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SURVEY OF ECONOMIC AND SOCIAL DEVELOPMENTS IN THE ESCWA REGION 1986

SUMMARY

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SUMMARY

Both in terms of present performance and future prospects, the economies of the region of Western Asia have been adversely affected by a combination of factors. Chief among them is the Gulf war between Iraq and Iran, which has now entered its seventh year, and the ensuing increasing depletion of the region's human and material resources. The Gulf war also threatens peace and security in the region and especially in the Gulf States.

The persistent military and political disturbances in Lebanon have also had grave consequences for that country's industrial and agricultural production, have led to the breakdown of its economic institutions and have caused a serious depreciation of its currency.

In addition, the continuous fluctuation of oil prices in international oil markets since 1983 and the resulting decline and contraction of oil revenues have caused a slow-down in economic activity in most countries of the region, whether oil-producing or non-oil-producing countries. This is attributable to the close links among the economies of the region, which have developed and expanded during the past decade and which are exemplified in the increased movement of the labour force among the countries concerned. This movement has been due either to migration from heavily populated countries to oil-exporting countries, or to return migration, which has had serious consequences for the economies of the labour-sending countries. The most important consequence has been the decline in remittances sent by nationals to their home countries, and it should be noted that such remittances are a major source of foreign currency for the countries in question.

One of the main links among the economies of the region is the flow of financial resources, in the form of concessional loans, grants and investments, from the member countries of the Gulf Co-operation Council (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates) to other countries in the region. These flows have in the past assisted the non-oil countries in financing a substantial part of their development projects and in alleviating their balance of payments deficits. The decline in oil revenues, the ensuing restraint in financial policies and the resulting decrease in the financial resources needed for development will worsen the balance of payments position of the non-oil-producing countries and will exacerbate their external debt problems.

The year 1986 was marked by an aggravation of the adverse effects generated by the above-mentioned factors. In addition, rising protectionism in international trade continued to hamper the expansion of the region's newly-developed petrochemical industry.

The international oil market witnessed a severe decline in oil prices during 1986. Actually oil prices started falling after reaching the \$28-\$30 per barrel range in late November 1985.

In March 1986, oil prices were less than half their January level. And when oil prices fell to the \$8.85 per barrel level in July they were at only

33.8 per cent of their January level. The $8.85 per barrel price was the lowest average monthly level since 1974 in nominal terms. In real terms, accounting for inflation, the cost per barrel of oil in July 1986 was considerably lower.

The sharp decline in oil prices during 1986 was accompanied by abrupt and substantial monthly fluctuations. For example, oil prices dropped by 37.7 per cent in February and rose by 28.2 per cent in August 1986. This instability is very detrimental to the oil market and causes havoc to planners in both oil-importing and oil-exporting countries.

Furthermore, it is estimated that every dollar decline in the price of a barrel of oil results in an annual income transfer of $5 to $6 billion from oil-exporting to oil-importing countries. The drop in oil prices from an average of $27 per barrel in 1985 to an average of $14 per barrel in 1986 is estimated to have led to a transfer of $65 to $75 billion from oil-exporting to oil-importing countries. Since, other than the United Kingdom and the Soviet Union, major oil-exporting countries are mostly developing countries, led by ESCWA countries, namely Saudi Arabia, Kuwait, Iraq and the United Arab Emirates, and the major oil-importing countries include the United States, Japan, the Federal Republic of Germany and France, the bulk of the income transfer in 1986 accrued to the industrialized countries, with the oil-importing developing countries benefiting to a much smaller extent.

Another consequence of the sharp fall in oil prices in 1986 is that, while reducing the oil-import bill of many oil-importing countries, it has increased the debt service burden of several major oil-exporting indebted countries including Egypt, to dangerously high levels. A default by any of these, or other major indebted developing countries could precipitate a major international financial crisis due to the relatively high exposure of many international commercial banks.

Total oil production by ESCWA countries, which had averaged 18.9 m/b/d in 1979, fell to an average of 8.6 m/b/d in 1985, in spite of the increase in oil production in Egypt during these years. ESCWA members of OPEC, particularly Saudi Arabia, Kuwait and Iraq, witnessed sharp declines in their oil production during the 1979-1985 period. Though Iraq's oil output was reduced primarily due to factors relating to its war with Iran, Saudi Arabia and Kuwait's oil output levels were cut voluntarily to abide by OPEC production quotas designed to support oil prices.

Saudi Arabia's oil production, which was close to 10 m/b/d in 1980, was curtailed to 3.2 m/b/d in 1985. Kuwait's oil production similarly fell from 1.6 m/b/d to less than 1 m/b/d during the same period. The sacrifices endured by ESCWA major oil-exporting countries in order to support oil prices become more apparent when one considers their respective oil production capacities as well as their large oil reserves.

While playing the role of the OPEC "swing producer", Saudi Arabia saw its oil production fall to an average of 2.34 m/b/d during the month of August 1985. Given its various financial obligations and deteriorating current account deficits, it was unwilling to continue producing at such a relatively low level. Thus Saudi Arabia abandoned its role as the OPEC "swing producer" and increased its output starting September 1985. Moreover, concerned over their declining oil production and recognizing the general reluctance of major non-OPEC oil-exporting countries to co-operate in supporting oil prices, OPEC members declared in December 1985 a policy intended to secure and defend for OPEC "a fair share" in the world oil market. Consequently, OPEC oil production increased substantially in 1986, averaging 18.3 m/b/d which was 16.4 per cent more than its production in 1985. The world oil production of 59.6 m/b/d in 1986 represents almost a 3 m/b/d increase over 1985. The ESCWA oil producers accounted for the bulk of the increase in world oil production in 1986. Oil production in Saudi Arabia, Kuwait, Iraq and the United Arab Emirates increased in 1986 over 1985 by 58.3 per cent, 51.8 percent, 20.5 per cent and 13 per cent respectively.

The net result of tumbling oil prices and substantial production increases was drastic declines in the oil revenues of ESCWA oil-exporting countries. Prelimary estimates of total oil revenues of major ESCWA oil-exporting countries indicate that such revenues fell to $50.3 billion in 1986 from $64 billion in the previous year. The oil revenues of these countries in 1986 were thus over 21 per cent below their 1985 level and amounted to less than 30 per cent of their combined 1980 peak level of $170.8 billion. Furthermore, since oil revenues are received mostly in US dollars, which continued to depreciate vis-a-vis other major currencies since reaching a peak in late February 1985, the purchasing power of the oil revenues in terms of several major currencies declined further. This is expected to affect the selection of trading partners by several ESCWA countries.

The impact of sharply declining oil prices and revenues on the ESCWA region cannot be over-emphasized. Oil exports account for 60 per cent or more of total exports in nine (the six GCC members in addition to Egypt, Iraq and the Syrian Arab Republic) out of the 13 ESCWA countries. For most GCC members, oil exports account for over 90 per cent of total exports. Moreover, in spite of sincere diversification efforts and certain accomplishments in some countries, despite the recent sharp declines in oil revenues, oil still accounts for more than one third of GCC countries' GDP, and around two thirds of government revenues. Hence the declining oil prices and revenues in 1986 had severe ramifications on the balance of payments, national budgets and development plans as well as economic activities in almost all countries in Western Asia.

Primarily owing to the drastic decline in oil prices, the balance of payments current account recorded deficits for most ESCWA countries in 1986. The major oil-exporting countries in the region financed such current account deficits largely by drawing on surpluses accumulated in the 1970s and early 1980s. ESCWA major oil-exporting countries withdrew a total of $8,014 billion from their accounts in foreign banks during the first half of 1986. The holdings in foreign assets of the GCC countries, which had fallen to $205 billion by the end of 1985, fell further in 1986. Other ESCWA countries had to borrow further to finance their current account deficits and hence added to their external debts and increased their debt servicing burdens.

The drastic declines in oil revenues and the prevalence of a high degree of instability in the international oil market in 1986 has contributed to the delay in the finalization of national budgets in several ESCWA countries, which heavily depend on oil revenues to finance government expenditures. Budgets were revised downwards and government expenditures cut in major oil-exporting countries as well as several other countries in the region. And since government expenditures account for a major share of total expenditures in ESCWA countries, their reduction has had a contractionary effect on their respective economies.

Moreover, the economic contraction in the major oil-exporting countries in Western Asia has contributed to the intensification of efforts made to replace expatriate workers by nationals. Owing to inadequate manpower planning in many ESCWA countries and the lack of a regional manpower planning policy, this could cause drastic and abrupt adjustments in the labour markets in both the labour-sending as well as labour-receiving countries in Western Asia. Thus such measures have alarmed the major labour-sending countries in the region, particularly Egypt, Jordan and the region's least developed countries, Democratic Yemen and Yemen, which have all come to depend greatly on the transferred remittances of their workers abroad. Similarly, Jordan's workers' remittances fell from $1,027 million in 1984/1985 to $898 million in 1985/1986. Democratic Yemen's workers' remittances fell from $436 million in 1985 to $382 million in 1986. And Yemen's workers' remittances, which totalled $1,276 million in 1984/1985, dropped to $1,059 million in 1985/1986.

Another consequence of declining oil prices and oil revenues is the reduction in the ability of ESCWA aid donors to continue providing financial assistance to other developing countries at the levels reached during the late 1970s and early 1980s when OPEC and ESCWA major oil-exporting countries rapidly accumulated billions of dollars in oil revenues.

During the past 10 years, OPEC members, and particularly ESCWA major oil-exporting countries, have advanced substantial amounts of international development aid, but their allocations have been falling with declining oil revenues.

ESCWA major aid donors, Saudi Arabia, Kuwait and the United Arab Emirates, donated to poorer developing countries, including other ESCWA and Arab countries, a total of $7.48 billion in 1981, representing almost 90 per cent of total OPEC aid to the third world that year. As oil revenues fell, it became more difficult for OPEC members, including the ESCWA countries which are members of OPEC, to maintain the same level of donations. Hence it is estimated that the total aid to developing countries from Saudi Arabia, Kuwait and the United Arab Emirates dropped to $2.93 billion by 1985. Despite the decline in absolute amounts, aid donations as a percentage of the GNP of Kuwait (2.72 per cent) and Saudi Arabia (2.30 per cent) remained much higher than those of the industrialized countries (0.36 per cent), including the United States (0.25 per cent) in 1985.

Since oil revenues of ESCWA major oil exporters, as well as those of all OPEC members, have fallen again and sharply in 1986, it is to be expected that their ability to grant further aid to other developing countries has diminished further. Developed countries, especially those which have benefited from declining oil prices and the accompanying considerable transfer of wealth that took place in 1986, should play a greater role in assisting developing countries directly through bilateral aid and indirectly by increasing their contibutions to the various international and regional development finance institutions.

The ESCWA region's GDP fell by 4 per cent in 1985; it is estimated that in 1986 the GDP further declined by 6 per cent.

Although the slow-down in economic growth covers the entire region, the rates of decline differ from one group of countries to another. In the GCC countries, for example, GDP recorded a decline of 6.4 per cent in real terms in 1985 and preliminary estimates for 1986 indicate a further decline of 8.4 per cent. The contraction in economic performance within this group of countries is mainly attributable to the declining activities of the mining and quarrying sector, which recorded a negative growth rate of 13.5 per cent in 1985 and 23 per cent in 1986 respectively.

The group of countries in the region with diversified economies comprises Iraq, the Syrian Arab Republic, Egypt, Lebanon and Jordan. In 1986, the share of the mining and quarrying sector in total GDP was around 10 per cent, that of the agricultural sector around 19.5 per cent and that of the industrial sector around 13 per cent. It should be noted that, despite the relative diversification in the sources of income of the countries in this group, they have all been affected in one way or another by the economic recession prevailing in the GCC countries and the depressed oil market, especially since they include oil-producing and oil-exporting countries. Moreover, some members of the group suffer from persistent and increasing government budget deficits and a deterioration in their balance of payments position. Hence, they have often resorted to external loans in order to redress the deterioration in their balance of payments position and to finance their development projects.

The developments witnessed during the past two years led to the decline of economic growth in these countries. GDP which registered a growth of 3.7 per cent in 1985, registered a slight increase of less than 1 per cent in 1986 according to the preliminary estimations. With regard to the third and last group of the countries in the region, which comprises the two least developed countries, it should be noted that the economic performance therein was drastically affected by the prevailing recession in most countries of the region. This is in addition to the damages caused by the disturbances in Democratic Yemen in early 1986. The combined GDP of these two countries, which grew by about 4 per cent in 1985, recorded a growth of less than 3 per cent in 1986.

The total GDP in Western Asia was estimated to be around $US 265 billion in 1986, implying a serious drop estimated at around $US 18 billion from its 1985 level.

Since activities in most non-oil sectors in the region, particularly in the GCC countries, are affected by the mining sector and level of public expenditures, their performance record has also been poor. The trade sector, which is directly affected by developments in the international oil markets, continued to suffer in 1986.

Preliminary and partial data for the first half of 1986 indicate that, owing to the collapse of oil prices, there was a steep decline (around 27 per cent) in the combined exports for 5 out of the 13 ESCWA countries for which data were available. The value of exports declined in Oman by close to 40 per cent, in the United Arab Emirates by 28 per cent, in Egypt by over 16 per cent, in Jordan by around 15 per cent and in Lebanon by about 3 per cent. While depressed oil prices largely explain the fall in exports of the GCC countries, in Jordan the decline in exports of phosphates and fertilizers (prices and volumes) and in Lebanon the continued civil strife were the responsible factors.

Partial information covering the first half of 1986 points to a continuation of the decline in imports in Kuwait, Egypt and Jordan, while imports into the United Arab Emirates, Lebanon and Iraq appear to have increased somewhat. Indications, however, are that import cutbacks have continued throughout 1986, as reflected in the compression of the volume imports for the whole year by 18.7 per cent for the "Middle East" region.

After deteriorating in 1983 by 8.8 per cent and remaining virtually unchanged in 1984 as both export and import prices fell equally, the region's terms of trade deteriorated by another 3.6 per cent in 1985. Preliminary data covering 1986 point to a dramatic deterioration in the terms of trade by 44 per cent, under the impact of the collapse in oil prices and softening of non-oil primary commodity prices. Thus, the overall import situation has deteriorated under the impact of the following: falling export earnings; deteriorating terms of trade and purchasing power of exports; budgetary restraints and scaling-down of investment expenditures; shortfalls in other sources of foreign exchange such as receipts from services, workers' remittances and Arab aid flows (spill-overs from the major oil economies); and reduced net capital inflows.

Notwithstanding more than three decades of efforts to promote intraregional trade, its share in total trade has remained meagre and considerably below expectations and aspirations.

The failure of intra-trade to account for a more significant share of the region's aggregate trade may be attributed to a number of interrelated economic and institutional factors. The region's potential to supply the range of products imported from other countries, in the required quantities and qualities, is limited by the smallness and narrowness of the production base in member countries and its overall competitive character, as well as the failure to place agricultural and industrial development within a regional perspective. Differences in levels of development, socio-economic systems and trade regimes give rise to the prevalence of and/or preference for bilateral trade arrangements over multilateral ones, and the maintenance of various forms of non-tariff barriers despite an overall commitment to the liberalization of intraregional trade. Obstacles of an institutional nature, including inadequate trade-financing arrangements, transport bottle-necks, lack of harmonization of customs nomenclature and trade formalities, differences in trade-handling organizations (State trading versus private sector) and more favourable and long-standing trade relations with suppliers outside the region, also work against intraregional trade. The comprehensive and inflexible nature of multilateral trade agreements is another deterrent factor as reflected in the limited adherence to them. Political considerations have worked both in favour and against intraregional trade and regional co-operation. However, their overall impact has adversely affected the process and frustrated many initiatives. This negative impact has arisen mainly from a generally weak political commitment which has obstructed implementation, and uncertainty regarding the continuity of integration measures created by unstable and shifting political relations. At the same time, unstable political relations have had adverse effects on trade mainly through their direct impact on the smooth flow of trade, as well as indirectly through their effects on entrepreneurs' behaviour and production decisions.

The weaker balance of payments position of the ESCWA region in recent years reflected mainly the unfavourable trends affecting crude oil production and exports.

The deterioration of current accounts experienced during the last few years for most of the ESCWA countries persisted in 1986. The 1986 sharp fall in oil prices aggravated the situation for ESCWA oil-exporting countries. In their endeavours to curb imports, reduce pressures on balance of payments and stimulate growth, some ESCWA countries found themselves forced to devale their currencies. The Omani rial was devaluated by 10 per cent; the Saudi riyal by 2.7 per cent; and the Yemeni rial underwent a series of depreciations, losing about a third of its value against the dollar. The official commercial bank exchange rate in Egypt's multi-tier exchange rate system was raised from LE 0.845/$1.00 to LE 1.35/$1.00 bringing it closer to the slightly more depreciated and officially sanctioned rate (of LE 1.60/$1.00) asked for opening letters of credit. The Syrian tourist exchange rate was halved to LS 21.00/$1.00 and the depreciation of the Lebanese pound was quite dramatic during 1986 because of both political and economic considerations.

A significant development, in this context, was the agreement, in January 1987 of the governors of central banks and monetary agencies of the GCC countries to seek, in principle, a common monetary framework for their currencies. That could lead to a GCC monetary union.

The inflation experience in the ESCWA region differed from country to country. While the GCC countries experienced a continuing drop in inflation rates, with some countries such as Saudi Arabia and Bahrain reporting negative rates, other ESCWA countries such as Yemen, the Syrian Arab Republic and Egypt were reported to have increases in their inflation rates of 30, 25 and 20 per cent respectively.

The fall in interest rates had a twofold effect on the ESCWA region. While it relieved to some extent some of the debtor countries in the region (though not extensively as most of their borrowing is concessional), it resulted in depriving the GCC countries of valuable returns on their foreign assets.

Development plans which were supposed to be initiated in 1986 were postponed or scaled down to more realistic objectives, given the prevailing circumstances. With the completion of large infrastructural projects, the emphasis in new development plans is expected to be on income earning projects, and rural areas.

Despite spending cuts, budget deficits have widened in the last two years in the GCC countries and other ESCWA countries. In the GCC countries, except Bahrain and -to a lesser degree- Oman, budget deficits have been financed by drawing on foreign assets. While in Bahrain financing has been mainly through treasury bills, in Oman financing of budget deficits has been partly by resorting to foreign borrowing and partly by grants and financial assistance from GCC and other foreign countries. In the ESCWA countries, attempts to finance budget deficits through foreign borrowing have not always been successful, thus forcing these countries increasingly to turn to domestic borrowing.

Regarding monetary developments, as in the preceding two years, the money supply in its narrow definition (M1) continued to decline in a number of GCC countries as a result of the recess in economic activity and the curb on government expenditures. The decline, however, was less pronounced than the previous year.

Owing to the difficulties that these countries have been facing in obtaining foreign borrowing to finance their budget deficits, there has been a major recourse to domestic borrowing, thus creating a strong link between budget and monetary growth and establishing built-in automatic inflationary pressures. This, in turn, has caused waning confidence in monetary policies and consequently in the country's currency. With regard to price changes, it should be mentioned that there is a wide difference in price movements between the GCC countries ont the one side, and the diversified and least developed countries on the other.

In the GCC countries, the economic slow-down was translated into lower effective demand. This, coupled with the cut in government expenditures and the lower growth rates in money supply, led to minimal price increases in 1985. The increase in general consumer price indices has been less than 2 per cent in Kuwait, Qatar and the United Arab Emirates. In Bahrain there was even a decline of 2.6 per cent in 1985 relative to 1984. Saudi Arabia recorded a negative rate for the second consecutive year with the consumer price index declining by 1 per cent and 3.4 per cent in 1984 and 1985 respectively. Available figures for August 1986 reveal a further deceleration in the Saudi Arabian price index of about 2 per cent.

Leaving Lebanon aside as an exceptional case, inflationary pressures intensified in the Syrian Arab Republic and Yemen during 1985. In the former the general consumer price index rose by 17.2 per cent to 184.2 whereas in the latter it went up by about 30 per cent to 156.7 (1980=100).

The price index of Egypt registered a 13.3 per cent increase in 1985 which is significantly lower than the 17 per cent rise registered in 1984. The only two countries that exhibited modest rates of increase in inflation in these two groups of countries were Democratic Yemen and Jordan, with the first recording an estimated 1.5 per cent increase and the latter a 3 per cent increase in 1985 in general consumer price indices.

Preliminary estimates for 1986 revealed an acceleration in the inflationary spiral in Egypt, the Syrian Arab Republic and Yemen, while Jordan seems to have enjoyed a decline in its general consumer price index.

The construction sector continued to record a negative growth rate in several countries of Western Asia. This is attributed mainly to the completion of the basic infrastructure projects and the decline in demand for housing caused partly by the return migration of expatriates at a time of growing financial constraints.

Nevertheless, despite the poor overall economic conditions in the region, some sectors performed reasonably well in Western Asia during 1986. The agricultural and, to a lesser extent, the manufacturing sectors may be regarded as bright spots in 1986 developments.

Over the past two years, the agricultural sector continued its good performance. The combination of both favourable weather and some favourable policy measures in most countries of the region facilitated significant increases in agricultural production. The physical index of total agricultural production (crops + livestock) for the second consecutive year advanced further, registering an increase of 6.85 per cent in 1986 as compared with 7.42 per cent in 1985.

Significant growth was seen in crop and livestock production. Crop production increased by 6 per cent in 1986 as compared with 7.8 per cent in 1985. Similarly, livestock production increased by 5.4 per cent in 1986 as compared with 4.7 per cent in 1985. Likewise, total food production in the region rose by 7.37 per cent in 1985 and 7.55 per cent in 1986.

Impressive progress in total food production was achieved in Saudi Arabia (20.36 per cent), followed by Iraq (16.61 per cent), the Syrian Arab Republic (13.09 per cent), and Yemen (11.89 per cent). Sizeable food increases were also achieved in Lebanon and Jordan (7.59 and 6.17 per cent respectively).

Total food output in Egypt achieved a moderate growth of 3.12 per cent in 1986. However, food output in Democratic Yemen is estimated to have declined by 1.2 per cent in 1986. Delays in agricultural operations caused by shortage of manpower resulting from the civil strife at the beginning of 1986 had some negative impact on food and agricultural production in Democratic Yemen.

The region had a record harvest of cereals in 1986: 17.3 million tons as compared with the already good harvest of 15.7 million tons in 1985. The region also produced a record wheat output of 6.8 million tons in 1986, as compared with the 6.1 million tons of 1985. Saudi Arabia, again, managed to produce a record wheat output of 2 million tons in 1986 despite a substantial reduction in subsidized wheat prices. Syria and Egypt produced 1.96 and 1.92 million tons of wheat respectively.

However, this impressive increase in total agricultural and food production did not have a significant impact on food security in the region. The picture is still striking if one glances at the average annual agricultural and food production growth rates in a relatively longer period. The ESCWA region as a whole achieved a moderate improvement in total agricultural production as well as total food production during the period 1980-1986: 2.29 per cent and 2.61 per cent respectively, i.e., below the rate of population growth (3.1 per cent). At mid-1986, the total <u>population</u> of the ESCWA region reached 108 million and constituted around 2.1 per cent of the world population and 54 per cent of the population of the Arab world. The situation with regard to per capita agricultural and food production during the same period was even more striking. During the same period, per capita agricultural and food production actually decreased by 0.65 per cent and 0.35 per cent annually respectively.

At the country levels, the pictures are different. Per capita food production in Saudi Arabia and Lebanon increased by 12.78 per cent and 3.15 per cent respectively. Marginal gains in per capita food output were achieved in Yemen, Egypt and Iraq, with 1.75 per cent, 0.94 and 0.91 per cent respectively. In contrast, per capita food production in Syria, Democratic Yemen and Jordan declined by 2.55, 2.48 and 1.14 per cent annually during the same period.

This decreasing trend in per capita production is a serious phenomenon, explaining the continuous worsening of the state of food security in the region.

The countries of the ESCWA region continued to pursue policies favouring expansion of local food production. It is encouraging to see all ESCWA countries share a common strategic objective of enhancing their self-sufficiency in food production. Regional efforts have also been intensified in that direction.

Regional and international organizations are encouraging member countries to co-ordinate and step up their investment and planning strategies in agriculture and to promote greater co-operation in food security and agricultural development. Yet, in spite of these efforts, the food security situation is worsening. The declining trend in per capita food production, coupled with the rising trend in per capita demand for food, caused the margin of food imports over food exports to increase substantially. The capability of agricultural exports to finance food imports was further impaired in 1985, making it imperative for countries of the region to utilize foreign exchange reserves additional to those generated by agricultural exports to pay for food imports. At the regional level as a whole, earnings from agricultural exports financed only 10 per cent of the value of agricultural imports.

Only four countries in the region were able to finance more than 15 per cent of their food imports (18 per cent to 29 per cent) from their agricultural exports: namely the Syrian Arab Republic, Lebanon, Jordan and Egypt. Financing of food imports does not constitute much of a burden on the economies of the major oil-exporting countries; however, it does pose a great problem for other countries where a significant portion of foreign exchange revenues has to be taken from other developmental activities. In Egypt and Yemen, though the value of agricultural imports constituted 35 per cent of total imports, in the former total export earnings could only finance 76 per cent of the cost of agricultural imports and in the latter the percentage was much lower (8.5 per cent).

The contribution of the manufacturing sector to regional GDP increased from 9 per cent in 1984 and 9.7 per cent in 1985, to an estimated 10.7 per cent in 1986. Part of this increase came as a result of the net decline of the share of the mining sector in GDP. The contribution of the manufacturing sector to non-oil GDP witnessed little change, averaging around 12.4 per cent in 1983, 12.5 per cent in 1984, and 12.8 per cent in 1985.

The manufacturing sector in the region grew by 0.7 per cent in 1985 and an estimated 3.2 per cent in 1986.

Manufacturing activities in the GCC subregional countries (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates), grew at a slower rate of 2.9 per cent in 1986, compared to the negative growth of 1.13 per cent in 1985. The contribution of the sector to GDP increased from 7.8 per cent in 1985 to 8.87 per cent in 1986.

This positive performance of the sector in an environment of pronounced decline in economic growth was generated mainly from the results of the industrialization drive initiated in the early 1980s and the coming onstream of a number of large-scale heavy industrial projects of the development plans of 1980-1985 for petrochemicals, iron and steel, refining, cement and others.

In the more diversified economies (Egypt, Iraq, Jordan, Lebanon, and the Syrian Arab Republic) activities of the manufacturing sector slightly recovered from the decline of 1984. The average annual rate of growth of the sector levelled off at 4.4 per cent in 1985, as against a negative growth of 2.7 per cent in 1984. The contributions of the sector to GDP stayed almost stagnant at around 12.4 per cent in 1985.

In the least developed countries (Democratic Yemen and Yemen), manufacturing value added witnessed the highest growth rates in the ESCWA region, and enjoyed a better performance, achieving a growth rate of 7.3 per cent in 1985 as against 8.8 per cent in 1984. The manufacturing contribution to GDP, however, witnessed little change, falling from a level of 8.5 per cent in 1984 to 8.0 per cent in 1985.

Other sectors which were protected from the negative effects of the overall grim economic conditions are the health and education sectors. Despite declining revenues and ensuing cutbacks in government expenditures, resources were not channelled away from these two important sectors.

Furthermore, efforts were intensified in 1986 to utilize better the water resources of the region; these resources are extremely important, particularly in Western Asia.

The year 1986 witnessed the inauguration of one of the landmark projects of regional co-operation among developing countries of the ESCWA region in the field of transport when, on 25 November 1986, the four-lane causeway connecting the island State of Bahrain to Saudi Arabia was officially opened for private cars and bus traffic. Commercial vehicles were to be admitted early in 1987. The causeway project, which cost almost 1 billion dollars, was financed completely by Saudi Arabia. The causeway is a 25-km long reinforced concrete structure made up of a series of islands, with five main bridges allowing the free passage of ships below them. The road has been named the King Fahd Causeway. Its opening marks the end of Bahrain's physical isolation from the Arab mainland and is expected to strengthen the close political, military and economic relations between Bahrain and Saudi Arabia. An immediate result of the project was the sudden boom of the weekend tourism packages of Saudis and expatriates from the eastern province of Saudi Arabia to Bahrain. Social implications of the project are, however, still controversial.

Research continued in the fields of new and renewable sources of energy in several countries of the region, but with varying intensity. Moreover, solar energy is increasingly being utilized in oil-importing countries of Western Asia. Solar water heaters, for example, are widely used in Jordan. In fact, Jordan started the manufacturing of solar water heaters in 1973 at the rate of 50 units per year and now at least 12,280 units are manufactured annually.

Moreover, efforts made during the United Nations Decade for Women to achieve equality, development and peace have been intensified during 1986 in order to attain the Nairobi forward-looking strategies to the year 2000.