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REPORT OF THE EXECUTIVE SECRETARY ON THE ACTIVITIES OF THE COMMISSION

PROGRESS MADE DURING 1996 IN THE IMPLEMENTATION OF THE PROGRAMME OF WORK FOR THE BIENNIUM 1996-1997

Report on

survey of economic and social developments in the ESCWA region, 1996-1997
Summary

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EXECUTIVE SUMMARY

The gross domestic product (GDP) of the ESCWA region, excluding Iraq, is estimated to have registered a 4.8 per cent growth rate in 1996, compared with 2.2 per cent in 1995. The region's GDP per capita registered a 2.1 per cent growth rate, the first positive growth recorded in several years. This was mainly due to the performance of the economies of the Gulf Cooperation Council (GCC) countries.[1] The GDP of the GCC countries as a group is estimated to have grown by 4.9 per cent in 1996, more than four times the 1.1 per cent growth rate it achieved the previous year. Moreover, the GDP growth rate in each of the six GCC countries in 1996 was higher than its 1995 level. Among the region's more diversified economies,[2] only Egypt and the Syrian Arab Republic achieved a GDP growth rate in 1996 that was higher than their 1995 respective levels.

The economic outlook for the ESCWA region in 1997 will greatly depend on: (a) the international prices of oil; (b) the speed of implementation of economic reform in ESCWA member countries; (c) the developments in the Middle East peace process; and (d) Iraq's return to the international oil market and the lifting of the sanctions on Iraq. The ESCWA region's GDP is projected to grow by 4.3 per cent in 1997.

The major factor behind the acceleration of GDP growth in the region in 1996, particularly in the GCC countries, was the 20.3 per cent increase in oil prices. The average price per barrel in 1996 was $20.29,[3] compared with $16.86 in 1995. Despite the fact that oil production remained unchanged at around the 1995 level of 16 million barrels per day (mbd), oil revenues of the ESCWA region increased by $16.4 billion and totalled $96.5 billion. Given the important role of the oil sector in most member countries, the largely unexpected significant increase in oil revenues had very favourable effects on the internal and external balances of the region as a whole.

Several ESCWA member countries were able to reduce their respective ratios of budget deficit to GDP in 1996. These countries included Egypt, Kuwait, Saudi Arabia and the United Arab Emirates. Bahrain is also reported to have registered a small budget surplus in 1996.

Economic reforms continued in most of the countries in the region, but the process has tended to lose momentum in some GCC countries, mainly because of the unexpectedly large oil revenue windfall.

High unemployment rates remained a major problem in the ESCWA region. The highest unemployment rate was in the West Bank and Gaza Strip (28 per cent), followed by Yemen (25 per cent). In Egypt and Jordan, estimates show a relatively high rate of around 13 per cent in both countries. The Syrian Arab Republic also suffered from high unemployment, but at lower rates than those estimated for

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[1] The GCC members are Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates.

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

[3] References to dollars ($) are to United States dollars, unless otherwise stated.

Egypt and Jordan. Although GCC countries are all labour-receiving countries, unemployment has been rising among the indigenous population in some of these countries.

The inflation rates in most ESCWA member countries were, in general, at internationally acceptable levels in 1996. The rates among the more diversified economies, however, tended to be considerably higher than those reported for the GCC countries. For example, Jordan's inflation rate, estimated at 6 per cent, was the lowest among the more diversified economies, but was still higher than the highest rate, 4 per cent, reported (for the United Arab Emirates) among the GCC countries.

Estimates indicate that the region's exports increased by 15 per cent during 1996, while imports increased by 9 per cent. The GCC countries' exports, which are estimated at $117.4 billion, and accounted for 89 per cent of the ESCWA region's total exports, witnessed a 16 per cent increase in 1996. Meanwhile, ESCWA member countries with more diversified economies recorded an estimated increase of exports of 5.6 per cent. The region's imports are estimated to have increased from $93.3 billion in 1995 to $101.8 billion in 1996. Preliminary estimates regarding the region's current account balance indicate that the overall deficit decreased significantly from $8.7 billion in 1995 to $1.4 billion in 1996, mainly owing to a better trade balance resulting from higher oil exports.

Total external debt of ESCWA member countries, excluding Iraq, is estimated to have dropped by around 4 per cent to $175 billion in 1996, from $182 billion in 1995. This drop was caused partly by rescheduling and forgiveness of parts of the debt of a number of member countries, such as Egypt, Jordan and Yemen, and partly by repayment of debt by others, such as Kuwait.

Most stock markets in the ESCWA region performed better in 1996 than many emerging markets in other developing regions. While the aggregate index of the markets in other developing regions was estimated to have dropped by around 8 per cent in 1996, that of stock markets in the ESCWA region was estimated to have risen by around 12 per cent. The improved economic performance of most ESCWA member countries in 1996 was reflected in a rise in activities in their respective stock markets. Moreover, the rise in overall liquidity in the economies of most ESCWA member countries enabled many corporations to approach the stock market to raise private capital.

The inflow of foreign direct investment to the ESCWA region remained very limited, with Egypt and Saudi Arabia receiving the bulk of such inflows. Member countries have recently started creating a more conducive investment climate by legislating new investment laws and adopting measures that aim at attracting private foreign and local investment.

The achievements of women in the ESCWA region in education, health and employment have been encouraging, compared with the 1970s. However, their participation in public life, in power-sharing, decision-making and in politics has been below aspirations. Inasmuch as legal awareness and empowerment of women are concerned, much more is needed to overcome existing hurdles, alleviate poverty and/or achieve self-reliance, financial independence and security, in its broadest sense.

I. OVERALL ECONOMIC PERFORMANCE

1. The overall economic performance of the ESCWA region improved significantly in 1996. The region's gross domestic product (GDP), excluding Iraq, is estimated to have registered a growth rate of 4.8 per cent in real terms. This rate is more than twice the 2.2 per cent growth rate registered in 1995, and yields a positive 2.1 per cent per capita real GDP growth in the region. The region had registered negative per capita real GDP growth rates during the previous several years.

2. In nominal terms and excluding Iraq, the ESCWA region's GDP was estimated to have totalled $353.3 billion in 1996, up by 10.1 per cent from the $320.8 billion it registered in 1995. The region's per capita nominal GDP was estimated at $2,828 in 1996, up from $2,638 in the previous year. Per capita GDPs vary greatly between Gulf Cooperation Council (GCC) countries and the more diversified economies, as well as among themselves. In 1996, per capita GDP was estimated at $8,906 for the GCC countries as a group, ranging from $17,092 in the United Arab Emirates to $6,758 in Oman. For the group of countries with more diversified economies, per capita GDP was estimated at $1,192 for 1996, ranging from $3,975 in Lebanon to $679 in Yemen, the region's least developed country.

3. Major factors that contributed to the acceleration of economic growth and development in the region in 1996 include the significant rise in oil revenues of most of the member countries and the introduction and acceleration of economic reforms in many countries of the region. The region's economic growth could have been even greater in 1996 had it not been for several adverse factors. The major factors that hindered growth were the unstable political situation caused by the stalling of the Middle East peace process; the Israeli attacks on Lebanon; the closure of the borders of the West Bank and the Gaza Strip; and the continued United Nations economic sanctions on Iraq imposed since August 1990.

4. The marked impact of the oil price increase on overall economic performance in 1996 is evident. In 1995, oil prices recorded an increase of 8.6 per cent compared with 1994. In 1996, the average price per barrel increased by 20.3 per cent over 1995, from $16.86 per barrel to $20.29 per barrel. In fact, oil prices in 1996 were the highest since 1990, when the Organization of Petroleum Exporting Countries (OPEC) crude oil basket price averaged $22.26 per barrel.

5. Oil revenues of the ESCWA region in 1996 were estimated to have totalled $96.5 billion. This is an increase of $16.4 billion over 1995 revenues, representing an increase of 20.4 per cent over the previous year, despite oil production remaining unchanged at around the 1995 level of 16 million barrels per day (mbd). The region's oil revenues in 1996 were the highest recorded in more than a decade. More than 93 per cent of the increase in the region's oil revenues in 1996 accrued to the GCC countries, which include some of the world's major oil-exporting countries, namely Saudi Arabia, the United Arab Emirates and Kuwait.

6. The importance of the oil sector in the economies of most ESCWA members is apparent. Excluding Jordan, Lebanon, and the West Bank and the Gaza Strip, which do not export any oil, the remaining ESCWA members are all exporters of oil in varying degrees and oil revenues play, directly and indirectly, an important role in their economies.

7. In the GCC countries, for example, despite the diversification efforts over the last two decades, the oil sector still represents around 35 to 40 per cent of these countries' combined GDP. Oil revenues account for

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as much as 80 per cent of government revenues, and for more than 85 per cent of exports in these countries. In the more diversified economies of the region, such as Egypt, the Syrian Arab Republic and Yemen, although oil revenues do not assume such a dominating role in these economies, they still represent a major source of foreign exchange earnings, and this has positive effects on the respective balance-of-trade accounts. The considerable rise in oil revenues, therefore, exerts an appreciable impact on the level of economic activities in the majority of ESCWA member countries.

8. The GDP of the GCC countries was estimated to have registered a 4.9 per cent growth rate in 1996, compared with a 1.1 per cent growth rate in the preceding year. This marked acceleration in economic growth may be attributed mainly to the growth in the oil sector and its indirect positive implications for the non-oil sectors, in particular the banking, retail trade, and construction sectors. With the unexpectedly large increases in oil revenues, most Governments of the GCC countries were able to increase their expenditure significantly above planned levels, and still narrow their respective budget deficits. The significant increases in government expenditures, coupled with the multiplier effect, helped to boost further economic activities and growth in these countries. Per capita GDP in the GCC countries was estimated to have increased by 1.8 per cent in real terms in 1996, after declining by 2.1 per cent in the previous year. In 1996, real GDP growth rates are estimated to have ranged between 5.2 per cent in both Kuwait and Oman to 3.2 per cent in Qatar. In each and every GCC country, GDP grew at a higher rate in 1996 than in 1995.

9. Bahrain's GDP was estimated to have increased by an estimated 3.8 per cent in 1996, compared with 2.2 per cent in 1995. Bahrain's economy, the most diversified among the GCC countries, was stimulated by the estimated 44.7 per cent increase in its oil revenues. This considerable increase in Bahrain's oil revenues was due partly to the rise in oil prices and partly to the country's gaining all the revenues, since April 1996, from the output of the offshore Abu Saafa oilfield, which it had previously shared with Saudi Arabia. The banking sector, which traditionally has a strong link with developments in the oil sector, performed very well in 1996. Most banks recorded higher profits than the previous year. The industrial sector, led by oil refining and aluminium, performed well in 1996. The tourism sector recovered somewhat from its poor performance in 1995, and continued to attract tourists from other GCC countries, particularly Saudi Arabia. The Government of Bahrain plans to raise the salaries of public sector employees by between 6 and 15 per cent in 1997. In addition, the Government plans to allocate 1.15 billion Bahrain dinars (BD) (equivalent to $3.1 billion) for capital expenditure during the four-year period 1997-2000. It should be noted that Bahrain had allotted only BD 400 million ($1.1 billion) for capital expenditure during the previous four years. Bahrain's economy is expected to grow at a slightly higher rate in 1997 than in 1996, despite a projected decline in oil prices in the international markets.

10. The GDP in Kuwait was estimated to have increased by 3.9 per cent in 1995 and by 5.2 per cent in 1996. Economic conditions improved remarkably in Kuwait in 1996, owing mainly to an estimated 19.1 per cent rise in Kuwait's oil revenues, which have increased the country's balance-of-trade surplus, and simultaneously reduced its budget deficit. In addition, during the fourth quarter of 1996, Kuwait repaid its last instalment of its $5.5 billion loan that it borrowed at the end of the Gulf war. Moreover, Kuwaiti assets abroad, which were estimated by unofficial sources at $35 billion in 1995, must have increased considerably in 1996 owing to additional deposits by the Government, as well as the significant appreciation of these overseas investments during that year. Kuwait's GDP is projected to grow by 4.3 per cent in 1997.

11. Oman's economy registered a growth rate of 4.5 per cent in 1995, and an estimated 5.2 per cent growth rate in 1996. This steady and solid performance may be attributed, not only to the expanding oil sector, but

also to the fact that Oman is at the forefront of economic reform among the GCC countries. The private sector has apparently responded to Government inducements to play a greater role in the economy of the country. Despite projected declines in oil prices, Oman's GDP is expected to grow by 4.9 per cent in 1997, which would be the highest among the GCC countries.

12. Qatar's GDP, which grew by a modest rate of 1.4 per cent in 1995, was estimated to have registered a 3.2 per cent growth rate in 1996. This marked acceleration in economic growth was mainly due to the 13.5 per cent increase in the country's oil production, from 422,000 b/d in 1995 to 479,000 b/d in 1996. Given the increase in oil prices, the rise in oil production resulted in an estimated 34.3 per cent increase in Qatar's oil revenues in 1996. The economy of Qatar, a major producer of natural gas, also benefited from higher natural gas prices in 1996. Qatar's GDP is projected to register a higher growth rate of 3.7 per cent in 1997 owing mainly to expected higher oil production and returns from its major liquefied natural gas plants, which have recently been constructed and/or expanded.

13. Saudi Arabia's economy, which accounts for over 40 per cent of the ESCWA region's GDP, and around 58 per cent of the combined GDP of the GCC countries, performed very well in 1996. After being basically stagnant in 1995, Saudi Arabia's real GDP was conservatively estimated to have registered a 5 per cent growth rate in 1996. In nominal terms, the Kingdom's GDP grew by 8.6 per cent in 1996, according to official estimates. With oil production averaging 8 million b/d, the country's oil revenues were estimated to have increased by more than $8 billion to a total of around $51 billion in 1996, a 19.3 per cent increase over 1995. The growth of the oil sector, which accounts for over one third of the Kingdom's GDP and around 90 per cent of its exports, was clearly the main factor in boosting the economy and reducing the country's internal and external imbalances. The increase in oil revenues was more than sufficient to wipe out the budget deficit. Instead, however, the Government apparently opted to repay its outstanding debts to private contractors, increase government expenditure above planned levels, and simultaneously narrow the budget deficit. The private sector benefited greatly from the increase in the Kingdom's oil revenues and the rise in Government expenditure, particularly the banking, retail trade and construction sectors. Despite an expected decline in oil prices in 1997, Saudi Arabia's GDP is projected to grow by 3.5 per cent in 1997, owing partly to increased Government expenditure and a rejuvenated private sector.

14. According to the Ministry of Planning in the United Arab Emirates, the country's GDP grew by 6.1 per cent in real terms in 1995, and was preliminarily estimated to have grown by 7.4 per cent in 1996. ESCWA estimates, however, put the GDP growth rate of the United Arab Emirates at 2.2 per cent for 1995 and 5 per cent for 1996. In either case, the economy of the United Arab Emirates performed well in 1995 and considerably better in 1996. The oil sector accounts for around 40 per cent of the country's GDP. The United Arab Emirates' oil revenues increased from $12.8 billion in 1995 to an estimated $15.3 billion in 1996, and this had very positive direct and indirect effects on the country's economy. The country's balance-of-trade surplus increased, while the budget deficit declined, despite a rise in government expenditure above planned levels. The banking sector recorded substantial profits. The re-export trade surged in 1996, owing mainly to a large increase in the size and number of companies, in particular in the Jabal Ali free trade zone. The tourism sector performed well in 1996 with a rapidly rising number of tourists, particularly from Europe. Several international exhibitions took place in Abu Dhabi and Dubai, and the restaurant and hotel sector performed exceptionally well in 1996. The departure of 180,000 expatriates who were working illegally in the United Arab Emirates had only minor adverse effects on the economy as a whole; these effects were felt mainly in the smaller enterprises and the construction sector. There were no significant increases in employment opportunities for nationals since most of the jobs vacated by the departing expatriate workers

are not considered suitable by national job seekers. The economy of the United Arab Emirates is expected to register solid growth again, owing to the expected positive contribution of the oil sector, the growing dynamism of the private sector, and also to the expected increases in government expenditure, both current and capital expenditure. The country's GDP is projected to grow by 4.5 per cent in 1997.

15. The region's more diversified economies, with the exception of Iraq, performed well in 1996, with an estimated combined GDP growth rate of 4.7 per cent. This growth rate was high enough to yield an estimated GDP per capita growth rate of 2 per cent for this group of countries as a whole. Overall economic performance, however, varied from one country to another.

16. Egypt's economy, the largest among the ESCWA region's more diversified economies and the second largest among all ESCWA member countries, was estimated to have grown by 4.9 per cent in 1996, up from 4.6 per cent in 1995. This allowed the country's GDP per capita to grow by an estimated 2.7 per cent in 1996. The Egyptian economy is reaping some of the expected benefits from the structural adjustment programme that the Government initiated in 1991, under the sponsorship of the International Monetary Fund (IMF). Egypt's rate of inflation, which registered 15.7 per cent in 1995, is estimated to have declined to 7.2 per cent; the budget deficit as a percentage of GDP has fallen to 1.2 per cent; foreign reserves available in the Central Bank of Egypt continued to increase in 1996 and were estimated to have reached close to $19 billion by the end of the year. The manufacturing sector, which accounts for about 18 per cent of Egypt's GDP, was estimated to have grown by around 5.5 per cent in 1996, and is projected to grow by 7 to 8 per cent in the coming years. This is partly due to the commencement of large industrial projects and the issuance of new laws that are of great importance for Egypt's industrial sector, such as the new labour and unified investment law. The tourism sector performed well in Egypt in 1996, with tourism revenues reaching a new record of $3 billion. The number of tourists who visited Egypt in 1996 totalled 3.8 million, which is a new record. This figure is projected to rise to 4.2 million in 1997. Hotel occupancy rates registered a record 63 per cent during the first 11 months of 1996. Egypt's total hotel capacity jumped from 18,000 rooms in 1981 to 68,000 rooms in 1996. The Egyptian Government plans a worldwide campaign to further promote tourism in Egypt, with special concentration on the United Statesof America and Western Europe. With regard to the banking, construction and retail trade sectors, they were all estimated to have registered growth of over 5 per cent in 1996. The Egyptian stock market performed well in 1996 and is expected to perform well again in 1997 as the privatization process is accelerated and foreign private investment increases markedly. Egypt's GDP growth is projected to accelerate further in 1997 and register a 5.5 per cent growth rate, with the private sector playing a more dynamic role and projects agreed upon with foreign investors during the Third Middle East and North Africa (MENA) Summit, held in Cairo in November 1996, beginning to be implemented. In addition, gigantic government-led development projects will be undertaken in Upper Egypt and the Sinai Peninsula.

17. Iraq's economy remained crippled by the United Nations economic sanctions imposed on it since August 1990. Economic conditions continued to deteriorate in 1996 to the extent that Iraq, which is well endowed with valuable natural and human resources, is now one of the countries ranked in the lowest group of least developed countries in the world. Economic conditions may be expected to improve only slightly in 1997 as a result of the oil-for-food deal with the United Nations, which allows Iraq to export $2 billion worth of oil every six months. However, a meaningful and urgently needed recovery can only be achieved with the total removal of the United Nations-imposed economic sanctions.

18. The GDP in Jordan grew by 6.4 per cent in 1995 and an estimated 5.2 per cent in 1996. Despite a relatively high population growth rate, the economic performance of the country allowed it to register a 1.5 per cent per capita GDP in 1996. The country's economy was adversely affected by the continued imposition of economic sanctions on Iraq (its major trading partner prior to the imposition of the sanctions); by the Israeli bombing of Lebanon in April 1996, which negatively affected the tourism sector and foreign direct investment in Jordan; and the stalling of the Middle East peace process, which discouraged not only foreign investment but also investment by expatriate Jordanians as well as by private investors in the Kingdom. However, Jordan's economy benefited from improved relations with GCC countries, which led to more exports of Jordanian goods to these countries as well as an increase in employment opportunities for Jordanian workers seeking employment abroad. Jordanian expatriate workers were estimated to have remitted to Jordan $1.54 billion in 1996, a 25.2 per cent increase above the 1995 level of $1.23 billion. Jordan's GDP is projected to grow by 6.2 per cent in 1997, the highest growth rate among the ESCWA member countries.

19. Lebanon's GDP, which grew by 7 per cent in 1995, was estimated to have registered a growth rate of 3 per cent in 1996. The Israeli bombing of Lebanon in April 1996 had a considerable negative impact on the country, in particular on the important tourism sector. Relatively high interest rates have discouraged greater private investment. Lebanon's GDP is projected to register a 5 per cent growth rate in 1997.

20. The GDP in the Syrian Arab Republic in 1996 was estimated to have registered a growth rate of 5.9 per cent, compared with 3.6 per cent in 1995. The country's GDP per capita was estimated to have risen by 2.9 per cent in 1996, which was the largest increase among all ESCWA member countries. The Syrian economy benefited from a 21 per cent increase in its oil revenues, and the strong performance of the agriculture and tourism sectors. The private sector, encouraged by the Government, is playing an increasingly important role, particularly in the tourism sector. The country also benefited in 1996 from rising workers' remittances, especially from the Syrian expatriates in the GCC countries. The GDP of the Syrian Arab Republic is projected to grow by 4.8 per cent in 1997.

21. Yemen, confronted by severe internal and external imbalances, began implementing economic and structural reforms in 1995, under the auspices of the World Bank and the IMF. After registering a GDP growth rate of 8.5 per cent in 1995, the economy of the region's least developed country was estimated to have grown by 3 per cent in 1996. Owing to Yemen's relatively high population growth rate, its GDP per capita declined by an estimated 0.7 per cent in 1996. Although Yemen's economy benefited from higher oil prices and revenues, the country suffered considerably from the June 1996 floods, which had a severe negative impact on the important agriculture sector. Yemen's GDP is projected to register a 3.5 per cent growth rate in 1997.

22. The combined GDP of the West Bank and the Gaza Strip grew by 3.5 per cent in 1995. The initial forecast for 1996 was that the GDP would grow by 7 per cent: instead, it was estimated to have declined by 5 per cent in that year. This was mainly due to the frequent closures of the borders of the West Bank and the Gaza Strip by the Israeli Government, and the less than expected financial and technical assistance from the international community. Assuming that Israel will allow at least 35,000 Palestinian workers to continue working in Israel, and that Israel will permit the free flow of goods between it and the West Bank and the Gaza Strip, the GDP of the West Bank and the Gaza Strip is projected to grow by 5 per cent in 1997.

23. The economic outlook for the ESCWA region in 1997 will greatly depend on (a) the international prices of oil; (b) the implementation of economic reforms in the member countries; (c) the developments in

the Middle East peace process; and (d) Iraq's return to the international oil market and the lifting of the sanctions on Iraq. It is projected that the GDP of the ESCWA region will grow in 1997 by a rate of 4.3 per cent. This projected growth rate, although lower than the 4.8 per cent estimated growth rate for 1996, would still be significantly higher than the 2.2 per cent growth rate achieved in 1995. It would also be sufficient to yield a 2.1 per cent per capita real GDP growth rate in the region. Moreover, while it is projected that the combined GDP of the GCC countries will grow by 3.9 per cent, the GDP of the more diversified economies is projected to grow by 5.2 per cent in 1997.

24. In 1996, the drive for economic reform and structural adjustment lost most of the momentum it had accumulated in the previous year throughout most of the GCC countries because of the unexpected large increase in oil revenues. In 1996 several GCC countries postponed implementation of policies to widen and diversify the tax revenue base, as well as further reduce subsidies on government-provided goods and services. Gradual implementation of such a policy is required, in order to avoid abrupt and sharp reductions whenever these countries are confronted by significant declines in oil revenues.

25. Economic reform continued to be implemented in most of the region's more diversified economies, in particular in Egypt and Jordan, with privatization accelerating notably in the former. Egypt's economic reform programme—including full liberalization of the capital and labour markets, the freeing of external trade and the completion of the country's privatization programme—is expected to be completed by the year 2000.

26. High unemployment rates remain a major problem facing the members of the ESCWA region, despite the reported growth rates in real GDP and the net increase in per capita income referred to above. This is particularly true with regard to the more diversified economies in the region. These economies, generally, have over the past several years been characterized by a relatively high rate of population growth and by an increase in the number of new entrants to the labour market that has been well beyond the economic capacity of the countries concerned to absorb fully. These countries have, for several years now, been characterized by labour forces that are growing at a higher rate than their economies. As a result, the increase in the demand for labour in these countries has not been sufficient to absorb the increase in the supply of labour. Recently this situation was further exacerbated following Governments' policies to curtail expenditure, to reduce budget deficits, and to contract public sector employment. Moreover, opportunities for employment outside the region have, in general, become more scarce.

27. The highest unemployment rate in the region was reported in the West Bank and the Gaza Strip, affecting 28 per cent of the labour force there. If underemployment is also counted, these rates would, on the basis of preliminary estimates, reach 45 per cent in the West Bank, and 60 per cent in the Gaza Strip. A number of factors accounted for this grave unemployment situation. They included—on the one hand—Israel's border closure practices as well as the deteriorating political situation, which contributed to discouraging private and foreign investment and to the postponement of major reconstruction projects. On the other hand, it should be noted, the West Bank and the Gaza Strip have also had relatively very high population growth rates.

28. In Yemen, the rate of unemployment in 1996 was still very high, although lower than the rate reported for 1995; it was estimated at 25 per cent of the labour force, compared with 30 per cent in 1995. The high growth rate of the labour force (estimated at an average annual rate of 4.25 per cent) and Government efforts to reduce its payroll did not help to lower this rate.

29. In Egypt and Jordan too, the preliminary estimates show a relatively high unemployment rate of around 13 per cent. In an effort to create more employment opportunities for Jordanians, the Government of Jordan enacted a law in 1996 prohibiting non-Jordanians from employment in 15 different professions and businesses in the country. What is interesting to note here is that the Egyptian and Jordanian economies need a minimum average annual rate of growth of 7 to 8 per cent to be able to absorb fully the expected number of new entrants into their labour forces (estimated at 500,000 and 50,000 respectively) and secure lower unemployment rates. The Syrian Arab Republic suffers from high unemployment, but with a lower rate than the rates reported for Egypt and Jordan.

30. Some of the GCC countries also suffer from unemployment among their indigenous populations. This is rather paradoxical as all GCC countries are labour-receiving countries. This relatively new phenomenon has been a cause of concern to the Governments of GCC countries. There are several factors behind this phenomenon. Chief among them have been the unrealistic expectations of the nationals entering the labour force; the availability of low paid expatriate workers; government policies to restrain public sector employment expansion; and the current mismatch between the type of qualifications held by job seekers and the type of job opportunities that are available in the market-place in these countries.

31. Indigenization of the labour force (replacing foreign workers with nationals) is now considered a developmental goal in most of the GCC countries. Bahrain and Oman have made some progress in indigenizing their labour force. The progress, however, remains limited and confined mainly to the public sector. In the private sector, this process has so far involved certain managerial and clerical jobs only. The success of this process will, to a great extent, depend on enabling the indigenous population to acquire the type of education and technical skills that meet the requirements of the labour market in the coming years. The policy of obliging the private sector to employ nationals may affect the overall economic performance adversely and may not be sustainable in the long run.

32. The social consequences of chronic unemployment in the ESCWA region are very serious. High unemployment breeds marginalization and other social problems, increases poverty and income inequality, and inflicts a high human cost on the unemployed in terms of reduced well-being and loss of dignity. These consequences are especially problematic for young people, who are new entrants to the labour market and who, after long years of education, find that they cannot secure adequate income levels. At the family level, unemployment may also lead to family breakdown, forced child labour and further marginalization of poor families. Such futility and frustration breed crime and other social pathologies that can lead to social and political unrest from which everyone in society suffers.

33. The inflation rates in most ESCWA member countries were, in general, at internationally acceptable levels in 1996. The rates among the more diversified economies, however, tended to be considerably higher than those reported for the GCC countries. For example, Jordan's inflation rate, estimated at 6 per cent, the lowest among the more diversified economies, was still higher than the highest rate (4 per cent in the United Arab Emirates) among the GCC countries in 1996.

34. Yemen's inflation rate, estimated at 30 per cent for 1996, has been the highest among the more diversified economies. This rate, it should be noted, is considerably below the country's staggering inflation rates of 120 per cent and 55 per cent registered in 1994 and 1995 respectively.

35. In the Syrian Arab Republic, the estimates indicate that the inflation rate increased in 1996 compared with 1995, from 18.5 per cent to 20 per cent. Two factors may have added to the inflationary pressure in the country. The first was the high liquidity in the banking system; the second was the official devaluation of the Syrian pound (LS) for several imported items, from LS 11.2 for $1 to LS 42 for $1.

36. In the West Bank and the Gaza Strip, the inflation rate declined substantially: from 25 per cent to 12 per cent between 1995 and 1996. This decline may be interpreted as a result of the sharp decline in the purchasing power of the Palestinian people in a year which saw very high unemployment rates and a general decline in the level of economic activities.

37. In Lebanon, the inflation rate in 1996 declined to an estimated 8.9 per cent from 14 per cent in 1995. This decline reflects the more conservative monetary policies pursued by the country's Central Bank and the decline in the growth of economic activities.

38. In Egypt, estimates show the inflation rate declining to 7.2 per cent in 1996, compared with 15.7 per cent in 1995. Two main contributors to this drop may have been the decline, to a record low, in the budget deficit as a percentage of GDP, and the Government's use of treasury bills to finance its budget deficits instead of increasing the supply of money.

39. In Jordan, as noted above, the estimate of the inflation rate in 1996 was 6 per cent. This rate is an increase compared with the 2.3 per cent reported for 1995. It is important to note here that the Government of Jordan in general pursued conservative monetary and fiscal policies. The escalation in the inflation rate is due primarily to the reduction in the level of government subsidies of wheat, fodder, water and electricity in 1996.

40. In the GCC countries, inflation rates continued to be restrained in 1996. They ranged from 4 per cent in the United Arab Emirates to only 1.2 per cent in Saudi Arabia. Most GCC countries traditionally pursue conservative monetary policies. All GCC currencies, with the exception of that of Kuwait, are pegged to the United States dollar. The appreciation of the United States dollar in 1996, in terms of the currencies of Japan and most Western European countries, helped to further dampen the inflation rates in the GCC countries. The prices of imports from these major trading partners thus became cheaper. Furthermore, the sharp increase in government revenues in 1996 allowed the Governments to postpone additional reductions in subsidies of various government-supported goods and services, as noted above.

II. DEVELOPMENTS IN INTERNATIONAL TRADE AND PAYMENTS

41. Preliminary data and estimates indicate that the region's exports and imports in 1996 were positively affected by the significant rise in oil prices, by the overall economic growth and by the increase in non-oil exports. Exports were estimated to have increased by 15 per cent during 1996, while imports increased by 9 per cent. The GCC countries' exports, which were estimated at $117.4 billion and accounted for 89 per cent of the ESCWA region's total exports, recorded a 16 per cent increase during 1996. This increase is mainly attributable to higher oil prices, especially in the latter half of the year. The largest percentage increases in exports within this group were recorded by Kuwait, Saudi Arabia and the United Arab Emirates, for which exports were estimated to have risen by 19 per cent, 18.8 per cent and 14.9 per cent respectively. Kuwait benefited significantly from higher oil prices, and its oil exports increased from $10.2 billion in 1995

to an estimated $12.1 billion in 1996. The significant increases in exports noted by Saudi Arabia were mainly due to higher oil prices but also in part to greater exports of petrochemicals and non-oil exports. The United Arab Emirates experienced continued export growth in the non-oil sector, particularly with regard to re-exports; increased exports to South-East Asia also contributed to this growth. Oman and Qatar noted increases in exports during the year, estimated at 10 per cent in both countries. Bahrain's increase in exports, estimated at 5 per cent, was due to increases in aluminium exports as well as the decision by Saudi Arabia to transfer all of the revenues of the Abu Saafa oilfield, which had been shared by the two countries.

42. The ESCWA member countries with more diversified economies recorded an estimated increase in exports of 5.6 per cent. Some countries in this group benefited to some extent from higher oil prices but some, such as Egypt, witnessed declines in non-oil exports. Total exports of this group were estimated to have increased from $14.2 billion in 1995 to $15 billion in 1996. The largest percentage increase was recorded by Lebanon, for which exports were estimated to be more than 20 per cent greater than the previous year. The Syrian Arab Republic's exports increased by 16.9 per cent over 1995 levels, according to official reports. Exports were mainly oil and raw materials and benefited from the increase in oil prices. Non-oil exports, however, continued to be affected by many factors including exchange rate restrictions, though rates were modified somewhat during 1996. Increases in exports of Yemen amounted to an estimated 8.5 per cent during 1996 and may have been higher, but there were difficulties in recording accurate statistics for the country's large informal sector. Jordan's rise in exports, estimated at 7.4 per cent, was considerably lower than the previous year's increase of 26 per cent and was, in part, attributable to border difficulties which adversely affected trade with Israel and the West Bank. Egypt witnessed a decrease in exports estimated at 6 per cent as non-oil exports declined: a major factor in this decline was the drop in textile exports. Estimated data for the West Bank and the Gaza Strip indicate that exports were adversely affected by the severe restrictions placed on the movement of goods and people by the Israelis during 1996 and consequently fell by 20 per cent: under the guise of security measures, goods were prevented from being exported not only to Israel but also to Jordan and Egypt as well as to outside the region for much of the year.

43. Regarding import performance, preliminary estimates indicate that the ESCWA region's imports grew from $93.3 billion in 1995 to $101.8 billion in 1996. Imports by the GCC countries totalled $67.5 billion; these imports amounted to 66.3 per cent of the region's total imports and approximately 75 per cent of the oil revenues in these countries, which totalled about $89.9 billion in 1996. Imports increased in all countries in this group. These increases ranged from 11 per cent in Oman to 3 per cent in Qatar. In the United Arab Emirates and Kuwait, imports increased by 10 per cent and 8 per cent respectively. In Oman and Kuwait, increases in imports were in part the result of higher imports of capital goods. Saudi Arabia witnessed an increase in imports of 4 per cent over its recorded 1995 level. This was caused partly by the increase in government spending which occurred when oil revenues were higher than expected during the second half of 1996. Another factor has been the stronger dollar. The appreciation of the dollar against most currencies, during 1996, effectively lowered the prices of imports purchased from Japan, and European and other countries.

44. Imports by ESCWA member countries with more diversified economies increased by 14 per cent during 1996 from $30.2 billion to an estimated $34.3 billion. With the exception of Iraq, owing to the continued United Nations economic sanctions, imports of every country in this group increased, from 8 per cent in Jordan to 28 per cent in Lebanon. Imports by Yemen, the Syrian Arab Republic and Egypt rose by 15.5 per cent, 14.7 per cent and 10.1 per cent respectively compared with 1995 levels. The increase in Egypt's imports during 1996 may have been influenced by a reduction in tariffs. In October 1996, Egypt

announced an across-the-board tariff cut on imports ranging from 10 to 15 per cent. Tariffs on luxury items, however, remained high at 135 per cent on some goods. Jordan's liberalization programme, which included the lowering of some tariffs, may have contributed to higher import levels. The protection of the Jordanian currency's exchange rate may have affected import levels during 1996. Indications, however, are that this policy will be maintained in the coming years.

45. On the basis of the above data, it was estimated that the region's balance of trade recorded a surplus in 1996. This surplus is put at $30.5 billion, significantly higher than the $21.7 billion recorded for the previous year, and was mainly the result of higher oil prices. The GCC countries witnessed an increase in their balance of trade surplus, which totalled $49.9 billion in 1996 compared with $37.7 billion in 1995. However, estimates indicate that the ESCWA member countries with more diversified economies witnessed deficits in their overall balance of trade amounting to $19.3 billion, significantly higher than the previous total of $16 billion. Imports were greater than exports for all the member countries in this group.

46. Forecasts for 1997 indicate that the balance of trade will deteriorate slightly for the region as a whole, and for the GCC group of countries. Exports of the ESCWA region are expected to rise modestly based on the assumption of oil prices in the $17.5-$19/barrel range coupled with a modest increase in the volume of oil exports. It is projected that the GCC countries will experience a rise in exports of 2 per cent only. Their imports are expected to increase by 7 per cent, causing a slight decline in the balance of trade. Countries with more diversified economies are expected to benefit from export-oriented economic reforms as well as from greater penetration into new export markets. The exports of the more diversified economies, therefore, are expected to be 17 per cent higher in 1997, and their imports 8 per cent higher.

47. The region's ability to finance imports from its export proceeds, as measured by the export/import ratio, improved from 1.23 in 1995 to 1.30 in 1996. The ratio for the GCC countries increased from 1.6 in 1995 to 1.74 in 1996, mainly owing to the increase in exports. The ratio for the countries with more diversified economies, however, decreased slightly from 0.47 to 0.44, largely as a result of increasing imports. The export/import ratio forecast for 1997 for the region as a whole is put at 1.26, which is lower than its 1996 level. This projected decline in the ratio is due to the fact that the expected relative increase in imports exceeds the projected relative increase in exports.

48. Preliminary estimates regarding the current account balance for the majority of the ESCWA members for which data were available (excluding Iraq, the Syrian Arab Republic, the West Bank and the Gaza Strip, and Yemen) indicate that the overall deficit decreased significantly from $8.7 billion in 1995 to $1.4 billion in 1996. This was mainly due to a better trade balance resulting from higher oil exports. The GCC countries, according to recent estimates, recorded a surplus in the total current account balance of $5.8 billion, representing a notable improvement over the 1995 deficit of $2.5 billion. In the GCC countries, the most significant improvement was registered by Saudi Arabia. It recorded a surplus of $900 million in 1996 following a deficit of $8.1 billion the previous year. This improvement was largely due to the increase in its balance-of-trade surplus as a result of higher oil export earnings. Bahrain and Kuwait also recorded improvements in their balances according to the latest estimates. Bahrain's current account surplus increased from $480 million in 1995 to an estimated $600 million in 1996, while Kuwait's surplus increased to $4.3 billion in 1996, up slightly from the $4.2 billion recorded the previous year. Oman, Qatar and the United Arab Emirates current account balances are estimated to have deteriorated, despite higher earnings from oil export earnings during 1996. Oman and Qatar, which recorded deficits during 1995, saw these deficits increase in 1996 from $350 million to $740 million for Oman and from $260 million to $410 million for

Qatar. The United Arab Emirates, though maintaining a surplus in its current account balance for both years, recorded a decrease from $1.5 billion in 1995 to $1.1 billion in 1996.

49. The deficit in the current account of the countries in the region with more diversified economies was estimated to have increased from $6.2 billion in 1995 to $7.2 billion in 1996. This was largely due to the significant deterioration in Egypt's deficit, which increased from $254 million in 1995 to $1 billion the following year, mainly because of lower exports during 1996. Lebanon also saw its deficit increase in 1996, but by a lower amount, to $5.9 billion, up from the $5.4 billion of the previous year. Jordan, however, witnessed an improvement in its current account balance: its deficit, which was $460 million in 1995, was estimated to have decreased to $270 million in 1996, mainly owing to the rise in workers' remittances.

50. The overall current account balance for the ESCWA region is expected to remain in deficit in 1997. It may increase to around $4 billion if oil prices range between $17.5-$19/barrel and imports increase as expected. The total surplus for the GCC countries is expected to fall to around $4 billion, while the deficit for the more diversified economies is expected to increase to around $8 billion.

51. Partial and preliminary data for 1996 indicate that the region's international reserves (excluding Iraq, the West Bank and the Gaza Strip, and the Syrian Arab Republic owing to lack of data) increased by 6.3 per cent over 1995 levels: from $51.2 billion to $54.4 billion. This was mainly the result of higher reserves in the region's more diversified economies. The reserves of the GCC countries remained unchanged at $23.4 billion while those of the ESCWA member countries with more diversified economies increased by 11 per cent, reaching $30.9 billion in 1996. Saudi Arabia and the United Arab Emirates hold the largest reserves in the former group, with $8.5 billion and $8.0 billion respectively. Egypt is the largest holder of reserves in the latter group with $19 billion.

52. With regard to the region's ability to provide for its imports, the above preliminary data on international reserves show that the region was able to cover 6.9 months of imports in 1996. This was slightly lower than the coverage for the previous year, which amounted to 7.1 months. The GCC countries were able to provide for 4.2 months of import coverage, while ESCWA member countries with more diversified economies were able to cover 13.9 months of imports with 1996 reserve levels, mainly because of Egypt's relatively high level of international reserves.

53. Progress was made in many countries of the region in undertaking economic reforms in line with those required for accession to the World Trade Organization (WTO). These include trade-related measures such as the reduction of tariffs, the elimination of non-tariff barriers and the standardization of tax laws and rates for foreign and domestic firms in some countries. In 1996 the United Arab Emirates joined the WTO: Bahrain, Egypt, Kuwait and Qatar were already members. Trade prospects are expected to be favourable for these countries as a result. Jordan, Lebanon and Saudi Arabia have requested membership in the WTO, while Oman, which has observer status, and the Syrian Arab Republic are still weighing the advantages and disadvantages of joining. Some ESCWA member countries undertook negotiations with the European Union leading towards eventual partnership agreements similar to those with other Mediterranean countries. The European Union and the GCC countries are considering a free-trade accord. With regard to trade within the region, the establishment of an Arab monetary union was the major topic of discussion at a meeting held under the auspices of the Arab Monetary Fund in Cairo during 1996. The aim of forming such a union would be to enhance prospects for greater intraregional trade among ESCWA member countries.

54. Total external debt of ESCWA member countries, excluding Iraq, is estimated to have declined by around 4 per cent, from around $182 billion in 1995 to around $175 billion in 1996. This decline was caused partly by rescheduling and forgiveness of parts of the debt of a number of member countries, such as Egypt, Jordan and Yemen, and partly by repayment of debt by others, such as Kuwait, which in late 1996 repaid the final instalment of $786 million. (This amount was still outstanding from the $5.5 billion on the sovereign loan made to Kuwait in 1991.) Against this positive development in the external debt of a number of ESCWA member countries, the external debt of some other ESCWA member countries increased. For example, the external debt of Qatar amounted to around $8.1 billion in 1996, up by around 42 per cent over 1995 ($5.7 billion) and that of Lebanon increased by around 38 per cent, from $1.28 billion to $1.77 billion. The external debt of Jordan, which amounted to around $6 billion in 1996, was lower by around 10 per cent than the figure in 1995 ($6.6 billion); it is expected to rise to over $7.5 billion during the next two years, owing to loan commitments of around $1.5 billion to Western creditors and multilateral organizations.

55. While most of the external debt of GCC countries is short-term and geared to financing trade, most of the external debt of other ESCWA member countries is long-term and partly concessionary and soft-term.

III. MONEY, FINANCE AND BANKING

56. In 1996, a number of ESCWA member countries (including Egypt) started organizing on a regular basis treasury bill auctions at market-determined interest rates. These auctions quickly became the key determinant of domestic monetary conditions. Other ESCWA member countries carried out measures to increase their reliance on reserve requirements (Jordan and Yemen) and develop the interbank market (the GCC countries, Egypt, Jordan and Lebanon). Further benefits are expected from the sustained efforts to strengthen the financial markets through, for example, measures to promote competition among the various segments of the financial sector and progressively widen access to the markets.

57. In 1996, within the context of financial liberalization, the improvements in the mechanisms of monetary control in most ESCWA member countries were achieved by a move away from quantitative credit restrictions to indirect instruments of monetary control. It is useful to note here that the rediscount instrument was made more responsive to changes in market conditions; the sale and repurchase of treasury bills and other government financial papers were used increasingly as instruments in the management of liquidity; in addition, the legal reserve requirements were made uniform across the whole spectrum of financial institutions.

58. The unexpected large increase in oil revenues, caused by the rise in oil prices in 1996, enabled most of the GCC countries either to cut their 1996 budget deficits significantly, or to eliminate them completely and record slight budget surpluses, as in the case of Bahrain. The surge in the United States dollar against other major international currencies in 1996 gave another boost to the economies of these countries. With oil exports being priced in dollars, the oil revenues of the GCC countries were higher in real terms as most of the oil exports of these countries were to Japan and non-dollar areas. Moreover, the higher oil prices in 1996 are estimated to have resulted in additional revenues of over $8 billion, $2.5 billion, $1.95 billion, $1.2 billion and $0.9 billion to the Governments of Saudi Arabia, the United Arab Emirates, Kuwait, Oman and Qatar respectively.

59. While the GCC countries could resort to using these resources and, if necessary, draw on their foreign reserves to finance their budget deficits, the ESCWA member countries with more diversified economies continued searching for alternative means to reduce their budget deficits.

60. In 1996, stock markets in the ESCWA region mostly performed better than those in many emerging markets in other developing regions. While the aggregate index of the markets in other developing regions was estimated to have dropped by around 8 per cent in 1996, that of stock markets in the ESCWA region was estimated to have risen by around 12 per cent. The improved economic performance of most ESCWA member countries in 1996 was reflected in the surge of activities in their respective stock markets. Moreover, the rise in the overall liquidity in the economies of most ESCWA member countries enabled many corporations to raise private capital in the stock market.

61. The privatization drive in a number of ESCWA member countries benefited their stock markets significantly. This is mainly because most of the privatization was made through public offerings. The improved investment environment in the ESCWA region led to a rise in interregional capital flows, mainly through the stock markets. This development has facilitated the linking of stock markets in ESCWA member countries. A link was established in September 1996 between the stock markets of Egypt, Kuwait and Lebanon, and another in December between the stock markets of Bahrain, Kuwait and Oman. The total capitalization of these markets was estimated to have amounted to around $55 billion in 1996, compared with $28 billion in 1995.

62. In 1996 stock markets in the region emerged as a major segment of the financial system of ESCWA member countries. For most financial and non-financial institutions, the stock markets acted as an appropriate vehicle for raising funds to increase their own capital base and finance investment projects.

63. In spite of the favourable developments in the stock markets in the region in 1996, most of the markets concerned would not be classified as emerging markets. They still have insufficiently developed legal, administrative and institutional infrastructures, and stringent regulations concerning the participation of foreigners.

64. The development of stock markets in the region has been encouraged by the Governments of member countries. This came about at a time when most were burdened with budget deficits and lacked the funds needed to finance infrastructural and other projects. Governments expect stock markets to assist them in mobilizing the resources needed to finance budget deficits as well as planned investment projects.

65. Historically, both the business environment and the size of the stock markets in ESCWA member countries have been shaped by the Governments and the institutional structure of financial intermediation. The Governments have played a prominent role in determining the level of economic activity in virtually all ESCWA member countries. The need to implement ambitious development projects, which the private sector was unwilling or incapable of doing has further strengthened the role of the Government (the public sector). As to the institutional structure of financial intermediation, the financial markets in all ESCWA member countries are dominated by commercial banks, which traditionally have confined their lending mainly to short-term trade financing. The issuance of securities instead of bank loans as a principal financial instrument has increased markedly in recent years. The change in attitude is caused by the drive for privatization which is gaining momentum in most ESCWA member countries.

66. The financial business environment has improved in most ESCWA member countries in recent years. Nevertheless, the inadequate regulatory and institutional structures of financial markets in most of the countries of the region have not helped to improve the business environment to the fullest extent possible. Consequently, the financial markets in the ESCWA region have remained generally inadequate: informal, lacking transparency and exposed to the undesirable consequences of unchecked speculation.

67. The laws and regulations governing the stock markets in the ESCWA region vary in approach. All of them, however, despite their shortcomings, aim at mobilizing savings; providing corporate finance for both the public and private sector; and safeguarding the interests of both the shareholders and the traders. The problem areas in these markets in 1996 continued to concern the enforcement of accounting standards, the quality of information disclosure, and the protection of the small investor from insider trading and other malpractices.

68. Shareholders' equity in banks in the ESCWA region was estimated to have amounted to around $66 billion in 1996, up by 10 per cent from 1995 ($60 billion) and total assets were estimated to have increased by around 12 per cent, from $420 billion to $470 billion, but the capital base of most banks in the ESCWA region remained low relative to that of major international banks, thus preventing ESCWA region banks from playing a competitive role in the international banking markets.

69. Banks in the ESCWA region were estimated to have raised their share in financing economic activities in the region by around 17 per cent in 1996, from around $195 billion in 1995 to $228 billion in 1996. This increase was achieved mainly through project finance and syndicated loans for major investment projects. Total deposits in the banks in the region were estimated at around $275 billion in 1996, up by around 16 per cent from 1995 ($237 billion). The increase in bank deposits was partly due to the return of expatriate money, increased interregional investments, and relatively high interest rates, coupled with monetary stability in most ESCWA member countries; it was also partly due to the introduction of a number of new financial instruments in several countries in the region.

70. The reform of the financial sector, which was part of the economic reform programmes of most ESCWA member countries, appears to have enhanced the external investments of a number of banks in the ESCWA region. These investments are estimated to have increased to around $60 billion in 1996, from $54 billion in 1995.

71. The relatively tight banking conditions that characterized the banking markets in the ESCWA region in 1995 eased significantly in 1996. This was the result of the upturn in economic activity, and the reforms in the financial sector. Most banks in the region made record profits in 1996, despite a number of restraining factors: their continued need for further provisioning against non-performing loans made during the 1980s, and early 1990s; the fall in receivables, generated from trade in securities; and the continued pressure to comply with internationally accepted capital adequacy standards.

72. The major activity of most banks in the ESCWA region in 1996 continued to be retail and consumer banking business. A number of banks, however, started paying more attention to universal banking (combining retail and wholesale banking) to enjoy the benefits of the economies of scale and to avoid concentration of risk in one banking activity. A number of banks, notably in Egypt and some GCC countries, benefited from the participation in government privatization efforts by underwriting privatization stocks and

providing financial advisory services. Governments in these countries encouraged domestic banks to set up mutual funds investing in local as well as equities of other ESCWA member countries.

IV. FOREIGN DIRECT INVESTMENT IN THE ESCWA REGION

73. Foreign direct investment (FDI) is the single largest component of renewed inflow of capital to developing countries. Inflows of FDI to developing countries grew from about $10 billion in 1986 to around $99 billion in 1995. This dramatic development in FDI concurs with the reforms, and structural adjustments programmes that the developing countries undertook to stabilize their economies and bolster the role of the private sector by attracting foreign and local investors. However, ESCWA member countries' performance has not been commensurate with the cumulative performance of the developing countries with regard to the increase in the volume of inflows and outflows of FDI since the 1980s. The ESCWA region thus lost an opportunity to attract much needed inflows of capital in the 1980s which could have been used to accelerate economic growth and development in that decade, since most of the ESCWA member countries have been affected by indebtedness and by the adverse economic and political circumstances during the 1980s. ESCWA member countries have recently started to create a climate more conducive to investment, however, by legislating new investment laws and adopting measures that aim at attracting private foreign and local investment.

74. The countries in the ESCWA region have so far been far less successful in attracting FDI inflows than developing countries in other regions. In 1995, the ESCWA region as a whole attracted 0.8 per cent of the world's FDI inflows, while South, East and South-East Asia attracted 8.74 per cent; Central and Eastern Europe 3.8 per cent; Latin American and the Caribbean 8.43 per cent; and Africa 1.48 per cent of the world's inflows. Moreover, while the world's FDI inflows in 1995 increased by 39.6 per cent above their 1994 level, the inflows of FDI to the ESCWA region registered a decline of 19.7 per cent compared with the previous year. In fact, all regions in the world had positive FDI inflows growth in 1995, with the exception of the ESCWA region and Africa.

75. With respect to capital invested abroad by ESCWA member countries, this amounted to 0.32 per cent of the world's outflows in 1995. Excluding China, the combined South, East and South-East Asian outflows were estimated at about 12 per cent of world outflows; Central and Eastern Europe at 0.1 per cent; Latin America and the Caribbean at 1.2 per cent; while Africa's outflows were estimated at 0.2 per cent.

76. In 1995, the inflows of FDI to the ESCWA member countries totalled $2.38 billion, representing 0.8 per cent of the total world inflows and 2.39 per cent of developing countries' inflows of FDI. The inflows of FDI to the ESCWA region in 1995 were 19.6 per cent below the $2.96 billion level registered in 1994. Nevertheless, although the 1995 figure was less than that of 1994, it still amounted to a bigger volume of FDI inflows than those during 1991 and 1992—during and in the aftermath of the Gulf war—when inflows were $1.3 billion and $1.5 billion respectively. The declining share of FDI inflows in the ESCWA region *vis-à-vis* that of developing countries is partly due to a decrease in the volume of FDI inflows to the region and partly to the increase in the volume of inflows to the developing countries as a whole. This development could also be attributed to the fact that, as of the late 1980s, more regional blocs were established in which affluent partners favoured investment either in the developing countries of the same bloc, or in neighbouring countries. Japan's FDI is mainly directed towards South-East Asia; the United States and Canada invest mainly in the North American Free Trade Agreement (NAFTA) and Latin American countries, and the countries of the European Union invest in Eastern Europe. In addition, more investment opportunities opened

up in other developing countries, such as China and some Latin American countries, than in the ESCWA region.

77. Of the total inflows of FDI to the ESCWA member countries in 1995, Egypt's share was the highest, amounting to 42 per cent. FDI inflows to Egypt surged in 1996, and were estimated to have reached $2 billion. In Saudi Arabia, the second highest FDI-receiving country, the FDI inflows in 1995 amounted to 37.4 per cent, followed by Oman with 6.3 per cent, and the United Arab Emirates with 4.62 per cent. Egypt and Saudi Arabia have always received, by far, the highest share of the region's FDI. Together they amounted to an average of 85.9 per cent of total inflows of FDI into the ESCWA region for the period 1984-1989, and to 79.38 per cent in 1995.

78. In 1995, the FDI outflows from the ESCWA region totalled $1.02 billion, representing 0.32 per cent of the world outflows, as noted above, and 2.17 per cent of the total developing countries' outflows. The 1995 outflows figure reveals a decline of 9.6 per cent from that registered in 1994, when the outflows from the ESCWA region were $1.13 billion. However, the 1995 FDI outflows from the ESCWA region still constituted a significant increase when compared with the average annual outflows for the period 1984-1989, which amounted to $0.35 billion. In 1990 and 1991, outflows from the ESCWA region totalled $0.44 billion and $0.32 billion respectively. This drop was attributed mainly to the Gulf war, during which two of the region's most important FDI outflow sources, Kuwait and Saudi Arabia, had to use their investments for military expenditures. The ESCWA region's outflows in 1992, however, were the highest since the mid-1980s, when they totalled $1.23 billion; this was almost entirely due to Kuwait's soaring outflows of $1.2 billion.

79. Among the ESCWA member countries, Kuwait was the dominant source of the region's FDI outflows in 1995, with a figure totalling around $1.04 billion, followed by Egypt and Saudi Arabia with $13 million each. Kuwait has traditionally been the country with the highest outflow of FDI in the ESCWA region, owing mainly to the policy of the Kuwaiti Government to deposit 10 per cent of its yearly budget revenues in its Reserve Fund for Future Generations, most of which is invested abroad.

80. As noted above, ESCWA member countries have recognized that foreign investment can contribute to the development of their economies. This paradigmatic change is manifested through their opening up, privatizing, and deregulating of the financial sector, and the promulgating of investment laws geared to attract foreign investment. The three MENA Summits (Casablanca in 1994, Amman in 1995, and Cairo in 1996) were clear indications that the Middle East and North African countries have committed their economies to creating investment-friendly environments. There are, however, several requirements that the ESCWA region must meet in order to accelerate FDI inflows significantly. One requirement is political stability. Investors are attracted to countries that have a track record of political stability, which the ESCWA region lacks but is seriously trying to achieve. A second requirement is the absence of restrictions on ownership. Some ESCWA member countries favour joint venture contracts, but many multinational corporations regard joint ventures as not sufficiently attractive for investment. In assessing the viability of a country for FDI, they also consider ownership restrictions as being a serious adverse factor. However, some member countries, namely Bahrain, Egypt, Jordan, Lebanon and the Syrian Arab Republic, have recently changed their laws to allow, in some sectors, 100 per cent foreign ownership. Some ESCWA member countries offer tax exemptions and guarantees to foreign investors. A third requirement pertains to the removal of excessive bureaucracy. The Governments of the countries in the region should commit themselves to facilitating transactions, administrative procedures and decreasing bureaucracy. They should also adhere to international standards and enhance the information and availability of data in order to reduce market entry costs.

Furthermore, the recent regionalization trend should send a message to the ESCWA region, as well as to all other Arab countries, to engage in cooperative economic processes such as creating an Arab Free Zone Area and thereafter an Arab Common Market. Regional blocs are a reality and have influenced the flow of FDI that favours members of the same bloc. ESCWA member countries have to take this fact into consideration and pre-empt any negative effect that could hinder inflows of FDI.

V. STATUS OF WOMEN IN DEVELOPMENT IN THE ESCWA REGION

81. Women's achievements in the ESCWA region, in the fields of education, health and employment, have been encouraging compared with the 1970s. However, their participation in public life, in power-sharing, in decision-making and in politics has been below expectations. Inasmuch as legal awareness and empowerment of women are concerned, much more is needed to overcome the existing economic hurdles, to alleviate poverty, and to achieve self-reliance, financial independence and security in the broadest sense.

82. Traditions, values and norms constitute the single most important cultural and religious framework within which women in the rapidly changing societies of the ESCWA region may participate and become integrated into the development process. The family remains a central institution in the ESCWA region, and women remain the nucleus of this institution as wives, sisters, mothers and child-bearers and -rearers. The society, however, is becoming more and more "gender-sensitized" to the different roles and functions of its individual members. These individuals—men, women, children, youth and the aged—are increasingly being looked upon as partners in the development process.

83. According to available data, in 1995 around 34 per cent of the female population in the ESCWA region, aged 15 and above, were still illiterate; the comparable figure for males was 17 per cent. Although women's illiteracy rates have been declining in most ESCWA member countries, unfortunately the gender gap is widening. In 1995, female illiteracy rates ranged from a disconcertingly high level of around 76 per cent in the case of Yemen, to a less alarming range of between 20 and 23 per cent in Jordan, Bahrain and the United Arab Emirates, and to a more encouraging low rate of 9 to 13 per cent in Lebanon, Kuwait and Qatar. Notwithstanding the implementation of policies such as "Education for All," which encourages higher enrolment of girls in schools and, in some countries, allocates higher budgets for the education sector as a percentage of total public expenditure, the gender gap has not narrowed sufficiently in the ESCWA region. The high drop-out rate of girls from schools is still a major problem and the situation in the rural areas remains critical. More often than not, high female illiteracy rates are associated with a wider gender gap (Yemen, the Syrian Arab Republic, and Saudi Arabia), and low illiteracy rates with a narrower gap (Lebanon, Qatar, Kuwait, Jordan and Bahrain). For instance, the gender gap in the Syrian Arab Republic is eight times that in Lebanon. However, eradication of female illiteracy has been the target of concerned non-governmental organizations (NGOs), which have been working closely with the Governments of ESCWA member countries and specialized international agencies, especially since 1995.

84. In Egypt, Iraq, the Syrian Arab Republic, and most of the GCC countries, welfare policies are pursued and health care services are freely provided or substantially supported by the Governments. In certain GCC countries, non-national residents are also medically covered.

85. In 1995, the average life expectancy for Arab women in the ESCWA region was 20 years longer (21 years longer for men) than it was four decades ago. For instance, average life expectancy for women in the

GCC countries, the West Bank, Lebanon and Jordan ranged from 70 years in Jordan to 77 years in Kuwait. Meanwhile, life expectancy at birth in the least developed ESCWA member country, Yemen, was only 51 years. Egypt recorded the highest relative improvement in average female life expectancy between the periods 1970-1975 and 1990-1995; the figure increased from 53 years in the first period to 65 years in the second. At the same time, the total fertility rate has been declining moderately in the ESCWA member countries. The average number of children per woman of child-bearing age in the region dropped from 6.8 to 5.2 between 1975 and 1995. Fertility rates, however, varied across the member countries, ranging from a low of around 3.1 children in Lebanon and Kuwait to a high of 7.6 children per woman in Yemen. Family planning is being increasingly pursued, through awareness campaigns with the assistance of NGOs and specialized agencies. More women are able and empowered to make decisions regarding the number of children they want to bear. Better education and higher literacy rates, improved health and more employment opportunities, combined with older age at first marriage, are all positively correlated with lower birth rates and smaller family size units in the ESCWA region.

86. Worldwide, the participation rate of women in the labour force is lower than that of men. This phenomenon is particularly true in the ESCWA region. In 1994, the most recent year for which data were available, women represented a meagre 15 per cent of the total labour force of men and women aged 15 years and above. Women's participation rates in the labour force, however, vary greatly between the more diversified economies of the region and the GCC countries. In 1994, women represented slightly above one fourth of the labour force in Lebanon, and slightly above one fifth in Egypt and Iraq. In most GCC countries, however, women accounted for only 7 to 9 per cent of the labour force.

87. Rapidly changing economic conditions have counteracted the reluctance, arising from traditions and social norms in the region, to encourage wider and stronger participation of women in economic activity. The marginal improvement in women's participation has been mostly evident in clerical work and services, the informal sector and, to a much lesser extent, in industry. No major breakthrough has been made in women's access to new jobs and away from the traditionally female-labelled jobs. Analysis of the sectoral distribution of women revealed that by the mid-1990s, on average, around 70 per cent of the economically active women of the ESCWA region were concentrated in the services sector (teachers, secretaries, clerks and nurses), while nearly one fifth worked in the agricultural sector and the balance were in the industrial sector, largely in manufacturing (textiles and food). The percentage distribution of the female labour force is merely a reflection of the economies of the countries concerned. For example, in the Syrian Arab Republic, where the agriculture sector plays a major role in the country's economy, around 65 per cent of the women in the labour force work in the agriculture sector. In Yemen, also, where agriculture is a predominant sector, almost half of the women work in the agricultural sector. Meanwhile, in Jordan, a service-oriented economy, 92 per cent of the women in the labour force work in the services sector. Similarly, in most of the GCC countries, where it is not socially accepted for women to work in the oil-industrial sector, the majority of the already small percentage of working women are in the services sector (reaching as high as between 90 and 100 per cent in Qatar, Kuwait, Bahrain and the United Arab Emirates). In Saudi Arabia, measures were adopted in 1997 to increase employment opportunities for women in the private sector (services including hotel management). In Lebanon and Egypt more than one fifth of the female labour force worked in the industrial sector in 1994.

88. In public life, women are now sharing—though to a limited extent—in the decision-making process and have recently become relatively more visible. In most Arab countries, except for the GCC countries, women have gained their rights of suffrage: the right to vote and run for public office. Unfortunately,

however, less than 3 per cent of the seats in the Parliaments of 7 of the 13 ESCWA members are occupied by women. The highest representation of women in the Arab Parliaments is in Iraq and the West Bank and the Gaza Strip (over 10 per cent), followed by the Syrian Arab Republic (over 8 per cent). The lowest representation of women is in the Parliament of Yemen, with less than 1 per cent of the seats. The "post-Beijing" period after the 1995 Fourth World Conference on Women, held in Beijing, has witnessed a heightening of demands by women, and NGOs concerned with women, for women's rights and for a greater role of women in decision-making, as well as for the removal of obstacles to greater political participation and power-sharing for women. In Kuwait, where women have not yet acquired the right of suffrage, but strongly voiced their demands for political participation during the 1996 parliamentary elections, there are, nevertheless, Kuwaiti women ambassadors and deans of institutes of higher education. Similarly, in 1996, a Qatari woman was appointed Under-Secretary (Ministry of Education and Culture), and in 1997 a Yemeni woman was appointed Under-Secretary of the Ministry of Information, for the first time.

89. Legal awareness campaigns and an increased resort to the media to change the prototypical negative image of women are the hallmarks of the post-Beijing era in the ESCWA member countries.

90. Political instability, compounded by increasing economic vulnerability and external dependence together with outdated legislation and policies that need to be amended to take account of the changing environment, has militated against women's growth and their contribution to the development process. The gender gap has to be bridged in all areas of critical concern to the women in the ESCWA region, starting with the alleviation of poverty (economic dimension), encouraging participation of women in decision-making (political dimension), and focusing on the family as the central unit of the Arab civil society and on the role of women and men therein (social dimension). These are the three themes that Arab Governments agreed to address in their 1996 Unified Programme for Action. The important question is whether and when Arab women will move from the "women in development" to the "gender and development" phase, in which women would cease to be an add-on component in development plans and become an integral element in all policies and programmes. This would be the phase wherein a gender perspective is incorporated into the mainstream of all development policies and programmes.

ANNEX TABLE. SOCIO-ECONOMIC INDICATORS FOR THE ESCWA REGION, 1994-1996

	1994	1995	1996[a/]
Gross domestic product (GDP) (billions of US dollars)[b/] at constant 1992 prices	289.9	296.3	310.8
Real GDP growth rate (percentage)[b/]	0.8	2.2	4.8
Population in the ESCWA region[b/] (in millions)	118.2	121.5	124.9
Population growth rate (percentage)[b/]	2.80	2.79	2.80
Per capita GDP (US dollars)[b/]	2 451	2 437	2 487
Growth rates	(1.8)	(0.6)	2.1
GDP at nominal prices (in billions of US dollars)[b/]	293.3	320.7	353.3
Per capita GDP in nominal prices (in US dollars)[b/]	2 481	2 638	2 828
Growth rates	1.3	6.3	7.2
External debt (billions of US dollars)[b/]	186	182	175
External debt/GDP (percentage)[b/]	64	61	56
Exports (billions of US dollars)[b/]	102.7	115.0	132.4
Imports (billions of US dollars)[b/]	85.6	93.3	101.8
Balance of trade (billions of US dollars)[b/]	17.1	21.7	30.5
Current account balance (billions of US dollars)[c/]	(7.1)	(8.7)	(1.4)
International reserves (billions of US dollars)[d/]	45.7	51.2	54.4
International reserves/import ratio (months)[d/]	6.4	6.6	6.4
Crude oil production (millions of barrels per day)	16.052	16.119	16.260
Crude oil revenues (billions of US dollars)	72.4	80.1	96.5
Proven oil reserves (billions of barrels)	568.5	570.0	575.0
Proven oil reserves/total world oil reserves (percentage)	56.9	57.0	57.1
Proven oil reserves/production (years)	98.8	98.2	98.3

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

Notes: Parentheses ( ) denote a deficit or negative.

a/ Preliminary estimates.
b/ Excluding Iraq.
c/ Excluding Iraq, Syrian Arab Republic and Yemen.
d/ Excluding Iraq and the Syrian Arab Republic
