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Summary of the survey of economic and social developments in the Economic and Social Commission for Western Asia region, 1998–1999

Executive summary

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

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

[*] Including Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Oman, Palestine, Qatar, Saudi Arabia, Syrian Arab Republic, United Arab Emirates, Yemen.
[**] Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates.
[***] Including Egypt, Iraq, Jordan, Lebanon, Syrian Arab Republic, Yemen, West Bank and Gaza Strip.

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

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

Due to the steep decline in oil prices and export revenues, the total value in 1998 of the ESCWA region's exports, excluding the West Bank and Gaza Strip, is estimated at US$ 97.1 billion, a drop of 21.7 per cent from the 1997 level. The values of the region's total import are also estimated to have declined below the 1997 level as a result of the fall in oil revenues — the major source of financing imports — and a significant decline in commodity prices in the world markets. While the trade balance in the ESCWA region as a whole achieved a surplus of US$ 14.5 billion in 1997, it is estimated to have recorded a deficit of US$ 9.4 billion in 1998 and is projected to remain in deficit in 1999.

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

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

While most ESCWA member countries are blessed with large oil and natural gas reserves, the region lacks two other critical natural resources — productive land and accessible renewable water resources. The region's accelerated economic growth and development as well as urbanization during the past decades have evidently been posing significant pressures on its limited natural resources and putting stress on the environment.

In the absence of integrated national conservation strategies, soil and water abuses have led to soil degradation, loss of fresh non-renewable water reserves and deterioration in water quality.

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

In spite of considerable progress made in the status of Arab women in the ESCWA region over the past decades, the gender gap in socio-economic status persists in most countries of the region. The continued inadequate participation in education by girls and adult women has seriously negative implications for their skill development and thus their employment opportunities, exacerbating the difficulties in accessing economic activities that can enhance income and revenue.

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I. Aggregate economic performance

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

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

3. The combined real GDP among the countries with more diversified economies registered a positive 3.58 per cent annual growth rate in 1998. In contrast to the GCC countries, this group was not as adversely affected by the decline in oil prices since late 1997. Nevertheless, repercussion of the dismal economic performance by the GCC countries was felt among some of the more diversified countries. As was the case with the GCC countries, each country experienced a lower growth rate than in 1997. Egypt, the largest economy in this group, is estimated to have grown at 4.7 per cent. This was slightly lower than the 1997 growth rate but nonetheless the largest among the countries with more diversified economies and also in the entire ESCWA region. Despite the lower oil revenues, greater competition to its non-oil exports and lower tourism revenues, the Egyptian economy performed remarkably well in 1998 as a result of the economic reform programme it had been implementing since 1991 under the auspices of the International Monetary Fund and the World Bank. The Lebanese economy is estimated to have grown at an annual rate of 3.8 per cent in 1998, close to the rates registered in the previous two years. This was the second highest economic growth rate in this group. The country's real GDP benefited from the expansion in its construction sector, which helped to reverse the slowdown that had begun in early 1996, and from the rising profits in its banking sector, which continued to benefit from the rather high interest rates. After registering high growth rates of over 5 per cent in 1996 and 1997, the economy in Yemen is preliminary estimated to have slowed down to 2.0 per cent in 1998. Given the country's relatively high population growth rate of 3.7 per cent, its real GDP per capita contracted by 1.7 per cent. Among the factors that contributed to the decline have been the sharp fall in oil prices and its export revenues, the curtailment in the Government expenditures as an attempt to prevent budget deficits from widening, poor performance of its industrial sector, and a considerable rise in interests rates on the Yemeni rial due to the monetary authority's attempt to maintain the exchange rate stability between Yemeni rial and the United States dollar. Jordan's real GDP, after registering an annual growth at 2.2 per cent in 1997, is estimated to have registered an even smaller rate of 1.7 per cent in 1998. As the country's population is growing at a high rate of 3.3 per cent, its real GDP per capita continued to contract, at a rate of 1.6 per cent in 1998. The deterioration in the economic performance in the GCC countries and the financial crisis in the South and East Asian countries negatively affected Jordan. Its exports to these markets significantly declined. The Syrian

Arab Republic is estimated to have experienced the smallest economic growth among the more diversified economies in 1998. A number of factors have contributed to this low 1.5 per cent real GDP growth rate, including sharp declines in oil prices and revenues since late 1997, falling prices of cotton exports, cutbacks in aid from GCC countries, and as a result a shrinkage in public investment projects. As for Iraq, its poor economic conditions remained unchanged in 1998 in the presence of the continued economic sanctions imposed since 1990. Despite the food-for-oil deal agreed by the Security Council in February 1998 that raised the ceiling of Iraqi oil sales to more than double the original level to US$ 5.26 billion for six months, the country's oil production capability had declined so drastically that it was not able to produce at the allowed maximum, in particular at the time of low oil prices. In the West Bank and Gaza Strip, real GDP growth is preliminarily estimated to have registered a positive 2.1 per cent in 1998, indicating faster economic growth than in 1997, when the annual growth rate was one per cent. A reduction in the number of days in which the borders were closed by Israeli authorities may have contributed to this improvement. However, given the population growth rate of 3.1 per cent, the real GDP per capita declined by 1.0 per cent.

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

5. Oil prices continued to decline in the last quarter of 1998, reaching a monthly average of US$ 9.69 per barrel in December. For a number of reasons — including the currently high levels of oil inventories, expected increases in production in Iraq and Central Asia, and depressed oil demand in the economies of East and South-East Asia, particularly Japan — no major lasting improvement is expected in 1999. In spite of the possibility that OPEC prices may remain below US$ 10 per barrel on average in 1999, however, prices are projected to average above their 1998 level, although not significantly exceeding US$ 14 per barrel. For the OPEC basket price to increase to an annual average of US$ 14 per barrel in 1999, production by major OPEC members, including those which are also ESCWA members, must be reduced to below their 1998 levels, negating some of the increases in oil revenues owing to higher prices. As a result, the ESCWA region's oil revenues are expected to increase only moderately in 1999. Meanwhile, gas revenues are more likely to increase substantially in several ESCWA member countries, particularly in Oman and Qatar.

6. In addition to the development in the oil sector, which is the crucial factor affecting real GDP growth of the ESCWA region as a whole, the region's economic outlook will also depend on several other factors: speed and success of the implementation of economic reforms, progress in the Middle East peace process, and development pertaining to United Nations economic sanctions on Iraq. The ESCWA region's real GDP is expected to grow by 2.41 per cent in 1999. While this is an improvement upon the 1998 performance, it remains below the region's average annual population growth rate of 2.5 per cent. Thus, real GDP per capital will contract slightly. While two groups within the ESCWA region, the GCC countries and the countries of more diversified economies, will both grow at rates above 1998 levels, real GDP is expected to grow faster among the latter group (4.32 per cent) than among the former (1.64 per cent). However, on an individual country basis, the highest real GDP growth rate is expected in Qatar, achieving 6.0 per cent. The country will benefit not only from a small rebound in the oil sector but also from the considerable increases in its natural gas production. Oman is expected to grow at 3.0 per cent, the second highest growth rate among the GCC countries, owing to the benefit from its economic reform policies, encouragement of foreign investment and rising returns from liquefied gas projects. The economies of Saudi Arabia and the United Arab Emirates are also expected to rebound, and their real GDP growth is projected to register positive 1.5 per cent and 1.3 per cent, respectively. Real GDP of Bahrain and Kuwait will also grow in 1999, albeit at smaller percentages. As for the countries with more diversified economies, their economies are all expected to grow in 1999 faster than in 1998. The real GDP of Egypt is projected to accelerate by 5.1 per cent, the highest among this group and the second highest among all ESCWA members. Enhanced performance of privatized companies and

an increase in its non-oil exports through bilateral trade agreements will lead the country's rapid economic growth. Lebanon's real GDP is expected to grow by 4.5 per cent in 1999. It is expected that combination of declining interest rates and a moderate depreciation of Lebanese currency, as well as a significant increase in the number of tourist arrivals, will boost the Lebanese economy. The economies of Yemen and the Syrian Arab Republic will benefit from higher oil revenues and enhanced performance by the private sectors. The West Bank and Gaza Strip is also expected to witness improvement in its economic growth, owing in part to expected financial and technical supports from donor communities.

7. Unemployment had been a chronic problem confronting the region's more diversified economies. The situation worsened in 1998 as the economic performance failed to generate employment opportunities sufficient to absorb the rapidly increasing labour supply. In addition, the economic slowdowns or contractions in the traditionally labour-receiving GCC countries resulted in shrinking the demand for expatriate workers, which further exacerbated the problem. Yemen and Jordan are estimated to have recorded the highest unemployment rates in 1998 in the ESCWA region, with preliminary estimates of 27 per cent and 21 per cent, respectively. Both fiscal and monetary policies of Yemen were highly contractionary: a sharp drop in the oil revenues forced the Yemeni Government to curtail its expenditures, and interest rates were raised significantly for the purpose of stabilizing the local currency against the United States dollar. These factors collectively constrained domestic economic growth, thus raising the level of unemployment. Jordan also pursued restrictive monetary and fiscal policies, and suffered from the decline in the employment opportunities in the GCC countries. With its high labour growth rate of approximately 5 per cent, coupled with a large number of foreign workers in the country, the Jordanian Government began implementing a policy of cracking down on about 300,000 foreign workers who did not have valid working permits. The Egyptian Government estimated its unemployment rate in 1998 to be slightly below 10 per cent, while other sources, including the International Labour Organization, estimate it at 17 per cent. The economy of Egypt would be required to grow by an average annual rate of 7 per cent for at least five years in order to accommodate the new entrants of 450,000 workers a year into the labour market and still reduce the overall unemployment rate by five percentage points. In Lebanon, official estimates indicate that the size of Lebanese labour force in 1998 was 1.36 million, 1.22 million of whom were employed, putting the unemployment rate at about 10 per cent. Unemployment in the Syrian Arab Republic was officially registered at 5 per cent in 1998. However, private estimates indicate significantly higher unemployment rates. The relatively high Syrian population growth of 3.5 per cent at the time of the country's economic slowdown must have significantly increased its unemployment rate or at least underemployment. As for the West Bank and Gaza Strip, the unemployment rate is preliminarily estimated to have declined from 20.9 per cent in 1997 to 15.6 per cent in 1998. The reduction in the number of days of border closing was the primary reason for such a significant decline.

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

9. Unemployment in the ESCWA member countries is expected to worsen in 1999. Governments of the GCC countries and Jordan are expected to more forcefully apply the policy to replace expatriate workers by their nationals and continue with the policies of expelling illegal workers. Such

enforcement will, in turn, add to the difficulties within Egypt, Lebanon, the Syrian Arab Republic and Yemen, which are traditionally labour-sending countries in the region.

10. Inflation rates had been declining in the ESCWA region in recent years. They are estimated to have fallen further in 1998 in most countries, except Yemen. Most GCC countries had lower inflation rates than the countries with more diversified economies, with the exception of Qatar. The latter is estimated to have witnessed moderate inflation of 3.5 per cent, which was higher than the inflation rate in Jordan at 2.5 per cent. Preliminary estimates indicate that four GCC countries — Bahrain, Kuwait, Oman and Saudi Arabia — experienced deflation in 1998. As the currencies of all the GCC countries are pegged to the United States dollar, with the exception of Kuwaiti dinar which is pegged to a basket of currencies, they appreciated along with the dollar against Japanese yen and most other Asian and Western European currencies. Consequently, the prices of imported goods to the GCC countries from most of their trading partners declined significantly. In addition, given the traditionally prudent monetary policies and the considerable reductions in government expenditures in the countries concerned, inflation rates were pushed further down to record low levels. At the individual country level, following a small deflation rate of 0.2 per cent in 1996 and a small inflation rate of 0.2 per cent in 1997, Bahrain is estimated to have registered 0.5 per cent deflation in 1998. Inflation rates in Kuwait have come down from 3.6 per cent in 1996 to 0.7 per cent in 1997, and finally plunged to a negative 1.3 per cent in 1998. While the Kuwaiti dinar is pegged to a basket of currencies, the United States dollar is still dominant in the basket. Thus, a relatively high share of imported goods in the Kuwaiti market resulted in the general decline in prices in 1998. Oman is estimated to have registered a deflation rate of 0.5 per cent in both 1997 and 1998. Qatar's inflation has been higher than that of any other GCC country in the last three years, and was the only rate that was higher than 1 per cent in 1998. While it fell from 7.4 per cent in 1996 and 6.2 per cent in 1997, the 1998 inflation rate still amounted to 3.5 per cent. One contributing factor was that the Qatar Government pushed for completing the construction of the natural gas projects and maintained expenditures at planned levels. Inflation rates in Saudi Arabia were 1.2 per cent in 1996, 0.1 per cent in 1997 and moved to a negative 0.8 per cent in 1998. Saudi Arabia curtailed government expenditures significantly in 1998, and also benefited from sharp declines in import prices and weaker upward pressure of wages given the country's economic slowdown. The inflation rate in the United Arab Emirates, as in Qatar, did not turn negative in 1998 since the Government apparently maintained its planned expenditures. Nevertheless, it has fallen below the levels in the previous years, 4.0 per cent in 1996 and 2.8 per cent in 1997, to 1 per cent in 1998.

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

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

13. The fiscal positions of Governments in the ESCWA region deteriorated in general in 1998 and the budget deficits as percentages of GDP increased considerably compared to the preceding two years. Among ESCWA member countries, only Lebanon managed to decrease its budget deficit, from 23.5 per cent of GDP in 1997 to 15.0 per cent in 1998, while Egypt maintained its budget deficit relative to GDP at basically the same level previously achieved; 1.0 per cent. All other member countries have registered widening deficit gaps, primarily owing to the steep decline in oil prices and hence oil export revenues. Particularly hard-hit were the GCC countries. These countries are usually known to be conservative in estimating oil revenues for the budget planning purposes, and used estimated oil prices between US$ 13 and US$ 15 per barrel in their planned budgets for 1998. In other words, Governments of the GCC countries predicted that 1998 oil prices would be 20 to 30 per cent lower than the 1997 average OPEC price of US$ 18.7. However, oil prices have turned out to be 34 per cent below the 1997 levels, resulting in a 5 to 18 per cent gap from the initial conservative estimates used. As a result, these countries were set back, at least temporarily, from achieving the previously set objectives of eliminating the budget deficits by year 2000. Kuwait had, in fact, registered a budget surplus at 11.4 per cent of GDP in 1997, but is estimated to have ended year 1998 with a deficit equivalent to 4.0 per cent of GDP.

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

15. The significant decline in Lebanon's budget deficit relative to GDP in 1998 may be attributed to an improved tax collection system, a 2 per cent across-the-board tariff on imported goods and much higher percentages on luxury imports, a 5 per cent service surcharges on hotel and restaurant services, and increased tax revenues from gasoline. Lebanon would have recorded a budget surplus for the first time in many years had it not been for the heavy debt service obligations, which accounted for about half of the Government revenues. While Egypt is an oil-exporting country, its economy is fairly diversified and oil revenues do not account for a dominant part of the total government revenues. In addition, the country's accelerated privatization endeavour during 1998 brought in sufficient government revenues. Therefore, Egypt managed to maintain the ratio of budget deficit to GDP ratio at 1.0 per cent, the lowest among all ESCWA member countries. In the remaining more diversified economies — Jordan, the Syrian Arab Republic, and Yemen, the budget deficit as a percentage of GDP is estimated to have increased in 1998 to 9.3 per cent, 3.6 per cent and 4.0 per cent, respectively, after declining in 1997 from the 1996 levels. Despite the curtailment of government expenditures at the time of dismal economic conditions in the ESCWA region, the sharp drops in government revenues in these countries were too large to be compensated.

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

II. Monetary, fiscal and financial developments

17. During the past few years, deceleration in the growth of money supply has been particularly pronounced among the GCC countries. This development was matched by similar deceleration in the growth of bank credit to the private sector. Contributing factors included changes in the composition and level of government expenditures and the restraints on bank credit, which were exercised through changes in interest rates, reserve or liquidity ratios and credit ceilings. In addition, morale suasion was applied for the purpose of directing bank credit to preferred areas, encouraging the sale of treasury bills, notes and bonds, and increasing outflow of liquidity in the form of current and capital transfers for import financing and investment. For example, in Egypt, Jordan, Kuwait,

Lebanon, Oman and the United Arab Emirates, a series of measures were undertaken to regulate liquidity and improve monetary management. Such measurements included (a) introduction of a system to allow for a variety of liquidity ratios in the bank deposit structure, (b) allocation of bank current accounts in cash, in time and savings deposits with the central banks, or in current deposits with other local banks at specific rates, (c) currency swap arrangements among local banks to minimize the risk of foreign exchange fluctuations, (d) issuance by the central banks of bills and notes to the account of the finance ministries in order to lay the basis for "open-market operations", and (e) interbank operations, involving bank holding deposits and certificates of deposits.

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

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

20. Despite significant drops in the oil revenues of the GCC countries in 1998 as discussed above, oil revenues continued to contribute a high percentage, between 70 and 90 per cent, of total budget revenues of these countries. Due to such heavy dependence on oil exports, the drop in oil revenues in 1998 affected all aspects of economic activities in the GCC countries, inducing urgent and immediate changes in economic and financial policies. As a result of reassessing their financial and development programmes, the GCC countries introduced important budgetary restraints in fiscal 1999. The 1999 budgets of most of these countries represent a cut or slowdown in the pace of growth in capital expenditures. Moreover, no new development projects seem to have been introduced in these budgets. Capital spending would most probably be limited only to small projects or to those already initiated under previous commitments. However, current expenditures, which comprise mainly defence, wages and salaries, subsidies and services, proved to be more difficult to be curtailed. Inevitable budget deficits of the GCC countries were financed, partly by drawing on their reserves and partly by placing some debt instruments, such as government bonds and treasury bills and notes, in the second half of 1998. This pattern is expected to continue in the coming years, as the GCC countries are expected to face difficulty in establishing a balanced budget in light of the recent development in world oil markets. Drops in the oil revenues in 1998 also forced the GCC countries to pay more attention to escalating costs of subsidies and justification for sustaining their budgetary burden. This has been particularly true of subsidies on water and electricity, which are offered at prices not covering even a fraction of their production costs. In 1999, Governments of the GCC countries are expected to continue curtailing expenditures while encouraging the private sector's more active involvement in the economy.

21. The ESCWA member countries with more diversified economies shared three main common characteristics with respect to their budget revenues in 1998: (a) increased shares of domestic revenues in current expenditures and part of capital expenditures; (b) declines in the level of foreign aid and the negative spillovers from the GCC countries; and (c) rising levels of domestic public debts. Similarly to the GCC countries, this group also pursued tight fiscal policies in 1998, restricting the growth of both current and capital expenditures. Efforts were made in most of these countries, particularly in Egypt and Jordan, to reduce the amount of subsidies relative to total current expenditures. Improvement in the efficiency in tax collection and public administration in most of these countries during the past few years also contributed to a rise in their domestic revenues. Nevertheless, their taxation systems do not play an effective role of mobilizing available domestic financial resources. The economic reform programmes currently under way in some of these countries are expected to make marked changes in resource allocation within the next few years. Moreover, unlike the GCC countries that could finance their short-term

budget deficits by drawing on their foreign reserves, most more diversified economies may have to look for alternative sources to reduce their budget deficits. An increase in budget revenues through a reform of revenue-raising measures, improvement in tax collection methods and a reduction in the growth rate of budget expenditures through reducing subsidies or debt service payments are a few examples.

III. Developments in the external sector

22. The ESCWA region's international trade accounted for only 2.1 per cent of the world total trade volume in 1996/97, indicating a significant decline from 7.2 per cent in 1980/81. The 1996/97 oil exports from ESCWA accounted for 75 per cent of the region's total exports. Due to the collapse in oil prices in 1998, oil export revenues of the ESCWA region as a whole were adversely affected. The total value of the region's exports in 1998, excluding the West Bank and Gaza Strip, is estimated to have been US$ 97.1 billion, representing a drop of 21.7 per cent from the 1997 level. Optimistic forecasts for 1999 are that an improvement in the world oil prices will lead to an increase in the region's export revenues by 8 per cent.

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

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

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

26. While the combined trade balance in the ESCWA region had achieved a surplus of US$ 14.5 billion in 1997, it is estimated to have recorded a deficit of US$ 9.4 billion in 1998 as a result of the sharp decline in total export revenues. In 1999, the region's trade balance is projected to remain in deficit and register about US$ 2.9 billion. For the GCC countries as a group, the balance of trade is estimated to have recorded a surplus of US$ 7.1 billion in 1998, compared with a much larger surplus of US$ 32 billion in 1997. In 1999, it may achieve a surplus of US$ 13 billion. Examined individually, three countries in this group — Saudi Arabia, Kuwait and Oman — are expected to have achieved a surplus, while the other three are estimated to have recorded

a deficit in 1998. As for the more diversified economies, their combined trade balance is estimated to have registered a deficit of about US$ 16.5 billion in 1998, and forecasted to remain in deficit at US$ 16 billion in 1999. All the countries in this group, excluding Iraq under the United Nations economic sanctions, are expected to have trade deficits in 1999, as a group and individually.

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

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

29. Three categories of imported goods formed most of the ESCWA region's imports, with machinery and transport equipment contributing 30.7 per cent of the total imports, manufactured goods contributing 19.4 per cent and food and live animals 15.9 per cent. The import structure of the GCC countries as a group is similar to that of the entire ESCWA region, with the contribution of machinery and transport equipment being slightly higher at 37.8 per cent. Bahrain's import structure is different from the rest of GCC countries, with its mineral fuels imports representing the highest contribution in the ESCWA region at 36.6 per cent due to refinery and re-export operations, and the imports of machinery and transport equipment accounting for only 18.3 per cent. The shares of machinery and transport equipment imported varied among other GCC countries, from 35.5 per cent in Saudi Arabia to 50.6 per cent in Qatar. Among the more diversified economies, the contribution of machinery and transport equipment to total imports registered 25.8 per cent. In addition, the shares of food and live animals as well as manufactured goods imported by those countries were about 20 per cent. While these three items formed most of the imports of Egypt, Jordan, Lebanon and the Syrian Arab Republic, the imports of food and live animals by Yemen contributed about 28.5 per cent of the country's total imports, the highest percentage in the ESCWA region.

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

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

million and a deficit at US$ 697 million for the more diversified economies.

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

33. Tourism receipts of the ESCWA region, excluding Qatar and the United Arab Emirates due to lack of data, reached about US$ 8 billion in 1996, compared with US$ 7.3 billion in 1995. The contribution of the GCC countries to the region's total receipts was 22.6 per cent, with Saudi Arabia the leader in this group at US$ 1.3 billion. The more diversified economies have contributed US$ 6.2 billion, or 77.4 per cent of the total region's receipts. Egypt is the largest country in the region in the area of tourism, its receipts representing about 40 per cent of the region's total receipts, and 4 per cent of the total Egyptian GDP. In 1996/97, the country's tourism revenues reached US$ 3.4 billion. The second country in this group is the Syrian Arab Republic, with its tourism revenues reaching about US$ 1.5 billion in 1996. Tourism receipts of Jordan and Lebanon in the same year reached US$ 770 million and US$ 715 million, respectively.

34. Combined workers' remittances of five ESCWA member countries — Egypt, Jordan, Lebanon, Oman and Yemen — totalled about US$ 8.1 billion in 1996, representing an increase of 0.9 per cent over the 1995 level. Workers' remittances in Egypt, the leading labour-sending country in the region, reached US$ 3.5 billion in 1997/98 compared to US$ 3.25 billion in 1996/97. The remittances to Lebanon reached about US$ 2.5 billion in 1996, representing 53 per cent of the country's total exports of goods and services. In Jordan and Yemen, their expatriate workers' remittances reached US$ 1.5 billion and US$ 1.1 billion, respectively. In contrast, Omani workers' remittances were very small, only at US$ 39 million in 1996.

35. International reserves, minus gold, in the ESCWA region, excluding Iraq and the Syrian Arab Republic for lack of data, increased as of May 1998 by 1.3 per cent over the 1997 level to reach US$ 53.7 billion. The GCC countries' international reserves, accounting for 45.2 per cent of the ESCWA region's total reserves, increased by 3.2 per cent in 1998 from 1997. The GCC countries' international reserves could cover imports for only 3.7 months in 1998, compared with an average of 12.5 months in the 1970s and an average of 8.2 months in the 1980s. The international reserves of the countries with more diversified economies as a whole was US$ 29.4 billion in 1998, indicating a 0.2 per cent decrease from the amount in 1997. Egypt's international reserves reached US$ 20.1 billion, the largest among all ESCWA member countries, accounting for 37.4 per cent of the total reserves in the region in 1998. This large amount was sufficient to finance the country's imports for 18.4 months, in contrast to an average of only a one-month period during the 1970s and the 1980s. The international reserve positions also improved in Jordan, Lebanon and Yemen to cover the imports of about 6 months in both Jordan and Yemen, and 9.6 months in Lebanon in 1998.

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

IV. Environmental conditions

37. While most ESCWA members are blessed with their large combined oil and natural gas reserves, the region is less fortunate in general with respect to two other critical natural resources — productive land and accessible renewable water resource. The region's accelerated economic growth and

development and urbanization during the past decades has evidently been posing significant pressures on its limited natural resources and putting stress on the environment. In the absence of integrated national conservation strategies, the abuse of soil and water has led to soil degradation, loss of fresh non-renewable water reserves and deterioration in water quality. The limited capacity of the ESCWA region's fragile ecosystems to exploit natural resources and process the generated wastes, as well as its life-supporting potential, are becoming rapidly jeopardized.

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

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

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

41. Human activities in the ESCWA region are concentrated in urban areas, thereby creating heavy demand for natural resources, such as energy, fresh water, food and land, as well as the demand for basic services and infrastructure, such as sanitation and waste disposal services, education, health care, roads and public transportation. These patterns will ultimately lead to a high rate of environmental degradation by augmenting the emission of air pollutants, water pollutants, domestic wastes, toxic and hazardous wastes, depletion of resources etc. The region has a diversity of habitats due to its characterized variations in climate, geology, amount and distribution of rainfall, and elevation. Recent experience of overgrazing, deforestation and hunting have, however, resulted in desertification and the extinction of some native plants and animals.

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

43. The issue of environmental dumping is particularly important in the ESCWA region since many of its member countries are in the process of opening their economies to foreign investors and encouraging export oriented industries. Integrating environment management into socio-economic development planning and decision-making processes is crucial but has not been taken seriously. Hence, an absolute failure in adopting long-term strategic perspectives has resulted. Nonetheless, environmental management has received greater attention on the global scale over the last few years, with the popularization of the concept of sustainable development. This newly developed trend has prompted policy makers of the ESCWA member countries to review

their older ideas and tools of environmental management and seek strategies to implement intricate formulas of coordination and integration of environmental issues in development planning.

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

V. Social developments

45. The United Nations development decades, which began in the early 1960s, are drawing to the end of their fourth term. While international and regional efforts at dealing with development goals to attain social justice continue unabated, these efforts continue to be marred by political tension and financial turmoil. The crises in Asia in 1997–1998 and in the Russian Federation in 1998 affected world financial and trading markets, which in turn created severe obstacles to attaining social development goals in many countries. The overall development efforts of ESCWA member countries are being tested, as indicated by bleak forecasts for employment, economic growth and international financial stability. Political tension and non-adherence to the Security Council resolutions in the region continue to divert precious resources into arms and military expenditures, rather than being used for achieving socio-economic development objectives.

46. The population of ESCWA member countries grew, between 1978 and 1998, from 87.8 million to 157.6 million, indicating an average annual increase of 2.9 per cent. This constituted about 59 per cent of the population of Arab countries and 4.4 per cent of the population in Asia. The population in the region as a whole is projected to reach 166 million by 2000 and 210 million by 2010, accounting for 5.0 per cent of the population in Asia and 3.1 per cent of the world population. The region's population is relatively young, with a large proportion under the age of 15: in 1998, about 41 per cent of the population were below 15 years of age, while only 4.0 per cent were older than 65. The total fertility rate declined from 6.8 in 1978 to 4.4 in 1998, or by 2.1 per cent annually. Nevertheless, with the disproportionately high percentage of young people reaching childbearing ages, the growth momentum will increase the region's population rapidly in spite of the decline in the average fertility rate. Another factor contributing to the rapid increase in the population is improvement in average life expectancy at birth: it was recorded at 71.0 for females and 68.2 for males in 1998. Compared to two decades ago, women now live 8.9 years and men 9.2 years longer. Iraq is the only country where life expectancy at birth dropped, by 3.2 years for men and 1.9 years for women.

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

48. In spite of considerable progress made in the status of the Arab women in the ESCWA region over the past decades, the gender gap in socio-economic status persists in most of the countries in the region. The continued inadequate participation in education for girls and adult women has serious negative implications for their skill development and thus their employment opportunities, exacerbating the difficulties in accessing economic activities that can enhance income and revenue. Political participation by Arab women has also improved. For example, the number of ESCWA member countries that grant women the right to vote has increased since the 1970s. The number of women elected to parliaments has also risen. In 1998, the Syrian Arab Republic had the highest count in the region, with 24 women in its parliament. However, at the regional level, women still occupy a negligible 3 to 4 per cent of the total number of the country's parliamentary seats. Moreover, women's appointments to high-ranking government posts or executive levels with decision-making capacities continue to be limited.

49. While there has been an increase in the percentage of women in the labour force in the ESCWA region, their participation continues to remain low compared to men. This

may be the result of several factors: the prevalence of early marriages, high fertility rates and family responsibilities, as well as lingering sociocultural restrictions on female employment. In addition, women's participation in the labour force is usually complex since they are expected to perform multiple roles, such as career, housekeeping and child-caring functions. The highest percentages of economically active women in the region have been recorded in Lebanon and Egypt, while the lowest rates have been in the GCC countries. The majority of working women in most ESCWA member countries are employed in the services sector, which is considered socially and culturally more acceptable. In some countries, however, the concentration of women in the primary sector is relatively high, but they are under-represented in the industrial sector. For example, in Egypt, the Syrian Arab Republic, and Yemen, 50 to 60 per cent of the working women are engaged in the agricultural sector.

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

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

Socio-economic indicators for the ESCWA region, 1996–1998

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

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

Note: Parenthesis ( ) denotes a deficit or negative; N/A denotes data are not available.

[a] Preliminary estimates.

[b] Excluding Iraq and the West Bank and Gaza Strip due to lack of comprehensive data.

[c] Excluding Iraq due to lack of comprehensive data.

[d] Excluding Iraq, Lebanon, Qatar, United Arab Emirates, and West Bank and Gaza Strip due to lack of comprehensive data.

[e] Excluding Iraq, Syrian Arab Republic and West Bank and Gaza Strip due to lack of comprehensive data.