and 2025 respectively, with the highest demand being in Egypt, Iraq and the Syrian Arab Republic.

The industrial production structure in most of the ESCWA member countries is geared towards consumer goods and petroleum refinement. Many industries in the region, especially in Egypt, Iraq, Jordan, Saudi Arabia and the Syrian Arab Republic, rely on raw materials derived from agricultural products. Most industrial activities are confined close to major urban centres, requiring competition with the domestic sector to satisfy water requirements. In urban areas with concentrated industrial activities, industrial water requirements represent the major water consumer in relation to domestic requirements. In most of the GCC countries, field development and petrochemical industries are considered to be water-use intensive. Industries in Egypt and Iraq utilize surface water from major rivers, while the remaining ESCWA member countries rely on groundwater supplemented with surface water, desalinization, and a limited amount of recycled water.

TABLE 91. PAST AND PROJECTED WATER DEMAND FOR THE ESCWA REGION, 1990, 2000 AND 2025

(Million cubic metres)

Country/area	1990			2000			2025			Total demand		
	Domestic	Agriculture	Industrial	Domestic	Agriculture	Industrial	Domestic	Agriculture	Industrial	1990	2000	2025
Bahrain	86	120	17	169	124	26	230	271	73	223	319	574
Egypt	2 700	49 700	4 600	3 100	59 900	6 100	4 700	69 100	10 900	57 000	69 100	84 700
Iraq	3 800	40 000	5 600	4 600	52 000	7 000	10 500	66 000	10 500	49 400	63 600	87 000
Jordan	190	650	43	340	1 090	78	750	1 090	175	883	1 508	2 015
Kuwait	295	80	8	375	110	105	670	140	160	383	590	970
Lebanon	310	750	60	550	1 200	150	1 100	1 600	450	1 120	1 900	3 150
Oman	81	1 150	5	170	1 270	85	630	1 500	350	1 236	1 525	2 480
Qatar	76	109	9	90	185	15	230	205	50	194	290	485
Saudi Arabia	1 508	14 600	192	2 350	15 000	415	6 450	16 300	1 450	16 300	17 765	24 200
Syrian Arab Republic	650	6 930	146	1 277	14 820	480	3 145	25 000	1 297	7 726	16 577	29 442
United Arab Emirates	513	950	27	750	1 400	30	1 100	2 050	50	1 490	2 180	3 200
West Bank and Gaza Strip	78	140	7	263	217	18	787	415	61	225	498	1 263
Yemen	168	2 700	31	360	3 100	60	840	3 800	137	2 899	3 520	4 777
Total	10 455	117 879	10 745	14 394	150 416	14 562	31 132	187 471	25 653	139 079	179 372	244 256

Source: Compiled by the ESCWA secretariat from country papers and international sources, 1994 and 1995.

TABLE 92. PROPORTION OF WATER DEMAND BY SECTOR TO TOTAL DEMAND IN THE ESCWA REGION, 1990, 2000 AND 2025

(Percentage)

Country/area	1990			2000			2025		
	Domestic	Agriculture	Industrial	Domestic	Agriculture	Industrial	Domestic	Agriculture	Industrial
Bahrain	38.6	53.8	7.6	53.0	38.9	8.2	40.1	47.2	12.7
Egypt	4.7	87.2	8.1	4.5	86.7	8.8	5.5	81.6	12.9
Iraq	7.7	81.0	11.3	7.2	81.8	11.0	12.1	75.9	12.1
Jordan	21.5	73.6	4.9	22.5	72.3	5.2	37.2	54.1	8.7
Kuwait	77.0	20.9	2.1	63.6	18.6	17.8	69.1	14.4	16.5
Lebanon	27.7	67.0	5.4	28.9	63.2	7.9	34.9	50.8	14.3
Oman	6.6	93.0	0.4	11.1	83.3	5.6	25.4	60.5	14.1
Qatar	39.2	56.2	4.6	31.0	63.8	5.2	47.4	42.3	10.3
Saudi Arabia	9.3	89.6	1.2	13.2	84.4	2.3	26.7	67.4	6.0
Syrian Arab Republic	8.4	89.7	1.9	7.7	89.4	2.9	10.7	84.9	4.4
United Arab Emirates	34.4	63.8	1.8	34.4	64.2	1.4	34.4	64.1	1.6
West Bank and Gaza Strip	34.7	62.2	3.1	52.8	43.6	3.6	62.3	32.9	4.8
Yemen	5.8	93.1	1.1	10.2	88.1	1.7	17.6	79.5	2.9
Average	24.3	71.6	4.1	26.2	67.6	6.3	32.6	58.1	9.3

Source: Compiled by the ESCWA secretariat from country papers and international sources, 1994 and 1995.

Domestic water requirements represent only a small fraction of total water requirements in the ESCWA member countries. In 1990, domestic requirements were estimated at 10.5 BCM, which amount is expected to reach 14.4 BCM and 31.1 BCM in the years 2000 and 2025 respectively, as a result of increased population growth and improved standards of living. Domestic demand has been estimated at 8.7 BCM for countries with large populations such as Egypt, Iraq, the Syrian Arab Republic and Saudi Arabia, which represent 4.7 to 9.3 per cent of the total water demand. In comparison, domestic demand for the remaining countries was estimated at 1.8 BCM, accounting for a range of 5.8 to 77 per cent of total demand, as shown in tables 91 and 92.

Based on current trends and projections, water demand for each individual country is shown in table 91. Water shortages are expected to worsen as a result of increased demand and limited renewable supplies in most ESCWA member countries. Current water resources such as perennial surface water, renewable groundwater, desalinization, and reclaimed wastewater are insufficient to meet the expected water demand. Thus, in order to offset the imbalance between supply and expected demand, mining of groundwater, especially from the deep aquifers, may be required to meet agricultural and other demands. Expected domestic and industrial demand increases in the next 30 years may also necessitate the construction of additional desalinization and treatment plants to produce water and treat wastewater for most of the countries in the region, especially the GCC countries, unless strict integrated management approaches, including water conservation measures and effective management schemes, are implemented, and good quality groundwater is used solely for domestic and industrial use.

If present domestic consumption patterns continue unaltered, most countries in the ESCWA region will be required to allocate financial resources towards the construction of hydraulic structures, distribution systems, and the construction of new desalinization plants and support facilities with capacities capable of handling increasing demand. A large number of waste treatment plants will also be required to handle the resulting wastes. This huge investment could result in considerable economic strain, especially in those countries with limited financial resources. However, proper planning and integrated development and management of water resources, along with just allocation of shared water sources through equitable agreements, will contribute significantly to alleviating water deficits. Many countries of the region have already taken steps towards the implementation of management programmes, including proper planning and conservation measures, to promote reduced water consumption and optimal allocation of water resources.

B. WATER RESOURCE PLANNING

Favourable economic conditions in the past have fostered water policies that focused mainly on the development of water resources in most of the ESCWA member countries. These policies required substantial capital investment in water infrastructure, as well as operation and maintenance of water related facilities, to meet expanding water requirements in different sectors. Currently, the water situation is dramatically different as a result of exploitation of water resources, degradation of water quality owing to development activities and pollution, and inefficient use of water caused by increased competition among water users, as well as lack of comprehensive planning.

Comprehensive planning for integrated development and management of water resources, as well as the establishment and implementation of a national water plan, is lacking in most ESCWA member countries. A national water plan based on an integrated and holistic approach would contribute significantly to efficient development and management of water resources in the ESCWA region.

Present trends in the region with respect to policy setting, national plan formulation and implementation vary between countries. Water resources planning has been given due attention in some countries, such as Egypt, Lebanon, Jordan, Qatar, Oman and Yemen, where national water policies were formulated and are being revised to reflect emphasis on water management strategies, and implemented in the context of their national water plans. Other countries, such as Iraq, the Syrian Arab Republic, Saudi Arabia and the United Arab Emirates, have formulated water management policies and strategies as part of their five-year development plans.

National water policies and strategies differ between countries with respect to development and management of water resources, depending on hydrological, hydrogeological and economic conditions. Egypt, Iraq and the Syrian Arab Republic have given priority to further development and efficient utilization of their surface water, as well as its protection and preservation. Despite previous policies aimed at promotion of self-sufficiency in food, the GCC countries have focused on policies dealing with the augmentation of water supplies through sea water desalination, and utilization of groundwater sources. The provision of adequate amounts of potable water, as well as improvements in sanitation and preservation of the environment, have been the main goals for all countries in the region. Recently, appreciable efforts have been made by some of the countries to meet these goals by the target date of 2000.

Review of the planning efforts in individual ESCWA member countries reveals diversity among policies and strategies, and the level of planning. Countries with established plans are making headway in the development and management of their water resources; however, the implementation of an integrated approach to water management still seems far in the future. While some countries have yet to formulate national water plans, they have adopted a variety of water resource development and management endeavours in the form of water policies that are incorporated into their respective five-year development plans.

1. *Bahrain*

In Bahrain, past water strategies addressed means by which to balance groundwater supply with demand through augmentation using desalinated sea and brackish water, as well as improving the water supply distribution system.[214] In order to cope with increasing water shortages, Bahrain endorsed a strategy emphasizing water management, which began in 1990 and extends through 2010. Over the past five years these measures, particularly public education and leak detection, have contributed substantially to overall water savings. Future goals of the water strategy include ultimately adopting a comprehensive water demand management scheme that includes leak detection, system rehabilitation, metering, progressive water tariffs, building code enforcement, public education campaigns, and encouraging the reuse of renovated wastewater. In addition, water deficits will be partially met through water desalination and curbing farming activities. Strategies have also been devised to address reform in the agricultural sector, including more efficient irrigation methods, the enforcement of groundwater abstraction regulations, and the application of groundwater tariffs. Future plans will include the implementation of other strategies as they are needed.

2. *Egypt*

Egypt's water resource planning programme was revised and carried out in several phases. Plans for these phases reflected development and management activities in the water sector. The first phase was put

[214] "Country paper, State of Bahrain", presented at the Expert Group Meeting on the Implications of Agenda 21 for Integrated Water Management in the ESCWA Region, 1995.

into effect over the period 1977-1980, the second phase covered the years 1980-1986, and the third extended from 1986 through 1995.[215] The initial phase of the plan focused on balancing supply and demand for various sectors. The second phase was devoted to support studies and data analyses, with emphasis on future supply demand forecasts, increasing water use efficiency, and economic preference for the agricultural sector. This phase of the plan included research into the expected capital investments and energy that would be required, as well as social and environmental aspects. The plan currently being executed focuses on the development and management of Nile water resources, with large allocations for the agricultural sector. The framework for the future plan, which will extend beyond the year 2000, has been established through policies that address the need for further development and management of water resources, as well as recommendations for specific projects and programmes. It also includes investment and implementation schedules, production targets, economic cost/benefit ratios, rural development schemes, and water allocation strategies from surface and groundwater sources. The plan also includes management scenarios and water allocation, as well as conservation and reuse guidelines, in the context of a flexible water management and planning framework that can accommodate economic and technological changes.

3. *Iraq*

In Iraq, the national water policy and strategies set forth in the development plan implemented in 1976 focused on water quality management and the development of surface water resources of the two major rivers, the Tigris and the Euphrates.[216] Emphasis was placed on the improvement of irrigation canal conveyance systems, land reclamation, construction of reservoirs and drainage systems, water quality monitoring in streams, and minimization of pollution by drainage and wastewater. Other water strategies focused on increasing irrigation efficiency and achieving self-sufficiency in agricultural produce. The major constraint on the development and management of water resources was the absence of a formal water-sharing agreement with riparian States, which made it difficult to establish any long-term water policy or plan.

4. *Jordan*

Jordan is currently revising its national water plan which was established in 1977. The old water plan, which is still in effect, focused on the assessment of water resources and potential, particularly groundwater, with provisions for further studies and programme formulation. It included provisions for the most efficient use of available water, required funds and manpower, and delineation of the most suitable methods for development and operation, as well as calling for the promotion of reusing renovated wastewater. The plan was geared mainly to the development of water resources, and only limited emphasis was placed on the management of water resources.

Current revisions of the original plan focus on efficient management of water resources and methods by which to minimize expected water deficits. Revisions also feature programmes on water management information systems, a monitoring network, augmentation of supply through artificial recharge schemes and demand management in all water sectors.

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[215] Saad, op. cit.

[216] Iraq country paper, presented at the Expert Group Meeting on the Implications of Agenda 21 for Integrated Water Management in the ESCWA Region, 1995 (in Arabic).

5. *Kuwait*

Kuwait's water planning efforts have been directed towards the formulation of strategies for meeting domestic water requirements through sea water desalination, the reuse of renovated wastewater for landscaping purposes, and limiting farming activities.

6. *Lebanon*

Preparation of a national water plan was initiated in 1993. The major objectives of the plan included further assessment of both surface and groundwater resources and water demand, as well as the evaluation of appropriate methodologies needed to optimize water allocation and management. Political and economic constraints delayed the establishment of long-term plans. Therefore, current planning efforts have focused mainly on short-term strategies, including the improvement of water services through rehabilitation of the distribution system, the provision of adequate sanitary services, and the promotion of public awareness programmes. Further planning efforts are expected to result in the formulation of a water plan that will focus on efficient utilization of surface water resources, groundwater recharge schemes, reuse of renovated wastewater in the agricultural sector, upgrading of the monitoring system and protection of both surface and groundwater resources.

7. *Oman*

Efforts to develop and manage efficiently the limited groundwater resources of Oman culminated in the establishment of a national water plan in 1991. The plan's major priorities were meeting domestic and industrial water requirements through a variety of water strategies, including increased reliance on desalinated water and shallow groundwater reserves, improving irrigation efficiency, limiting farming activities, identifying areas with adequate water resources, groundwater recharge, limiting development on non-renewable groundwater sources, and conservation through public education. In specific areas where water was relatively more abundant, the plan addressed irrigation requirements from groundwater sources and promoted farming activities. The plan also contained programmes for upgrading the hydrological network, and for well inventory studies that were recently completed. The plan is to be updated in the near future in order to achieve objectives set forth in the five-year economic and social development plan.

8. *Qatar*

The main features of the national water plan presently in force in Qatar[217] are: minimization of groundwater deterioration through reduced pumpage and increased recharge, and greater reliance on desalinated water to meet domestic and industrial water requirements. Priority is given to the allocation of water for domestic purposes, followed by agriculture and then industrial concerns. Future policies and plan updating will focus on strategies to promote increased use of renovated wastewater and saline water in agriculture, artificial groundwater recharge, the construction of strategic groundwater reservoirs, the development of groundwater in the deep aquifers, and the protection of groundwater from solid waste and agricultural pollution.

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[217] "National report, Qatar water activities: country paper, State of Qatar", presented at the Expert Group Meeting on the Implications of Agenda 21 for Integrated Water Management in the ESCWA Region, 1995.

9. *Saudi Arabia*

In Saudi Arabia, efforts were made in the past to adopt a national water plan; however, urban migration and rapid development in the agricultural sector rendered the plans obsolete before they could be put into effect. The need to make revisions in water policies to accommodate such rapid development resulted in continual delays in their implementation. However, priority was given to water resources planning through policy statements and strategies in successive five-year development plans. Strategies that have been implemented focused on balancing supply and demand, and on increased reliance on desalinated water to meet domestic water requirements. Revised assessment of groundwater aquifer reserves, especially in some of the deep aquifers, combined with groundwater recharge and flood control schemes, water supply and sewage networks, and renovated wastewater use, have all been emphasized over the last two decades. The most recent five-year development plan included water sector strategies that emphasized water conservation, including the improvement of irrigation efficiency, the decrease of demand in the agricultural sector, monitoring and protection of groundwater resources, and supply augmentation through desalinization.

10. *The Syrian Arab Republic*

The Syrian Arab Republic also relies on water policies and strategies incorporated into its five-year development plans, the first of which was implemented in 1961. The major focuses of water strategies dealt with the development of both surface and groundwater resources to accommodate increases in the area of cultivated lands in order to establish long-term food self-reliance, and the construction of storage reservoirs for the purposes of flood control, meeting irrigation requirements, and improvement of water quality.[218] Strategies were also established to provide adequate and safe water supplies, and promote the reuse of renovated wastewater.

11. *United Arab Emirates*

Water policy strategies have also been handled through the national development plan in the United Arab Emirates. Priority was given to the satisfaction of domestic water requirements through sea water desalination, followed by the fulfilment of irrigation requirements from groundwater sources and the reuse of renovated wastewater for urban landscaping. Also of importance was the provision of adequate volumes of safe water, improved sanitation, partial self-sufficiency in agricultural produce, and the construction of groundwater recharge dams.

12. *Yemen*

Water resource development and utilization in Yemen has been the subject of many studies, which ultimately culminated in the formulation of a water policy and national water plan in 1992. Water resource development in the past was based on fragmented policy directives and strategies that did not contribute to efficient use of water resources, especially in the agricultural sector. A new plan is being formulated, but is not yet in effect, covering water management planning and strategies through the year 2020.

The plan focuses on balancing supply with demand using surface and groundwater resources and treated effluent, as well as measures for augmenting supplies and reducing demand. Current efforts in water

[218] Syrian country paper, presented at the Expert Group Meeting on the Implications of Agenda 21 for Integrated Water Management in the ESCWA Region, Amman, 1995.

management include the creation of a national water resource authority, established in 1995 for the purpose of revising the implementation of the national water plan.[219] The national water resource authority has the power to set conservation and management goals, as well as prescribe policies and strategies needed for efficient development and management of water resources as part of Yemen's socio-economic development plans.

C. WATER QUALITY DEGRADATION

Deterioration of water quality within the ESCWA region has become a problem in recent years. This is due, in part, to increased water consumption which in turn results in increased waste production resulting in the degradation of water quality in both surface and groundwater resources. The decline of water quality results from a number of factors, the most important of which are: (a) increased discharge of untreated or minimally treated domestic and industrial wastewater; (b) discharge from agro-processing plants; high levels of agricultural chemicals and salts in irrigation drainage water; (c) discharge of hazardous and toxic industrial wastes; and (d) overdraft of groundwater resources resulting in depletion, saline water intrusion and eventual water quality deterioration.[220] Together, these factors result in diminished water supplies in regions where water is already scarce. Overconsumption of water, in the absence of sewerage networks in many of the major urban centres in the ESCWA region, results in water table rises which create major health and environmental concerns as well. Extensive farming activities in the delta and flood plains along large rivers such as the Nile and the Euphrates have resulted in water contamination by brackish and saline drainage water.[221]

In view of this, it is evident that water development and use programmes for the ESCWA region need to focus on the implementation of strategies and legislation governing water quality management. In the past, shortages in water supplies to meet rising demands have diverted attention from the problem of deteriorating water quality. Each ESCWA member country has different perspectives and priorities regarding water quality in relation to water utilization. In some countries, emphasis is placed on reducing pollution from domestic and agricultural sources, while in others the priority is simply providing adequate water supplies to meet rising demand, or preventing contamination of shallow and groundwater sources.

The status of water quality in the ESCWA region is currently affected by development activities and water use practices within each of the member countries. A recent survey of water resources in the area indicated increases in the level of pollution in all sources. In Egypt, for example, waste from the domestic and agricultural sectors is contributing to water quality degradation, depending on the location. In the Nile delta, drainage contaminated with agrochemicals and pesticides is affecting water quality in both surface and shallow groundwater aquifers.[222] Lack of adequate authority to enforce laws governing the discharge of industrial and domestic effluent has contributed to increased pollution loads in surface water. Nearly fourfold increases in chemicals such as nitrogen, phosphate and potash fertilizers were detected between 1960 and

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[219] "The water sector in Yemen: status and outlook; country paper, Republic of Yemen", presented at the Expert Group Meeting on the Implications of Agenda 21 for Integrated Water Management in the ESCWA Region, 1995.

[220] ESCWA, *Assessment of Water Quality in the ESCWA Region* (E/ESCWA/ENR/1995/14) (Amman, 1995).

[221] Ibid.

[222] Ibid.

1988, and are also contributing to contamination of shallow groundwater aquifers.[223] Varying qualities of drainage water empty into the Nile, but nevertheless, the overall quality of water in the Nile is good for all purposes. There are some locations where pollution has temporarily exceeded the ability of the Nile to assimilate or dilute impurities. However, for the most part the quality of water in the Nile from the Sudanese border to the city of Cairo can be described as good.

Water quality in the Tigris and Euphrates rivers in Iraq depends on a number of factors, including the quality of water originally received at the border crossing, the level of water use, and land resource characteristics. Water from the Euphrates is used mainly for irrigation purposes all along the river course and as a result water quality deteriorates in a downstream direction. Return drainage is one of the main causes of water pollution in Iraq. The lower part of the Euphrates is naturally prone to salinization as a result of this area being cultivated for centuries, coupled with poor drainage and natural soil salinity. In addition, other development activities in the lower reaches of the river have contributed to further reduction in water quality.[224] Planned development activities in Turkey, the Syrian Arab Republic and Iraq, aimed at utilizing water from the Euphrates for irrigation of cultivated lands and expanded industrial development, are expected to contribute even further to water quality degradation, unless water quality management strategies are formulated and implemented.

In the Tigris River, development activities in the upper and middle reaches have drastically reduced the amount of flow, resulting in declining water quality. Irrigation return and flow from chemical and industrial centres, as well as untreated sewage, have contributed to the general deterioration in water quality. Water quality in the upstream reaches of the river is good, but declines drastically in the lower reaches in Iraq, where the total dissolved solids may reach as high as 30,000 ppm near Basrah.

Water in the Orontes river in Lebanon and the Syrian Arab Republic is used mainly for irrigation and industrial purposes. Major causes of pollution are untreated sewage released along the river course, especially near the major urban centres of Homs and Hama in the Syrian Arab Republic. Health risks from water-borne diseases are common along the lower reaches of the river.

The Litani river in Lebanon contains water of excellent quality which is being used to meet domestic water requirements for the city of Beirut, as well as other nearby villages and towns. Sources of pollution include untreated sewage and industrial wastes from sugar factories, poultry farms, wineries and clusters of tanneries, as well as irrigation return flow in the Bekaa valley.

The GCC countries and Yemen are faced with water quality deterioration of groundwater resources. The absence of dependable surface water has contributed to the exploitation of shallow and deep groundwater aquifers. The promotion of agricultural activities with increasing areas of irrigated land and the use of pesticides and herbicides are all contributing to increased pollution levels in the shallow groundwater resources, especially in Oman, Saudi Arabia, the United Arab Emirates and Yemen.[225] Discharge of treated and untreated effluent into wadi channels in excess of the magnitude designated for reuse also contaminates groundwater reserves. As groundwater quality deteriorates, its scope of use diminishes, thereby reducing

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223 Ibid.

224 Ibid.

225 Ibid.

supplies and intensifying water shortage. In addition, improper groundwater well design, where multi-aquifer systems are involved, contributes to the blending of water with different qualities, sometimes leading to deterioration of water that would ordinarily be of good quality. The impoundment of flood water behind dams, for the purposes of flood control and groundwater recharge, also contributes to quality deterioration of groundwater if the water is stored behind dams for long periods of time. This may be particularly true in Oman, Saudi Arabia, the United Arab Emirates and Yemen where impounded water may undergo changes in salinity owing to high evaporation rates, eutrophication from weeds and biomass decay, as well as agricultural and domestic pollution. However, regulated release of water over short periods of time reduces the magnitude of water quality deterioration and thus minimizes its impact on the groundwater reserves.

D. WATER LEGISLATION

The lack of comprehensive water legislation in the ESCWA member countries has contributed significantly to inefficiency and mismanagement of water resources in the region. In view of regional development activities within the last 20 years, current laws and regulations which were effective half a century ago have become obsolete as the competition for water utilization increases and water supplies diminish. The authorities responsible for water resource development and management continue to operate along traditional lines, with marginal changes brought about on an ad hoc basis.

Integrated development and management of water resources in the ESCWA region is contingent upon the establishment of an effective legal framework and sound institutional directives to ensure that formulated policies are put into effect. Broad-based water legislation is needed to provide a framework for an integrated approach to the regulation, development and management of water and other related water activities. Comprehensive water legislation needs to include guidelines for national utilization of water resources including desalination, water use priorities, water ownership, jurisdiction of authorities responsible for controlling utilization, protection, pricing, and beneficial uses, as well as the issuance of use permits and provisions for conflict resolution. In addition, appropriate water legislation would provide mechanisms for ensuring the most equitable economic and sustainable uses of available water resources, taking into consideration socio-economic conditions and the need for national development.

Some of the ESCWA member countries have taken steps to unify and centralize their water authorities in order to improve institutional management. Efforts are also being made to revise and formulate new water legislation with respect to all areas of water development, but particularly the protection of water resources from pollution.

A review of the evolution of water legislation in the ESCWA region reveals that countries that depend largely on surface water have enacted laws designed to provide for quality standards and pollution control. Countries that rely mostly on groundwater have issued directives aimed at regulating water extraction, well drilling, and the quality of both drinking and treated wastewater. The first water legislation was enacted in 1925 in the Syrian Arab Republic governing public ownership of water and licensing. More recently enacted legislation includes a directive issued in Egypt in 1994 concerning the protection of the environment including water resources, as well as a decree in Yemen, issued in 1995, dealing with the establishment of a national water resource authority. Most water legislation was enacted during the period 1967 to 1985.[226] During the last five years Egypt, Lebanon, Oman, Qatar, the United Arab Emirates, and Yemen have made some efforts to revise, modernize, or introduce new water laws. Egypt enacted

[226] Ibid.

Environmental Law No. 40 in 1990, which covered protection of water resources. In Lebanon, the Ministry of Environment was established in 1993 with mandates for the protection of water resources. Royal Decree No. 31 was issued in Oman in 1993 to merge the Ministry of Environment with the Ministry of Municipalities, creating a single ministry with the authority to provide safe and adequate water and protect water resources. In Qatar, Decree No. 13 was issued in 1994 amending Law No. 4, which transferred the Environmental and Protection Committee to the Ministry of Municipal Affairs and Agriculture, in order to better protect water resources. Law No. 7 issued in 1993 in the United Arab Emirates provided the foundation for the Federal Environment Agency with mandates for the protection of water resources and the establishment of standards. In Yemen, a law was enacted in April 1995 calling for the establishment of a national water resources authority with the power to establish water policy, strategies, plans, and provide the enforcement needed for further development and management.

These contemporary legislative endeavours have addressed mainly environmental issues. Efforts need to be directed towards the formulation of new laws and regulations that will become part of integrated development and management legislation governing water resources within each of the ESCWA member countries, as well as for water resources shared between them.

E. REGIONAL COOPERATION

Surface and groundwater resources that are shared between the ESCWA member countries and the neighbouring countries of Turkey and Israel pose a major obstacle to water resource management. The development and utilization of shared water resources are at a point where disputes among riparian countries could arise from conflicting demands for limited water resources. Efforts have been made in the past to negotiate a water-sharing agreement involving the surface water resources of the Tigris and Euphrates rivers shared by Turkey, the Syrian Arab Republic, and Iraq. A trilateral Turkish-Syrian-Iraqi technical committee was set up by the three riparian countries to seek an agreement regulating the share of river water, and held its first meeting in June 1990. No formal agreement has yet been reached.[227] Both Iraq and the Syrian Arab Republic want to meet their basic water requirements. Recently, the two countries held a meeting to discuss and arrive at a water-sharing agreement on surface water from the Euphrates River according to international water law.

In the framework of the Middle East peace treaty, Jordan and Israel signed a water-sharing agreement in 1994.[228] The parties agreed mutually to recognize the rightful allocations of both countries from the Jordan and Yarmouk rivers flow and the Araba/Arava groundwater in accordance with accepted principles, quantities and quality. Jordan and Israel agreed on seven articles dealing with water allocation, storage, water quality and protection, and groundwater in Wadi Araba. The final agreement guaranteed Jordan 215 MCM per year, and envisages the creation of a framework for pursuing joint water projects such as water storage in the Jordan and Yarmouk rivers. The two countries also agreed to hold periodic meetings to discuss the improvement of water sources and to promote more efficient exploitation. In view of this, several storage dams on the Jordan and the Yarmouk rivers will be constructed, as well as a desalination plant which will treat 20 MCM of saline spring water to be diverted to Jordan for drinking water. Other regional arrangements were agreed upon, including the storage of water in Lake Tiberias during the winter months

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227 Economist Intelligence Unit, *Syrian Country Paper*, No. 3 (1992), p. 12.

228 The Jordan-Israel Peace Treaty, 26 October 1994.

and the diversion of the water to Jordan during the summer months, as well as exploring new possibilities to supply Jordan with other sources of drinking water.

F. SHORT-TERM OUTLOOK

In general, significant progress in water resource development, and to a lesser extent water management, has been achieved in the ESCWA region. However, additional efforts are still needed to achieve efficient water resource planning and management on the national and regional level. Emphasis needs to be placed on the following areas of concern.

Member States in the ESCWA region are to be encouraged to develop and manage their water resources in an integrated manner in the context of economic and social development plans and as set forth in Agenda 21. Effective water resources management also calls for the establishment of clearly defined long-term policies and strategies set forth in national water plans, as well as for the development of enforceable institutional and legal tools for efficient and equitable resource allocation. Transboundary surface and groundwater sources shared between riparian States need to be given high priority in order to reach a binding agreement, and treaties should be signed regulating water allocation, including quality, according to international water law.

The countries of the region need to be encouraged to implement demand management measures in all sectors in order to slow the rate of increase in water requirements. Demand management measures in the domestic and industrial sectors may include a variety of instruments to manage and control water use and practices through regulation, metering, water pricing, quantitative restrictions, technology and public awareness.

Conservation efforts need to be directed towards the agricultural sector, where current consumption is substantially higher than for the domestic and industrial sectors. Reappraisal of agricultural policies, possibly leading to directing some of the water to other uses, would reduce the imbalance between water supply and demand. The application of these tools would require a broad range of incentives and institutional measures. Agricultural subsidies may be used as leverage to implement conservation measures such as improving irrigation efficiency through sprinkler and drip irrigation systems, laser levelling, canal lining, and farmer education and awareness campaigns. Water supply augmentation through artificial recharge, reuse of renovated and drainage water, and cloud seeding, could be further investigated and implemented if such methods prove technically, economically and environmentally warranted.

Additional efforts are needed to strengthen institutional arrangements through comprehensive legislation that defines the responsibilities of each organization, and through mechanisms that facilitate the exchange and dissemination of information. Regulations need to include provisions for project coordination on a local, national and regional level, both within each country as well as between countries. Capacity-building at all levels needs to be expanded and strengthened through an interdisciplinary programme of formal education, as well as training programmes, with emphasis on water management. The member countries are encouraged to promote the application of modern technology including remote sensing, the Geographical Information System (GIS), and isotope techniques, for the purpose of improving the state of knowledge concerning their water resources. There is a need to support research and development programmes that emphasize minimizing treatment costs of sea and brackish water desalination, as well as wastewater, in order to make these sources viable alternatives for augmenting water supply.

X. DEVELOPMENTS IN THE AGRICULTURAL SECTOR

This chapter reviews and analyses the major developments in agriculture in the ESCWA member countries during last year (1995). It addresses the latest developments in world agricultural production, particularly cereal production, world prices of major agricultural products, self-sufficiency ratios of major agricultural and food products, the food gap, foreign trade and policy reform in the ESCWA member countries. The analysis will be presented at regional and country levels as well.

A. WORLD DEVELOPMENTS IN AGRICULTURAL PRODUCTION AND PRICES

In 1995, the world agriculture situation was marked by major developments such as the implementation of the GATT 1994 agreement, reductions in world production of cereals, increases in world prices of food commodities, and a deterioration in the food security position of most developing countries. The emphasis below is on world production of cereals and its prices, as cereals are the most important food commodity.

1. *World cereal production*

According to the preliminary estimates prepared by the Food and Agriculture Organization of the United Nations (FAO),[229] world cereal production in 1995 reached 1,883 million tons, 64 million tons or 3.3 per cent below the revised estimates of production for 1994. In the developing countries, cereal production was estimated to have increased by 2 per cent and totalled 1,112.4 million tons in 1995 representing about 59 per cent of total world cereal production. In the developed countries, cereal production was estimated to have decreased by about 10 per cent in 1995, compared with 1994. The drop in the world production of cereal in 1995 was mainly due to the decrease in production in the major producing countries: for instance, production decreased in the United States by 22.5 per cent, in Mexico by 14.5 per cent, and in Argentina by 6 per cent. The decline in cereal production in these countries may be attributed mainly to bad weather conditions. In the Commonwealth of Independent States (CIS), the production of cereal also decreased, by 13 per cent, despite favourable weather conditions, owing to shortages in financial resources.

2. *World prices of cereals*

The drop in world production, in addition to other factors including in particular the start of the implementation of the GATT 1994 agreement, led to a rise in the world export prices of cereals. The world price for wheat as of 12 November 1995 (USA wheat No. 2 hard winter) was $207 per ton compared with $163 per ton in November 1994, which reflects an increase of 27 per cent. The price of USA wheat soft red winter No. 2 increased by 30 per cent, while Argentina's wheat price surged by 49.7 per cent to reach $220 per ton. The price of maize increased by $52 per ton, or 54.2 per cent, and reached $148 per ton. The price of rice (Thailand 100 per cent) increased from $275 per ton in November 1994 to $360 per ton on 2 November 1995, a 30.9 per cent increase, while US rice long grain increased by $102 per ton to reach $408 per ton.[230]

World stocks of cereals are estimated to have declined in 1995 by 22.3 million tons, or by 6.7 per cent, compared with 1994. Consequently, food aid of cereals is expected to decline in 1996, which may have strong adverse effects on the food situation in many developing countries.

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229 FAO, *Food Outlook*, November/December 1995 (Rome).

230 Ibid.

B. REGIONAL DEVELOPMENTS

ESCWA member countries are all net importers of foodstuffs and thus they are affected by developments in the world agricultural markets.

1. *Agricultural resources base*

The ESCWA region is characterized by rapid population growth rates and has limited agricultural resources. Around 56 per cent of the region's total population is living in urban areas which have higher growth rates than the rural areas (3.4 per cent against 2.1 per cent). Rapid population growth rates and urbanization are considered major critical problems facing economic development in the region and impose additional pressures on land and water resources.

The cultivated area in the ESCWA member countries was estimated at about 18 million ha,[231] which represent 4 per cent of the total land area of which about 44.6 per cent is irrigated. In other words, more than 55 per cent of the cultivated area is rain-fed and is thus exposed to rainfall fluctuations.[232] In the GCC countries, 71 per cent of the cultivated area, which is estimated at about 1.5 million ha, is irrigated. In the more diversified economies, about 16.8 million ha are cultivated, of which 42.3 per cent are irrigated.

Limited water resources represent a major constraint on food production: ESCWA member countries have large potentially cultivable areas of land, but the lack of water for irrigation is a factor limiting the cultivation of more land. The relative scarcity of water resources in the ESCWA region may pose a serious problem for the expansion of agricultural output in many ESCWA member countries in the near future unless appropriate measures are undertaken.

2. *Agricultural economic performance*

The value of the region's agricultural GDP in 1994 is estimated to have increased by 6.3 per cent over the 1993 figure.[233] In spite of the low share of the agricultural sector in the total GDP in the ESCWA region (14 per cent), agriculture is still the backbone of the economy in many countries (table 93). For the GCC countries, the agricultural product share was about 4.9 per cent in total GDP in 1994 and increased by 4.7 per cent compared with 1993. For the more diversified economies, agricultural output represented about one quarter of total GDP and grew by about 7.4 per cent in 1994. The value of the region's agricultural output increased in 1995 and is expected to increase further in 1996, owing primarily to the recent developments in the world markets.

Total agricultural and food production index numbers increased in most ESCWA member countries during the period 1980-1990. However, during the period 1990-1994, the growth rate decreased in the region, with Saudi Arabia registering a negative growth rate as shown in table 94.

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231 Hectare = 10,000 square metres.

232 Calculated from FAO, printout of AGROSTAT database, 1995.

233 Arab Monetary Fund, Organization of Arab Petroleum Exporting Countries, Arab Fund for Economic and Social Development, and League of Arab States, Unified Arab Economic Report, September 1995 (in Arabic).

TABLE 93. MAIN FEATURES OF THE AGRICULTURAL SECTOR IN THE ESCWA MEMBER COUNTRIES/AREAS

Country/area	Agricultural production (1994)		Population (1,000) 1995		Cultivated area		Irrigated area		Agricultural inputs			
									Tractors in use		Chemical fertilizers	
	Value in millions of US dollars	Percentage of GDP	Total	Percentage of urban	(1,000) ha	Percentage of land area	(1,000) ha	Percentage of cultivable area	No. 1993	Tractors for No. of ha	Consumption (1,000 MT) 1993	kg/ ha
Egypt	8 377	16.2	62 931	44.8	3 100	3.1	3 040	98.0	61 000	50.8	999.6	328.8
Iraq	24 047	34.8	20 449	74.6	5 450	12.5	2 550	46.8	32 000	170.3	281.9	51.7
Jordan	412	6.8	4 573	71.5	405	4.5	63	15.7	5 800	69.3	13.8	34.3
Lebanon	660	7.8	3 008	87.2	306	29.9	86	28.1	3 000	102.0	36.2	118.3
Syrian Arab Republic	4 351	28.6	14 661	52.4	5 909	32.2	1 000	17.0	71 000	81.3	374.8	66.0
West Bank and Gaza Strip	..	..	2 204	..	179.1	..	17.7	9.9	5 550	32.3	..	..
Yemen	750	18.2	14 501	33.6	1 481	2.8	360	24.3	5 480	293.8	11.0	7.4
More diversified economies subtotal	*41 597*	*25.5*	*122 327*	*50.5*	*16 827.1*	*7.5*	*7 116.7*	*42.3*	*183 830*	*38.7*	*1 717.3*	*103.4*
Bahrain	49	1.0	564	90.2	3	4.4	3	100	..	..	0.70	233.3
Kuwait	72	0.3	1 547	97.0	5	0.3	5	100	100	50	1.0	200.0
Oman	374	3.3	2 163	13.2	63	0.3	58	92	150	406.7	9.0	142.9
Qatar	79	1.1	550	91.5	8	0.7	8	100	69	86.9	2.0	250.0
Saudi Arabia	8 441	7.0	17 879	80.2	1 346	0.6	940	69.8	2 100	640.9	455.0	338.0
United Arab Emirates	927	2.6	1 904	84.0	45.5	0.5	32	70.3	185	284.3	27.7	608.8
GCC subtotal	*9 942*	*4.9*	*24 607*	*68.5*	*1 470.5*	*0.6*	*1 046*	*71.1*	*2 604*	*564.7*	*495.4*	*336.9*
ESCWA total	*51 539*	*14.0*	*146 934*	*55.3*	*18 297.6*	*4.0*	*8 162.7*	*44.6*	*186 434*	*97.0*	*2 212.7*	*122.4*

Sources: Arab Monetary Fund, Organization of Arab Petroleum Exporting Countries, Arab Fund for Economic and Social Development, and League of Arab States, Unified Arab Economic Report, September 1995 (in Arabic); ESCWA secretariat, printout of Social Statistics database; and FAO, printout of AGROSTAT database, 1995.

Note: (..) = not available.

TABLE 94. GROWTH RATES OF TOTAL AND PER CAPITA AGRICULTURAL AND FOOD PRODUCTION IN SEVERAL ESCWA MEMBER COUNTRIES DURING THE PERIODS 1980-1990 AND 1990-1994

(Percentage)

(1979-81=100)

Country	Agricultural production				Food production			
	Total		Per capita		Total		Per capita	
	1980-1990	1990-1994	1980-1990	1990-1994	1980-1990	1990-1994	1980-1990	1990-1994
Egypt	3.4	3.2	0.9	0.9	4.4	3.1	1.7	0.8
Iraq	3.1	0.2	(0.3)	(2.2)	3.2	0.3	(0.2)	(2.1)
Jordan	4.3	9.5	0.3	3.1	4.5	9.6	0.5	3.2
Lebanon	4.6	4.4	5.2	0.9	4.9	4.4	5.5	0.9
Syrian Arab Republic	0.7	2.9	(2.7)	(0.5)	0.6	2.9	(2.6)	(0.6)
Saudi Arabia	23.9	(2.0)	17.6	(4.0)	24.3	(2.0)	17.9	(4.0)
Yemen	2.9	5.6	(0.3)	0.3	3.0	5.6	(0.2)	0.3

Source: Calculated from FAO, printout of AGROSTAT database, 1995.

Note: Figures between parentheses are negative.

For cereal production, 1995 was a good year. Estimates put the ESCWA region's production of cereal at around 30.7 million tons, 6.4 per cent higher than its 1994 level.[234] This was mainly due to the large increase in Egypt's cereal production and favourable weather conditions in most ESCWA member countries. For the GCC countries, cereal production was estimated at 4.3 million tons and showed a 4.8 per cent increase, mainly by Saudi Arabia. Cereal production by the GCC countries accounted for 14 per cent of the ESCWA region's total cereal production. In the more diversified economies, estimates indicate that cereal production increased by 6.7 per cent, reaching 26.4 million tons in 1995. Egypt is considered the largest producer, with its production accounting for about 55.3 per cent of total ESCWA member countries' production.

The yield of cereals in the GCC countries reached 4,303 kg/ha in 1993/94, versus 770 kg/ha in 1980/81. In the more diversified economies, productivity was estimated at 2,410 kg/ha in 1993/94 compared with 1,869 kg/ha in 1980/81. In Egypt, the productivity of cereals achieved significant progress and it is considered as one of the highest cereal yields in the world, reaching 6,046 kg/ha in 1993/94.[235] This achievement is mainly due to the fact that most of the area cultivated in cereals is irrigated, with high-yielding varieties used.

The self-sufficiency ratio has improved in cereals (and in wheat in particular) in the ESCWA region. Self-sufficiency in cereals was estimated at 57.7 per cent in 1994 and 50.2 per cent in 1980, while self-sufficiency in wheat for those years was 55.4 per cent and 33.9 per cent respectively. However, the region still remains a main importer of cereals. The cereal gap is estimated at about 23 million tons, representing 11.5 per cent of total world imports in 1994/95, and about 16.1 per cent of total imports of cereals by the developing countries and equal to China's imports of cereals in the same year.[236]

With respect to vegetables and fruits, most countries in the ESCWA region were self-sufficient and realized surpluses in both. Production of vegetables was estimated in the ESCWA region at around 20 million tons in 1994, showing a slight decrease of around 1.8 per cent compared with the previous year (as shown in table 95), but increased annually by an average of 2.0 per cent during the period 1980-1994. The region's production of fruits was estimated at 11.5 million tons in 1994, 1.1 per cent less than the 1993 production level, though it had increased by 5.2 per cent annually since 1980.

In spite of this progress, many countries—in particular Egypt, Jordan, Lebanon and the Syrian Arab Republic—have problems in increasing their exports of fruits and vegetables, owing to strong external competition and the lack of good marketing services. Most vegetables and fruits in the ESCWA member countries are cultivated in irrigated areas. However, given the scarce water resources, and in order to achieve optimum use of the limited agricultural resources, ESCWA member countries should focus on the production of agricultural products having highest market value and that require minimum water quantity for cultivation.

For livestock products, with the exception of red meat, most countries have achieved a high percentage of self-sufficiency in poultry meat. The same is applicable for milk and eggs. In recent years, production of livestock products increased, as shown in table 95. Fish production in the ESCWA member countries was estimated at around 778,400 tons in 1993, of which about two thirds were marine fish. ESCWA

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234 FAO, *Food Outlook,* November/December 1995; and FAO, *Food Crops and Shortages,* October/November 1995, No. 6.

235 Calculated from FAO, printout of AGROSTAT database, 1995.

236 Ibid.

TABLE 95. PRODUCTION OF MAIN CROPS IN THE ESCWA MEMBER COUNTRIES/AREAS

(Thousands of metric tons)

Country/area	Cereal		Vegetables[a/]		Fruits[a/]		Roots and tubers[a/]		Cotton (lint[a/])		Sugar[a/] centrifugal	
	1994	1995	1993	1994	1993	1994	1993	1994	1993	1994	1993	1994
Egypt	15 300	17 000	9 690	9 402	4 879	4 628	1 967	1 859	416	314	1 093	1 184
Iraq	2 750	2 500	3 200	2 749	1 663	1 629	406	410	9	9	2	2
Jordan	91.6	140.9	974	883	294	295	118	70	--	--	--	--
Lebanon	63	73	911	964	1 332	1 402	282	296	--	--	15	20
Syrian Arab Republic	5 700	5 900	1 727	1 806	1 368	1 426	361	377	211	215	108	130
West Bank and Gaza Strip	46	46	369	379	296	296	42	44	--	--	--	--
Yemen	802	750	517	460	346	361	214	181	5	4	--	--
More diversified economies subtotal	*24 752.6*	*26 409.9*	*17 388*	*16 643*	*10 178*	*10 037*	*3 390*	*3 237*	*641*	*542*	*1 218*	*1 336*
Bahrain	--	--	14	15	23	24	--	--	--	--	--	--
Kuwait	2	2	89	89	1	1	1	1	--	--	--	--
Oman	3	3	167	169	202	210	6	6	--	--	--	--
Qatar	5	5	37	38	12	12	--	--	--	--	--	--
Saudi Arabia	4 100	4 300	2 084	2 138	916	919	167	169	--	--	--	--
United Arab Emirates	7	7	509	576	292	297	4	4	--	--	--	--
GCC subtotal	4 117	4 317	2 900	3 025	1 446	1 463	178	180	--	--	--	--
ESCWA region total	28 869.6	30 726.9	20 288	19 668	11 624	11 500	3 568	3 417	641	542	1 218	1 336

TABLE 95. *(continued)*

Country/area	Slaughtered meat[a/]		Poultry meat[a/]		Milk[a/]		Eggs[a/]		Honey[a/] (tons)		Fish[b/] (1,000 MT)	
	1993	1994	1993	1994	1993	1994	1993	1994	1993	1994	1992	1993
Egypt	840	856	301	323	2 602	2 634	128.0	130.0	10 500	10 600	347.0	382.4
Iraq	105	105	50	52	413	402	41.9	42.0	62	63	22	24
Jordan	106	110	87	90	157	160	53.6	56.0	180	165	0.4	0.4
Lebanon	80	80	55	55	183	193	61.0	62.0	1 400	1 500	2.9	2.7
Syrian Arab Republic	212	216	84	85	1 243	1 268	101.3	102.5	1 000	1 000	9.0	9.1
West Bank and Gaza Strip	63	67	43	46	75	78	12.5	12.9	200	202	1.0	1.0
Yemen	124	129	52	55	192	187	19.1	18.1	68	68	84.0	72.8
More diversified economies subtotal	*1 530*	*1 563*	*672*	*706*	*4 865*	*4 922*	*417.4*	*423.5*	*13 410*	*13 598*	*466.3*	*492.4*
Bahrain	12	13	4	4	19	20	3.3	3.4	--	--	8.0	9.1
Kuwait	37	43	11	17	15	15	4.0	4.0	--	--	3.1	5.1
Oman	27	28	4	4	83	86	6.2	6.7	--	--	112.3	116.0
Qatar	18	28	4	4	22	23	3.3	3.4	--	--	6.2	6.4
Saudi Arabia	442	457	286	297	544	550	123.6	127.0	75	75	46.2	49.5
United Arab Emirates	59	61	17	17	50	52	11.5	12.0	--	--	95.0	99.9
GCC subtotal	595	630	326	343	733	746	151.9	156.5	75	75	270.8	286.0
ESCWA region total	2 125	2 193	998	1 049	5 598	5 668	569.3	580.0	13 485	13 673	737.1	778.4

Sources: For 1995 for Egypt, Iraq, Lebanon, Saudi Arabia, the Syrian Arab Republic and Yemen, see FAO, *Food Outlook*, November/December 1995; for Jordan, see Ministry of Agriculture, Database, 1995; for other countries/areas, see FAO, printout of AGROSTAT database, 1995.

Notes: -- = not available; MT = metric tons.

a/ From FAO, printout of AGROSTAT database, 1995.

b/ Arab Monetary Fund, Organization of Arab Petroleum Exporting Countries, Arab Fund for Economic and Social Development, and League of Arab States, Unified Arab Economic Report, September 1995 (in Arabic).

member countries should intensify their efforts and undertake more investment in this field in order to achieve much higher levels of production, since they have the potential to improve fish production and achieve self-sufficiency.

3. *Agricultural and food trade*

Today, agricultural trade is affected by new factors such as world trade liberalization, with new rules based on updating old agreements and new trade arrangements. These developments were the core of economic and political discussions in 1995. Data on agricultural trade for 1995 are not currently available, but some indicators, in particular on world prices of food commodities, are available. They may give indications about the expected effects of the changing world trade environment.

(a) *Agricultural trade*

The value of the ESCWA region's agricultural trade was estimated at $17.3 billion, representing about 9 per cent of the region's total trade in 1994, and registering 1.7 per cent more than that of the previous year.[237] This may be due to the increase in agricultural exports by 11 per cent to $2.9 billion, particularly from non-food exports such as cotton lint and live animals. The value of agricultural imports increased from $13.9 billion in 1980 to $14.3 billion in 1994, indicating an increase estimated at 2.8 per cent compared with 1993 (table 96).

Agricultural exports covered only 20.4 per cent of agricultural imports in 1994, compared with 18.5 per cent in 1993. Most of the agricultural imports were food items, representing about 82 per cent, while the rest were imports of agricultural inputs. As a result of the GATT agreement, the value of agricultural trade is preliminarily estimated to have increased to $19.7 billion in 1995, 13.9 per cent higher than that of 1994. The value of agricultural imports is estimated at $16.2 billion, and the value of agricultural exports at $3.5 billion. The increase in agricultural trade is mainly due to the increase in world prices of foodstuffs and fodder.

(b) *Food trade*

The value of food imports in the ESCWA member countries increased by 2.5 per cent, registering $11.8 billion in 1994, representing about 12.8 per cent of total imports, while food exports represented only 2 per cent of total exports. Food exports covered 15.8 per cent of food imports in 1994 against 16.2 per cent in 1993.[238] There are several factors that affect food trade, including: (a) supply and demand situation of the world markets; (b) financial situation of importing countries; (c) seasonal factors, particularly those affecting production of fresh vegetables and fruits; (d) changes in per capita income; (e) food production in the importing countries; and (f) health measures concerning foodstuffs.[239]

The value of the food gap totalled $10 billion in 1994,[240] a 3 per cent increase over 1993, and is estimated to have widened in 1995 as a result of rising prices of food commodities in the world markets.

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[237] Ibid.

[238] Ibid.

[239] For example, the announcement of "Mad Cow Disease" in the United Kingdom in the first quarter of 1996 affected red meat consumption, with consumers switching to alternatives such as poultry, meat and eggs.

[240] Calculated from FAO, printout of AGROSTAT database, 1995.

TABLE 96. AGRICULTURAL AND FOOD TRADE IN THE ESCWA MEMBER COUNTRIES/AREAS

(Millions of US dollars)

Country/area	Agricultural trade 1994		Percentage of total trade		Food trade 1994		Food gap		
	Imports	Exports	Imports	Exports	Imports	Exports	1993	1994	1994/1993 *(percentage growth)*
Egypt	2 760	550	27.1	15.9	2 236	266	1 504	1 970	31.0
Iraq	684	4	36.0	0.9	610	3	897	607	(32.3)
Jordan	772	175	22.8	12.3	660	145	513	515	0.4
Lebanon	1 105	125	19.1	18.8	833	107	700	726	3.7
Syrian Arab Republic	774	700	14.4	19.7	555	404	169	151	(10.6)
West Bank and Gaza Strip	..	..	..	..	..	..	..	..	..
Yemen	843	84	28.1	9.3	739	28	833	711	(14.6)
More diversified economies subtotal	*6 938*	*1 638*	*23.4*	*15.7*	*5 633*	*953*	*4 604*	*4 680*	*1.6*
Bahrain	303	11	8.1	0.3	254	7	237	247	4.2
Kuwait	1 141	30	17.1	0.3	962	23	896	939	4.8
Oman	787	216	19.6	3.9	505	93	418	412	(1.4)
Qatar	296	13	13.8	0.5	253	12	230	241	4.8
Saudi Arabia	3 105	381	13.3	0.9	2 785	330	2 372	2 455	3.5
United Arab Emirates	1 772	586	7.9	2.3	1 397	387	933	1 010	8.3
GCC subtotal	*7 404*	*1 237*	*11.9*	*1.4*	*6 156*	*852*	*5 086*	*5 304*	*4.3*
ESCWA total	*14 342*	*2 875*	*15.6*	*2.9*	*11 789*	*1 805*	*9 690*	*9 984*	*3.0*

Source: FAO, printout of AGROSTAT database, 1995.

Note: Figures between parentheses are negative.

BOX 15. WORLD TRADE LIBERALIZATION AND FOOD IMPORTS IN THE ESCWA REGION

The implementation of the 1994 GATT agreement which started in 1995 has already had various effects, some of them negative, which are reflected in the increase in world prices of cereals and the repercussions from the application of entry price in the European Union countries for fresh vegetables and fruits. The positive effects on production and policies are clear.

As for the negative effects, it should be taken into consideration that the increase of world cereal prices is not only due to the 1994 GATT agreement, which calls for a reduction of production support by 20 per cent in developed countries and 13.3 per cent in developing countries and a decrease in export subsidies, but is also due to other factors related to the supply and demand situation in world markets. Cereals contributed to about 30 per cent of total food imports and the cereal imports will be the main cause of enlargement of the food trade bill of the ESCWA member countries.a/ Out of the approximately 15 per cent increase in the region's food import bill in 1995, only 7.8 per cent are attributed to the impact of GATT. Moreover, due to GATT, the region's food import bill is projected to increase by an average annual rate of 8.9 per cent during the period 1996-2000. In addition, the new trade policy in the EU of applying the entry price will adversely affect the exports of fresh vegetables and fruits to the EU from ESCWA member countries, particularly Egypt, Jordan, Lebanon and the Syrian Arab Republic.

As for the positive effects, some countries—such as Egypt and the Syrian Arab Republic—have started to take measures to improve their production. Egypt's wheat production was increased by 1.3 million tons to reach 5.7 million tons in 1995, and the Syrian Arab Republic became self-sufficient in wheat. ESCWA member countries, in particular the agricultural exporters, started improving their policies related to resources, prices and marketing in order to increase food production and exports.

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a/ ESCWA-FAO, *Agriculture & Development in Western Asia*, December 1994, No. 16 (Amman).

For the GCC countries, the value of their food gap is estimated at $5.3 billion in 1994, representing about 53.1 per cent of total value of the ESCWA region's food gap, and it increased by 4.3 per cent over 1993. For the more diversified economies, which account for 83 per cent of the total population in the ESCWA region, the value of the food gap was estimated at $4.7 billion, less than that of the GCC countries.

4. *Agricultural policy reform*

Some of the ESCWA member countries continued their economic reform programmes for the agricultural sector with varying success.[241] In Egypt, wide-ranging reform measures focused on improving resource use and efficiency of farming activities. The Government liberalized production and marketing activities of inputs and of most crops. In Jordan, producers subsidies were removed on all crops. The 1994/95 prices for wheat and barley which had been until recently subsidized, now indicate a zero subsidy. The Government plans to liberalize trade in barley and to phase out public sector involvement. In Saudi Arabia, the policy measures were aimed at limiting excess production of wheat. The Government reduced

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[241] See FAO, *Foodcrops and Shortages*, October/November 1995; *Cereal Policies Review 1994-95*; and *The State of Food and Agriculture* (1995).

quotas on wheat purchases, with the aim of saving water for producing other crops, such as barley. In the Syrian Arab Republic, similar reforms were undertaken in addition to Government efforts at irrigation development. In Iraq, the food situation continued to deteriorate from levels prevailing before the Gulf war. The Government's efforts were focused on increasing the availability of foodstuffs by increasing the production of cereals, vegetables and fruits. The economic embargo imposed by the United Nations on Iraq is considered a major constraint on agricultural development. In the West Bank and Gaza Strip, the Palestinian Authority has just started to build up the required institutional capabilities for the agricultural sector and to concentrate its efforts on establishing a Ministry of Agriculture, an essential step for the rehabilitation of the agricultural sector. The agricultural sector suffered greatly during 1995 from the border closures imposed by Israel.

C. AGRICULTURAL DEVELOPMENTS IN ESCWA MEMBERS

1. *GCC countries*

The population in the GCC countries represented about 17 per cent of total population in the ESCWA member countries. The GCC countries have about 1.5 million ha of land, of which 71 per cent is irrigated, mainly through groundwater. Agricultural output contributed by 4.9 per cent to the GCC total GDP in 1994, which increased by 4.7 per cent compared with 1993 and represented about 14.3 per cent of the total agricultural output value of the ESCWA member countries. Most of the GCC countries suffer from water shortages and will face critical water problems in the future unless appropriate policies and measures are implemented. Agricultural imports and exports of the GCC countries are estimated at 51.6 per cent and 43 per cent respectively of agricultural imports and exports of the ESCWA region. The value of the food gap was estimated at $5.3 billion in 1994, an increase of 4.3 per cent over the 1993 level.

(a) *Bahrain*

Given Bahrain's limited land and water resources, the country's agricultural sector is considered a secondary sector. Its contribution to the total GDP was only 1 per cent in 1994.[242] It is based on a cultivated area of about 3,000 ha, which are irrigated with groundwater. The agricultural sector consumes about 70 per cent of annual total available water resources, although the country is already suffering from water shortages.

Most of the agricultural and food commodities are imported, except fish and dates. Bahrain is realizing high ratios of self-sufficiency in these products. The value of agricultural imports was estimated at $303 million in 1994, representing about 8 per cent of total imports and slightly lower (1.9 per cent) than 1993. Agricultural exports totalled $11 million in 1994, representing only 0.3 per cent of the country's total exports, and were 42 per cent lower than the previous year. The value of the food gap was estimated at $247 million in 1994, about $10 million or 4.2 per cent more than that of 1993.[243]

(b) *Kuwait*

Agriculture accounted for only 0.3 per cent of the total GDP in 1994.[244] The cultivated area is about 5,000 ha, most of which is irrigated through groundwater systems. Most of the country's population,

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[242] Arab Monetary Fund, Organization of Arab Petroleum Exporting Countries, Arab Fund for Economic and Social Development, and League of Arab States, Unified Arab Economic Report, September 1995 (in Arabic).

[243] Calculated from FAO, printout of AGROSTAT database, 1995.

[244] Arab Monetary Fund, Organization of Arab Petroleum Exporting Countries, Arab Fund for Economic and Social Development, and League of Arab States, Unified Arab Economic Report, September 1995 (in Arabic).

estimated at 1.55 million in 1995, live in urban areas and work in non-agricultural activities, in particular oil and trade. The small cultivated area accounted for about 72 per cent of total water consumption in the country, while per capita available water resources are very low. This means that the decision makers should take action to save this limited resource for future generations.

Most agricultural and food commodities consumed in Kuwait are imported. The value of the agricultural trade deficit was estimated at $1.1 billion in 1994, an increase of 6.8 per cent compared with 1993. Agricultural imports in 1994 reached $1.14 billion against $1.07 billion in 1993, and representing 17.1 per cent of total imports. Kuwait's food gap was about $0.94 billion in 1994, about 4.8 per cent more than that of 1993.

(c) *Oman*

In recent years, Oman has undertaken efforts to diversify its economy. The five-year plan in Oman, which was initiated in 1991, includes incentives programmes to increase investment in agriculture and other non-oil activities.[245] Agriculture's share in GDP was more than 3 per cent in 1994. The cultivated area was estimated at 63,000 ha in 1993, of which about 58,000 ha (92 per cent) are irrigated. Although Kuwait's available water resources are sufficient at present, it is not expected that they will be sufficient in future. Oman's population was estimated at 2.16 million in 1995,[246] with an average annual growth rate of 4.3 per cent during the period 1990-1995, and the country is characterized by a high percentage of rural population which account for about 86.8 per cent of the total population.

Oman achieved some progress in some food commodities. It is self-sufficient in fish and dates and has realized surpluses for export from both products. The value of agricultural imports was estimated at $787 million in 1994, representing about 19.6 per cent of total imports. Agricultural exports in 1994 were valued at $216 million, representing about 3.9 per cent of total exports, and 10.2 per cent more than the level in 1993. The food gap was estimated at $412 million, a decrease of $6 million (1.4 per cent) compared with 1993.[247]

(d) *Qatar*

The agricultural output in Qatar, which contributed only 1.1 per cent to the total GDP in 1994,[248] declined by 5.7 per cent compared with the levels achieved in 1993. The agricultural sector depends on cultivating about 8,000 ha,[249] most of which is irrigated by groundwater. Qatar is already facing water shortages. The agriculture sector consumes about 68 per cent of the country's limited resources, and contributes a very low level of food self-sufficiency. This means that policy makers should establish a more efficient water management policy in order to reach optimum use and achieve a sustainable level.

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245 ESCWA, *Agriculture & Development in Western Asia*, No. 16.

246 ESCWA secretariat, printout of Social Statistics database, 1995.

247 FAO, printout of AGROSTAT database, 1995.

248 Arab Monetary Fund, Organization of Arab Petroleum Exporting Countries, Arab Fund for Economic and Social Development, and League of Arab States, Unified Arab Economic Report, September (in Arabic).

249 Qatar, Ministry of Finance, Economy and Commerce, Department of Economic Affairs, Statistics Section, *Economic Survey of Qatar*, October, 1995.

Qatar depends heavily on agricultural and food imports in areas where its self-sufficiency ratio is low, except for dates and fish. The self-sufficiency ratio for both products were about 88 per cent and 68 per cent respectively in 1994. Self-sufficiency ratios of other commodities are much lower, for instance, about 54 per cent in eggs, 39 per cent in vegetables, 20 per cent in meat, and less than 1 per cent in wheat and flour.

The deficit of agricultural trade was estimated at $283 million in 1994,[250] an increase of 3.7 per cent compared with the previous year. The value of agricultural imports reached $296 million, representing about 13.8 per cent of total imports. The value of the food gap was estimated at $241 million in 1994, about 4.9 per cent more than that of 1993.

(e) *Saudi Arabia*

The agricultural sector in Saudi Arabia achieved very high rates of growth during the last decade, for many reasons including: strong Government support; distribution of land to farmers free of charge; establishment of a viable infrastructure; development of water resources and irrigation; increased investment in food industry projects; and support provided to the private sector to invest in agriculture. As a result of these measures, wheat production increased from 142,000 tons in 1980 to 1.4 million tons in 1984, and to about 4 million tons in 1992.[251] This led not only to self-sufficiency but also to the realization of surpluses for export. Production of vegetables, fruits and livestock products also increased. However, this progress was combined with incremental consumption of the limited water resources, with the total demand for water increasing from 2.36 billion m^3 in 1980 to about 16.3 billion m^3 in the beginning of the 1990s,[252] mainly from fossil water, which led to depletion of stored groundwater. The Government implemented policies aimed at saving water resources, such as decreasing the area planted with wheat and decreasing price support paid by the Government to wheat producers.

Agricultural output contributed by 7 per cent to the total GDP in 1994,[253] indicating an increase of 4.6 per cent compared with 1993. The cultivated area was estimated at 1.4 million ha in 1993, of which about 70 per cent is irrigated area. Limited water resources will cause serious problems in the future unless appropriate actions are undertaken to ration water consumption and increase water supplies.

In the light of the population increase (which was estimated at 17.88 million in 1995,[254] and a growth rate of 2.4 per cent annually during the period 1990-1995), with 80 per cent of the total population living in the urban areas, per capita available water resources will decrease in the future.

Both the agricultural and food production index numbers registered negative growth rates of 2 per cent annually during the period 1990-1994, compared with very high positive growth rates in the last decade (table 93).

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250 FAO, printout of AGROSTAT database, 1995.

251 Ibid.

252 ESCWA, *Agriculture & Development in Western Asia*, No. 15.

253 Arab Monetary Fund, Organization of Arab Petroleum Exporting Countries, Arab Fund for Economic and Social Development, and League of Arab States, Unified Arab Economic Report, September 1995 (in Arabic).

254 ESCWA secretariat, printout of Social Statistics database, 1995.

In 1995,[255] wheat production was estimated at 2.5 million tons, an increase compared with the 2.4 million tons the previous year, but about 37.5 per cent lower than the 1992 level. However, production of wheat remained higher than domestic requirements. Exports of wheat, which averaged 2.1 million tons in the three years prior to June 1995, are expected to fall sharply to 700,000 tons in 1995/96 and to end completely by 1996/97. Preliminary estimates indicate that barley production in 1995 increased slightly to 1.6 million tons, while imports decreased by about 200,000 tons to reach 4 million tons in 1995.

In June 1995 the Council of Ministers in Saudi Arabia passed a decree to reduce the guaranteed procurement price of wheat by 25 per cent from SRls 2,000 ($540) per ton to SRls 1,500 ($405), effective for the 1995/96 (September/October) crops.[256] This was the first time the wheat price had been lowered since 1994. The Government also plans to expand meat and vegetable production and increase the productivity of high value crops.

Saudi Arabia is the largest importer of agricultural and food commodities among the ESCWA member countries. In 1994, agricultural imports were estimated at $3.1 billion (about 13.3 per cent of total imports), representing about 21.6 per cent of total ESCWA region agricultural imports and 41.9 per cent of the GCC agricultural imports. This figure is below that of 1993 by 9.2 per cent. Agricultural exports totalled $381 million, representing only 0.9 per cent of total exports, and decreased sharply by 19.3 per cent compared with 1993. The food gap was estimated at $2,455 million in 1994,[257] an increase of 3.5 per cent over 1993.

(f) *United Arab Emirates*

Agricultural output, which contributed 2.5 per cent to the country's GDP in 1995, increased by 6.6 per cent in 1995 compared with 1993.[258] The cultivated area was estimated at 45,500 ha, 70 per cent of which is irrigated. Like the other GCC countries, the United Arab Emirates has a critical water resources situation. Agriculture accounts for about 80 per cent of total water consumption, and as a result of population increases and the expansion of economic activities, per capita available water resources will decrease. The population in the United Arab Emirates was estimated at 1.9 million in 1995, registering an average annual growth rate at about 2.6 per cent during the period 1990-1995. About 84 per cent of the total population live in urban areas.

The United Arab Emirates achieved good results in some commodities such as dates, tomatoes and fish, with recent self-sufficiency ratios in these commodities reaching significant levels. For other commodities, particularly cereals, most of the total requirements are imported. The agricultural imports of the United Arab Emirates increased by 6.7 per cent in 1994, registering $1.77 billion, representing about 7.9 per cent of the country's total imports. Agricultural exports were $586 million (including re-export), representing only 2.3 per cent of total export. The value of the food gap was about $1 billion in 1994,[259] an increase of 8.2 per cent above the levels of 1993.

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255 FAO, *Foodcrops and Shortages*, October/November 1995.

256 FAO, *Cereal Policies Review 1994-95.*

257 FAO, printout of AGROSTAT database, 1995.

258 United Arab Emirates, Ministry of Planning, Annual Economic Report, 1995 (in Arabic).

259 FAO, printout of AGROSTAT database, 1995.

2. *The more diversified economies*

The populations in the countries with more diversified economies represented 83 per cent of the total population of the ESCWA region in 1995. This group of countries has about 16.8 million ha of cultivated land, representing 92 per cent of the ESCWA region's total cultivated area, of which 42.3 per cent is irrigated, and this group has 93.5 per cent of the annual available water resources of the region. The agricultural output of the more diversified economies accounted for 25.5 per cent of their total GDP in 1994. It increased by 7.4 per cent in 1994 compared with 1993, and represented about 80.7 per cent of the region's agricultural output value. Agricultural trade in this group of countries represents 48.4 per cent and 57 per cent of agricultural imports and exports in the ESCWA region respectively. The food gap value of about $4.7 billion represented 46.8 per cent of the ESCWA region's total food gap, and cereals production represented about 86 per cent of the ESCWA region's total cereal production.

(a) *Egypt*

Egypt made significant progress in the agricultural sector in recent years and continues to undertake additional measures in agricultural policies to achieve the targeted growth rate for agriculture, which is in the range of 3 to 4 per cent annually. Many positive indicators, such as increases in cereal production, decreases in the value of food gap as a result of decreases in food import, the tangible extension of cultivated area, and efficient use of agricultural resources reflect the development of this sector.

The main reasons for the good performance are the following:[260]

(a) The successful adoption of the Structural Adjustment Programme and the preparation of the Agricultural Strategy in the 1990s, which is aimed at: liberalization of producer prices for all crops except sugar, elimination of subsidies for inputs such as fertilizers and pesticides, removing crop area allotments with delivery quotas at fixed procurement prices except for sugar cane, encouraging the privatization of processing and marketing of agricultural products and inputs, lowering trade barriers and shifting agricultural trade to a free foreign exchange market;

(b) Adoption of high-yielding varieties over the past decade which led to increasing productivity;

(c) Greatly improving the agricultural infrastructure and encouraging agricultural investment;

(d) Implementation of land rental reform according to the new land rental law (27 June 1992);

(e) Gaining additional reclaimed (new) land from the desert (about 150,000 feddans [or 63,000 ha]) that were distributed to college graduates;

(f) Adoption of measures by the Social Fund for Development to reduce unemployment through support of graduates in the agricultural marketing and distributions fields;

(g) Adoption of measures for improving efficiency in agriculture, including application of water-saving technologies that are technically and economically feasible; the introduction of fees on water for irrigation is under consideration.

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[260] FAO, *The State of Food and Agriculture, 1993*; and Egypt, Ministry of Agriculture, Agricultural Development Strategy in the 1990s (in Arabic) (1992).

It should be noted that the Government is still looking for additional measures to develop the agricultural sector, such as lowering the interest rate on agricultural loans and constructing a new strategy for export promotion through the establishment of the High Council for Exports, which is aimed at increasing the value of exports up to $11 billion by the year 2000, including agricultural exports.

In spite of this performance, the agricultural sector still faces some problems, including high population growth, fragmented landholding, and inefficient marketing operations and functions that adversely affect agricultural exports. These problems require additional efforts to minimize negative effects in the future.

Egypt cultivates about 3.1 million ha, which represents 3 per cent of the country's total land area (of which 98 per cent is irrigated). Only in 2 per cent of the cultivated area (particularly the most recently cultivated areas) are modern irrigation methods being used.[261] Egypt relies mainly on the Nile for water supply for various purposes. The water resources available now are considered generally sufficient, but shortages may develop in the future in the light of the rapid population growth and economic development. Per capita water available for different uses is expected to decrease in the future: this will make it necessary for the Government to undertake serious action in order to achieve sustainable water development.

Egypt's population was estimated at 62.9 million in 1995,[262] an increase of 2.1 per cent over 1994. The rural population represented 55.2 per cent of the total population in 1995, and the agricultural labour force was estimated at about 7 million, or 38.5 per cent of the total labour force in that year.

Agricultural output contributed about 16.2 per cent to the total GDP in 1994.[263] It increased annually by an average annual rate of 6.0 per cent during the period 1985-1994. According to FAO data, the agricultural production index number increased annually by 3.2 per cent during the period 1990-1994, and food production index numbers increased by 3.1 per cent for the same period, while per capita agriculture and food production achieved a slight increase, estimated at 0.9 per cent and 0.8 per cent respectively (table 94).

Cereal production was estimated at 17 million tons in 1995, representing an increase of 11.1 per cent over 1994 and 110 per cent over 1980.[264] Wheat production was estimated at 5.7 million tons in 1995, increasing by about 1.3 million tons (29.5 per cent) over 1994. The 1995 production of wheat was almost 3.3 times as large as the level achieved in 1980. Self-sufficiency in wheat exceeded 50 per cent in 1995, compared with 24 per cent in 1980. The Government expects to achieve 75 per cent self-sufficiency in wheat by the late 1990s. The output of paddy rice is expected to increase by 113,000 tons to reach 4.7 million tons, and the export target for rice in 1995 was fixed at 500,000 tons compared with 200,000 tons exported the year before. Barley production in 1995 was almost tripled and reached 350,000 tons, reflecting the effect of the sharp increase in the area planted.

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261 Egypt, Ministry of Agriculture, unpublished data, 1994.

262 ESCWA secretariat, printout of Social Statistics database, 1995.

263 Arab Monetary Fund, Organization of Arab Petroleum Exporting Countries, Arab Fund for Economic and Social Development, and League of Arab States, Unified Arab Economic Report, September 1995 (in Arabic).

264 FAO, *Foodcrops and Shortages*, October/November 1995.

Although Egypt has a surplus of fresh vegetables and fruits, the processing and marketing facilities are inefficient. The high cost of harvesting, inefficient packing and grading, tough competition from other producers in the region, and new EU measures related to imports of fresh vegetables and fruits, in particular regarding tariff quotas and application of the Entry Price System, hinder the increase of these exports.

In 1995 the Government raised the support price for durum wheat by about 7 per cent to LE 533 ($157) per ton, in order to encourage the producers to increase production. The Government continued to subsidize *balady* bread[265] (made of local flour); the retail price was about half of the cost of production. There are no indications that the subsidy for this type of bread will be cancelled in the near future. The production and sale of Shami bread are also controlled, but the subsidy is much lower than that of the *balady* bread.

The Government started a national campaign in 1994 to increase wheat production in the country during the plan period 1995-2000, aimed at raising yields substantially and increasing the cultivated area by 20 per cent. Some measures were undertaken in the first year of the plan (1995) such as: expanding the access of more farmers to certified seed, reducing the charges for land levelling through the use of laser techniques and banning the export of fertilizers. The Government announced that it would launch a special programme to increase the area assigned for growing maize, which is used as animal feed.

Cotton production was estimated at 4.9 million metric qantars (245,000 metric tons)[266] in 1994/95, which is 40.4 per cent lower than production in 1993/94.[267] This decrease is mainly due to the decrease in the cultivated area of cotton by 18.4 per cent, from 884,000 feddans to 721,000 feddans, and to the unfavourable weather conditions which contributed to the decrease in productivity per feddan from 9.3 to 6.8 metric qantars in the respective years. The export commitments, estimated at 1.335 million metric qantars for the 1994/95 season, decreased by 20.5 per cent compared with the previous season, of which 45.2 per cent was exported to Asian countries, in particular India and Japan; 28.9 per cent to the EU; and 23.9 per cent to other European countries. Rising world prices of cotton led to a considerable increase in cotton exports. This raised cotton's contribution to agricultural exports to 7.2 per cent in 1994/95. The Ministry of Agriculture and Land Reclamation decided to increase cotton production in the next season—1995/96—by increasing the cultivated area to 900,000 feddans, in order to produce about 8 million metric qantars.

Egypt's agricultural imports in 1994 were estimated at $2.76 billion, representing about 27 per cent of total imports, while agricultural exports totalled $550 million, accounting for 15.9 per cent of total exports.[268] The value of the food gap in Egypt was estimated at $1.97 billion in 1994, against about $3 billion in the beginning of the 1980s. Food exports covered only 11.9 per cent of food imports in 1994.

(b) *Iraq*

After years of economic embargo imposed since 1990—the current situation in Iraq seems to be disastrous. The very difficult conditions in Iraq have been caused by many factors, reasons including the

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265 FAO, *Cereal Policies Review, 1994-95*, 1995.

266 Metric qantar = 50 kg.

267 Central Bank of Egypt, *Economic Review*, vol. 35, 1994/95.

268 FAO, printout of AGROSTAT database, 1995.

BOX 16. BIOTECHNOLOGY TRANSFER AND DEVELOPMENT IN EGYPT

In the second half of 1995 ESCWA conducted a survey on the status of biotechnologies in Egypt. Nine institutes working on biotechnology in either research, commercial activities or policy formulation were surveyed.

Egypt's commercial activities in biotechnology are related to virtually all relevant sectors: agriculture, the fermentation industry and medicine. Private enterprise initiatives in biotechnology, however, are confined to two companies active in plant tissue culture, using basic techniques. Public sector industries using biotechnology have not been privatized so far. Some public research institutes have developed commercial production of goods or services with limited success, but this has not been sufficient to finance the research activities of the respective public institutes.

Within the sectors covered by the survey (agriculture, industry and medicine), Egypt appears to be the most active country in biotechnology among the ESCWA member countries. This is also the conclusion reached when commercial activities, human—and financial—resources, and the number of institutions active in biotechnology are reviewed. There is, however, considerable disparity between the amount of private and public research initiatives in biotechnology. Furthermore, there is a strong case for increased public support and diversification of sources of funding for biotechnology research.

Without exception, all the surveyed institutes working on advanced research in biotechnology reported having been recipients of occasional support by foreign donors (see table a below).

Table a. Major biotechnology research institutes in Egypt and sources of external assistance

Institute	Biotechnology	Foreign donor
Agricultural Research Center, Agricultural Genetic Engineering Research Institute	Genetic engineering of plants	UNDP, USAID
Cairo University, Genetic Engineering Center	Genetic engineering of plants	JICA
Cairo University, Faculty of Medicine	DNA diagnostics for cancer	USAID
University of Menoufiya, Tissue Culture and Genetic Engineering Center	Genetic engineering of plants	USAID
National Research Center, Plant Cell & Tissue Culture Department	Micropropagation of plants (virus-free potato tubers)	USAID
National Research Center, Microbial Biotechnology Department	Bio-treatment of agro-industrial wastes	USAID
National Research Center, Molecular Genetics Department	DNA diagnostics for human diseases	USAID
Ain-Shams University, Microbial Resources Centre	Bacterial and fungal strain pool collection, training	UNESCO, FAO, USAID

External sources of technical aid available to Egypt are indicated in tables b, c and d below. Table b covers the main recipients of ODA in the ESCWA region in 1992/93. Table c covers the main recipients of DAC members aid as a percentage of total ODA gross disbursements in 1992/93. The total ODA in 1992/93 was $66,821 million. Table d covers the main recipients of American aid as a percentage of total ODA gross disbursements in 1992/93. The total ODA in 1992/93 was $66,821 million.

BOX 16. (*continued*)

b

Country	Millions of US dollars
Egypt	2,256
Yemen	336
Jordan	317
Iraq	170
Syrian Arab Republic	168

c

Country	Percentage of total ODA
Egypt	5.5
Indonesia	3.9
China	3.5
Israel	2.7
Philippines	2.7

d

Country	Percentage of total ODA
Israel	13.0
Egypt	10.5
El Salvador	4.3
Somalia	3.2
Philippines	2.2

Source: OECD, Development Co-operation, 1994.

Some initial observations may be made as a result of the preliminary ESCWA survey of biotechnology activities in which Egypt is relatively more advanced. There is primarily the need to formulate a clear strategy for biotechnology research. Despite the high quality of available human resources, there is still a critical need to coordinate the research infrastructure and funding patterns. Research institutes should reorganize along more commercial lines to stimulate income generation for operation and expansion. Existing institutions should also consider establishing networking and other arrangements for division of labour among themselves. This should create a more competitive scientific environment which would enhance research potential in general. External assistance may then be used to provide more evenly distributed support to research groups over a longer time span. Finally, institutions active in biotechnology research should implement modes of planning and operation that directly link their research with private commercial initiatives.

hard currency shortages which led to very limited ability to import food commodities, spare parts, machinery, fertilizers and other agricultural inputs. The reduction in imports combined with the decline in agricultural production led to a sharp decline in the quantity and quality of foodstuffs available for consumption. Furthermore, the reduction in food availability was accompanied by extremely high rates of inflation, which prevented large numbers of families from purchasing food to meet their daily requirements, even if the food had been available in the market. Malnutrition is widespread in the country, and is a cause of death for children under five years of age. This situation will deteriorate further unless serious action is undertaken to increase the supply and quality of food and nutrition.

Iraq's population was estimated at 20.45 million in 1995,[269] 2.6 per cent more than 1994, of whom 74.6 per cent are urban dwellers and 42 per cent are under 14 years of age. One million people—17 per cent of the total labour force—are working in agriculture.

The cultivated area was estimated at 5.45 million ha in 1993, representing about 12.5 per cent of total land area, of which about 46.8 per cent is irrigated. Cereal crops occupy about 3 million ha, 55.5 per cent of the cultivated area. Although Iraq has sufficient water for irrigation, and is not expected to face shortages of water in the near future, the irrigated area suffers from increasing salinity due to weak sewage systems, and this hinders increases in agricultural productivity.

[269] ESCWA secretariat, printout of Social Statistics database, 1995.

Iraq's agricultural output contributed 34.8 per cent of total GDP in 1994, an increase of 6.3 per cent over 1993.[270] The agricultural and food production index numbers decreased during the period 1990-1994 compared with the previous decade, mainly because of shortages of agricultural inputs, such as pesticides, fertilizers and spare parts.

Despite the prevailing favourable weather conditions, adequate amounts of rainfall and increased efforts of the Government and international organizations, especially FAO, cereal production was estimated to have decreased to 2.5 million tons in 1995, a decrease of approximately 10 per cent compared with 1994 production, and about 16 per cent lower than its average during the previous five years.[271] This situation was mainly due to the lack of machinery and spare parts, pesticides and fertilizers, which led to a decline in cereal yield from 1,031 kg/ha in 1990 to 798 kg/ha in 1995.[272] Since cereal crops are the main sources of food in the current situation, the food supply has been very limited for the past few years. The Government raised controlled producer prices sharply in order to encourage production as well as to encourage farmers to sell all their production to the State, which distributes it through ration cards. Purchase prices by the State for wheat (class 1), for example, were raised from 270 Iraqi dinars (ID) per ton in 1989 to ID 800 per ton in 1991; prices increased sharply to ID 35,000 per ton in 1994 and reached ID 105,000 per ton in May 1995. Barley prices also surged, rising from ID 150 per ton in 1989 to ID 60,000 per ton in 1995.[273]

The cultivated area assigned for vegetables increased from 8 per cent of the total cultivated area in 1989/90 to 9 per cent in 1994/95, but the increase in area was accompanied by a decrease in yield due to shortages of vegetable seeds and lack of plant protection chemicals. Vegetable production was estimated at 3.5 million tons in 1995. Production of fruits was estimated at 1.3 million tons in 1995, an increase of about 8 per cent compared with 1994. Production of dates increased by 7.7 per cent in 1995 to 700,000 tons. However, the United Nations economic embargo on Iraq led to a sharp decrease in the export of dates, from $65 million (248,000 tons) in 1989 to only $2 million (10,000 tons) in 1994.[274]

For livestock products, the decline in the number of cows by about 34 per cent between 1990 and 1995, in buffaloes by 48 per cent and in sheep and goats by 42 per cent and 81 per cent respectively, led to a sharp decrease in red meat production, which is considered an essential item in food consumption patterns in Iraq. Annual per capita availability of red meat decreased from 13 kg in 1990 (before the embargo) to only 1.5 kg in 1995. Per capita consumption of chicken meat decreased from 12.5 kg in 1990 to 1 kg in 1995, consumption of eggs declined from 83 eggs to only 10 eggs, consumption of milk declined from 15 kg to 2 kg and consumption of fish from 3.5 kg in 1990 to 1 kg in 1995.[275]

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[270] Arab League and others, The Unified Arab Economic Report, September 1995 (in Arabic).

[271] FAO, printout of AGROSTAT database, 1995.

[272] Ibid., *Foodcrops and Shortages*, October/November 1995.

[273] Ibid., *Evaluation of Food and Nutrition Situation in Iraq. Terminal Statement prepared for the Government of Iraq by the Food and Agriculture Organization of the United Nations* (Rome, 1995).

[274] Ibid., printout of AGROSTAT database, 1995.

[275] Ibid., *Evaluation of Food and Nutrition Situation in Iraq*, 1995.

Agricultural imports value was estimated at $684 million in 1994,[276] representing 36 per cent of total imports, a decrease of 32.5 per cent compared with 1993, and a decrease of 72.9 per cent compared with 1989. Agricultural exports were estimated at only $4 million in 1994 and represented only 0.9 per cent of total exports, similar to the value of 1993 exports, but a decrease of 96.6 per cent compared with 1989. Food imports totalled $610 million in 1994, 35.2 per cent lower than 1993, while FAO reports indicated that about $2.7 billion would be necessary to import basic food for 1995.[277]

BOX 17. THE FOOD AND NUTRITION SITUATION IN IRAQ IN 1995

As a result of the United Nations economic embargo on Iraq, the Iraqi Government introduced a public food rationing system with effect from September 1990 for distributing basic foods to the population. Although the food ration was increased between 1990 and 1993, it still provided only 53 per cent of the 1987-1989 average per capita requirements of food energy. On 24 September 1994, the food ration was sharply decreased to provide only one third of per capita energy requirements. The prices are very high in the light of the current situation related to the deteriorated exchange rate of the Iraqi dinar and high inflation rates. The food ration monthly subsidy for a household of five adults was estimated at ID 42,900 in 1995.

Free market prices were sharply increased. Wheat flour prices, for example, increased from ID 0.06/kg in July 1990 to ID 700/kg in August 1995, and the price of infant milk formula increased from ID 1.6/kg to ID 8,900/kg. These prices, in the light of the limited per capita income, led to tragic and critical situations. Malnutrition in children less than five years old affected—on monthly average—163,100 children in 1995 against only 8,500 in 1990 (before the embargo), and total deaths of children under five years increased from 593 cases monthly in 1990 to 4,475 cases monthly in 1995, in addition to a raised death rate of adults. This human tragedy requires emergency treatment. If no serious action is undertaken, the nutritional situation will continue to deteriorate and famine will spread.

Sources: FAO, *Food Outlook*, November/December 1995; *Foodcrops and Shortages*, October/November 1995; and *Evaluation of Food and Nutrition Situation in Iraq*, 1995.

(c) *Jordan*

The agricultural sector in Jordan, which has a small resource base, performed well during the past five years. Agricultural output contributed around 6 per cent to the total GDP in 1995.[278] The reasons for this increase in performance include the wide use of irrigation, modern technological farming systems and increased capital investment. A large investment expenditure through the public and private sectors led to

276 Ibid., printout of AGROSTAT database, 1995.

277 Ibid., *Evaluation of Food and Nutrition Situation in Iraq*, 1995.

278 Jordan, Ministry of Agriculture, Data Base, 1995.

an increase in irrigated area by more than 200 per cent over the last 20 years.[279] The Government adopted an agricultural sector adjustment programme in 1991, aimed at improving efficiency and sustainability. This programme has focussed on removing subsidies in order to establish a market-oriented agricultural sector with greater private sector involvement.[280] The Government has concentrated on rational allocation and use of water. This included the development of management plans for surface irrigation systems in the Jordan Valley and for groundwater basins. These reforms led to good results in most of the agricultural fields, particularly in the production and export of vegetables and fruits.

In spite of the above-mentioned, the main obstacle facing the agricultural sector in Jordan is the water shortage. Most of the cultivated areas are rainfed, though the agricultural sector accounts for about three quarters of total water consumption in Jordan. The Government is now preparing a water policy for Jordan in order to better manage the available water resources.

Jordan's population was estimated at 4.57 million in 1995; 71.5 per cent of the population live in the urban areas.[281] The cultivated area was estimated at 405,000 ha in 1993, representing 4.55 per cent of total land area. About 63,000 ha (15.6 per cent of cultivated area) are irrigated.[282] As a result of the peace treaty with Israel, available water resources in Jordan are expected to increase by about 230 million m^3 annually, representing about a one-quarter addition to the country's present supply of water, which would increase the per capita availability by 63 m^3 per year.[283] Nevertheless, the water issue will be critical in the future. Projections show water availability per capita will decline. This means that decision makers should take into consideration some alternative cropping patterns and allocations of water.

Adequate amounts of rainfall at the beginning of the growing season, which prompted farmers to increase the area planted with cereals, were followed by below-normal precipitation from January to March 1995.[284] The aggregate production of wheat and barley in 1995 is estimated to have increased by about 8 per cent, to 129,000 tons, owing to a marked increase in the area planted. The Ministry of Agriculture estimated that production of wheat and barley increased by 53.8 per cent from its 1994 level to about 140,900 tons in 1995.[285] However, the production of cereals meets only a small part of total demand, with self-sufficiency ratio in cereals not more than 12 per cent.

For vegetables, production was estimated at 1.35 million tons in 1995, 20.6 per cent higher than the 1994 level, but still lower than the 1.4 million tons produced in 1992. Fruit production indicated a slight decrease of 0.8 per cent, to 446,700 tons in 1995. Jordan realizes self-sufficiency in vegetables and some

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279 FAO, *The State of Food and Agriculture*, 1995.

280 Jordan, Ministry of Agriculture, Agricultural Policy document, February 1995 (in Arabic).

281 ESCWA secretariat, printout of Social Statistics database, 1995.

282 FAO, printout of AGROSTAT database, 1995.

283 Ibid., *The State of Food and Agriculture*, 1995.

284 Ibid., *Foodcrops and Shortages*, October/November, 1995.

285 Jordan, Ministry of Agriculture, Data Base, 1995.

fruits, and exports the surplus. However, the export of agricultural products faces many problems related to external competition, high transport costs to the EU, and the new trade policies and application of the entry price in the EU.

In November 1995 the Government announced minimum support prices for grains at JD 175 ($220) per ton for bread wheat and JD 130 ($186) per ton for barley. This price support is expected to be raised in 1996 in the light of world market conditions of cereal prices.

The Government maintained the subsidies on bread in 1994/95 in order to keep the price of bread at the level of the previous year. For other foodstuffs, such as rice, subsidies would be provided through a new ration card system targeting households with annual family incomes below JD 6,000 ($8,600).

Jordan's agricultural imports were estimated at $2.76 billion in 1994, 21.8 per cent more than in 1993, and represent about 27.1 per cent of total imports. Agricultural exports surged by an estimated 52.8 per cent compared with 1993, and reached $550 million in 1994. The value of the food gap was estimated at $1.97 billion in 1994, indicating an approximately 31 per cent increase above the level of 1993.[286]

(d) *Lebanon*

The agricultural output contribution to the total GDP was estimated at 7.8 per cent in 1994.[287] The cultivated area was about 306,000 ha, which is about 30 per cent of the country's total land area; about 86,000 ha (28 per cent of the cultivated area) are irrigated.[288] Lebanon's population was estimated in 1995 at about 3 million,[289] with an average annual growth rate of 3.3 per cent during the period 1990-1995. Around 87 per cent of total population live in urban areas.

The aggregate wheat production and barley production in 1995 were preliminarily estimated at about 73,000 tons and 10,000 tons respectively, more than the previous year.[290] Cereal production covers about 10 per cent of total requirements, and the country is completely dependent on imports to meet its needs for rice, sugar and powdered milk. The imports of cereals, mainly wheat, are expected to reach about 750,000 tons in 1995/96, an increase of 4 per cent over the previous year. In 1994, production of vegetables was estimated at 964,000 tons, 5.8 per cent more than the production level in 1993. Fruit production also increased by about 5.3 per cent, from 1.33 million tons in 1993 to 1.40 million tons in 1994.[291] Lebanon has many problems with regard to agricultural exports, mainly fresh vegetables and fruits, such as high production and marketing costs and the competition from neighbouring countries.

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286 FAO, printout of AGROSTAT database, 1995.

287 Arab Monetary Fund, Organization of Arab Petroleum Exporting Countries, Arab Fund for Economic and Social Development, and League of Arab States, Unified Arab Economic Report, September 1995 (in Arabic).

288 FAO, printout of AGROSTAT database, 1995.

289 ESCWA secretariat, printout of Social Statistics database, 1995.

290 FAO, *Foodcrops and Shortages*, October/November, 1995.

291 FAO, printout of AGROSTAT database, 1995.

Agricultural imports were estimated at $1.1 billion in 1994, representing about 19 per cent of total imports, and increased by 6.2 per cent compared with 1993, while agricultural exports totalled $125 million, about 18.8 per cent of total exports, an increase of 2.5 per cent. The value of the food gap was about $726 million in 1994, an increase of 3.7 per cent compared with 1993.

(e) *Syrian Arab Republic*

The agricultural sector achieved marked progress as a result of some reform measures aimed at promoting food self-sufficiency and exports. These measures could be summarized as follows.[292] (a) The Government established a new investment law, Law No. 10, to promote both foreign and domestic investment. (b) The Government also relaxed trade restrictions, which led to an increased private sector role in foreign trade. (c) The Government undertook serious reform steps related to agricultural policies. (d) Irrigation development, about 80 per cent of the public investment expenditure in agriculture, led to an expansion of the irrigated area to more than 1 million ha. (e) The increase in area planted with cereals and cotton led to self-sufficiency in wheat and to an increase of cotton lint exports. (f) Improvement in agricultural marketing led an increase in exports of some fresh vegetables and fruits. These policies and measures reflect a gradual transition towards a more market-oriented agricultural economic activity.

The cultivated area in the Syrian Arab Republic was estimated at 5.9 million ha in 1993, representing about 32 per cent of total land area, of which almost 1 million ha are irrigated.[293] Rapid population growth in the Syrian Arab Republic and incremental economic activity will lead to a decrease in available water per capita in the future.

The Syrian population was estimated at 14.7 million in 1995,[294] with a high average annual growth rate of about 3.5 per cent during the period 1990-1995. About 52.4 per cent of the total population are living in the urban areas, and about 775,000 persons are working in agriculture.

The contribution of agriculture to the total GDP was about 28.6 per cent in 1994,[295] which shows an increase of 6.3 per cent compared with 1993. Agricultural and food production index numbers have both increased by 2.9 per cent annually during the period 1990-1994, but per capita agricultural and food production index numbers decreased by 0.5 per cent and 0.6 per cent respectively each year during the same period, owing to the fact that the population growth rate was higher than that of production.

Reflecting favourable weather conditions, production of cereals in 1995 was estimated at 6 million tons, about 8 per cent higher than the previous year. The production of wheat in 1995 increased by 330,000

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292 FAO, *The State of Food and Agriculture*, 1993; and ESCWA, *Agriculture & Development in Western Asia*, Nos. 16. 17.

293 FAO, printout of AGROSTAT database, 1995.

294 ESCWA secretariat, printout of Social Statistics database, 1995.

295 Arab Monetary Fund, Organization of Arab Petroleum Exporting Countries, Arab Fund for Economic and Social Development, and League of Arab States, Unified Arab Economic Report, September 1995 (in Arabic).

tons. Barley production in the same year was estimated at 1.6 million tons, almost 10 per cent more than the 1994 production. Maize production increased by 50,000 tons in 1995 and reached 300,000 tons.[296]

As in the previous year (1994/95), imports of wheat were not needed in 1995/96. It had been forecasted that 350,000 tons of wheat flour would need to be imported, but the actual amount imported was almost the same quantity as the previous year. Imports of maize were estimated in 1995/96 at 200,000 tons, a decrease of 100,000 tons compared with 1994/95. Barley exports were forecasted to be about 600,000 tons in 1995/96. Recently, a barter agreement between the Syrian Arab Republic and Jordan was signed in which Jordan is to import about 200,000 tons of barley from the Syrian Arab Republic and the latter is to import cement from Jordan.[297]

Wheat production achieved marked increases (from 1 million tons in 1989 to about 4 million tons in 1995) as a result of higher prices for farmers and favourable weather conditions. The annual increase in the guaranteed producer prices were limited, but in 1994/95 the prices were raised by 5 per cent, and raised again in 1995/96 by 3 per cent. Maize and barley procurement prices were frozen at the 1993/94 levels. For imports of wheat flour, the Government announced, as part of its policy to reduce sharply the current high volume of flour imports, the construction of five new flour mills over the next three years with total annual capacity of 750,000 tons.

For subsidies and price controls, the Government continued the rice ration system in 1994/95. The price of bread was increased by 40 per cent in 1994, following a 43 per cent increase effected in January 1993. Despite these increases, the price of bread in the Syrian Arab Republic is still subsidized considerably.

The Syrian Arab Republic is considered first among ESCWA member countries with respect to decreasing agricultural trade deficit. In 1994,[298] the value of agricultural imports was estimated at $774 million, representing about 14.4 per cent of total imports, an increase of 8.7 per cent compared with 1993. Agricultural exports, estimated at $700 million, represented 19.7 per cent of total exports and increased by 15.9 per cent compared with 1993. The agricultural trade deficit reached $74 million in 1994, a decrease of about 31.5 per cent compared with the previous year. The food gap, which was estimated at only $151 million in 1994, decreased by 10.6 per cent compared with 1993, mainly because of a decrease in food imports.

(f) *West Bank and Gaza Strip*

Although agriculture in the West Bank and Gaza Strip contributed to the total GDP by about 30 per cent during the period 1990-1993, and 22 per cent in 1994,[299] the sector continued to be hampered by many constraints, such as unstable levels of production, and weak marketing and export levels. In 1994, the agricultural output decreased by about 5 per cent compared with 1993, mainly owing to the unstable

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296 FAO, *Foodcrops and Shortages*, October/November, 1995.

297 Ibid.

298 FAO, printout of AGROSTAT database, 1995.

299 Arab Monetary Fund, Organization of Arab Petroleum Exporting Countries, Arab Fund for Economic and Social Development, and League of Arab States, Unified Arab Economic Report, September 1995 (in Arabic).

conditions that prevailed in the West Bank and Gaza Strip, in addition to other factors related to weather fluctuations, very weak level of agricultural institutions, high cost of agricultural inputs and the instability of internal and external outlets for agricultural commodities. The total population of the West Bank and Gaza Strip was estimated at 2.2 million in 1995,[300] with an average annual growth rate of about 3.4 per cent during the period 1990-1995. The agricultural labour force included 68,000 persons in 1994, representing 22.1 per cent of the total labour force. The cultivated area was estimated at 179,100 ha in 1994, of which 93.9 per cent was in the West Bank.[301] The irrigated area covered 17,760 ha, representing 9.9 per cent of the total cultivated area.

In 1994, production of cereals (mainly produced in the West Bank) was estimated at 46,000 tons, virtually unchanged compared with 1993.[302] Production of vegetables was about 379,000 tons (57.8 per cent from the West Bank), an increase of 2.7 per cent compared with 1993. Fruit production amounted to 296,000 tons in 1994 and stayed at the same level as 1993 production. In 1995, the Palestinian Authority in the West Bank and Gaza Strip started to build up the required institutional capabilities for the agricultural sector and concentrated its efforts on establishing the Ministry of Agriculture and related institutions.

(g) *Yemen*

Agriculture contributed 18.2 per cent to the total GDP in 1994;[303] the sector's contribution decreased by about 16.1 per cent compared with 1993, mainly because of the internal disturbances. The cultivated area was estimated at about 1.5 million ha in 1993, representing 2.8 per cent of the country's total land area.[304] The irrigated area is about 360,000 ha or 24.3 per cent of the cultivated area. The total population was estimated at 14.5 million in 1995, with a very high average annual growth rate of 5 per cent during the period 1990-1995, and about two thirds of the total population living in rural areas.

Cereal production was estimated at 750,000 tons in 1994, some 6.5 per cent less than 1993 production.[305] The cereal import requirements in 1995, mainly for wheat, were preliminarily estimated at about 2 million tons, 19 per cent higher than in 1994. Vegetable production decreased from 517,000 tons in 1993 to 460,000 tons in 1994, or by 11 per cent. Fruit production increased by 4.3 per cent to 361,000 tons in 1994.

Agricultural imports were estimated in 1994 at $843 million (about 28.1 per cent of total imports), and decreased by 12.2 per cent compared with 1993. Agricultural exports were $84 million in 1994,

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300 ESCWA secretariat, printout of Social Statistics database, 1995.

301 Arab Organization for Agricultural Development, Questionnaire about the Agricultural Development in Arab Countries, Khartoum, Sudan, July 1995 (in Arabic).

302 FAO, printout of AGROSTAT database, 1995.

303 Arab Monetary Fund, Organization of Arab Petroleum Exporting Countries, Arab Fund for Economic and Social Development, and League of Arab States, Unified Arab Economic Report, September 1995 (in Arabic).

304 FAO, printout of AGROSTAT database, 1995.

305 Ibid., *Foodcrops and Shortages*, October/November, 1995.

representing 9.3 per cent of total exports, an increase of 33.3 per cent. The value of the food gap was estimated at $711 million in 1994, a decrease of 14.6 per cent compared with 1993.

D. SHORT-TERM OUTLOOK

ESCWA member countries are expected to adopt new policies aimed at increasing food production to avoid the negative effects of the changing world trade environment, either through expanding the area planted with major crops such as cereals or through increasing production vertically by using high-yielding varieties and improved production inputs. Most countries will continue to develop livestock production to improve self-sufficiency, especially in red meat production.

ESCWA member countries are expected to implement new trade policies aiming at adjusting to the liberalization of world trade, through the elimination of non-tariff barriers and the reduction of current tariff rates, and will try to improve the export chances of agricultural products.

The more diversified economies in the ESCWA region will continue to adapt reform programmes in order to improve the agricultural policies related to agricultural resources, marketing and foreign trade.

In the light of the expected increase in world prices of food commodities, the deficit of trade balance for agricultural products will also increase substantially. The food gap will increase accordingly, and terms of trade will deteriorate, particularly in the short run.

ESCWA member countries must increase their efforts to rationalize water consumption, particularly in agriculture, through adopting appropriate cropping patterns and developing modern irrigation methods. Such policies should aim at maintaining sustainable water resources.

XI. DEVELOPMENTS IN THE MANUFACTURING SECTOR

A. MANUFACTURING PERFORMANCE AND GROWTH[306]

In 1995 the manufacturing sector in the ESCWA region recorded, in general, a relatively good performance, excluding Iraq and the West Bank and the Gaza Strip. The pace of the growth, however, was somewhat slower. It averaged around 3.6 per cent per annum during 1995, compared with more than 4 per cent in 1994 and less than 3 per cent in 1993 (table 97).[307] The fluctuations in growth during this period were due mainly to the fluctuations in the oil sector. In Iraq and the West Bank and Gaza Strip, the lack of up-to-date and reliable data on manufacturing does not allow the monitoring of economic and manufacturing performance. In Iraq, the anecdotal evidence indicates that the manufacturing sector has revived as a result of an increase in domestic demand for basic needs. In the West Bank and the Gaza Strip, and as donors honoured part of their obligations, some degree of economic recovery was recorded in 1995, which had spill-over in manufacturing. But continued frequent closure of territories between Israel and the Palestinian Authority areas is still hampering economic and industrial activity.

The economic reform programmes and the policy to reform the public sector continue to exert an influence on the performance of the economy and the manufacturing sector, especially in the more diversified economies. Manufacturing expansion was also influenced by the rise in the value of production and exports of major export products such as petrochemicals, fertilizers, aluminium, and textiles and garments. This expansion was stimulated by the continued economic recovery in all developed market economies, which are major export markets. The expansion in exports was also due to the disappearance of factors that were distorting the market forces for these products on the international market. This was partly the result of the transformation of the East European markets into market economies and the economic reform process under way in developing countries, in particular in China and India. This has prompted producers in the region to expand production for the export market.

Manufacturing growth in the countries in the ESCWA region nevertheless continued to be restrained by trade barriers in major markets such as the EU, and particularly in major export products such as petrochemicals and aluminium, as well as by the difficulty in opening new export markets and maintaining existing ones owing to increased competition, particularly from East Asian products. Furthermore, the general policies in GCC countries to restrict expatriate labour continue to impose an additional constraint on manufacturing expansion in the subregion. In most countries in the region, shortages in power-generating capacity continue to represent a significant obstacle to manufacturing growth, particularly since many Governments, including Governments in the GCC countries, are operating under increasingly reduced budgets and may face some difficulties in financing major planned power projects. Other constraining factors include reduced public investment in manufacturing projects in most countries, with a continued inability of the private sector to compensate for public retrenchment. In many of the more diversified economies, the slow pace of economic reforms and trade liberalization continue to be a major factor in forcing the private sector to operate far below its potential. In most GCC countries, although utility services are still highly subsidized, the gradual deregulation of prices of utilities is adding to the costs of industrial production and reducing the profitability of industrial companies. This may be inhibiting private investment in manufacturing to some extent.

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[306] Growth rates for the ESCWA members are based on revised estimates calculated at 1992 constant prices, unless stated otherwise in this chapter.

[307] For more details, see ESCWA, *Review of Recent Development of Manufacturing Activities and Prospects in the ESCWA Region, 1994* (E/ESCWA/ID/1995/6) (Amman, December 1995).

In the short and medium term, the development and growth of the manufacturing sector in the region will depend, among other things, on the extent to which countries are able to make faster progress in the implementation of their economic reform programmes. This will encourage domestic private sector investment and attract foreign investment. Manufacturing expansion will also be affected by the lifting of the United Nations sanctions on Iraq, improved oil prices and the degree of economic recovery in the GCC countries. However, the conditional factors for sustainable manufacturing growth in the region remain based on improved regional economic and political relations, and on progress made in the peace process.

1. *GCC countries*

In the GCC countries, the growth rate in manufacturing income (value added) in 1995 is estimated to have maintained its level of the previous year, averaging around 3.6 per cent in real terms, compared with 2.6 per cent in 1993 (table 97). Growth in the sector is mainly attributed to the increase in the export of oil-based products, particularly petrochemicals, fertilizers and methanol, and aluminium. It was also the result

TABLE 97. REAL GROWTH IN THE MANUFACTURING SECTOR IN ESCWA MEMBER COUNTRIES, 1993-1995

(Percentage)

	Manufacturing		
Country/year	1993	1994	1995
GCC	*2.6*	*3.6*	*3.5*
Bahrain[a/]	21.8	7.0	12.0
Kuwait[b/]	21.1	12.0	7.0
Oman[a/]	19.8	6.0	8.0
Qatar[a/]	(0.1)	3.1	2.4
Saudi Arabia	(1.8)	2.3	2.6
United Arab Emirates[a/]	0.6	0.6	0.9
More diversified economies[c/]	*3.4*	*5.0*	*3.6*
Egypt[d/]	2.4	3.9	2.3
Jordan[d/]	6.0	9.3	8.0
Lebanon[b/]	35.4	27.2	16.7
Syrian Arab Republic[a/]	(10.4)	13.3	11.2
Republic of Yemen[d/]	3.0	(17.1)	(5.4)
ESCWA member countries[c/]	*2.9*	*4.2*	*3.6*

Source: Based on estimates of ESCWA secretariat, October 1995.

Note: ( ) indicates negative.

a/ Based on national sources for 1993 and 1994 and ESCWA estimates for 1995.
b/ ESCWA estimates.
c/ Excluding Iraq and the West Bank and Gaza Strip.
d/ Based on national sources up to 1994 and ESCWA estimates for 1995.

of the expansion of domestic non-oil private sector activities. In 1996, the export-oriented industries are expected to continue to expand owing to improved growth prospects in the main export markets. Growth is expected to continue in non-oil related industries, such as food and beverages, and to slow in sectors that are influenced by public sector expenditure, such as construction-related industries, including construction materials and iron and steel. Oil-refining activities may achieve some growth, particularly in Saudi Arabia and the United Arab Emirates, if the plans for the upgrading and expansion of refineries are approved in response to the surge in demand from the booming economies of East Asia.

(a) *Bahrain*

Preliminary estimates indicate that manufacturing value added expanded at an increasing rate in 1995, averaging around 12 per cent per annum, compared with 7 per cent in 1994 (table 97). The growth of the sector in 1995 is estimated to have accelerated as a result of improved prices of commodities on the international market, particularly aluminium, fertilizers and methanol. In 1996, the manufacturing sector is expected to continue to achieve high rates of growth as a result of the installation of additional capacities and expansion in production in basic industries as a result of favourable market conditions in fertilizers, iron ore pelletizing, and aluminium smelting and semis.

(b) *Kuwait*

The manufacturing sector in Kuwait continued to grow at a relatively high rate in 1994 and 1995, increasing by 12 per cent and 7 per cent per annum respectively, although this was slower than the 21.1 per cent in 1993. Although manufacturing income has grown faster than other important non-oil sectors since the Gulf war, the manufacturing sector continues to perform below its pre-war levels. The growth of the manufacturing sector is dominated mainly by the higher value added generated in the refining and fertilizer industries, owing to the reconstruction of those industries' plants. Oil-refining capacity reached its pre-war level of 800,000 b/d during the second half of 1994.[308] However, the non-oil-related manufacturing activities, which are mainly private sector activities, have declined, though they continued to surpass their pre-Gulf-war levels of 1989. This decline is mainly due to the modest growth in construction activities, as non-oil manufacturing is closely related to this sector.

(c) *Oman*

Although growth in manufacturing value added in Oman is estimated to have achieved relatively high rates of 6 per cent in 1994 and 8 per cent in 1995 (table 97), particularly when compared with the rest of the GCC countries, these rates remain lower than those achieved in earlier years. This is explained by the fact that manufacturing income in Oman has been fluctuating during the last five years, partly because the country is still in the early stages of industrial development. In 1993, for example, manufacturing growth averaged a high rate of almost 20 per cent, after achieving a moderate rate of 4.2 per cent in 1992. This was due to the resumption of refinery operations after major repairs in 1992. None the less, the higher manufacturing income in 1994 and 1995 is basically the result of increased industrial exports, particularly in refining and in the private sector garment industry.

[308] *Middle East Economic Survey*, vol. 38, No. 23, 6 March 1995.

(d) *Saudi Arabia*

In Saudi Arabia, the manufacturing sector in 1995 is estimated to have maintained its growth performance, averaging around 2.6 per cent (table 97). This is partly stimulated by the estimated improved performance of the economy and the continued global economic recovery. The increase in manufacturing income in both 1994 and 1995 resulted from the expansion in petrochemical production and exports, coupled with the global recovery in the petrochemicals market. Petrochemicals in Saudi Arabia are the second largest exports after crude oil, and several petrochemical expansion projects were commissioned in 1993 and 1994, allowing the country to raise production in 1994 and 1995, in time to meet increased international market demand. Exports in other industries, such as plastics, aluminium, cables and other metal products, are estimated to have continued to grow and perform well, benefiting from the economic recovery in the international markets.

This sector is expected to continue to do well in 1996, particularly in the light of the continued recovery and the anticipated economic growth in the developed countries. This is expected to increase demand for Saudi Arabian products, such as petrochemicals, plastics, aluminium, cables and other metal products. Increased demand for products of the giant Saudi Basic Industries Corporation (SABIC) and increased profitability will encourage SABIC to go ahead with its capacity expansion plans, mainly in primary petrochemical products. This includes the building of a third methanol plant, raising the capacity of SABIC from its current level of 1.35 million tons per year to 2.2 million tons per year in 1997.[309] The anticipated commissioning of private sector chemical projects is also expected to contribute to the growth of the sector in that year.

(e) *United Arab Emirates*

The manufacturing sector in the United Arab Emirates continued to grow in the last three years at an annual average rate of less than 1 per cent in real terms. The relatively low rate of growth achieved is partly attributed to the fact that public sector projects that were commissioned in recent years were not in the manufacturing sector, while the private sector was not able to compensate for public retrenchment. This is reflected in the reported figures on invested capital in licensed industries, which have maintained a level of almost $3.3 billion (Dh 12 billion) since 1992.[310] The leading sectors in industry, namely aluminium smelting, cement, fertilizers, and petroleum refining, account for more than three fourths of invested capital. Growth performance in invested capital varied in 1994 with the various industrial branches. The industries in which the invested capital was increased in 1994 compared with 1993 included mainly basic metal industries (11.5 per cent), fabricated metal products (14.8 per cent), paper and paper products (43.7 per cent), and wood and wood products (40.2 per cent). Industries that have undergone a decline in invested capital included textile and garment industries (44.7 per cent), food and beverages (18 per cent), and chemical and petrochemical industries (6 per cent).[311] New public sector investments seemed to be mainly in the maintenance and upgrading of existing plants. Restrictions on large-scale public investments in

309 Economist Intelligence Unit, *Country Report: Saudi Arabia*, 2nd quarter, 1995, p. 19.

310 United Arab Emirates, Ministry of Finance and Industry, *Sho'oun Al Sina'a* (Industrial Affairs), No. 40, December 1994 (in Arabic).

311 Ibid.

manufacturing are expected to remain in place, since the Government's policy to control the volume of expatriate labour is likely to continue.

2. *The more diversified economies*

In the more diversified economies, apart from Iraq and the West Bank and the Gaza Strip, overall performance in manufacturing in 1995 is estimated to have achieved a growth rate of around 3.6 per cent, compared with 5 per cent in 1994 and 3.4 per cent in 1993 (table 97). The Republic of Yemen was the only ESCWA member country to record a substantial deterioration in its performance in 1994 and 1995; this was caused mainly by the civil strife in the country in 1994. Contraction in manufacturing averaged more than 17 per cent and more than 5 per cent respectively in 1994 and 1995, compared with growth achieved in earlier years. In the other countries, relatively high rates of growth were estimated to have been recorded in Lebanon, the Syrian Arab Republic and Jordan. In the case of Lebanon, growth rates averaged more than 27 per cent and more than 16 per cent in 1994 and 1995 respectively. This was partly the result of the effects of reconstruction. Egypt continued to register modest rates of growth, averaging around 4 per cent in 1994 and slowing to around 2.3 per cent in 1995.

Manufacturing growth was influenced by some improvements in domestic market demand, in the case of Lebanon, and, to a lesser extent, Jordan and the Syrian Arab Republic. In Egypt, market demand continued its general slow-down, partly as a result of the transitional effects of the implementation of the economic reform programmes. In all these countries, the private sector remained the leading source of manufacturing growth, though it continued to operate far below its potential.

Growth performance varied with industries in the more diversified economies. Some sectors continued to flourish, in particular the export sector of the textiles and garment industries in Egypt and the Syrian Arab Republic. They were partly stimulated by the recent focus of government reform policies to promote an outward-looking industrial strategy. In Lebanon, the construction materials industries expanded rapidly to meet the needs of the substantial reconstruction works in the country. Manufacturing expansion in the more diversified economies in 1996 will depend to a great extent on finding new export outlets and increasing the domestic input supplies available to the private manufacturing industries. This is especially true in the textile and garment and food industries in Egypt and the Syrian Arab Republic. It will also depend on the implementation of plans for the overhauling of old facilities and the installing of new technologies, particularly in Lebanon, to help to improve the competitiveness of a country's products in the international market. Manufacturing expansion will also depend to a great extent on the ability of Governments in the more diversified economies to accelerate the implementation of promised reforms, in particular in Egypt, Jordan, and the Syrian Arab Republic. The continued tight fiscal policies in Egypt and Jordan to contain fiscal deficit, the prevailing high levels of unemployment in Egypt, Jordan, Lebanon and Yemen, and the persistent low business confidence of the private sector industrialists, especially in Jordan and Lebanon, will continue to have restricting effects on domestic investment and growth in manufacturing in 1996.

(a) *Egypt*

Data on manufacturing value added in Egypt include mining and quarrying. Official estimates of the growth of the whole sector have fluctuated in the past three years, averaging around 2.3 per cent in 1995 compared with an annual rate of growth of almost 4 per cent reported in 1994 and 2.3 per cent in 1993. The improved growth performance in 1994 is believed to be partly attributable to expansion of production in the oil and gas sector. However, the manufacturing sector in Egypt continued to witness a general slow-down

in its activity in the past few years. This is partly due to the transitional outcome of the implementation of the economic reform programme. An upturn in investment in manufacturing is believed to have taken place in 1995 and is expected to continue in 1996. It is promoted by implementing privatization at a faster pace, the strengthening of the capital market, an anticipated gradual decline in interest rates, increased deregulation of the business environment, and additional incentives for the promotion of exports.

Nevertheless, official estimates[312] of manufacturing output indicate that the sector has achieved a real rate of growth of 4 per cent in 1993/94 with planned growth expected to reach more than 6 per cent in 1994/95. In terms of exports, textiles, spinning and weaving, and petroleum products, each achieved a high rate of growth of around 10 per cent at current prices in 1993/94. This was offset by the decline in exports of other major products, including those of metallurgical products, resulting in the stagnation of industrial exports in general during the same year.[313]

(b) *Jordan*

Manufacturing activities in Jordan have continued to expand faster than the economy in the past few years, though at a slower pace. Official estimates of growth are optimistic, with reported annual growth in manufacturing at 9.3 per cent and 8 per cent in 1994 and 1995 respectively (table 97). This growth came partly as a result of a slight increase in domestic demand, but more because of improved export performance by a few commodities. In value terms, industrial exports increased from around $793 million (JD 549.6 million) in 1993 to around $914 million (JD 640 million) in 1994, which included exports of phosphate and potash.[314] The invested capital of registered industrial companies increased by $86 million (JD 60 million) in 1994 as against an increase of $30.3 million (JD 21 million) in 1993. Manufacturing expansion was, however, concentrated in few industries, particularly in fertilizers, as a result of the expansion in production capacity in 1994. Expansion also occurred in the petroleum products, pharmaceutical, textile and cigarette industries. However, some industries have witnessed some contraction in their activities, including iron and metal pipes, alcoholic beverages, tweed, and leather products, while stagnation has been observed in cement production.

The trend towards increased exports of manufactured goods is expected to continue in 1996, particularly if barriers to trade between Jordan and the West Bank and Gaza Strip are gradually eliminated and the latter start importing manufactured goods from Jordan. Growth of the sector will also depend on prospects for exports to the Iraqi market, which is expected to be the most lucrative market for Jordanian industrialists once the sanctions are eased. With respect to the MENA economic summit held in Amman in October 1995, no immediate results have yet been noted from the $1.9 billion worth of proposed industrial projects prepared for the Summit, though they may stimulate some investors to invest in the economy. The benefits from the Summit will depend primarily on progress made in the peace process on other fronts. The continued tight fiscal policy to contain a budget deficit, as well as the high unemployment rates and persistent low levels of confidence among private sector industrialists will continue to constrain domestic investment and growth in manufacturing in 1996.

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312 Egypt, Ministry of Planning, *Development Plan 1993/94*, vol. 1, April 1993, and *Development Plan 1994/95*, vol. 1, April 1994.

313 Egypt, Central Bank of Egypt, *Annual Report 1993/94*.

314 Central Bank of Jordan, *Annual Report*, 1994 (in Arabic).

(c) *Lebanon*

In Lebanon, the manufacturing sector experienced notable growth during the reported years, with estimates reflecting high rates of growth of manufacturing value added, averaging 35.4 per cent, 27.2 per cent and 16.7 per cent in 1993, 1994 and 1995 respectively.[315]

Expansion in 1995 was the result of improved restoration of law and order in the country, and continued revival of economic activities, with a slight improvement reported in domestic demand and greatly improved export performance. According to unpublished information from the Ministry of Industry and Petroleum, manufacturing exports for the first four months of 1995 reached more than 45 per cent of exports over the same reporting period in the previous year. In addition, imports of machinery and equipment for industry in the first four months of 1995 amounted to $110 million (LL 180.9 billion) compared with $41 million (LL 69.5 billion) during the same period in 1994.[316] In 1996, the framework and conditions for supply of medium- and long-term credit to industry is expected to improve as a result of the new rules introduced in 1995 governing investment banks.[317] However, the devastating Israeli raids on southern Lebanon and Beirut in April 1996 may have severe effects on the prospects of investment in industrial projects and on the upgrading of existing capacities.

Industrial plants in Lebanon continued to operate at around 50 per cent of their production capacity, and Lebanese producers are still hesitant to implement major plans for upgrading, maintenance and expansion owing to the lack of medium- and long-term credit facilities. The outlook for manufacturing activities is still not clear, particularly since the domestic market has limited purchasing power. Stagnation in the regional export market, particularly in the Gulf, has led to increased competition, and has continued to make it more difficult for the Lebanese exporters to regain access to it. This market has already found substitutes for Lebanese commodities. Manufacturing costs of production are still relatively high, owing in part to continued interruptions in utility services and the devastated infrastructure (electricity, telecommunication and roads) which is still under reconstruction. It is also due to obsolescence and overused production machinery and equipment and to relatively higher costs of labour and transactions.

(d) *The West Bank and Gaza Strip*

Expansion in the construction sector continued, reactivating the construction-related industries. However, the manufacturing sector continues to be negatively affected by the frequent closure of the Israeli borders to Palestinian workers and goods and materials, as well as by the political difficulties emerging in the process of implementation of the peace agreement concluded between the Palestine Liberation Organization and Israel. Prospects for industrial expansion in 1996 will depend on several factors, mainly on economic recovery; the extent to which donors honour their obligations; and the extent to which Israel is ready to comply with its promises to facilitate passage of goods to and from the areas under control of the Palestinian Authority and to speed up port inspections of goods destined for development programmes in the West Bank and Gaza Strip.

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315 ESCWA, *National Accounts Studies of the ESCWA Region* (E/ESCWA/STAT/1995/23), Bulletin No. 15, 1995.

316 Unpublished figures from the Lebanese Ministry of Industry and Petroleum, May 1995.

317 UNDP, Lebanon, *Economic Developments (11 January - 14 February 1996)*, Beirut, n.d.

In the short and long term, there are plans for the construction of several industrial parks along the Palestinian side of the so-called Green Line (the border between Israel and the occupied territories) and inside the territories.[318] These parks would help in the rapid generation of employment by increasing private sector investment in income-generating activities in industry. It is also planned to enhance the development of the necessary industrial infrastructure and the enabling environment (security and incentives, legal and regulatory frameworks). Detailed plans on the broad areas or specific sites are still under study, with only a preliminary list of sites proposed by the World Bank.[319] The programme for the development of industrial parks is designed to rely on private local and international developers for financing, developing and managing the estates. Three kinds of parks are proposed with three different aims: large-scale border parks; medium-scale local industrial parks; and small local municipal industrial parks. The main general objectives of building these parks are: (a) to address the problem of high unemployment in the West Bank and the Gaza Strip; (b) to "jump start" the process of industrialization and redress the structural imbalances of the economy; (c) to rectify deficiencies in the provision of public infrastructure and industrial land; (d) to speed up the necessary legal and regulatory clarification and reform, and lessen security and political risks; (e) to redress the structural imbalances in trade with Israel; and (g) to help mobilize capital, know-how, and the international connections of expatriates for investment.

Currently three sites—in Jenin, Nablus, and the Carni border crossing in the Gaza Strip—are under consideration and have already been sponsored by local private sector groups and Palestinian expatriates. Land was either being purchased or designated by the Palestinian Authority. There are nine additional potential industrial parks which are being considered seriously by investors such as the Palestine Development and Investment Company Ltd. (PADICO) and other local investors. Most of these parks would be administered by the private sector and would enjoy special legal and regulatory conditions granted by the Palestinian Authority and, in some cases, Israel. Although donors are expected to finance most of the basic infrastructure leading to the parks, the private sector will be called upon to provide the internal infrastructure development and to finance the building of its own manufacturing facilities, and infrastructure inside some of the parks. To ensure the success of these parks, the World Bank is considering the establishment of a political risk insurance fund for park industries, while the EU, the United States and, for some parks, Israel, will allow goods produced by industries in the park to enjoy free access to their markets.[320]

(e) *Syrian Arab Republic*

The manufacturing sector in the Syrian Arab Republic experienced an acceleration in growth during the years 1994 and 1995. This was mainly due to improved export performance, especially in the fertilizer industry, which was successful in finding new export outlets in South-East Asia and Eastern Europe. It was also due to the expansion of private sector manufacturing activities, particularly in the textile and garment and food industries. The latest available data on investment indicate that the cost of approved investment projects in manufacturing since the introduction of Investment Law No. 10 of 1991 and as of end-April 1995

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[318] For more details, see World Bank, *Industrial Estates and Enabling Environment for Private Sector Development for West Bank and Gaza - Summary Report* (based on an identification/pre-feasibility mission, April 1995).

[319] Ibid.

[320] Ibid.

totalled around $3.7 billion (155 billion Syrian pounds [LS]).[321] According to the Ministry of Industry, usually around 70 per cent of licensed projects are implemented within the validity period of the licence, which is three years. Food industries accounted for almost 30 per cent of the total value of capital of approved projects; non-metallic mineral products 32 per cent; textiles, apparel and leather 14 per cent; the chemical industry 9.2 per cent; fabricated metal products 8 per cent; and basic industries 4.7 per cent.

In 1996, the manufacturing sector is expected to continue to grow at a fast pace. This is due to continued public investments, an anticipated increase in investment in manufacturing projects related to Investment Law No. 10 of 1991, and an anticipated acceleration of economic reforms. At the industry level, further growth in exports of phosphate to the Indian market in 1996 is anticipated, as the Governments of the Syrian Arab Republic and India concluded an agreement in mid-1994 on the establishment of a joint venture in the phosphate industry producing for that market. In the textile and garment industry, expansion in the subsector will depend on finding new export outlets and on the modernization, overhauling and expansion of the capacity of the publicly run ginning mills.[322]

B. PERFORMANCE OF SELECTED MANUFACTURING BRANCHES

In this section of the Survey, two to three branches of industry will be selected for analysis each year on a rotational basis. This year, the fertilizer and aluminium industries were chosen, as developments in these branches have recently been taking place in the international as well as the domestic markets. These industries are also important to the region, enjoying low-cost energy, availability of financial resources and—for fertilizers—abundant raw materials. Both industries cater mainly for the export market. With the recent favourable developments in these two industries in the international market, planned and anticipated capacity expansions in the region are expected to increase in the region. The latest data indicate that the share of the ESCWA region in world exports of fertilizers averaged 6 per cent in nitrogenous fertilizers and more than 8 per cent in phosphatic fertilizers in 1993/94. In aluminium, existing smelter capacity expanded from 885,000 tons per year in 1994 to produce more than 1 million tons per year of primary aluminium in 1995, and is anticipated to double by the end of the century, reaching around 1.75 million tons per year.[323] World production of primary aluminium was 16.4 millions tons per year in 1992, so the production of the ESCWA region was significant, amounting to 10 per cent of the world total.[324]

1. *Fertilizers* [325]

The fertilizer industry is an important industry that has been regulated and subject to State controls in most countries in the ESCWA region. Despite many economic factors that influence decisions in capacity

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321 Unpublished data from the Ministry of Industry in the Syrian Arab Republic, May 1995.

322 Economist Intelligence Unit, *Country Report: Syria*, various quarterly issues, 1994.

323 This estimate includes the construction of two smelters still under consideration in Saudi Arabia.

324 *1992 Industrial Commodity Statistics Yearbook* (United Nations publication, Sales No. E/F.94.XVII.13).

325 This section deals with the final fertilizer products and excludes mining and processing of raw materials and inputs. Fertilizer products consist of three main categories: simple fertilizers; compound fertilizers containing two or three major kinds of fertilizers such as di-ammonium phosphate (DAP); and mixed fertilizers (NPK) that are produced by mixing simple fertilizers without chemical reactions.

expansion, such decisions have often been subject to political expedience. Producing to meet the needs of the domestic market has not been the only reason behind the establishment and expansion of fertilizer facilities in the ESCWA region; producing for the international export market was another strong reason, and this is particularly the case in the GCC countries and Jordan. The GCC countries can take advantage of abundant raw materials and the availability of low-cost energy.

In recent years, additional facilities have been planned and constructed in several countries in the region, with most of the additional capacities being geared for the export market to take advantage of a growing world demand. This is attributed mainly to the transformation of the centrally planned economies into market economies and deregulation of the industry and reduction in subsidies in major markets such as China and India. The conclusion of the Uruguay Round and its implementation are expected to further strengthen market forces in the world fertilizer industry. This may lead to the closing of uneconomical manufacturing facilities. It means better prospects for more economical facilities, including those located in the ESCWA region, inasmuch as the region as a whole is endowed with natural gas, phosphoric rock and, in Jordan, potassic rocks.

(a) *Current world market trends*

The fertilizer industry has been a cyclical industry subject to market fluctuations in quantities and prices. This characteristic is more pronounced today with the strengthening of market forces. Demand for fertilizers depends greatly on economic activity and agricultural policies in a country. It is derived from the demand for agricultural products and is influenced by political and economic factors. According to estimates of the International Fertilizer Industry Association,[326] world consumption in fertilizers fell between the years 1989 and 1993, owing mainly to a dramatic decline in the use of fertilizers in Central Europe, in the major markets of China and the former Soviet Union and, to a lesser extent, in Western Europe. In the latter, the decline is attributed to environmental constraints, lack of growth of planted areas, and an already high rate of application of fertilizers.

In 1994, fertilizer consumption rates stagnated in the major markets of China and India. This came about as a result of market disruptions, believed to be temporary, related to economic reforms and changes in the distribution and subsidy policies and the pricing system in these countries. In Western Europe, the fall in fertilizer consumption stopped, and increases in consumption were reported in the rest of the world. According to recent World Bank estimates,[327] demand for fertilizers was firm during the first quarter of 1995. This is supported by major efforts in China to expand agricultural production, high prices of crops and anticipated large plantings, particularly in the United States.

Prices of fertilizers started to rise in 1994, reaching a peak in 1995 and then began to decline slightly. Prospects in 1996 are for increased fertilizer demand and for another year of tight supplies.[328]

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[326] K.F. Isherwood, "Fertilizer consumption trends and supply/demand balances during the nineties", *Fertilizer Journal*, Arab Fertilizer Association, Cairo, vol. 19, No. 2, 1995.

[327] World Bank, "Fertilizers", *Commodity Market and the Developing Countries*, a World Bank quarterly, May 1995.

[328] World Bank, "Fertilizers", *Commodity Market and Developing Countries*, a World Bank quarterly, issues of May, August and November 1995.

(b) *Current regional trends* [329]

(i) *Capacity expansion*

Plans for expanding existing production capacities of fertilizers or installing new ones are either under way or under consideration in several countries in the ESCWA region. The capacity increase is estimated to be more than 6.5 million tons, and projects are expected to be commissioned before the end of the century (tables 98a and 98b). Most of the expansion is expected to be in nitrogenous fertilizers (4.4 million tons), with notable expansion expected in mixed fertilizers (1 million tons) in Jordan, Kuwait and the Syrian Arab Republic in order to meet increasing demand for the product on the international market. In nitrogenous fertilizers, capacity expansion is mainly concentrated in the GCC countries, with only Egypt among the more diversified economies having expansion plans for the product. Phosphatic fertilizers are mainly produced in Egypt, the Syrian Arab Republic and, to a lesser extent, Saudi Arabia. Jordan produces mixed fertilizers, using phosphate as the main input to produce di-ammonium phosphate (DAP). Capacity expansion in phosphatic fertilizers is planned only in the more diversified economies. Egypt, Jordan and the Syrian Arab Republic are replacing old plants with new ones. Outputs of most of the expansion projects are expected to be geared to the export market. Establishing and commissioning plants will take two to three years, by which time demand will have increased further. Producers in the region are trying to take advantage of better prospects as a result of improvement in the international market and in prices of fertilizers.

TABLE 98A. MAIN CAPACITIES IN 1994 AND MAJOR DOMESTIC CAPACITY EXPANSIONS IN FERTILIZERS (PLANNED/UNDER STUDY) IN ESCWA MEMBER COUNTRIES EXPECTED TO BE COMPLETED BY THE YEAR 2000

(Annual capacity in thousands of metric tons)

Country	Ammonia	Total	Urea	Phosphate	NPK[a/]
Bahrain		570	570		
Egypt	841	2 133	1 533[b/]	600[c/]	
Jordan		300			300
Kuwait		495			495
Oman	900	1 500	1 500		
Qatar	547	730	730		
Syrian Arab Republic		719		500	219
United Arab Emirates	100	100	100		
GCC countries	*1 547*	*3 395*	*2 900*		*495*
More diversified economies	*841*	*3 152*	*1 533*	*1 100*	*519*
ESCWA region	*2 388*	*6 547*	*4 433*	*1 100*	*1 014*

[329] Based on unpublished information from the Arab Fertilizer Association, Cairo, June 1995.

TABLE 98B. MAIN CAPACITIES IN FERTILIZER IN THE ESCWA MEMBER COUNTRIES, 1994

(Annual capacities in thousands of metric tons)

Country	Ammonia	Total	Urea	Phosphate	NPK[a/]
Bahrain	438				
Egypt		7 248	5 798[b/]	1 450	
Jordan		750			750
Kuwait	990	792	792		
Qatar	594	660	660		
Saudi Arabia	1 528	2 710	1 930	200	580
Syrian Arab Republic	365	967	456[c/]	511	
United Arab Emirates	330	505	495		10
GCC countries	*3 880*	*4 667*	*3 877*	*200*	*590*
More diversified economies	*365*	*8 965*	*6 254*	*1 961*	*750*
ESCWA region	*4 245*	*13 632*	*10 131*	*2 161*	*1 340*

Source: ESCWA calculations, based on data compiled from national and international sources.

a/ NPK stands for nitrogen, phosphate and potassium.
b/ Including 803,000 tons annual capacity for the production of ammonium nitrate.
c/ A project that is still under consideration.

(ii) *Prices*

Producers in the region have benefited from improved fertilizer prices in recent years. Prices of ammonia almost doubled from 1991 to 1994, reaching their highest levels since October 1973. They increased from $100-$110 per ton in 1991 to $190 per ton in 1994. In 1995, they almost maintained their level. In the 1970s and 1980s, producers in the region were facing problems stemming from low international prices of fertilizers and delays in payments from importing countries. Some major importing countries, such as China, India and Indonesia, were suffering from shortages in foreign exchange. With the recent transformation of the economies of these countries into more market-oriented economies, the situation has been changing. The payment situation with regard to purchases has improved, as is the case with China, a major importer of the product, which together with India, plays a significant role in influencing prices of fertilizers.[330]

(iii) *Exports*

The latest available data[331] indicate that the ESCWA region's exports of fertilizers started to rebound in 1993/94 when they registered a notable average rate of growth of 20 per cent, after undergoing

330 Information based on unpublished data from the Fertile Company, Abu Dhabi, and the Gulf Petrochemical Industries Company, Manama, April 1995.

331 FAO, *FAO Fertilizer Yearbook 1994*. Despite observed discrepancies in data on consumption and production between the FAO Fertilizer Yearbook and other sources, including official sources, and in the absence of up-to-date statistics on exports of fertilizers in the region, FAO figures may be used to discern general trends in the region.

significant declines in earlier years, averaging 6 per cent in 1992/93 and 12 per cent in 1991/92. The improved export situation was mainly due to a recovery in exports of nitrogenous fertilizers in most of the GCC countries, particularly after Kuwait resumed its exports of the product in 1992/93. In the more diversified economies, although Egypt is the main exporter of nitrogenous fertilizers, it exports only limited quantities of its domestic production seasonally. Exports of phosphatic fertilizers by the region have been fluctuating, owing partly to the shift in demand to mixed fertilizers on the international market.

The most up-to-date data available[332] on the share of the ESCWA region in world exports of fertilizers indicate that in 1993/94 it averaged 6 per cent; in nitrogenous fertilizers 8.4 per cent; in phosphatic fertilizers 2.6 per cent; and in potassic fertilizers 5.3 per cent. Exports to the European Union are relatively limited, despite the proximity of the EU to the ESCWA region. This is partly because shipping to Europe is more difficult owing to Suez Canal charges and constraints on vessel specifications required by the EU (age, discharge rate of the product, and pollution-restricted vessels). Producers in the GCC subregion believe their best markets for fertilizers are in India and China. Shipping to South-East Asia and Japan is easier than shipping to Europe. East Asia is a volatile market, owing to the intense competition from neighbouring fertilizer-exporting countries, such as Indonesia and Malaysia.

2. *Aluminium*

The aluminium industry has witnessed significant expansions in the ESCWA region in the last five years, including activities in the downstream industry, especially in the GCC countries. New aluminium capacities were planned in the late 1980s, at a time of high world prices of aluminium, and continued efforts by GCC Governments in their drive to diversify industry. However, most of the expansions cater to the export market. Industrial uses of aluminium semis in the region, other than construction, are limited, because of the limited industrial base and the structure of the industrial activities in the region. ESCWA member countries are strategically well placed to compete on the international market, as the region is endowed with low-cost energy, availability of financial resources, a low-cost labour force in comparison with developed countries, and a strategic geographic location. It has the potential added advantage of a prospective regional market, particularly with the recently improved political stability in the region. Renewed interest in the aluminium industry in countries of the region, particularly in the GCC subregion, where smelters and rolling mill activities are located, is based on growing confidence in the prospects of the dynamic and young world aluminium industry, as well as in the strength of the industry in the region.

The smelters and most of the semis industries (except the extrusion industry) were able to benefit from increases in aluminium prices since 1994, as an important part of their production is geared for the export market. New capacities were recently added in primary and downstream industries in the ESCWA region, mainly to meet the needs of the expanding export market. These expansions may improve the opportunities in the long run for the development of greater industrial uses of aluminium in the region. Signs of this development can already be detected in the emerging end-uses of aluminium in the region's canning and packaging industry, including foils, and to a certain extent, in rods, pots and pans. Planned power-generation expansions in the region will be another area for expansion in aluminium consumption. Expansion in subcontracting in the automobile industry in Egypt, and the potential expansion in this kind of activity in other countries in the region, such as the Syrian Arab Republic, may offer good opportunities for the expansion of industrial uses of aluminium in the region.

(a) *Primary aluminium (smelting)*

Primary producers in the region, being small producers compared with major world producers, were able to gain from recent dramatic increases in world prices of aluminium, rising from an average of $1,139 per ton in 1993 and reaching an estimated average of $1,840 per ton in 1995. At the same time, higher

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[332] Ibid.

prices have given producers in the region more confidence to go ahead with their planned new additional capacities. There are several projects for smelter expansion in the region, all designed to expand and upgrade plants, most of which are expected to be commissioned around the same time. However, by the time most expansions are completed (1997), an additional 1 million tons of annual capacity is expected to be in demand on the international market.[333] Producing countries in the region justify their expansion plans by pointing to the growth of overseas demand for primary aluminium, particularly in the Asian countries, averaging annually around 3 per cent. In terms of tons, this is equivalent to a modern smelter.

Apart from the one in Egypt, there are two active smelters in the region: Aluminium Bahrain (ALBA) in Bahrain and Dubai Aluminium (DUBAL) in the United Arab Emirates. Despite declining prices in earlier years (1991-1994), both smelters were operating at full capacity, with the annual capacity of ALBA totalling 460,000 tons (maintaining annual production at 449,419 tons in 1994 in conformity with the agreement of world producers) and annual capacity of DUBAL totalling 245,000 tons. These companies recently obtained the ISO 9002 quality certificate.

Egypt is the only ESCWA member country outside the GCC subregion that has an aluminium smelter, Egyptalum, at the Naga Hammadi complex. The company is considering the replacement of its Russian technology-based production cells, the self-baking anodes, with pre-baked anodes, which is the new technology. This project is expected to increase annual production capacity from 180,000 tons to 250,000 tons by the year 1998. The smelter exports around 60 per cent of its production. Egyptalum has been able to export to the EU inasmuch as its products are exempt from the 6 per cent levy on imports of primary aluminium imposed on other producers in the region, and its products are able to meet the international quality requirements and are reported to have a relatively high degree of purity.[334]

There are new capacities under consideration in the region. This includes the revival in Qatar of plans for the construction of a smelter with an annual production capacity of around 240,000 tons. The project was conceived several years ago, costing more than $1 billion, but it was postponed owing to difficulties in financing and in power supply. Although the problem of financing persists, there are plans to resort to non-recourse financing.[335] Two additional smelters are under consideration in Saudi Arabia. The plans involve the construction of two plants with a combined annual production capacity of 410,000 tons.

(b) *Aluminium semis* [336]

Prices of aluminium semis increased 100 per cent during the period from January 1994 to January 1995, with many downstream industries increasing production, taking advantage of a favourable market. Main areas of aluminium semis in the region include aluminium rolling, extrusion, atomizer, rod and aluwheel. Until recently, North America was a good market, in terms of prices, because one of the major plants there closed some of its facilities. In Europe, demand was strong and price levels relatively high until 1 January 1995, when exports to Europe were hit by the 9.5 per cent tariffs imposed by the EU on aluminium

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333 Economist Intelligence Unit, *Country Report: United Arab Emirates*, No. 2 (London, 1995).

334 Information supplied by the General Organization for Industrialization (Cairo) in June 1995; see also: *Middle East Economic Digest*, vol. 39, No. 9, 3 March 1995; United Nations Industrial Development Organization and Economist Intelligence Unit, *Egypt, Industrial Development Review*, a joint UNIDO/EIU publication (London, August 1994); and Economist Intelligence Unit, *Country Report: Egypt*, No. 4 (1994).

335 Ismail N. Al-Imadi, "Uses of gas in industry in Qatar", a paper presented to the MEED Industrial Conference: Gulf 1995 (Bahrain, 14 and 15 March 1995).

336 Semi-finished common aluminium alloy.

semis.[337] Prices have levelled off since January 1995, after which they started to decline slightly because of the overcapacity factor, as Europe and North America, along with other producers in the Middle and Far East, restarted facilities that were turned off in 1994.

BOX 18. DETERMINANTS OF INTERNATIONAL PRICES OF ALUMINIUM

During the period 1991 to 1994, prices of aluminium were depressed mainly because of rapidly increasing net exports of aluminium from the former centrally planned economies. Aluminium exports from the former Soviet Union increased from 270,000 tons in 1990 to 1 million tons in 1992, increasing the supplies of the industrialized economies by 5 per cent. The former centrally planned economies increased exports of aluminium at greatly reduced prices owing to the rapid decline in domestic consumption of aluminium (particularly in the arms industry) and the mounting need for foreign currency. Concurrently, there was a slight decline in world demand for aluminium, while world production continued to increase.[a/]

In 1994, international prices of aluminium increased as a result of the conclusion in February of the same year of a memorandum of understanding among the world's major primary aluminium producers (Canada, the European Union, Norway, the Russian Federation and the United States) to cut world production by 1.5 million to 2 million tons[b/] over a period of 18 months to 2 years. In the same year, the economies of the industrialized countries started to witness some recovery, particularly the EU, Japan, and the United States, stimulating further world demand for primary aluminium and contributing, alone, an 8 per cent increase in prices of primary aluminium in 1994.[c/] The price of aluminium started to decline early in 1995, after peaking in January 1995 and reaching an average price of $2,200 per ton, up from an average of $1,477 per ton in 1994.[d/] The sharp rise in aluminium prices in late 1994 and early 1995 is partly attributed to hedge funds. In 1996 and 1997, prices of aluminium will be influenced by several factors: demand growth developments; the strength of economic recovery in the industrialized countries, particularly the United States; the possibility of major producers prolonging the terms of the memorandum of understanding; and the reactivation of excess capacity and the addition of new capacities.

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a/ UNIDO, "Survey of selected manufacturing industries", *Industry and Development, Global Report 1992/1993* (Vienna, 1992); and World Bank, "Metals and minerals", *Commodity Market and the Developing Countries*, a World Bank quarterly (Washington, November 1995).

b/ At the time, 1.5 to 2 million tons was the equivalent of the accumulated stocks at the London Metal Exchange (LME).

c/ "Aluminum rides the price rise wave", *Middle East Economic Digest*, vol. 39, No. 9, 3 March 1995; *Al Hayat* daily, 4 February and 6 October 1994 issues (London) (in Arabic).

d/ World Bank, "Metals and minerals", *Commodity Market and the Developing Countries*, a World Bank quarterly (Washington, November 1995).

Aluminium semis are differentiated products and, unlike primary aluminium, whose competitiveness lies in production cost, semis' competitiveness lies in prices, the latter being greatly influenced by the

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337 At present, the EU is taking only 70 per cent of that duty, reducing the rate to 6.65 per cent, but this is still a high levy, amounting currently to roughly $200 per ton.

proximity of markets to the plant.[338] To reduce price risks, most semis producers usually select market segments where they can influence prices most. The aluminium industry is a dynamic industry in which technical and commercial developments may take place. Thus, current export markets of semis, though prospective, are relatively remote and may be facing higher risks from market distortions in the Far East, as those markets are very dynamic (particularly with continued State interventions). The prospects of the regional semis industry lie in expansions of industrial uses of aluminium in the region and perhaps in the long run, in its backward linkages, allowing semis producers to secure a more stable market and to reduce price risks. This will also depend on the prospects of economic and political stability in the region.

Downstream semis industries in the ESCWA region include one major rolling mill company in Bahrain; 16 main extrusion companies in various countries in the region, producing mainly for the construction sector; and one atomizer (aluminium powder) plant in Bahrain, using liquid metal directly from the smelter, the products of which are used in paint, explosives, fuels, fireworks, reduction processes and the chemical industries. Most of the products of the atomizer plant are exported to Europe and the United States, and sometimes to the Far East. There are also a number of companies producing aluminium rods from which cables (conductors) are made. A project was completed recently for the production of aluwheel by the Gulf Aluminium Rolling Mill Company (GARMCO) in Bahrain, with a production capacity of 10,000 tons per annum, with the total output geared for the export market. Aluminium recycling is another area of semis and a prospective activity in the region. However, current recycling capacities are still modest. Available information on aluminium recycling indicates that existing capacities in the GCC countries as a group totalled less than 40,000 tons per annum,[339] compared, for instance, with recycling potential in Bahrain alone, which is estimated to be 30,000 tons per annum.

(i) *Rolling mills*

Presently, there is only one major aluminium rolling mill in the ESCWA region—GARMCO—and it is located in Bahrain. Another mill is being constructed in Egypt. GARMCO is currently in the process of almost doubling its milling capacities to 120,000 tons of aluminium sheets per year, with the new capacity to become operational by the first quarter of 1996. Activities in this industry seem to be flourishing, as the industry is able to follow a successful policy in diversifying its products, including further downstream integration. Aside from producing aluminium sheets, it is also going into the canning, aluwheel and aluminium coil industries, and further down into the aluminium foil industries. It is at the same time diversifying its markets, going into the export market, particularly the booming packaging and equipment industry in the Far East. It is also targeting the Mexican market for aluminium sheets and the Indian markets for aluminium foil. The industry is trying to expand its domestic and regional markets in the canning and recycling industry. It is also trying to integrate with overseas downstream activities, particularly in the Far East region. This is helping producers to reduce risks emanating from the cyclical nature of the semis industry and at the same time enabling them to take advantage of market opportunities both in the domestic and export markets.

The second major aluminium rolling mill in the region is being constructed in Egypt. Prospects for Egypt's important aluminium industry have improved substantially, with expansion in activities of the private sector after the introduction of economic reforms and the deregulation of the business environment. In Egypt there are aluminium rolling mills with small capacities, public and private, which obtain their input supplies

338 Ibid.

339 Qatar, Ministry of Energy and Industry, "Aluminum industry countries of the Gulf Cooperation Council", *Industry Newsletter*, No. 44 (January 1995).

from Egyptalum, as the country does not import aluminium sheets. The construction of the new major rolling mill was recently initiated by Egyptalum. The new plant is expected to produce, at its full annual production capacity, 60,000 tons of flat and corrugated aluminium sheets, with an expected subsequent increase in its annual capacity to 100,000 tons. In addition, the Egyptian Copper Works Company is in the process of building an aluminium foil mill with an annual production capacity of 4,000 tons, with 50 per cent of its output planned to be exported. There have been other small expansions in small aluminium rolling mills to meet the needs of the domestic market.[340]

(ii) *Aluminium extrusion*

Extrusion capacity has been growing steadily for the last four years in the ESCWA region. During 1994 and mid-1995, it increased substantially, outgrowing by far increases in demand for the product in the region. Prior to the Gulf crisis, the annual rate of growth of demand for the product averaged 10 per cent; after the Gulf crisis it reached 20 per cent. In the last two years, demand for aluminium extrusion has started to slow, creating great problems for many extruders, as extrusion products cannot be easily exported outside the region. This is because of transport costs, as they are relatively high, particularly since transport costs of extrusion products are calculated per volume of cargo. The latest estimates of current annual demand for extruded aluminium in the GCC countries is 85,000 tons,[341] while estimates by the Gulf Organization for Industrial Consulting (GOIC) for designed annual production capacity were more than 113,000 tons in 1994.[342] To face the emerging excess production capacity in the region, producers are looking for export outlets in the Far East. Although this market is promising, products from GCC countries would be less competitive because of high transport costs. The problem is expected to persist in 1996. In the short and medium term, however, there are possibilities of increased demand for extrusion products in the region as a result of the anticipated large reconstruction programmes in many countries of the region and the expected economic recovery.

After the Gulf crisis, there was a temporary construction boom in Saudi Arabia, pushing demand for extrusion products up sharply in a short period of time. This prompted many regional producers to increase capacities or add new ones. Since 1994, several expansions have been taking place. Saudi Arabian consumers of aluminium extrusion in the country started to produce aluminium extrusion themselves. In the United Arab Emirates, two extruders came onstream in 1994. The first extrusion plant had an annual production capacity of 8,000 tons, which was expanded to 12,000 tons, and another expansion is planned to increase capacity to 20,000 tons per year. In Jordan, there is an old plant, the Arab Aluminium company (ARAL), the capacity of which is 8,000 tons per year, while two new companies came onstream recently. A new plant was commissioned in early 1996, Universal Metal Extrusion, which is a public sector company with an annual production capacity of 4,000 tons. In the West Bank, where the construction sector is projected to experience a boom because of reconstruction plans, the Palestinian Authority is planning a plant with a production capacity greater than current needs of the West Bank and Gaza Strip. In the Syrian Arab Republic, an extrusion plant was installed in 1984 as a subsidiary of the General Company of Engineering Industries. Its actual annual production capacity is 2,000 tons, and it has a redesigned capacity of 6,000 tons per year. A new private extrusion plant, MEDAR company, was installed in 1993 with an annual production

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340 Information supplied by the General Organization for Industrialization (Cairo) in June 1995; see also *Middle East Economic Digest* (MEED), vol. 39, No. 9, 3 March 1995; and United Nations Industrial Development Organization and Economist Intelligence Unit, *Egypt, Industrial Development Review*, a joint UNIDO/EIU publication (London, August 1994).

341 Information obtained from the Bahrain Aluminum Marketing Company (BALCO).

342 Qatar, Ministry of Energy and Industry, *Industrial Newsletter*, No. 44 (Doha, January 1995).

capacity of 6,000 tons, with the hope of exporting its production to the Saudi Arabian market. Another private project is currently under consideration in the Syrian Arab Republic, the details of which are not yet available.

In the longer run, there is a need for the creation of new markets for the product and the development of new products. Developing new products requires R and D capabilities, which are not adequately available in the region and need to be developed with government support.

C. INDUSTRIAL POLICY ISSUES

1. *The emerging new outward-looking industrial strategy*

Countries in the region continued to support their strategies of industrial export-oriented growth. This is taking the form of diversification of the export market, the development of new export products, economic deregulations concerning foreign investments in manufacturing, and the introduction of economic reforms and other market deregulations.

In the GCC countries, manufacturing exporters of basic industries including petrochemicals, fertilizers, aluminium, iron and steel, have been facing increased difficulties in marketing their products, particularly in the very large EU market. This has contributed to surplus capacities in these industries. As a result, levels of production, performance, and profits of manufacturing companies in the GCC countries have been adversely affected. The focus is now shifting to the diversification of the export market and the development of new export products through joint projects with foreign partners.

Foreign partners are needed to provide access to know-how and marketing techniques, as well as to guarantee export markets and additional confidence in the manufactured products. Within this context, offset investment programmes were introduced in many GCC countries during the past few years. Economic deregulation concerning foreign investments in manufacturing has recently started to receive more attention. This deregulation is aimed at improving the operation of the market economy and at promoting national and foreign private investment. Improvement and continued development of the countries' legal and institutional environments have been initiated and new rules and regulations have been introduced, while old ones have been revised.

In the more diversified economies, the limited nature of the domestic market, owing to low purchasing power, particularly in Egypt and Lebanon, continued to limit manufacturing expansion. However, the introduction of economic reforms and market deregulation, particularly in Egypt and to a lesser extent in the Syrian Arab Republic, has already had noticeable positive effects. These factors encouraged private producers to expand production for the export market, especially for major markets such as the EU and the United States.

(a) *Some of the problems facing expansion in manufacturing in the region*

(i) *In the GCC countries*

Some of the problems noted above continue to restrict manufacturing expansion in the GCC countries. This is particularly true regarding private small and medium enterprises. Such problems include:

(a) The absence of an appropriate institutional structure in industry itself, and the weakness of institutional infrastructure (support services);

(b) The sponsorship system in foreign joint manufacturing ventures. In most GCC countries, foreign investors are not allowed to own 100 per cent of the ventures, and in most cases local control of capital (51 per cent) is required. A situation has developed whereby the local partners become "silent" partners in many industrial joint ventures, providing the required local capital and earning a "rent" on this service. On the one hand, this discourages foreign investment in manufacturing projects; on the other hand, although it yields a "rent" for the local "silent" partner, in many instances it discourages the development of indigenous entrepreneurship. Instead, the sponsorship system promotes the "rentier" business mentality, which limits the scope for future expansion in indigenous manufacturing activities;

(c) The dominance investment on trade activities;

(d) Constraints on foreign direct investment in small and medium manufacturing enterprises.

(ii) *In the more diversified economies*

Among the most important problems facing manufacturers in these countries are high production costs, which are attributed mainly to the following: (a) shortages of water and electricity supplies and recurrent electricity cuts in some countries; (b) high investment in warehousing; (c) high rate of self-financing; (d) high labour cost (particularly in Lebanon), especially in relation to competitor countries such as China and other Far Eastern countries, in particular Indonesia and Malaysia; (e) limited industrial areas; (f) indirect expenses relating to complicated tax systems and customs, complicated bureaucratic procedures, transaction cost and corruption; and (g) under-utilization of capacity, partly caused by electricity cuts, shortages in water and local supply inputs, inappropriate maintenance, and a limited market.

To face the increasing price competition on the international market, many producing countries are intensifying their efforts to improve the productivity of their plants, particularly in Egypt, and are perhaps reducing profit margins (when possible) by reducing prices. Many exporters are also contemplating a shift to production of higher-quality, higher-value-added products, particularly in Lebanon and, to a lesser extent, in the Syrian Arab Republic. The conclusion of the Uruguay Round will result in increased competition, putting additional pressure on exporting countries with more diversified economies, even in their own markets, to improve productivity as well as quality of their products. The new international standardization and related specifications system should be looked upon by the more diversified economies as an opportunity to move into more viable exporting industries by improving the quality of their products to meet international standards.

Exports in these countries are mostly focused on resource-based agro-industries (food and textiles). Difficulties should be expected, however, in shifting to higher quality products. These difficulties may be caused by several factors which have not yet been addressed adequately, among them: (a) the inferior quality of some of the local materials used in attempting to produce quality products for the export market, and the lack of variety in raw materials in the domestic market, compelling producers to import part of their supply needs, which increases production costs; (b) inconsistency in the quality and supply flow of certain local inputs, negatively affecting the ability of producers of exports to produce according to customer specifications and taste in foreign markets; and (c) shortages in skilled labour, making it harder for industrialists to shift to higher-quality products in the short and medium term.

(b) *More of the challenges facing the new strategy* [343]

In pursuing the new outward-looking industrial strategy and accessing major markets, various challenges face the countries in the region: identifying specific market needs and tastes for manufactured exports, particularly in major markets, including the EU market; and improving the competitiveness of products destined for export and for the local market. This can be achieved by the following: adhering to international quality standardization and related specifications and requirements; developing more flexible production processes; and developing more sophisticated marketing techniques, with continued product development and improvement.

(i) *Comparative advantage revisited*

Improved productivity may be one way to meet emerging competition. The basic issue, however, is the question of comparative advantage of existing industries. This should be considered within the context of changing global and regional conditions. In the past, many of the industries in the region thrived under protection, subsidies, and provision of other government supports for exports. Now, however, liberalizing trade and deregulating the market may make industries less competitive, even in their own domestic markets. Therefore, in-depth sectoral studies, at the commodity level in the relevant branches of industry, need to be undertaken to evaluate the competitiveness of these industries within the context of the global liberalization of trade. In the more diversified economies, the industries that need to be addressed are mainly the labour-intensive industries of foodstuffs, textiles, garments and leather products, in order to optimize their comparative and competitive advantages.

In some GCC countries, the current trend is to promote small and medium enterprise feeder industries. These industries are believed to have a comparative advantage as they have local bases and service large, heavy industries that are located in the subregion. It is likely that large existing industries will provide a wide base for such enterprises, if they prove to be viable. Feeder industries could include those based on supplying industrial raw materials such as paint raw materials, oilfield chemicals, and engineering components such as pipes, fittings, pumps and fire extinguishers. Investors in the GCC countries will have to take into consideration the technology component of each industry in identifying the products that they wish to manufacture.

A good option for the GCC countries to overcome the shortage of local labour is to concentrate on high-tech knowledge-intensive industries. This would also help not only to diversify their industries, but also to introduce the new high value added industries. In this respect, it can be pointed out that these high-tech industries may open the possibility of using the large pool of highly educated women. Some of these industries may allow skilled women to operate from remote work stations (such as homes) to accommodate the social norms in the Gulf countries. This option has potential, particularly since more than 50 per cent of women graduates in many GCC countries are unemployed graduates in the sciences.[344] Furthermore, the pattern of choice of jobs for men in the Gulf region is in general more oriented towards either running their own commercial business or working for a business company or in a government office.

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[343] For more details, see ESCWA, *Industrial Strategies and Policies in the ESCWA Region Within the Context of a Changing International and Regional Environment* (E/ESCWA/ID/1995/7), December 1995.

[344] Qatar, unpublished data provided by the Ministry of Industry and Energy.

(ii) *Export promotion centres and information technology*

Outward-looking industrial strategies need to be supported by export promotion centres in the countries of the region. Despite the dramatic developments that have been taking place in information technology, the countries of the region are still far behind. Most of the ESCWA member countries are using outdated modes of collecting, processing and transmitting the information they require. Exporters should have easily accessible information on export markets. This is particularly critical for small and medium-size enterprise industries, as they, unlike large industries, do not have ready access to needed information. These industries also need support to build up capabilities to exploit marketing information.

Although some countries in the region have established trade information centres, they are the exceptions. Only Egypt, Jordan and Saudi Arabia have established export promotion centres. Bahrain is currently considering establishing an export promotion centre. These centres are essential, as they could provide various badly needed support services. This includes identifying international marketing channels; providing information on specific markets regarding trade systems, supply and demand, customers and their tastes; serving as facilitators to export producers that have no experience in selling to foreign markets; helping exporters to strengthen their in-house export promotion capabilities, such as marketing techniques; and providing information to exporters about the underlying commercial and country risks involved in the transactions.[345]

(iii) *Transparency of the economy*

The success of industrial information and export promotion centres greatly depends on the availability and flow of a wide range of unrestricted and reliable, up-to-date industrial statistics and information. In this respect, despite efforts made to deregulate the business environment in the region and to improve the efficiency of the market economy mechanism in the GCC countries, more needs to be done regarding availability of, and easy access to, industrial information. It is hoped that the establishment of such centres in the new era of liberalization will help to solve part of the problem regarding industrial information and statistics and will improve the scope, timeliness and reliability of published vital industrial statistics and deregulate the restrictions on their circulation.

Efficient functioning of the market economy requires transparency of the economy and easy access to unrestricted, up-to-date economic and industrial information. Previously, the availability of information was not a serious problem, as expansion in most manufacturing activities was undertaken by the public sector (which was inward-looking in most of the more diversified economies). Promoting a private-sector-led outward-looking growth, particularly in small and medium size enterprises, in addition to increased competition from more transparent economies, requires that the economies of the region become more transparent.

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[345] Technical assistance should be sought from international organizations to provide expertise for the setting up and initial running of these centres. Export promotion centres should have in-house information centres linked whenever possible with the Internet and/or major international export information centres and networks in major export markets. They should be adequately equipped and supported with highly capable and well-trained staff. They should be provided with appropriate budget allocations for the continuous training of staff and upgrading of their capabilities, as well as for maintenance of equipment. Where such centres exist, they may need to be strengthened and upgraded.

The experience of some East Asian countries and areas, such as Taiwan Province of China, in the establishment of export promotion complexes suggests another option for the GCC countries that is worth studying, as it may be more suited to the Gulf's socio-economic environment, and may appeal more to the temperament of Gulf producers.

2. *Policy development in industrial entrepreneurship*

Small and medium industrial enterprises in the countries of the ESCWA region face important problems in their operation. Some of these problems stem from a business environment not yet conducive to the development of such enterprises, while others relate to the internal structures of these enterprises.

Small and medium industrial enterprises, in general, have been given little attention by government industrial policies. Emphasis was placed, during the past decades, on the establishment of large projects, through the provision of necessary infrastructure and financing, incentives and various forms of business support. Investment in manufacturing was mainly undertaken by the public sector, with only a minor share by the private sector, except in a few countries. New economic realities are emerging in the region along with changes taking place in the world economy towards trade liberalization, economic deregulation and the domination of market forces. This has made Governments in the region increasingly aware of the following: the growing role of the private industrial sector; the role of small and medium-size industrial enterprises in increasing job opportunities; the urgent need to stimulate more productive entrepreneurial initiatives and to promote small-scale industries and increase their productivity; and the need to provide support services and assistance to existing industrial enterprises. However, support institutions and services are not yet adequately available to small and medium-size enterprises. Furthermore, the existing private sector institutions are not yet prepared to cope with regional and global changes and to meet the increasing needs of these enterprises.

(a) *Improvement of the business environment*

The creation of a conducive business environment for small and medium-size enterprises requires that government and private sector institutions devise and implement policies and measures that can address the main problems faced by these enterprises, which are facing complex government administrative and bureaucratic procedures in the start-up and operation of a business. Such procedures involve registration, licensing, delays in the processing of government forms, import-export regulations, and tax and customs duties systems. This results in a loss of time and in increased expense, as well as increased transaction costs for the firms, thus reducing their competitiveness and discouraging investors in starting up and running a business.

Several attempts were recently made by a number of countries in the region to simplify administrative procedures or to establish "one-stop shops" for the administration of approvals. However, these attempts have not generally been successful. This is because of the vested interests affecting many public institutions, and the considerable difficulty in reducing bureaucracy, which is inherent to the system of government institutions. In view of the above problems, it is recommended that private institutions such as chambers of industry and commerce take responsibility for providing entrepreneurs with advice, support and information related to the kind of approval and forms required.

(b) *Access to financing*

Lack of access to financing is considered another important constraint for development projects of small and medium-size enterprises. The major problem is not the lack of funds within the financial institutions in the region, but the severe credit requirements imposed by these institutions. The main criterion imposed by the banks is the provision of high collateral by the borrower, rather than the innovativeness of the business idea. This difficulty is aggravated by the fact that machinery and equipment are not generally considered as part of the collateral. Another reason relates to the inexperience of small industrial entrepreneurs in dealing with the complex procedures of the banks.

Several initiatives have recently been taken by institutions in the region, particularly in Egypt, to assist small industrial enterprises and meet their financial needs. The Social Fund for Development has introduced a special programme for financing start-up of small and medium enterprises as well as already established enterprises. In that programme, the lowest possible collateral requirement is applied. Equipment and final products can generally be considered part of the collateral. Similar financial schemes have been established in several other countries and areas: the Development and Employment Fund in Jordan, the Small Enterprise Development Unit in Yemen, credit institutions in the West Bank and Gaza Strip, and various international and local non-governmental organizations.

(c) *Access to business information*

Equally important is the difficulty faced by small and medium-size enterprises in accessing business information, which is a critical factor in the effective start-up and efficient operation of an industrial unit. Industrial entrepreneurs in most ESCWA member countries are suffering from a lack of ready access to information services, to enable them to make sound decisions on all facets of their operations. Small and medium-size enterprises need information in several areas: technical information on technology, raw materials, equipment and products and on their suppliers; information on regional and international companies offering technology transfer and product-licensing opportunities; schedules of international trade fairs and exhibitions; market statistics; details on existing companies and competitors in the country where the business is operated and in the region; and lists of foreign buyers/importers.

In the highly developed industrial economies of Europe, Japan, and the United States, access to computerized databases on all kinds of business information is readily available at cost. It is vitally important that ESCWA member countries act now to upgrade their business information services, particularly for the small- and medium-scale industrial enterprises which can least afford to waste scarce management time in searches for necessary information. It is recommended that private sector institutions in each of the countries of the region establish industrial small-business information centres engaged in the collection and dissemination of relevant data at cost, act as a "one-stop shop" for the provision of business information, and develop a working relationship (network) with similar private institutions in other ESCWA member countries, in order to facilitate the flow of information among the countries of the region.

(d) *Promotion of entrepreneurship and the provision of advisory services and training*

Another major constraint for development of small and medium-size enterprises is the relative absence of support institutions and services that could provide advisory services, counselling and appropriate training. This takes on increasing importance in the case of the ESCWA region, where the prevailing structure of private business activity shows a heavy bias towards the trading and, more recently, service sectors.

Small industrial enterprises are generally numerous and scattered, and it would be difficult and costly to reach them all. The organization of small and medium-size enterprises into mutual support groups, or associations, based on area of specialization would facilitate the provision of consultancy and advisory services and the sharing of experiences among industrial entrepreneurs. Common problems faced by the owners/managers could be addressed within the support group or association. When dealing with individual enterprise problems, counselling services need to be provided, preferably in the workplace. It is therefore recommended that associations of producers should be established in all industrial branches, in order to facilitate the delivery of services to small and medium-scale enterprises at affordable cost.

Another effective way to nurture promising and high value added small and medium-size enterprises, and increase the chance of their success, is the "incubation" modality. In simple terms, the business incubator

is a micro-facility with a small management staff that provides the physical work space, shared facilities, and access to technical and business support services in one integrated and affordable package (see box 19).

Starting a new business in the trading and services sector in the region is relatively easier than in manufacturing. In this respect, entrepreneurship development programmes that promote start-up businesses in manufacturing and productive activities, and assist entrepreneurs, need to be devised in countries of the ESCWA region. Appropriate training courses need to be secured on a continuous basis for working and potential entrepreneurs. Upgrading the managerial and entrepreneurial skills of industrial enterprise owners constitutes another important factor in the survival and success of firms. As the countries of the region are undergoing drastic changes at the political and economic levels, it is essential to train entrepreneurs to manage their industrial enterprises under conditions of change, to enable them to cope with the new environment. Such training programmes would also help them to exploit the new opportunities brought about by these changes, and introduce the required changes in their own enterprises.

D. SHORT-TERM OUTLOOK

Most countries in the region are preparing to join the WTO, to link up with the global market. They are also considering joining the European Union in a partnership arrangement, to gain access to a huge market, acquire new technologies, and qualify for financial and developmental aid. These challenges make it imperative for countries to accelerate the pace of economic reforms, pursue deregulation and industrial restructuring and promote national competitiveness. Sustainable industrial development can only be achieved by the creation of an appropriate environment to attract long-term investment. This may be partially achieved through the creation of an investment-friendly environment and feasible trade cooperation arrangements within the region and with neighbouring countries. Progress in the Middle-East peace process helps to strengthen this trend.

In the short term, despite restrictive fiscal policies, expansion in manufacturing activities and establishment of new projects are expected to continue in many countries of the region. Most of the expansion will continue to be in textiles and garment industries, in industries producing intermediate products, in oil and gas, petroleum refining, petrochemicals, fertilizers and aluminium. Needless to say, expansion in manufacturing activity will greatly depend on the overall performance of the domestic economies as well as on continued economic recovery in the developed countries. Shortages in production capacity in electricity in several countries, and the difficulty faced in financing new power generation projects would act as constraints. The limited size of estate areas designated for industrial activities, mainly in the more diversified economies, will continue to impose additional constraints on manufacturing expansion. Nevertheless, it is generally expected that the manufacturing sector will continue to do well in the short run, partly because of the recovery in the economies of the developed countries, and also because of the anticipated effect of a more investment-friendly environment. The trend towards increasing exports is expected to continue as Governments introduce supportive measures and make bilateral and multilateral arrangements to promote manufacturing exports.

The involvement of the private sector in downstream industries will greatly depend on the extent to which Governments will be able to accelerate implementation of promised reforms to encourage private local and foreign investors. Moving into higher value added activities, principally in basic petrochemicals and metal industries, particularly in the GCC countries, implies higher levels of technology in the local production processes. This raises the risk element in the new investments which private investors may therefore be hesitant to take. Market uncertainty, however, is likely to be reduced through improved market information, provision of institutional support for investment in new technology, and development of sales and marketing skills.

BOX 19. TECHNOLOGY AND BUSINESS INCUBATORS IN THE ESCWA REGION

Among the new approaches being tried to support promising high value added small enterprises, the business incubation modality has provided good results. Today more than 1,000 incubators are in operation worldwide, mainly in the United States and Europe, with over 250 incubators now operating in the developing and former Socialist countries.

(a) *Essential characteristics*

In simple terms, the business incubator is a micro-facility with a small management staff that provides the physical work space, shared facilities, and access to technical and business support services in one integrated and affordable package. Such caring and sharing have been shown to facilitate business start-ups and to diminish the chances for failure by reducing initial costs and delays and providing a supporting environment that can assist in preventing deceptions and disappointments. Three fourths of the carefully selected and nurtured businesses in the incubator are likely to succeed, while in the hostile outside world only one fourth are successful.

The main features of an incubator are that prospective entrepreneur-tenants are carefully selected; they are assisted in preparing business plans and accessing seed capital; trained in small business management skills and advised on marketing, accounting, legal and other problems. After a stipulated incubation period, the successful businesses are "graduated" from the incubator, making space available for new tenants. Although in industrial countries, the graduating company is not serviced by the incubator, in developing countries a system of continuing assistance may be needed.

The business incubator itself is to be run as a business, with the goal of becoming self-supporting when operations are fully established. Initial support, however, is almost always provided by private and public sources, for instance, in the form of a low-rent (or no-rent) building and a budget for operating expenses. Services for tenants may be partially subsidized at the start, with the subsidy declining gradually. International experience in the establishment of incubators is important; however, pilot incubators for developing countries must be specifically designed to suit local conditions and culture. The incubator is service-oriented and depends upon the use of equipment and facilities in the neighbouring universities and laboratories, as well as professional services from an informal network of community supporters.

(b) *Incubator objectives*

The primary purposes of an incubation centre are to foster an entrepreneurial culture and increase the participation of entrepreneurs in the national economy, sometimes addressing specific groups such as youth, women and other special groups. It provides focused technical and business counselling. It also helps to overcome the bottlenecks and regulatory hurdles to rapid business formation, by facilitating the start-up process through access to a community support network.

Specific objectives of an incubator may vary depending upon the incubator's focus, as follows: (a) technological innovation: by interaction with universities and research complexes, for initiating innovative products and services to domestic and export markets; (b) regional development: by enhancing attraction to areas away from urban centres; and (c) industrial sub-contracting: by linking up with industrial estates, providing specialist services to them.

BOX 19. (*continued*)

(c) *Incubator projects in the ESCWA region*[a/]

ESCWA started, in the early 1990s, a programme to promote the concept of incubators in the ESCWA region, as part of the programme to promote entrepreneurship, small and medium-scale industries and the private sector in general. The programme has been carried out in cooperation with many national, regional and international agencies, particularly UNDP, the Friedrich Ebert Foundation and UNIFEM.

The first incubator in the region was established in Amman, in the early 1990s, by The Jordan Technology Group, an autonomous government agency, to promote technological innovations and support the commercialization of the results of scientific and technological research. Currently, it has about seven incubated projects. Two businesses have already become totally independent (graduated). Another initiative was started in Egypt in 1993, supported by the Social Fund for Development and a few American institutions. It aimed at developing the skills of retail traders outside big urban centres.

The first ESCWA activity in this field was the Expert Group Meeting on Creation of Indigenous Entrepreneurship and Opportunities for Small and Medium-Scale Industrial Investment, held in Damascus in April 1993; a whole session was devoted to explain and promote the concept of the incubator as a successful micro-mechanism to support early-starters, small enterprises. As a result of the meeting, the Higher Institute for Science and Technology in Damascus and the Damascus Chamber of Industry called on ESCWA and UNDP to assist in the establishment of a pilot technology and business incubator in Damascus. A project document was developed and circulated to potential donors by the end of 1994.

In 1994, contacts with institutions concerned in the West Bank and Gaza Strip led to serious efforts for the development of a project to establish pilot technology and business incubators in Nablus and Gaza. Al-Najah National University took the initiative to host the incubator in Nablus, providing building space and services as well as technical support of the faculty and access to the university laboratories and workshops. Very strong support was mobilized from the Palestinian Authority and the Nablus business community. It is expected that the Al-Najah incubator will be operational by the end of 1996. Strong support was also mobilized for an incubator in Gaza to be located within or near one of the industrial zones; this is under consideration by many national and international donors and investors. A well-developed project document and business plan were developed and circulated to potential donors at the end of 1995. The project was given high priority by the Palestinian Authority and is scheduled for implementation in early 1997.

The Business and Professional Women's Club in Jordan aims at establishing an incubator for business women in Amman, in cooperation with ESCWA and UNIFEM. They have provided 300 m^2 of building space to be the site of the incubator, and were able to mobilize the support of many government agencies, as well as $100,000 worth of equipment from the Japanese Government. The Amman Business Women Incubator is expected to be operational by the end of 1996.

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a/ For more details, see ESCWA, *Establishment of Business Incubators in the ESCWA Region, The Cases of the Syrian Arab Republic and the Palestinian Territories*, E/ESCWA/ID/1995/1 (in Arabic and English).

BOX 20. PROMOTING CLEANER PRODUCTION IN THE OIL, GAS AND RELATED INDUSTRIES IN THE ESCWA MEMBER COUNTRIES

ESCWA member States are becoming more concerned about environmental pollution; however, they are also concerned about the possibility of substantial reductions in oil exports, which would have a profound negative effect on their development plans. Member States have demonstrated their concern for environmental pollution by updating the latest available technology imported from developed countries. Other member States will probably need some assistance in instituting measures that will curb environmental pollution in their oil, gas and related industries.

ESCWA has recently published a study on cleaner production technologies in the region.[a/] The study reviews the means for introducing the concept of cleaner production into the oil, gas and related industries, with a view to reconciling the conflicting elements of desired regional growth in these industries and local and global environmental issues.

The study provides information on the concept of cleaner production technologies and their relationship to environmental protection and sustainability and emerging environmental standards. It covers the life cycles of most products of the important oil, gas and related industries in the ESCWA region, from the extraction of raw materials to the production processes, the use of final products and the generation of wastes. It also identifies process-specific pollution types and quantities and provides suggestions for cleaner production pollution-abatement techniques based on the available literature.

The pollution that results from the petroleum industry in the region affects the environment through: (a) oil and gas recovery operations: the environmental impact of possible oil and gas accidents; on-land and off-shore oil spills; the oil pollution of sea waters and beaches; the disposal of tank oil sludge; and air emissions from sour gas flaring, oil stored at export terminals, and sludge-burning operations; (b) oil refining: the environmental impact of the quality (sulphur content) of crude feedstock; high load process wastewaters generated from catalytic cracking, thermal cracking and crude desalting; water cooling systems; and SO_2 and CO_x air emissions from acid gas incineration; (c) natural gas processing: the environmental impact of transport, processing and storage safety; heat/pollutant discharges into sea waters; and acid gas flaring; and (d) consumption of final products: the combustion of petroleum fuel within the transport sector in relation to urban air quality and by the utilities in relation to global air quality; and leaded gasoline in relation to urban air pollution.

Petroleum industries in the region may consider shifting their current emphasis from (end-of-pipe) recycling techniques to cleaner production. It is recommended that Governments, in their strategic planning, finance R and D in order to develop innovative techniques and technologies for cleaner production. Past and present pollution prevention changes and measures that have been implemented, along with their results, have to be adequately publicized worldwide.

Most of the old facilities have been revamped in the petroleum-producing countries of the region. In most of the non-oil-producing countries, however, the oil refinery industry needs technology updating and the revamping of old facilities. Countries may use this opportunity to introduce available cleaner production techniques and technologies, which are chosen according to pre-set criteria that consider the practical aspects of implementation, country-specific environments and viability.

The region may choose appropriate institutions to serve as regional cleaner production centres for the dissemination of information on cleaner production to interested parties. The proposed regional centres should have direct access to the cleaner technology databases of UNEP and UNIDO and other worldwide institutions concerned. Such data may then be made available, through direct access, to a network of national centres throughout the region. Plans may also include upgrading existing R and D institutions to enable them to develop new and innovative region-specific cleaner production techniques and technologies for the oil, gas and related industries.

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a/ See ESCWA, *Promoting Cleaner Production in the Oil, Gas and Related Industries in the ESCWA Region* (E/ESCWA/ID/1995/8).

BOX 21. TECHNOLOGY TRANSFER, ENDOGENOUS CAPACITY-BUILDING AND RELATED POLICIES IN THE ESCWA MEMBER COUNTRIES

Two related sets of challenges face the economies of the ESCWA member countries. Overdependence upon natural resource, inadequate local production technologies and environmental deterioration are among the first, endogenous, group of challenges. Challenges of an exogenous nature include international trade liberalization and the introduction of industrial and environmental quality regulations. In responding to both sets of challenges, the ESCWA member countries will have to address two important aspects of development: technological capacity-building as well as natural resource conservation and sustainability. Action on both fronts requires effective technology acquisition. However, as in many developing countries in the past, technology acquisition in the ESCWA member countries was largely driven by a tendency towards import substitution. The fact that many of the region's economies were heavily protected from outside competition resulted in overreliance upon mature technologies with limited adaptability to the region's conditions. The urgent need to upgrade product quality and improve the environmental compatibility of production processes will require a more proactive and participatory approach to technology acquisition. In general, present technology acquisition policies adopted by ESCWA member countries, whether explicitly or otherwise, are in need of revision in order to accommodate the impact of recent as well as forthcoming global and regional developments.

The ESCWA member countries spend considerable proportions of their GNP on the acquisition of equipment, services and know-how. According to reports published by the *Middle East Economic Digest* (MEED), contracts concluded, in 1994-1995, for acquisitions of this nature in the ESCWA member countries exceeded $27 billion.[a] Naturally, most, if not all, of the contracts concluded with external suppliers embody possibilities for technology transfer to the countries of the region in areas that are crucial for its development. A variety of fields were targeted by such acquisitions but spending was highest in areas such as defence, infrastructure building and the manufacturing industries. The construction component predominates in all three sectors. Thus, contracts totalling $11.7 billion constitute the bulk of this component, in addition to those involving civil and engineering work. The transport and tourism sectors also received considerable attention with a total of around $4.2 billion for contracts involving transport and tourist facilities. Within the industrial sector, oil and gas projects, including refinery-related facilities, were covered by contracts totalling more than $5.4 billion. Petrochemical plant and associated facilities amounted to around $1 billion. The metallurgical industries took up around $800 million. Telecommunications facilities total $1.7 billion. Taken together, water treatment, desalination and sewage facilities account for around $1 billion.

Of the $27 billion, the value of contracts awarded to external suppliers constituted 70 per cent of the total value. Local firms were awarded contracts totalling around $7 billion while around $1 billion were awarded to consortia involving both foreign and local contractors. Both figures reflect a certain amount of success in endogenous capacity-building, through past activities involving both formal and informal, technology acquisition. However, local contractors appear to be active primarily in construction and civil engineering activities, representing areas of traditional technological competence.

Obstacles facing endogenous capacity-building as a result of technology transfer in most ESCWA member countries generally include inadequate manpower and managerial skills, embryonic R and D capabilities, inefficient bureaucracies as well as the limited size of the national markets. Limited international links and experience in accessing technology sources, on the part of the local producers and service providers, constitute important constraints on their abilities to acquire and disseminate technology effectively. Clearly, several policy adjustments will have to be made in order to limit and then reverse the impact of these obstacles. In formulating such policies, special attention will have to be paid to areas including modern process technologies for the small and medium-size producers as well as product and process quality testing and assurance. Enormous rewards stand to be gained, for example, by introducing the wide ranges of downstream technologies for processing basic petrochemical and agricultural raw materials. Furthermore, the introduction of effective quality management procedures should usher in a host of advanced technologies with opportunities for spill-over effects into other areas of the production and services sectors.

Conserving natural resources and ensuring their sustainable utilization is strongly dependent upon the acquisition and adaptation of environmentally sound technologies. The adoption of viable environmentally sound technologies in the production and services sectors will also play an essential part in ensuring compliance with recent regional regulations, such as those being gradually enforced by the European Union, as well as global "regimes" of quality and environmental standards.

BOX 21. *(continued)*

However, most ESCWA member countries are still without coherent and explicit environmental protection policies. Clearly, the formulation of such policies and their integration with overall economic development policies should constitute a priority issue.

ESCWA will carry out during the current biennium an extensive study dealing with technology acquisition of environmentally sound technologies in selected production sectors. The project will be in response to recommendations expressed at a number of regional and international forums, including the 1992 United Nations Conference on Environment and Development.

Assessment of the technological status of these sectors will be made and the potential benefits of the acquiring specific environmentally sound technologies will be examined. The study will also address the issue of building the capacity in the ESCWA member countries for conducting in-depth technology assessment to aid efforts aimed at the selection, acquisition, adaptation and development of environmentally sound technologies for application in specific operational situations.

A plan of action aimed at promoting research and technological development capabilities in aid of technology acquisition in the selected production sectors will be elaborated. This plan will be designed to mobilize the capabilities of existing and emerging private sector enterprises and trade federations, as well as national and regional NGOs in the selection and promotion of environmentally sound technologies and will address information and resource-sharing. It will also consider the resource requirements for setting up new research facilities and technology assessment consultancies on environmentally sound technologies.

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a/ Owing to the fact that around 33 per cent of contract reports do not carry an indication of the contract's value, the total of $27 billion represents only part of the expenditure of ESCWA member countries on technology "acquisition". Although incomprehensive, contracts reported by MEED may be regarded as roughly representative of prevailing acquisition patterns.

XII. DEVELOPMENTS IN THE TRANSPORT SECTOR

A. General policy trends and challenges

A review of transport in the ESCWA region for the year 1995 reveals that the major transport challenges still facing the region are grouped into a number of major categories, among which are the following:

1. Reconstruction and rehabilitation of the networks damaged during the wars and civil strife that affected the region during the last decade.

2. Completion of the missing transport links within the region and with neighbouring regions.

3. Bridging the technological gap between the ESCWA region's transport system and the developed world's systems, including adaptation of appropriate Information Technology (IT) for effective management at the national level and along regional and international corridors.

4. Standardizing the technical specifications, harmonizing border-crossing procedures and removing the non-physical trade and transport barriers.

5. Upgrading maintenance management of the existing infrastructure and equipment which is not considered, in most developing countries, among the priority areas for regular funding.

These challenges are longstanding issues and have not been dealt with in a regional coordinated manner in spite of the efforts of international and regional organizations to enhance cooperation and coordination. It is hoped that the efforts of the regional organizations will lead to coordinated regional efforts to meet these challenges. Among the regional organizations in the region, two were commended for their activities in the area of transport coordination and development. The Arab Academy for Science and Technology, previously known as the Arab Academy for Maritime Transport, had remarkable success in maritime transport training and extended its activities to multimodal transport development in the Arab region. The Arab Railway Union developed, under the auspices of the Arab League, a master plan for a regional railway network bridging the gaps between adjacent countries and linking the proposed Arab network with the European rail system.

In the area of road transport, no specialized agency is in active operation at the regional level. The Arab Union for Land Transport, which operated during the 1980s, is no longer in service as it receives no support from private road haulers or public enterprises. Efforts are being made to obtain regional support to resume Union activities in the fields of negotiating agreements, standards and enhancing regional cooperation in road transport in the ESCWA region.

The ESCWA region's merchant fleets aggregated 11.1 million deadweight tonnage (dwt) in mid-1995 represented a 1.1 per cent decrease compared with 1994 (table 99). It is less than the average yearly growth of the period 1985-1995 by 2.97 per cent. The 1995 fleet expansion over 1994 occurred mainly because of the notable fleet additions by the Syrian Arab Republic and Qatar. In mid-1995, ESCWA member countries' merchant fleets represented 78.8 per cent of the total Arab countries' merchant fleets and approximately 16 per cent of the world total in 1994 (table 99).

TABLE 99. GROWTH OF MERCHANT FLEETS IN THE ESCWA REGION, 1991-1995*

(Mid-year figures in dwt)

Country/region	Dead weight tonnage (dwt)					Growth rates (percentage)			
	1991	1992	1993	1994	1995	1992	1993	1994	1995
Bahrain	262 041	192 487	200 762	95 288	192 290	(26.5)	4.3	(52.2)	101.8
Egypt	1 852 457	1 685 245	1 468 504	1 631 646	1 608 301	(9.0)	(12.9)	11.1	(1.4)
Iraq	1 589 925	1 578 822	1 585 242	1 585 242	1 585 336	(0.7)	0.4	0	0
Jordan	135 573	113 557	113 557	129 351	15 794	(16.2)	0	13.9	(87.8)
Kuwait[a/]	2 293 230	3 188 526	3 745 886	3 934 351	3 231 371	39	17.5	5	(17.9)
Lebanon	424 646	438 165	271 272	285 559	281 387	3.2	(38.1)	5.3	(1.5)
Oman	11 941	11 727	8 843	8 843	8 843	(1.8)	(24.6)	0	0
Qatar	724 330	635 580	540 527	675 466	907 155	(12.2)	(14.9)	25	34.3
Saudi Arabia	1 999 497	1 381 651	1 150 813	1 176 417	1 204 336	(30.9)	(16.7)	2.2	2.4
Syrian Arab Republic	179 327	210 369	113 185	230 432	367 700	17.3	(46.2)	103.6	59.6
United Arab Emirates	1 360 904	1 491 728	1 317 946	1 064 897	1 290 010	9.6	(11.6)	(19.2)	21.1
Yemen	13 653	13 653	411 547	425 393	425 393	0	3.4	3.4	0
ESCWA region	*10 847 524*	*10 941 510*	*10 928 084*	*11 242 885*	*11 117 916*	*0.99*	*(0.12)*	*2.88*	*(1.11)*
Total Arab region	*14 555 698*	*13 107 708*	*14 043 308*	*14 354 107*	*14 101 318*	*(9.94)*	*7.1*	*2.21*	*(1.80)*
ESCWA as percentage of Arab total	*74.5*	*83.5*	*77.8*	*78.3*	*78.8*				
Total world	*684 311 468*	*694 559 701*	*695 877 428*	*704 011 114*	...	*1.5*	*0.2*	*1.2*	*(100)*
ESCWA as percentage of world total	*15.85*	*15.75*	*15.70*	*15.96*	...				

Sources: Compiled by ESCWA on the basis of data from *Seatrade Review*, issues 1991-1995, and *Lloyd's Register*, 1993, 1994 and 1995.

Notes: ( ) indicates negative; ... data not available.

* Ships of 1,000 gross registered tonnage (grt) and above.

a/ Excluding 7 vessels of 496,430 grt reflagged in 1987.

The GCC countries witnessed in mid-1995 a slight decrease of 1.7 per cent in their national merchant fleets over 1994, mainly owing to a decrease of 17.9 per cent in the national merchant fleet of Kuwait. Notable additions to country fleets over the last 12 months increased the Syrian Arab Republic fleet to 68 ships and 367,700 dwt, an increase of 59.6 per cent over 1994, and Qatar with an increase of 34.3 per cent over 1994. The National Shipping Company of Saudi Arabia (NSCSA) has five very large crude carriers (VLCCs) under construction, with an estimated cost of $550 million. Qatar's shipping company (Qatar Shipping) has announced plans for additional bulk carriers, and the United Arab Shipping Company (UASC) has also announced plans to build six container ships (and possibly an additional four ships) valued at a total

of $90 million. The Kuwait Oil Tanker Company ordered in 1994 three new VLCCs of 285,000 dwt at a cost of $60 million each.[346]

Several port authorities have been considering the development of free zones within the boundaries of their ports. Many free zones in the region were established inside or in the vicinity of ports.

The drive towards privatization is gathering momentum. The shortcomings of the public sector in regard to city transport led to the dominance of the private car and consequently to more traffic congestion and uneconomic energy consumption, with a subsequent increase in the amount of urban pollutants. Remedies are being called for to decrease transport-related pollution, and the construction and extension of a rail transit network in Cairo is a step in that direction.

The structure of the transport system in the ESCWA region needs to be considered with a view to decreasing its cost and subsequently its larger than necessary toll on trade revenues. It is also crucial to decrease transport-related pollution in the region. The increase in regional and subregional trade and the expected development of tourism will ultimately call for an expansion in the highway links rather than expansion of the traditional rail systems, which are a more economical and "environment-friendly" mode of transport. The change in modal options will depend largely on the level of technology acquired or to be acquired in the short run and the will of member countries and donors to allocate adequate resources to projects with high initial costs such as the railways or to alternative environment-friendly types of transport fuel.

The diagram below shows the share of the merchant fleets of individual ESCWA member countries in the total merchant fleet of all the countries of the region in 1995. Kuwait's merchant fleet was the largest in the region, accounting for 29.1 per cent of the combined merchant fleet of the ESCWA member countries, followed by Egypt (14.5 per cent) and Iraq (14.3 per cent). On the other hand, ESCWA member countries accounting for the smallest shares in the region's merchant fleet, in terms of deadweight tonnage in 1995, were Oman (0.1 per cent), Jordan (0.1 per cent) and Bahrain (1.7 per cent).

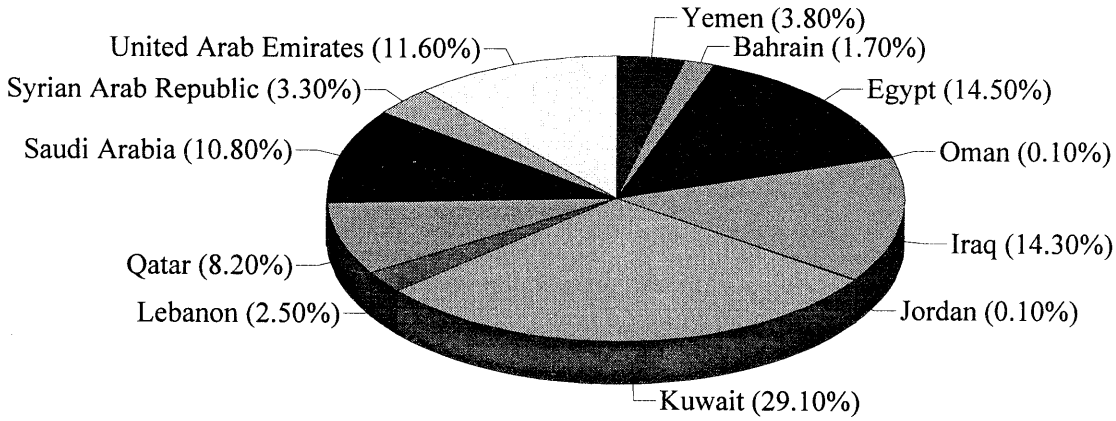
B. INFRASTRUCTURE

Transport projects considered at the MENA Summit held in Amman in 1995 were highlighted as prime factors for social and economic development, and for the establishment of regional coordination in the post conflict era in the region. The idea of carrying out feasibility studies of a subregional rail network linked to North Africa and Europe was discussed by interested parties. Negotiations on building a road/rail bridge over the Suez Canal are under way between Egypt and prospective financiers. Projects for the development of seaports and airports in the Gulf of Aqaba area are being planned with neighbouring countries, and these projects are expected to receive support from donor countries and financial institutions. Port development in the region is geared to increasing container terminal capacities, upgrading computer capabilities and use, and improving competitiveness in the market.

In 1995 the ESCWA region was able to realize the completion of major highways: some of these highways had been planned but were not built owing to lack of funds; some highways had not been considered feasible owing to the small volume of traffic projected for them, but they had become feasible

[346] *Seatrade Review*, August 1995.

DIAGRAM 2. SHARE OF ESCWA MEMBER COUNTRIES IN THE MERCHANT FLEETS IN THE REGION IN 1995



Source: Based on table 99.

with the creation of new activities or residential complexes near them. Some of the new highway construction was in the form of major rehabilitation and expansion of the existing two-lane highways to four or six-lane highways. In Jordan, for example, many major highways were completed in 1995. These include the Zara/Ghor Safi two-lane highway, which is 39 km long and cost JD 13.5 million. A 35.5 km stretch of the Irbid/Jerash highway was completed at a cost of JD 16.4 million. The main highway which connects Jordan with Iraq was reconstructed to very high standards, and 50 km of this highway was completed in 1995 at a total cost of JD 11.5 million. Great emphasis was placed on the reconstruction of the deteriorated highway network between Lebanon and the West Bank and Gaza Strip. In order to meet the cost of rebuilding its highway network and constructing a ring road around Beirut to relieve the enormous traffic jams, Lebanon is planning financing schemes in which the private sector can participate, including Build Operate Transfer (BOT) and other restructuring mechanisms. Much concern was expressed in the ESCWA region regarding the necessity to normalize design standards of roads and highways, especially on the major highway links. The design axle load used for the design of highway pavements in the ESCWA region varies between 8 tons and 13.5 tons. There is currently a trend towards accepting the 10 ton as the standard axle load. There are currently even greater variations in the design double axle loads and triple axle loads. The variations are among the member States of ESCWA for the double (tandem) axle load range between 16 and 21 tons when the distance between the double axles is less than 2 metres and between 16 and 26 tons when this distance exceeds 2 metres.

BOX 22. PORT PRICING IN THE ESCWA REGION

Many of the world's parts date back to ancient times. Throughout the world, modern-day parts have inherited price setting and tariff structures that are not guided by any clear principles; that are complex and difficult for port users to understand and interpret; that use inconsistent terminology to describe similar changes; and that make performance measurement and effective management in the port needlessly difficult.

For many years, port pricing has been based on past traditions and practices. There appears to have been little recognition that pricing is of the fact a key management tool in facilitating and developing seaborne trade.

In common with many other enterprises that have traditionally operated within the public sector, ESCWA seaports in most ESCWA member countries have in many cases been burdened with pricing structures that owe more to tradition and political expediency than they do to the pursuit of a rational policy. There is often no clear relation between costs and charges, or between costs and specific commercial, economic or social objectives; terminology is confused and inconsistent; and the allocation of charges to specific parties is often arbitrary.

An earlier comparative study of tariffs undertaken by ESCWA has shown many problems including: complex and confusing tariff schedules; no relation between the structure of charges and the structure of costs; the use of different terms to describe identical charges; and the use of the same terms to describe different charges.

Owing to the different port pricing structures between ports at the country level and the subregional level, the countries members of the Gulf Cooperation Council have recently prepared a study aimed at unifying the tariff structures in their seaports.

The port pricing model for the ESCWA region, which was based on the ESCAP/UNDP model, addressed all these problems by providing a formal framework within which ESCWA member countries—and perhaps other Arab countries—can develop port pricing structures that are compatible with the following principles: charges should support agreed corporate objectives; charges should relate to market conditions; charges should be cost related; charges should be higher than marginal or avoidable costs; structure and charges should promote efficient utilization; charges should be simple in presentation and use; and the structure should provide flexibility to deal with particular local circumstances.

Perhaps the most important single benefit of applying the consistent and transparent price-setting methodology in the port pricing model for the ESCWA region is that it focuses attention on the need to develop management information systems that permit a consistent and economically rational approach to pricing. Historically, very few ports in the ESCWA region have had such a system; many still do not.

The ESCWA model seeks to encourage a common approach to the consolidation of port cost components (grouped into four major groups), the use of appropriately structured tariff items to recover the costs of each component, and the adoption of a more consistent nomenclature for these items.

In order to ensure that the concepts on which the model is based are transferable and adaptable to the needs of other sea ports in the region, the port of Aqaba (Jordan) was used as a case-study to test its scope and usefulness. It is hoped that the Arab ports outside the ESCWA region will also benefit from the concepts of the model.

The establishment of the Palestinian Authority and self rule in the West Bank and Gaza Strip require the adaptation of the transport system to meet the present demands of the emerging economy and the future needs of the region as a whole and the Palestinian population in particular. The Palestinian Authority has taken over the task of administering the transport sector, including the land, air, and maritime subsectors. The need for manpower to operate and maintain the existing infrastructure and equipment and the provision of the administrative and legislative set-ups are among the main preoccupations of the Palestinian Authority at present. The Palestinian Authority also undertook the task of infrastructure development, especially relating to the opening of national and international corridors for trade including international sea and air routes, infrastructure facilities and the provision of major links between the various parts of the self-rule areas and between these areas the neighbouring countries.

The programmes for expansion and development at a number of ESCWA airports reflect the importance of air transport to the region. Development in the Bahrain, Jordan and Qatar international airports has recently resulted in improved passenger terminal facilities to meet the anticipated traffic flows over the coming years.

The public sector monopoly of port services in Egypt has significantly increased export and import expenses. The Egyptian authorities, exporters and importers from the private sector are concerned about the high overall port costs due to various tariffs, cargo damage and delay of goods passing through the ports.

As a result of the Peace Treaty between Jordan and Israel, the Jordanian port of Aqaba is expected to have increased movement of cargo and passengers through the port. In the second half of 1995, studies and plans were prepared for the development of Aqaba port till the year 2010. Documents were prepared for investors from the private sector to construct, operate and maintain a multi-purpose jetty with an estimated capital cost of $29.1 million and a passenger jetty with an estimated capital cost of $14.57 million.[347]

An important development within the framework of the Middle East peace process was the Upper Gulf of Aqaba Oil Spill Contingency Project. This Project was designed to promote tangible results and regional cooperation between Egypt, Israel and Jordan, and to protect the unique features of the Upper Gulf of Aqaba from the destructive effects of marine oil pollution.

In Bahrain, plans for a new port, industrial area and free trade zone to be located at Hidd have been approved by the Government. They include the construction of a three-quay port with initial capacity of 400,000 containers per year, a 50 hectare free trade zone, and an industrial zone of the same size. The need for a new port has arisen because the inner channel of Mina Sulman cannot be dredged deeper to accommodate the new generation of container vessels and because of the deteriorating state of the harbour's finger pier.[348]

The Iraqi port of Umm Qasr is undergoing an expansion project comprising two new bulk sulphur berths, each 205 metres in length, and a new grain terminal having a 235-metre-long berth with water depth of 13.5 metres. The authorities at the port of Basrah have plans to construct a facility for handling food products, comprising 600 metres of berths.

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347 "Jordan transportation, Aqaba Port", paper presented at the Middle East/North Africa Summit held in Amman in October 1995.

348 Economist Intelligence Unit, *Country Profile, Bahrain, Qatar*, 1995/96.

BOX 23. THE TRANSPORTATION AGREEMENT BETWEEN JORDAN AND ISRAEL

The Transportation Agreement between Jordan and Israel, signed in January 1996, is in line with the Jordan-Israel Peace Treaty which was signed on 26 October 1994. It is envisaged that transportation will be second to the tourism sector in benefiting from the Peace Treaty. Article 13 of the Treaty deals with transportation and roads and called primarily for the free movement of nationals and vehicles of the other party into and within its territory. In addition, the two countries will open and maintain roads and border-crossing points while considering expanding road links between them. A specific highway project was singled out as an important link between Egypt, Jordan and Israel to be constructed and maintained near Eilat. The agreement calls for the construction and upgrading of many road projects which will serve to promote both trade and movement of tourists and people. These projects include the King Hussein Bridge, the Prince Mohammed Bridge, the Sheikh Hussein Bridge and their access roads; a road link between the Red Sea towns of Aqaba and Eilat and the Irbid-North Shuneh Highway which will extend east to the Iraqi border and west to northern Israel providing Jordan and northern Iraq with access to the port of Haifa. These projects total almost 450 km of roads which require precise engineering, road and bridge reconstruction and road widening. Most of these roads will become four-lane carriageways. The cost of these projects is estimated to amount to $250 million. Rail expansion and improvement are also emphasized. There are three proposals to provide links between Jordan and Israel, including a 20 km spur from the proposed Amman-Aqaba Railroad, the reactivation of a track connecting the Mediterranean coast to Amman and another 20 km spur from Ghor Safi, an area south of the Dead Sea in Jordan, into Israel. The link between Amman and the Israeli coast will be part of a rail project between Irbid and the border, which will be connected with the Trans-Jordan Hijaz Line. The railway line on this side of the border will be approximately 70 km in length. Such a rail link with the Mediterranean would not only facilitate the importing and exporting of Jordanian goods to and from the West Bank, but would also improve access north to Beirut and south to the Gaza Strip.

Article 14 of the Treaty deals with freedom of navigation and access to ports. It calls for recognizing the right of the vessels of the other party to innocent passage through its territorial waters in accordance with the rules of international law. Provision of normal access to its ports for vessels of the other party is called for in addition to considering the Strait of Tiran and Gulf of Aqaba as international waterways open to all nations for unimpeded and non-suspended freedom of navigation and overflight. Article 15 of the Treaty deals with civil aviation. The agreement calls for opening air routes for national airlines and offers the latter overflight rights. Israeli airspace has already been utilized by Royal Jordanian flights *en route* to Northern Europe and the United States. Israel will benefit from the Jordanian airspace to shorten flight times to Asia and the Far East. For the time being, this privilege cannot be utilized since Israel has not reached agreements with the Gulf countries whose airspace will be used for the flights to Asia and the Far East. Royal Wings, Jordan's airline for short haul flights, and Arkia, Royal Wings' Israeli counterpart, were scheduled to start regular flights between the two countries in the first half of 1996. There are expectations, though, that initial traffic will be thin but that it will pick up in the years to come.

In Kuwait, the shipping sector has recovered, with the Kuwait Ports Authority reporting four successive years of increased throughput at Shuwaikh and Shuaiba since they reopened in 1991. The year 1994 witnessed a 28 per cent increase in traffic totalling 7.9 million tons, compared with 6.2 million tons in 1993, with imports rising 21 per cent and exports 52 per cent. The construction of the 260,000-square metre free zone at Shuwaikh port will initially be for re-exported goods and—at a later stage—repackaging and manufacturing facilities will be developed.

In Lebanon (Beirut), a new 150,000-square metre container terminal is under construction, with a 450-metre quay length and a water depth of 11 metres.

Considering the space limitations of Mina Qaboos, the forecasted demand with regard to cargoes, and the promotion of development in the northern part of Oman, the Omani authorities are reviewing plans for a new port in the northern part of Oman (the Sohar region).

In Qatar, the new Ras Laffan port, under construction, will have four LNG berths and six liquid product berths to serve LNG plants and gas-based industries. In addition, container and dry cargo berths will be constructed to increase the Doha container and dry cargo berthing capacities.

Many Saudi Arabian ports are upgrading their computer systems used for administrative, operational and technical activities of ports.

The expansion of the Syrian port of Lattakia includes the construction of container and general cargo berths totalling 2,140 metres, with depths from 6.8 to 13.3 metres, in addition to three container gantry cranes and other handling equipment.

In the West Bank and Gaza Strip, plans have been completed and the construction started for building a new seaport south of Gaza city. A first phase has been estimated at $62 million and will involve the construction of docks to accommodate medium-size ships. Phases two and three will add piers and expand port capacity. Some $22.5 million tied-grant financing has been agreed by the Netherlands and $10 million from the French Government. A further $40 million in private investment is required during the initial stage for heavy equipment, storage and an internal railway system.[349]

The Yemeni port of Aden is developing a new 750-metre quay, a 150-metre Roll-on/Roll-off (Ro/Ro) berth and a container terminal with a handling capacity of 30,000 twenty-foot equivalent units (TEU) per year. This expansion is part of a development plan for the port and the establishment of a free zone with an envisaged cost of $5.8 billion over a 25-year period.

C. SHORT-TERM OUTLOOK

The peace process provides a timely opportunity for subregional and regional coordination. The opening of the borders between neighbouring countries in Western Asia will also open doors to consideration of rehabilitation of old networks and to the construction of new ones. It should generate an enormous increase in traffic over the existing corridors owing to the expected boom in tourism, trade facilitation and industrial development.

The conflicts in the region contributed to the deterioration of trade relations between a number of countries, including those who sealed their borders with their immediate neighbours. This, in addition to the effect of armed conflicts on transport infrastructure, affected the volume of traffic between the neighbouring countries and temporarily eliminated a number of transit traffic routes. The United Nations economic sanctions on Iraq negatively affected the shipping traffic patterns in the Red Sea, especially traffic routed towards the port of Aqaba, where the traffic declined from 20 million tons in 1988 to 11.6 million tons in 1993.

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[349] Economist Intelligence Unit, *Israel, the Occupied Territories, 1995/96.*

The adverse effects of the United Nations economic sanctions on Iraq also affected Aqaba port and the Jordanian economy, but the effects were alleviated following the change in the nature of ship inspection. Furthermore, the easing of the sanctions, currently under consideration, and the ultimate lifting of these sanctions will eventually bring back a large part of the traffic of Aqaba port and could exceed the 1988 traffic record. This is anticipated, bearing in mind that a large part of Iraqi trade will continue to flow across the Jordanian port of Aqaba. In addition, the West Bank will also depend largely on the Jordanian transport system for trade with the Gulf and the rest of Western Asia.

Iraq, Jordan, Lebanon, the Syrian Arab Republic and the West Bank and Gaza Strip are expected to give more emphasis in their short-term plans to transport infrastructure development, and most of them are expected to receive financial support from donor countries, some of which are involved in feasibility studies in the region. Some of the GCC countries decreased their budget allocations to the transport sector during the first half of the 1990s. This trend will not continue for long, and for countries with 70 per cent of revenues generated from oil export, the maintenance of a transport system is of vital importance. Ports will be well maintained, and the merchant fleets in the ESCWA region are expected to expand, especially since the shipping industry is not at a peak, and better offers than before are available to prospective buyers.

The private sector share in the transport market is expected to increase and cover a wide area at the national and regional levels. In addition to national and regional companies, the participation of foreign private sectors is foreseen. However, it is not expected that there will be private sector participation in infrastructure development. The private sector would not be involved in rail lines or road ownership but could be involved in the ownership and management of fleets and mobile equipment with shorter life than fixed installations which can be disposed of easily or moved elsewhere.

Air transport seems to be attractive to the private sector in spite of the severe competition at the international level. Several national airline companies might be transferred to private ownership, among them Royal Jordanian whose management is preparing the company for privatization. Some countries would prefer to keep the national flag but allow commercial management to compensate for the inefficiency of the public sector.

ANNEX

COUNTRY TABLES

BAHRAIN

Area	Population		Population density		Population growth 1994-1996 (%)
677.9 km²	1994	0.550 million	1994	811 km²	2.42
	1996[b/]	0.577 million	1996[b/]	851 km²	
	2000[b/]	0.633 million	2000[b/]	933 km²	
	2025[b/]	0.922 million	2025[b/]	1360 km²	

Life expectancy at birth (years)		Infant mortality rate per 1,000		Urban population (%)		Rural population (%)	
1960	55.5	1960	130	1995[a/]	90	1995[a/]	10
1994	70.6	1994	23.8				
1996[b/]	71.0	1996[b/]	23.3				

Population with access to safe drinking water (%)			Population with access to sanitation services (%)			GDP at constant 1992 prices		GDP growth rate (%)	
	Urban	Rural		Urban	Rural				
1994	100	57	1994	100	24	1994	$4897 million	1995/94	2.7
						1995[a/]	$5029 million		

Per capita GDP at constant 1992 prices		Sectoral contribution to GDP (%)						Government expenditure as % GDP	
			Agriculture	Mining	Manufacturing	Construction	Others		
1994	$8920	1980	1.1	32.3	14.8	6.0	45.8	1980	22.3
1995[a/]	$8932	1990	1.3	17.2	17.8	6.6	57.1	1990	39.7
		1994	1.0	17.4	15.0	6.3	60.3	1994	31.6
		1995[a/]	1.1	16.2	18.8	5.5	58.4		

Gross investment as % GDP		Inflation rate (%)		Exports (f.o.b)		Imports (c.i.f)		Trade balance	
1980	32.5	1992	(0.2)	1994	$3454 million	1994	$3737 million	1994	($283 million)
1990	17.6	1994	0.9	1995[a/]	$3600 million	1995[a/]	$3600 million	1995[a/]	0
1995[a/]	27.3	1995[a/]	3.0						

BAHRAIN *(continued)*

Current account balance	
1993	$22.6 million
1994	($89.1) million

Net capital flows	
1993	($76.1) million
1994	($101.9) million

International reserves	
1994	$1218 million
1995[a/]	$1280 million

Exchange rate ($)	
1990	$1 = BD 0.376
1995	$1 = BD 0.376

Money supply		
	M1	M2
1991	BD 304.8 million	BD 1121.7 million
1994	BD 344.7 million	BD 1307.4 million
1995	BD 332.5 million	BD 1397.5 million

Assets of commercial banks	
1991	BD 2015.2 million
1994	BD 2618.9 million
1995	BD 2622.5 million

Oil production (m/b/d)	
1991	0.042
1994	0.040
1995[a/]	0.040

Oil revenues	
1993	$800 million
1994	$760 million
1995[a/]	$825 million

Proven oil reserves (m/b)	
1994	210
1995[a/]	210

Refining capacity (000,b/d)	
1991	280
1994	280
1995[a/]	280

Natural gas reserves	
Billion cubic metres	
1994	150
1995[a/]	150

Water desalination capacity	
Cubic metres per day	
1995[a/]	315,000

Distribution of total water demand (%)			
	Domestic	Agriculture	Industrial
1990	38.5	53.8	7.7
2000[b/]	53.0	38.9	8.1
2025[b/]	40.1	47.2	12.7

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

Note: ( ) indicates negative for figures.

a/ Estimates.
b/ Projections.

EGYPT

Area	Population		Population density		Population growth 1994-1996 (%)
1 million km^2	1994	62.101 million	1994	62 km^2	1.79
	1996[b/]	64.365 million	1996[b/]	64 km^2	
	2000[b/]	69.100 million	2000[b/]	69 km^2	
	2025[b/]	97.300 million	2025[b/]	97 km^2	

Life expectancy at birth (years)		Infant mortality rate per 1,000		Urban population (%)		Rural population (%)	
1960	46.2	1960	179	1995[a/]	44.7	1995[a/]	55.3
1994	67.4	1994	58.1				
1996[b/]	68.2	1996[b/]	54.8				

Population with access to safe drinking water (%)			Population with access to sanitation services (%)			GDP at constant 1992 prices		GDP growth rate (%)	
	Urban	Rural		Urban	Rural				
1994	95	86	1994	80	26	1994	$44.6 billion	1995/94	4.9
						1995[a/]	$46.8 billion		

Per capita GDP at constant 1992 prices		Sectoral contribution to GDP (%)						Government expenditure as % GDP	
			Agriculture	Mining	Manufacturing	Construction	Others		
1994	$775	1980	19.0	17.4	12.0	4.4	47.2	1980	50.9
1995[a/]	$796	1990	16.0	4.6	17.1	5.3	57.0	1990	34.0
		1994	16.2	6.6	18.5	5.0	53.7	1994	31.6
		1995[a/]	15.4	7.0	18.0	4.8	54.8		

Gross investment as % GDP		Inflation rate (%)		Exports (f.o.b)		Imports (c.i.f)		Trade balance	
1980	28.6	1992	13.7	1994	$3235 million	1994	$10436 million	1994	($7201) million
1990	20.3	1994	8.2	1995[a/]	$3529 million	1995[a/]	$12940 million	1995[a/]	($9411) million
1995[a/]	18.7	1995[a/]	7.2						

EGYPT *(continued)*

Current account balance		Workers' remittances		Net capital flows		Total external debt	
1993	$2299 million	1995[a/]	$4700 million	1993	($762) million	1994	$30.4 billion
1994	$31 million	Total (1990-1995)	$34255 million	1994	($1450) million	1995	$33.6 billion

International reserves		Exchange rate ($)		Money supply			
					M1	M2	Assets of commercial banks
1994	$14.3 billion	1990	$1 = LE 2.70	1991	LE18.90 billion	LE91.7 billion	1991 LE130.9 billion
1995[a/]	$16.8 billion	1995	$1 = LE 3.38	1994	LE28.20 billion	LE136.8 billion	1994 LE183.4 billion
				March 1995[a/]	LE30.3 billion	LE146.9 billion	1995 LE191.6 billion

Oil production (m/b/d)		Oil revenues		Proven oil reserves (m/b)		Refining capacity (000,b/d)	
1991	0.909	1993	$1169 million	1994	3269	1991	585
1994	0.780	1994	$1329 million	1995[a/]	3879	1994	585
1995[a/]	0.780	1995[a/]	$1443 million			1995[a/]	585

Natural gas reserves		Water desalination capacity		Distribution of total water demand (%)			
Billion cubic metres		Cubic metres per day			Domestic	Agriculture	Industrial
1994	546	1995[a/]	87,000	1990	4.7	87.2	8.1
1995[a/]	626			2000[b/]	4.5	86.7	8.8
				2025[b/]	5.5	81.6	12.9

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

Note: ( ) indicates negative for figures.

a/ Estimates.
b/ Projections.

JORDAN

Area	Population		Population density		Population growth 1994-1996 (%)
89,186 km^2	1994	4.0 million	1994	44 km^2	2.75
	1996[b/]	4.2 million	1996[b/]	47 km^2	
	2000[b/]	6.4 million	2000[b/]	71 km^2	
	2025[b/]	12.0 million	2025[b/]	134 km^2	

Life expectancy at birth (years)		Infant mortality rate per 1,000		Urban population (%)		Rural population (%)	
1960	47.0	1960	135	1995[a/]	71.5	1995[a/]	28.5
1994	67.59	1994	33.01				
1996[b/]	68.29	1996[b/]	31.13				

Population with access to safe drinking water (%)			Population with access to sanitation services (%)			GDP at constant 1992 prices		GDP growth rate (%)	
	Urban	Rural		Urban	Rural	1994	$5751 million	1995/94	6.3
1994	100	97	1994	100	100	1995[a/]	$6113 million		

Per capita GDP at constant 1992 prices		Sectoral contribution to GDP (%)						Government expenditure as % GDP	
			Agriculture	Mining	Manufacturing	Construction	Others		
1994	$1404	1980	7.1	4.1	12.9	10.0	65.9	1980	55.1
1995[a/]	$1439	1990	6.5	7.0	13.1	5.3	68.1	1990	40.8
		1994	6.7	2.6	12.2	6.3	72.2	1994	33.9
		1995[a/]	7.1	3.1	12.3	6.6	70.9		

Gross investment as % GDP		Inflation rate (%)		Exports (f.o.b)		Imports (c.i.f)		Trade balance	
1980	41.0	1992	3.95	1994	$1424 million	1994	$3382 million	1994	($1958) million
1990	31.4	1994	3.6	1995[a/]	$1794 million	1995[a/]	$3788 million	1995[a/]	($1994) million
1995[a/]	27.6	1995[a/]	2.3						

Current account balance		Workers' remittances		Net capital flows		Total external debt	
1993	($692) million	1995[a/]	$1.2 billion	1993	($530) million	1994	$7.2 billion
1994	($398) million	Total (1990-1995)	$5.2 billion	1994	($188) million	1995[a/]	$6.6 billion

International reserves		Exchange rate ($)		Money supply			Assets of commercial banks	
					M1	M2		
1994	$1.9 billion	1990	$1 = JD 0.665	1992	JD1716 million	JD4193 million	1991	JD5.6 billion
1995[a/]	$2.1 billion	1995	$1 = JD 0.708	1994	JD1746 million	JD4841 million	1994	JD7.5 billion
				1995	JD1745 million	JD5159 million	1995	JD8.4 billion

Natural gas reserves		Water desalination capacity		Distribution of total water demand (%)			
Billion cubic metres		Cubic metres per day			Domestic	Agriculture	Industrial
1994	5.7	1995[a/]	8500	1990	21.5	73.6	4.9
1995[a/]	6.2			2000[b/]	22.5	72.3	5.2
				2025[b/]	37.2	54.1	8.7

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

Note: ( ) indicates negative for figures.

a/ Estimates.
b/ Projections.

KUWAIT

Area	Population		Population density		Population growth 1994-1996 (%)
17,818 km^2	1994	1.620 million	1994	91 km^2	7.1
	1996[b/]	1.866 million	1996[b/]	104 km^2	
	2000[b/]	-	2000[b/]	-	
	2025[b/]	2.800 million	2025[b/]	157 km^2	

Life expectancy at birth (years)		Infant mortality rate per 1,000		Urban population (%)		Rural population (%)	
1960	59.6	1960	89.0	1995[a/]	97.2	1995[a/]	2.8
1994	76.6	1994	15.9				
1996[b/]	76.6	1996[b/]	15.9				
	-		-				

Population with access to safe drinking water (%)			Population with access to sanitation services (%)			GDP at constant 1992 prices		GDP growth rate (%)	
	Urban	Rural		Urban	Rural				
1994	100	-	1994	100	-	1994	$23043 million	1995/94	2.9
						1995[a/]	$23711 million		

Per capita GDP at constant 1992 prices		Sectoral contribution to GDP (%)						Government expenditure as % GDP	
			Agriculture	Mining	Manufacturing	Construction	Others		
1994	$14224	1980	0.2	65.3	5.6	3.7	25.2	1980	45.4
1995[a/]	$12956	1990	0.8	44.7	10.9	2.0	41.6	1990	68.4
		1994	0.3	39.2	10.6	3.4	46.5	1994	59.6
		1995[a/]	0.4	38.3	10.5	3.5	47.3		

Gross investment as % GDP		Inflation rate (%)		Exports (f.o.b)		Imports (c.i.f)		Trade balance	
1980	13.9	1992	(3.0)	1994	$11.2 billion	1994	$6.6 billion	1994	$4.6 billion
1990	17.6	1994	1.0	1995[a/]	$12.2 billion	1995[a/]	$7.0 billion	1995[a/]	$5.2 billion
1995[a/]	13.0	1995[a/]	3.5						

Current account balance	
1993	$2157 million
1994	$3025 million

Net capital flows	
1993	($3512 million)
1994	$886 million

International reserves	
1994	$3748 million
1995[a/]	$3448 million

Exchange rate ($)	
1990	$1 = KD 0.291
1995	$1 = KD 0.298

Money supply			Assets of commercial banks	
	M1	M2		
1991	KD1201 million	KD6016 million	1991	KD10.3 billion
1994	KD1042 million	KD6639 million	1994	KD11.0 billion
1995	KD1078 million	KD7424 million	1995	KD11.6 billion

Oil production (m/b/d)	
1991	0.129
1994	2.011
1995[a/]	2.011

Oil revenues	
1993	$9.9 billion
1994	$10.3 billion
1995[a/]	$11.2 billion

Proven oil reserves (m/b)	
1994	96500
1995[a/]	96500

Refining capacity (000,b/d)	
1991	635
1994	790
1995[a/]	790

Natural gas reserves	
Billion cubic metres	
1994	1498
1995[a/]	1498

Water desalination capacity	
Cubic metres per day	
1995[a/]	1.5 million

Distribution of total water demand (%)			
	Domestic	Agriculture	Industrial
1990	77.0	20.9	2.1
2000[b/]	63.6	18.6	17.8
2025[b/]	69.0	14.4	16.6

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

Note: ( ) indicates negative for figures.

a/ Estimates.
b/ Projections.

LEBANON

Area	Population		Population density		Population growth 1994-1996 (%)
10,400 km^2	1994	3.481 million	1994	334 km^2	2.0
	1996[b/]	3.652 million	1996[b/]	351 km^2	
	2000[b/]	-	2000[b/]	-	
	2025[b/]	4.400 million	2025[b/]	423 km^2	

Life expectancy at birth (years)		Infant mortality rate per 1,000		Urban population (%)		Rural population (%)	
1960	59.6	1960	68.0	1995[a/]	87.0	1995[a/]	13.0
1994	75.1	1994	28.0				
1996[b/]	75.1	1996[b/]	28.0				

Population with access to safe drinking water (%)			Population with access to sanitation services (%)			GDP at constant 1992 prices		GDP growth rate (%)	
	Urban	Rural		Urban	Rural	1994	$6579 million	1995/94	7.0
1994	100	100	1994	94	18	1995[a/]	$7039 million		

Per capita GDP at constant 1992 prices		Sectoral contribution to GDP (%)					Government expenditure as % GDP	
			Agriculture	Manufacturing	Construction	Others		
1994	$2257	1980	9.2	12.2	3.2	75.4	1980	27.6
1995[a/]	$2326	1990	8.8	12.6	3.3	75.3	1990	39.8
		1994	7.8	9.1	4.8	78.3	1994	33.8
		1995[a/]	7.9	13.3	5.4	73.4		

Gross investment as % GDP		Inflation rate (%)		Exports (f.o.b)		Imports (c.i.f)		Trade balance	
1980	15.7	1992	120.0	1994	$739 million	1994	$5406 million	1994	($4667)
1990	39.0	1994	16.0	1995[a/]	$982 million	1995[a/]	$6722 million	1995[a/]	($5740)
1995[a/]	30.0	1995[a/]	10.5						

Workers' remittances	
1993	$300 million
1994	$320 million

Total external debt	
1994	$772 million
1995	$1282 million

International reserves	
1994	$7.4 billion
1995[a/]	$6.7 billion

Exchange rate ($)	
1990	$1 = LL 695
1995	$1 = LL 1638

Money supply

	M1	M2
1991	LL689 billion	LL2152 billion
1994	LL1436 billion	LL8587 billion
1995[a/]	LL1560 billion	LL9663 billion

Assets of commercial banks	
1991	LL6797 billion
1994	LL24285 billion
1995[a/]	LL29054 billion

Water desalination capacity

Cubic metres per day
1995[a/] -

Distribution of total water demand (%)

	Domestic	Agriculture	Industrial
1990	27.7	66.9	5.4
2000[b/]	28.9	63.2	7.9
2025[b/]	34.9	50.8	14.3

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

Note: ( ) indicates negative for figures.

a/ Estimates.
b/ Projections.

OMAN

Area	Population		Population density		Population growth 1994-1996 (%)
300,000 km^2	1994	2.049 million	1994	6 km^2	2.64
	1996[b/]	2.160 million	1996[b/]	7 km^2	
	2000[b/]	2.600 million	2000[b/]	8 km^2	
	2025[b/]	6.100 million	2025[b/]	20 km^2	

Life expectancy at birth (years)		Infant mortality rate per 1,000		Urban population (%)		Rural population (%)	
1960	40.1	1960	214	1995[a/]	13.1	1995[a/]	86.9
1994	67.30	1994	28.89				
1996[b/]	67.30	1996[b/]	28.19				

Population with access to safe drinking water (%)			Population with access to sanitation services (%)			GDP at constant 1992 prices		GDP growth rate (%)	
	Urban	Rural		Urban	Rural				
1994	87	42	1994	100	34	1994	$12.6 billion	1995/94	4.5
						1995[a/]	$13.2 billion		

Per capita GDP at constant 1992 prices		Sectoral contribution to GDP (%)						Government expenditure as % GDP	
			Agriculture	Mining	Manufacturing	Construction	Others		
1994	$6030	1980	2.5	62.0	0.75	5.7	29.05	1980	42.8
1995[a/]	$6062	1990	3.3	49.4	3.8	3.0	40.5	1990	46.6
		1994	3.2	40.4	4.8	4.2	47.4	1994	48.7
		1995[a/]	3.1	41.0	5.1	3.9	46.9		

Gross investment as % GDP		Inflation rate (%)		Exports (f.o.b)		Imports (c.i.f)		Trade balance	
1980	22.5	1992	1.4	1994	$5543 million	1994	$3914 million	1994	$1629 million
1990	14.9	1994	(0.7)	1995[a/]	$5795 million	1995[a/]	$4012 million	1995[a/]	$1783 million
1995[a/]	16.7	1995[a/]	1.0						

OMAN *(continued)*

Current account balance	
1992	($496 million)
1993	($1069 million)

Workers' remittances	
1995[a/]	($1.6 billion)
Total (1990-1995)	($7.6 billion)

Net capital flows	
1992	$314 million
1993	$49 million

International reserves	
1994	$1083 million
1995[a/]	$1082 million

Exchange rate ($)	
1990	$1 = Ro 0.385
1995	$1 = Ro 0.385

Oil production (m/b/d)	
1991	0.700
1994	0.800
1995[a/]	0.850

Oil revenues	
1993	$4500 million
1994	$4275 million
1995[a/]	$4873 million

Proven oil reserves (m/b)	
1994	4828
1995[a/]	5139

Refining capacity (000,b/d)	
1991	80
1994	80
1995[a/]	80

Natural gas reserves Billion cubic metres	
1994	630
1995[a/]	714

Water desalination capacity Cubic metres per day	
1995[a/]	162,000

Distribution of total water demand (%)			
	Domestic	Agriculture	Industrial
1990	6.5	93.0	0.5
2000[b/]	11.1	83.3	5.6
2025[b/]	25.4	60.5	14.1

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

Note: ( ) indicates negative for figures.

a/ Estimates.
b/ Projections.

QATAR

Area	Population		Population density		Population growth 1994-1996 (%)
11,437 km²	1994	0.532 million	1994	46 km²	1.31
	1996[b/]	0.546 million	1996[b/]	48 km²	
	2000[b/]	-	2000[b/]	-	
	2025[b/]	0.800 million	2025[b/]	70 km²	

Life expectancy at birth (years)		Infant mortality rate per 1,000		Urban population (%)		Rural population (%)	
1960	53.0	1960	145	1995[a/]	91.3	1995[a/]	8.7
1994	72.26	1994	17.63				
1996[b/]	72.38	1996[b/]	16.28				

Population with access to safe drinking water (%)			Population with access to sanitation services (%)			GDP at constant 1992 prices		GDP growth rate (%)	
	Urban	Rural		Urban	Rural				
1994	100	100	1994	94	18	1994	$7488 million	1995/94	1.0
						1995[a/]	$7563 million		

Per capita GDP at constant 1992 prices		Sectoral contribution to GDP (%)						Government expenditure as % GDP	
			Agriculture	Mining	Manufacturing	Construction	Others		
1994	$13866	1980	0.50	67.2	3.3	5.4	23.6	1980	50.3
1995[a/]	$13725	1990	0.80	38.0	12.9	4.2	44.1	1990	39.3
		1994	1.1	31.0	12.5	4.9	50.5	1994	51.4
		1995[a/]	1.3	32.9	12.3	4.1	49.4		

Gross investment as % GDP		Inflation rate (%)		Exports (f.o.b)		Imports (c.i.f)		Trade balance	
1980	17.0	1992	4.4	1994	$3200 million	1994	$1900 million	1994	$1300 million
1990	19.6	1994	4.0	1995[a/]	$3500 million	1995[a/]	$2050 million	1995[a/]	$1450 million
1995[a/]	17.6	1995[a/]	3.7						

International reserves	
1994	$730 million
1995[a/]	$765 million

Exchange rate ($)	
1990	$1 = QR 3.64
1995	$1 = QR 3.64

Money supply		
	M1	M2
1992	QR3990 million	QR15026 million
1994	QR3911 million	QR18419 million
1995	QR3720 million	QR18622 million

Assets of commercial banks	
1991	QR25517 million
1994	QR31323 million
1995	QR34248 million

Oil production (m/b/d)	
1991	0.383
1994	0.403
1995[a/]	0.422

Oil revenues	
1993	$2594 million
1994	$2419 million
1995[a/]	$2508 million

Proven oil reserves (m/b)	
1994	3700
1995[a/]	3700

Refining capacity (000,b/d)	
1991	63
1994	63
1995[a/]	63

Natural gas reserves	
Billion cubic metres	
1994	7080
1995[a/]	7080

Water desalination capacity	
Cubic metres per day	
1995[a/]	562,000

Distribution of total water demand (%)			
	Domestic	Agriculture	Industrial
1990	39.2	56.2	4.6
2000[b/]	31.0	63.8	5.2
2025[b/]	47.4	42.3	10.3

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

Note: ( ) indicates negative for figures.

a/ Estimates.
b/ Projections.

SAUDI ARABIA

Area	Population	Population density	Population growth 1994-1996 (%)
2.15 million km²	1994 18.180 million	1994 8 km²	2.83
	1996[b/] 19.240 million	1996[b/] 9 km²	
	2000[b/] -	2000[b/] -	
	2025[b/] 42.600 million	2025[b/] 20 km²	

Life expectancy at birth (years)		Infant mortality rate per 1,000		Urban population (%)		Rural population (%)	
1960	44.4	1960	170	1995[a/]	80	1995[a/]	20
1994	68.56	1994	25.26				
1996[b/]	69.98	1996[b/]	22.16				

Population with access to safe drinking water (%)			Population with access to sanitation services (%)			GDP at constant 1992 prices		GDP growth rate (%)	
	Urban	Rural		Urban	Rural	1994	$121.0 billion	1995/94	1.7
1994	100	48	1994	100	55	1995[a/]	$123.1 billion		

Per capita GDP at constant 1992 prices		Sectoral contribution to GDP (%)						Government expenditure as % GDP	
			Agriculture	Mining	Manufacturing	Construction	Others		
1994	$6938	1980	1.2	60.5	5.0	11.6	21.7	1980	45.4
1995[a/]	$6917	1990	6.4	36.0	6.9	8.7	42.0	1990	51.2
		1994	7.0	32.5	8.6	9.6	42.3	1994	38.0
		1995[a/]	6.5	35.8	8.8	8.8	40.1		

Gross investment as % GDP		Inflation rate (%)		Exports (f.o.b)		Imports (c.i.f)		Trade balance	
1980	26.2	1992	(0.1)	1994	$41.8 billion	1994	$21.3 billion	1994	$20.5 billion
1990	23.0	1994	0.6	1995[a/]	$45.8 billion	1995[a/]	$22.5 billion	1995[a/]	$23.3 billion
1995[a/]	23.4	1995[a/]	4.8						

SAUDI ARABIA *(continued)*

Current account balance	
1993	($17268 million)
1994	($9068 million)

Workers' remittances	
1995[a/]	($17.2 billion)
Total (1990-1995)	($100.0 billion)

Net capital flows	
1993	$18763 million
1994	$8922 million

International reserves	
1994	$8217 million
1995[a/]	$9845 million

Exchange rate ($)	
1990	$1 = SRls3.745
1995	$1 = SRls3.745

Money supply

	M1	M2
1994	SRls129.5 billion	SRls180.9 billion
1995	SRls128.1 billion	SRls186.5 billion

Assets of commercial banks	
1994	SRls328.9 billion
1995	SRls346.7 billion

Oil production (m/b/d)	
1991	8230
1994	8044
1995[a/]	8044

Oil revenues	
1993	$41353 million
1994	$37530 million
1995[a/]	$40757 million

Proven oil reserves (m/b)	
1994	261203
1995[a/]	261203

Refining capacity (000,b/d)	
1991	1631
1994	1676
1995[a/]	1676

Natural gas reserves Billion cubic metres	
1994	5265
1995[a/]	5265

Water desalination capacity Cubic metres per day	
1995[a/]	5 million

Distribution of total water demand (%)

	Domestic	Agriculture	Industrial
1990	9.3	89.6	1.1
2000[b/]	13.2	84.4	2.4
2025[b/]	26.7	67.3	6.0

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

Note: ( ) indicates negative for figures.

a/ Estimates.
b/ Projections.

SYRIAN ARAB REPUBLIC

Area	Population		Population density		Population growth 1994-1996 (%)
185,180 km^2	1994	13.733 million	1994	74 km^2	2.39
	1996[b/]	14.404 million	1996[b/]	77 km^2	
	2000[b/]	17.300 million	2000[b/]	93 km^2	
	2025[b/]	33.500 million	2025[b/]	180 km^2	

Life expectancy at birth (years)		Infant mortality rate per 1,000		Urban population (%)		Rural population (%)	
1960	49.8	1960	135	1995[a/]	52.4	1995[a/]	47.6
1994	69.86	1994	69.96				
1996[b/]	69.86	1996[b/]	69.86				

Population with access to safe drinking water (%)			Population with access to sanitation services (%)			GDP at constant 1992 prices		GDP growth rate (%)	
	Urban	Rural		Urban	Rural	1994	$13.7 billion	1995/94	6.0
1994	91	68	1994	72	55	1995[a/]	$14.5 billion		

Per capita GDP at constant 1992 prices		Sectoral contribution to GDP (%)						Government expenditure as % GDP	
			Agriculture	Mining	Manufacturing	Construction	Others		
1994	$987	1980	20.2	-	16.3	7.0	56.5	1980	48.0
1995[a/]	$1005	1990	30.0	10.0	4.1	3.8	52.1	1990	22.9
		1994	28.6	7.3	7.1	4.1	52.9	1994	26.6
		1995[a/]	28.7	8.9	4.2	4.1	54.1		

Gross investment as % GDP		Inflation rate (%)		Exports (f.o.b)		Imports (c.i.f)		Trade balance	
1980	27.5	1992	9.5	1994	$3755 million	1994	$4569 million	1994	($814)
1990	20.5	1994	15.3	1995[a/]	$4000 million	1995[a/]	$4700 million	1995[a/]	($700)
1995[a/]	22.3	1995[a/]	22.0						

SYRIAN ARAB REPUBLIC *(continued)*

Current account balance		Workers' remittances		Net capital flows		Total external debt	
1993	($607 million)	1994	$1054 million	1993	$571 million	1994	$18.5 billion
1994	($637 million)	Total (1990-1994)	$3638 million	1994	$572 million	1995	$20.2 billion

Exchange rate ($)	
1990	$1 = LS 11.225
1995	$1 = LS 11.225

Oil production (m/b/d)		Oil revenues		Proven oil reserves (m/b)		Refining capacity (000,b/d)	
1991	0.495	1993	$2080 million	1994	2500	1991	233
1994	0.575	1994	$1976 million	1995[a/]	2500	1994	233
1995[a/]	0.600	1995[a/]	$2145 million			1995[a/]	233

Natural gas reserves		Water desalination capacity	
Billion cubic metres		Cubic metres per day	
1994	198	1995[a/]	7700
1995[a/]	198		

Distribution of total water demand (%)

	Domestic	Agriculture	Industrial
1990	8.4	89.7	1.9
2000[b/]	7.7	89.4	2.9
2025[b/]	10.7	84.9	4.4

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

Note: ( ) indicates negative for figures.

a/ Estimates.
b/ Projections.

UNITED ARAB EMIRATES

Area
84,000 km²

Population
1994 2.1 million
1996[b/] 2.2 million
2000[b/] -
2025[b/] 2.9 million

Population density
1994 25 km²
1996[b/] 26 km²
2000[b/] -
2025[b/] 34 km²

Population growth 1994-1996 (%)
2.1

Life expectancy at birth (years)
1960 53.0
1994 72.16
1996[b/] 72.16

Infant mortality rate per 1,000
1960 145.0
1994 18.2
1996[b/] 18.2

Urban population (%)
1995[a/] 84.0

Rural population (%)
1995[a/] 16.0

Population with access to safe drinking water (%)

	Urban	Rural
1994	100	100

Population with access to sanitation services (%)

	Urban	Rural
1994	100	77

GDP at constant 1992 prices
1994 $34917 million
1995[a/] $35370 million

GDP growth rate (%)
1995/94 2.1

Per capita GDP at constant 1992 prices
1994 $18762
1995[a/] $18528

Sectoral contribution to GDP (%)

	Agriculture	Mining	Manufacturing	Construction	Others
1980	0.8	63.5	3.8	8.8	23.1
1990	1.6	46.7	7.5	8.1	36.1
1994	2.6	34.2	8.4	9.9	44.9
1995[a/]	2.4	35.4	8.2	10.0	44.0

Government expenditure as % GDP
1980 33.8
1990 39.1
1994 40.9

Gross investment as % GDP
1980 27.9
1990 20.6
1995[a/] 27.8

Inflation rate (%)
1992 3.4
1994 4.2
1995[a/] 5.0

Exports (f.o.b)
1994 $25.0 billion
1995[a/] $28.8 billion

Imports (c.i.f)
1994 $21.2 billion
1995[a/] $24.9 billion

Trade balance
1994 $3.8 billion
1995[a/] $3.9 billion

UNITED ARAB EMIRATES *(continued)*

International reserves	
1994	$6.9 billion
1995[a/]	$7.7 billion

Exchange rate ($)	
1990	$1 = Dh 3.671
1995	$1 = Dh 3.671

Money supply			
	M1	M2	Assets of commercial banks
1992	Dh14981 million	Dh69545 million	1991 Dh 147.4 billion
1994	Dh19182 million	Dh73882 million	1994 Dh 171.6 billion
1995	Dh19759 million	Dh79300 million	1995 Dh 176.3 billion

Oil production (m/b/d)	
1991	2368
1994	2184
1995[a/]	2200

Oil revenues	
1993	12086 million
1994	12200 million
1995[a/]	13249 million

Proven oil reserves (m/b)	
1994	98100
1995[a/]	98100

Refining capacity (000,b/d)	
1991	195
1994	205
1995[a/]	205

Natural gas reserves	
Billion cubic metres	
1994	5794
1995[a/]	5794

Water desalination capacity	
Cubic metres per day	
1995[a/]	2 million

Distribution of total water demand (%)			
	Domestic	Agriculture	Industrial
1990	34.4	63.8	1.8
2000[b/]	34.4	64.2	1.4
2025[b/]	34.4	64.1	1.5

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

Note: ( ) indicates negative for figures.

a/ Estimates.
b/ Projections.

YEMEN

Area
528,000 km²

Population

1994	13.4 million
1996[b/]	14.3 million
2000[b/]	17.0 million
2025[b/]	33.6 million

Population density

1994	25 km²
1996[b/]	27 km²
2000[b/]	32 km²
2025[b/]	63 km²

Population growth 1994-1996 (%)
3.3

Life expectancy at birth (years)

1960	36.4
1994	57.51
1996[b/]	57.51

Infant mortality rate per 1,000

1960	214
1994	82.46
1996[b/]	82.46

Urban population (%)
1995[a/] 33.6

Rural population (%)
1995[a/] 66.4

Population with access to safe drinking water (%)

	Urban	Rural
1994	88	33

Population with access to sanitation services (%)

	Urban	Rural
1994	68	30

GDP at constant 1992 prices

1994	$4054 million
1995[a/]	$4073 million

GDP growth rate (%)
1995/94 0.5

Per capita GDP at constant 1992 prices

1994	$320
1995[a/]	$310

Sectoral contribution to GDP (%)

	Agriculture	Mining	Manufacturing	Construction	Others
1980	24.7	1.0	5.6	9.9	58.8
1990	20.4	8.4	8.4	4.3	58.5
1994	18.2	9.8	12.8	3.1	56.1
1995[a/]	18.4	14.7	8.9	2.8	55.2

Government expenditure as % GDP

1980	57.4
1990	41.2
1994	40.4

Gross investment as % GDP

1980	41.3
1990	11.7
1995[a/]	11.0

Inflation rate (%)

1992	45
1994	100
1995[a/]	45

Exports (f.o.b)

1994	$1811 million
1995[a/]	$1950 million

Imports (c.i.f)

1994	$1856 million
1995[a/]	$1950 million

Trade balance

1994	($45 million)
1995[a/]	0

YEMEN *(continued)*

Current account balance	
1993	($1284 million)
1994	($57.7 million)

Workers' remittances	
1994	$1044 million
Total (1992-1994)	$3051 million

Net capital flows	
1993	$39.6 million
1994	($568 million)

Total external debt	
1994	$6.6 billion
1995[a/]	$6.3 billion

Exchange rate ($)

1990	$1 = YRls 12
1990	$1 = YRls 71

Oil production (m/b/d)	
1991	0.199
1994	0.340
1995[a/]	0.345

Oil revenues	
1993	$591 million
1994	$562 million
1995[a/]	$620 million

Proven oil reserves (m/b)	
1994	4000
1995[a/]	4000

Refining capacity (000,b/d)	
1991	200
1994	200
1995[a/]	200

Natural gas reserves

Billion cubic metres	
1994	425
1995[a/]	425

Water desalination capacity

Cubic metres per day	
1995[a/]	37188

Distribution of total water demand (%)

	Domestic	Agriculture	Industrial
1990	5.8	93.1	1.1
2000[b/]	10.2	88.1	1.7
2025[b/]	17.6	79.5	2.9

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

Note: ( ) indicates negative for figures.

a/ Estimates.
b/ Projections.