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Summary of the survey of economic and social developments in the ESCWA region, 1997-1998

Executive summary

Overall economic conditions improved in the ESCWA region in 1997. Gross domestic product (GDP) in the region, excluding Iraq, is estimated to have registered a growth rate of 3.4 per cent in real terms, which, although below the 5.5 per cent growth rate achieved in 1996, nevertheless produced a positive per capita GDP growth rate for the second consecutive year. However, there was a marked difference in economic growth between the Gulf Cooperation Council (GCC) countries (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates) and the countries with more diversified economies in the region (Egypt, Iraq, Jordan, Lebanon, the Syrian Arab Republic, Yemen, and the West Bank and Gaza Strip). Although the combined GDP growth rate in the GCC countries declined from 5.9 per cent in 1996 to an estimated 3 per cent in 1997, it remained steady at an estimated 4.4 per cent in the more diversified economies. Real GDP in the ESCWA region is projected to grow by 2.1 per cent in 1998, a rate below the 2.5 per cent population growth in the region in the same year.

The factors which contributed most to the 3.4 per cent growth rate in the region in 1997 included (a) a significant increase in oil production in several countries, which helped keep the region's total 1997 oil revenues at approximately the same level as that in the previous year, despite the fall in oil prices; and (b) the initiation and acceleration of economic reforms in many countries of the region. The main factors that prevented the ESCWA member countries from achieving a higher growth rate in 1997 included (a) an estimated 7.9 per cent decline in international oil prices; (b) the periodic closure of the borders of the West Bank and Gaza Strip; (c) the political instability caused by the stalling Middle East peace process;

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(d) terrorist attacks on tourists; and (e) the continued United Nations economic sanctions on Iraq (imposed since 1990).

The unemployment problem remained a formidable challenge in 1997 for many of the countries of the region, especially in the more diversified economies, a problem that has been compounded over the years by the region’s relatively high population growth, low economic growth rates and overstaffing in the public sector. An increasing number of Governments in the region have discontinued the policy of being an employer of last resort. In addition, new entrants to the labour force are facing greater difficulty in finding jobs.

Inflation rates were generally low in most ESCWA member countries in 1996, and fell even further in 1997. Inflation rates have traditionally been much lower in the GCC countries than in the more diversified economies, and 1997 was no exception. The highest inflation rate in 1997 in the GCC countries was the estimated 2.8 per cent registered in the United Arab Emirates, while the lowest inflation rate among the more diversified economies of the region was the estimated 4.7 per cent recorded in Jordan.

It is estimated that the region’s total exports decreased by 4.5 per cent in 1997, while total imports are estimated to have increased by 2.3 per cent. Total exports are projected to decline by about 14.4 per cent in 1998 relative to 1997 levels to US$ 110.0 billion, while imports are expected to increase by 2.1 per cent to US$ 109.7 billion.

The region’s total international reserves (minus gold) have improved significantly during the last two years. In September 1997, reserves totalled US$ 52.3 billion, compared with US$ 48.6 billion in 1996 and US$ 46.87 billion in 1995.

Monetary policy in ESCWA member countries in 1997 continued to be essentially targeted at maintaining the stability of exchange rates. That policy also contributed to relatively low and stable rates of inflation, and maintained private-sector confidence.

The relatively restrictive banking conditions in the region continued to be eased in 1997, resulting in a strong banking performance. Reform of the financial sector also continued, and the region’s financial markets became increasingly more mature.

Water scarcity, combined with increasing water consumption owing to high population growth and increased development activities, presented a major challenge to planners and decision makers in the region: the challenge of achieving optimal development and sound management of water resources. Non-conventional water resources of desalinated sea water, treated waste water and irrigation drainage water have been increasingly used to supplement natural sources in the domestic, industrial and agricultural sectors.

Rates of urban population growth in the ESCWA region still exceed total population growth. In the period 1975-1995, total population grew from 80 million to 145 million, while the urban population for the same period increased from 37 million to 83 million.

The short-term impact of structural adjustment programmes and economic reforms in some ESCWA member countries may have been socially negative. For example, the effects of the reduction in food subsidies are illustrated by the fact that adjusting countries experienced urban “bread” riots (Egypt in 1977 and Jordan in 1996). The pressure exerted by demographic factors (rapid population growth, large family size, high dependency ratios) and insufficient levels of agricultural production, coupled with the gradual cut in subsidization of basic goods, is leading to poverty and unemployment among urban poor populations.

Contents

I. Overall economic performance and policies

1. Overall economic conditions improved in the Economic and Social Council for Western Asia (ESCWA) region in 1997. The region's gross domestic product (GDP), excluding Iraq, is estimated to have registered a growth rate of 3.4 per cent in real terms. Although this was below the 5.5 per cent growth rate achieved in 1996, it, nevertheless, resulted in a positive per capita GDP growth rate for the second consecutive year. There was, however, a marked difference in economic growth between the Gulf Cooperation Council (GCC) countries[1] and the countries or areas with more diversified economies in the region.[2] Although the combined GDP growth rate in the GCC countries declined from 5.9 per cent in 1996 to an estimated 3 per cent in 1997, it remained steady at an estimated 4.4 per cent rate in the more diversified economies. Real GDP in the ESCWA region is projected to grow by 2.1 per cent in 1998, which is below the region's population growth rate of 2.5 per cent.

2. There was also a difference between real GDP growth rates of GCC countries and rates of countries with more diversified economies. Bahrain's GDP, which registered a growth rate of 3.1 per cent in 1996, is estimated to have grown by 2.8 per cent in 1997. The Bahraini economy is the most diversified of the GCC countries. The banking sector was the most dynamic sector in Bahrain in 1997. The country's GDP is projected to grow by 2.5 per cent in 1998. After registering an estimated 2.8 per cent growth in 1996, Kuwait's GDP is estimated to have registered a 2.3 per cent growth rate in 1997, and is projected to grow by 1.8 per cent in 1998. The second largest real GDP growth rate in the GCC countries in 1997 was registered in Oman. Following a 6.7 per cent GDP growth rate in 1996, Oman's economy is estimated to have grown by 5 per cent in 1997. Oman's economy has apparently benefited from the economic reform policies it introduced several years ago. Of the GCC and other ESCWA member countries, the highest real GDP growth rate in 1997 was in Qatar. After registering a real GDP growth rate of 10 per cent in 1996, its GDP is estimated to have registered a 15.5 per cent growth rate in 1997. Those exceptionally high growth rates in both 1996 and 1997 were achieved mainly because of the tremendous growth recorded in the dominant oil sector and the contributions by the natural gas projects in the country. Qatar's oil production increased by 8.6 per cent and 27.2 per cent in 1996 and 1997, respectively. Qatar's GDP growth rate is projected to decline in 1998; nevertheless, it is expected to register a solid 7.5 per cent growth rate, still the highest rate of the GCC and other ESCWA member countries. Saudi Arabia, which has the largest economy of all ESCWA member countries, accounting for 41 per cent of the region's real GDP in 1997, is estimated to have registered a 2.8 per cent real GDP growth rate in 1997, after recording a 5 per cent growth rate in the previous year. Saudi Arabia is projected to register a more modest but positive 0.8 per cent real growth in 1998, mostly owing to the fall in oil revenues and an expected curtailment of government expenditures. The United Arab Emirates real GDP growth rate is officially estimated at 0.8 per cent for 1997, following high real GDP growth rates of 7.1 per cent and 9.9 per cent in 1995 and 1996, respectively. Given its heavy dependence on the oil sector, which contributes about 38 per cent of GDP, and the projected marked decline in oil prices in 1998, the country's real GDP is projected to register a negative 0.5 per cent growth rate in 1998.

3. As illustrated above, the GDP growth rate in every GCC country is projected to be lower in 1998 than in 1997, mainly owing to the heavy dependence of those countries on developments in the oil sector. With oil prices projected to range between $12 a barrel and $15.50 a barrel on the average for 1998 after registering $18.68 a barrel in 1997, oil revenues of all GCC countries are projected to decline, in some cases sharply, from their 1997 levels. Consequently, the oil sectors that are the major contributing sectors to GDP in the GCC countries are expected to register negative growth rates in 1998. Simultaneously, the decline in oil revenues will oblige Governments to curtail expenditures, which will in turn adversely affect economic growth in this group of countries.

4. As for the countries with more diversified economies in the region, Egypt's GDP is the largest, accounting for 56.7 per cent of the aggregate GDP of this group of countries, excluding Iraq, and 16.2 per cent of the total GDP of ESCWA member countries, excluding Iraq, in 1997. Egypt's GDP is estimated to have registered a growth rate of 5.1 per cent in 1997, the same as that registered in 1996. Had it not been for the terrorists attack on tourists at Luxor in November 1997, Egypt's real GDP would have registered an estimated 5.5 per cent growth in 1997. Egypt's GDP is projected to grow by 5.3 per cent in 1998. Economic conditions in Iraq remained poor in 1997, owing mainly to the United Nations imposed economic sanctions. The decision to expand the oil-for-food agreement to allow Iraq to export oil worth $5.2 billion instead of the current $2 billion every six months will probably help to improve economic conditions in Iraq during the second half of 1998. It will also contribute positively to exports and GDP growth in some other ESCWA member countries, particularly Egypt, Jordan, Lebanon and the Syrian Arab Republic. Jordan's GDP, after registering a growth rate of 5.2 per cent in 1996 is estimated to have registered a growth rate of 5 per cent in 1997. A similar growth rate is

projected for Jordan in 1998. Lebanon's GDP growth rate has been declining during the past several years: following a growth rate of 6.5 per cent and 4.0 per cent in 1995 and 1996, respectively, it is estimated to have registered a 3.5 per cent growth rate in 1997. The reasons behind the decline in growth rates in Lebanon may be partly attributed to the reduction in capital expenditures by the Government, coupled with a reduction in private-sector investment, owing mainly to high interest rates and a poor performance by the Lebanese exports in 1997. The banking sector performed exceptionally well in 1997, while the construction sector performed poorly. Lebanon's real GDP is projected to grow by 3 per cent in 1998. According to official sources, real GDP in the Syrian Arab Republic (SYRIAN ARAB REPUBLIC) registered a 2.24 per cent growth rate in 1996, the lowest of the more diversified economies, with the exception of Iraq, and the West Bank and Gaza Strip, in 1996. In 1997, real GDP in the Syrian Arab Republic is estimated to have registered a 2 per cent growth rate, again the lowest of the region's more diversified economies. A 24 per cent decline in the country's cereal output, coupled with a 3.4 per cent decline in oil production in 1997, a year in which oil prices declined, as well as the reduction in tourism revenues, prevented the country from achieving a higher growth rate in 1997. Its real GDP is projected to register a growth rate of 2.5 per cent in 1998. After registering a negative growth of 1.6 per cent in 1996, real GDP in the West Bank and Gaza Strip is estimated to have registered a 1.2 per cent growth rate in 1997. A major factor contributing to that modest turnaround was that the losses caused by the closure of borders by Israel to Palestinian workers (57 days) were about one third less in 1997 than in 1996. Yemen, the region's least developed country, witnessed its GDP grow at 4.4 per cent in 1996, and is estimated to have achieved 5.4 per cent growth rate in 1997. Its real GDP is projected to grow by 4 per cent in 1998.

5. The GDP growth of the more diversified economies of the ESCWA region was not as adversely affected by the 7.9 per cent decline in oil prices in 1997, as was that of the GCC countries. The greater projected decline in oil prices in 1998 will again have less of an adverse impact on the growth of the more diversified economies of the region than on that of the GCC countries. Efforts to further diversify their economies and tax revenue base in the GCC countries should be intensified to meet the challenges of volatile oil price fluctuations in the international markets.

6. The factors that were the main contributors to the region's 3.4 per cent growth rate in 1997 included (a) a significant increase in oil production in several countries, which helped to keep the region's total oil revenues at approximately the same level in 1997 as in 1996, in spite of falling oil prices; and (b) the initiation and acceleration of economic reforms in many countries of the region. The major factors preventing the member countries in the region from achieving a higher growth rate in 1997 included (a) an estimated 7.9 per cent decline in international oil prices; (b) the periodic closure of the borders of the West Bank and Gaza Strip; (c) the political instability caused by the stalling Middle East peace process; (d) terrorist attacks on tourists; and (e) the continued United Nations economic sanctions on Iraq (imposed since 1990).

7. With considerable increases in oil production in Iraq and Qatar and the more modest increases in several other ESCWA member countries, the region's oil production is estimated to have reached an average of 17.35 million barrels per day (m/b/d) in 1997, an increase of slightly more than 1 m/b/d over the 16.27 m/b/d produced in 1996. Oil production in Iraq and Qatar in 1997 is estimated at 1,186,000 b/d and 655,000 b/d, respectively, representing an increase of 95.7 per cent and 27.2 per cent over their respective 1996 production levels.

8. The crude oil basket price of the Organization of Petroleum Exporting Countries (OPEC) averaged US$ 18.68 per barrel in 1997, a 7.93 per cent decline from the US$ 20.29 per barrel recorded in 1996 but an increase of 10.8 per cent over the US$ 16.86 per barrel price registered in 1995. The major factors that contributed to the decline in oil prices in 1997 included (a) increases in production by non-OPEC countries; (b) production by some OPEC members at levels considerably higher than their respective quotas (Venezuela, for example, exceeded its OPEC production quota of 2,359,000 b/d by 935,000 b/d); (c) United Nations Security Council resolution 986 of 1995, which allowed Iraq to export US$ 2 billion worth of oil every six months, starting in January 1997; and (d) a warmer winter than usual in the northern hemisphere.

9. Oil revenues in the region totalled an estimated US$ 99.05 billion in 1997. This amount is lower than 1996 oil revenues by only US$ 1.03 billion and it is significantly higher than 1995 oil revenues, which amounted to US$ 81.57 billion. The estimated 6.6 per cent increase in oil production by ESCWA member countries and the smaller declines in oil prices in individual ESCWA member countries (relative to the decline in the average OPEC crude oil basket price) were together sufficient to allow the region to maintain a high overall oil revenue level. The ESCWA region's total oil revenue for 1997 fell by only 1.03 per cent below its 1996 level. The latter was the highest level recorded in the region in more than a decade. In addition, the purchasing power of the ESCWA region's oil revenues was strengthened in 1997 by the 12 per cent appreciation of the United States dollar (in

which oil prices are denominated) against other major currencies, and by its even larger appreciation against currencies of several other countries, including some Far Eastern countries.

10. The importance of the oil sector in the economies of most ESCWA member countries and areas is evident. Apart from Jordan, Lebanon and the West Bank and Gaza Strip, which do not export any oil, ESCWA members are all oil exporters, and oil revenues continue to play a significant role in their economies, government budgets and trade balances, particularly in GCC countries.

11. Economic reform and structural adjustment programmes designed to correct internal and external imbalances as well as to enhance efficiency and productivity, which are especially crucial in what is rapidly becoming a global economy, continued to be implemented in most of the more diversified ESCWA member countries in 1997. The trend of moving away from inward-looking economic development strategies continued, and the economic dominance of the region's Governments appeared to be declining steadily. There is now more emphasis on outward-looking development strategies that focus on the private sector as the engine of growth and development and the major source of employment opportunities. The pace of economic reform varied widely from one ESCWA member to another. Reform efforts generally intensified in the more diversified economies, most notably in Egypt and Yemen, but much of the momentum gained in 1995 was lost in the GCC countries, with the exception of Oman. The policy to broaden and diversify the tax base and further reduce subsidies on goods and services provided by the Government was generally suspended in 1996 and 1997 in several GCC countries. The gradual implementation of that policy must be sustained so that those countries can avoid abrupt and sharp reductions in government revenues whenever they are confronted with a significant decline in oil revenues.

12. The currently stalled Middle East peace process fuelled political instability in the region, which in turn discouraged the inflow of capital and tourists in 1997. Economic conditions in the region deteriorated further in the West Bank and Gaza Strip with Israel's closure of borders. The terrorist attack on tourists at Luxor, Egypt, in November 1997 dealt a severe blow to the rapidly growing tourism sector in the country. It has also affected the tourism sectors in neighbouring countries, in particular Jordan and Lebanon. Prior to the terrorist attack at Luxor, a record number of tourists were visiting Egypt. Tourism revenues exceeded US$ 3.5 billion in fiscal year 1996/1997, and it is estimated that tourism and related activities provided employment for nearly 4 million Egyptians. The drastic decline in the number of tourists visiting Egypt in November and December 1997 undermined the country's efforts to achieve an economic growth rate higher than 5.1 per cent for the year. The economic sanctions imposed on Iraq by the United Nations continued to have an adverse effect on the economic conditions of Iraq and its major trading partners, in particular Jordan.

13. The unemployment problem remained a formidable challenge in 1997 for many of the countries of the region, in particular those with more diversified economies. That problem has been compounded over the years by the region's relatively high population growth and low economic growth rates, and by overstaffing in the public sector. An increasing number of Governments are discontinuing the policy of being an employer of last resort, and new entrants to the labour force are facing greater difficulty in finding jobs. In Egypt, for example, overstaffing stood at about 18 per cent in the public sector; with the implementation of various structural adjustment and economic reform measures, employment in State-owned companies fell from 1,083,000 in June 1990 to 908,000 in June 1996 (mainly through attrition).

14. The annual economic growth rate of about 4.5 per cent to 5 per cent achieved by the more diversified economies since 1995 may appear favourable, but it is not sufficient to reduce current high rates of unemployment to any significant degree in most of those countries. It is estimated that in Egypt and Jordan, for example, annual real GDP growth rates of between 7 and 8 per cent would be required to absorb the estimated 500,000 new labour force entrants in the former and the 50,000 new entrants in the latter every year. The West Bank and Gaza Strip witnessed a decline in their unemployment rate from 24 per cent in 1996 to 21 per cent in 1997, mainly attributable to reductions in the number of days Israel closed its borders to the Palestinian workers in 1997 compared with 1996. The unstable political situation, which discouraged foreign and domestic private investment, and the high population growth rate in these areas prevented a greater decline in the unemployment rate. The unemployment rate in Yemen appears to have remained at its 1996 level of 25 per cent, a situation not expected to improve very much unless the private sector increases investment and employment significantly in the near future. Annually, the country must be able to accommodate 200,000 new additions to the labour force and to absorb the 35,000 state employees that are expected to lose their jobs as the Government trims its bureaucracy. Jordan's unemployment rate declined from its 1991 high of 25 per cent and has remained at about 15 per cent over the past three years. That rate is considered high, especially in the light of the fact that real wages have generally remained stagnant during those years. The rate of

unemployment in Egypt was officially estimated at less than 9 per cent in 1997. According to other sources, however, the country's unemployment rate was about 12 or 13 per cent. Although underemployment may have been a problem, the unemployment rate in the Syrian Arab Republic is estimated to have been in the single digits in 1997.

15. The GCC countries are also concerned about unemployment, which may appear inconsistent with their practice of providing employment opportunities for millions of expatriate workers, who account for most of their respective labour forces: 61 per cent of the total labour force in Oman, 83 per cent in Kuwait and 91 per cent in the United Arab Emirates. The private sector employs less than 10 per cent of nationals working in the GCC countries. The problem is not only that the private sector seems reluctant to employ nationals but also that the nationals themselves prefer to be employed in the public sector, where salaries are considerably higher and fringe benefits more generous. The problem in the GCC countries is that there is already a considerable number of redundant workers in the public sector, and new employment opportunities in that sector are expected to become increasingly scarce as the Governments ration their expenditures and limit their role in the economy. In addition, the oil sector, which is extremely important to the economies of the GCC countries (providing more than one third of total GDP), is also highly capital intensive, and thus provides fewer than 2 per cent of the jobs in those countries.

16. In most GCC countries, the indigenous labour force is growing at an annual rate of about 5 per cent. GCC countries have instituted indigenization policies with the aim of replacing foreign workers with their own nationals. In Saudi Arabia, for example, the "Saudi-ization" of the labour force is a main objective in the current five-year development plan. The Government plans to provide soft loans and contracts only to those private companies meeting the "Saudi-ization" targets. Companies must increase the number of Saudi Arabian workers they employ by 5 per cent a year or face sanctions. In October 1996, Saudi Arabia declared 13 professional categories closed to foreigners; in 1997, seven more categories were added to the list. In 1996, the United Arab Emirates expelled more than 180,000 expatriate workers whose papers were not in order, and has since toughened its legislation on immigration. Other GCC countries, including Bahrain and Saudi Arabia, pursued similar policies in 1997. Bahrain and Oman have made some progress in indigenizing their respective labour forces; however, their achievements in that regard have remained limited and have been confined mainly to the public sector (in the private sector, the process has so far involved only certain managerial and clerical jobs). The Government of Kuwait has reportedly been considering plans to make the employment of foreign workers a less attractive prospect for private firms by obliging them to provide health care and by raising residence and entry fees. Kuwait is also considering subsidizing the salaries of Kuwaitis in the private sector and linking the granting of facilities to private businesses with the number of Kuwaitis employed. In the United Arab Emirates, a federal law compelling private companies to fill vacant posts with nationals is to be enforced as of 1 January 1998. The Government also plans to prevent private sector companies from hiring expatriates for any posts that could be filled by qualified nationals. It is not yet clear whether private firms will be required to pay higher salaries to nationals, but the Government is considering providing incentives – including priority in awarding government contracts – to companies employing more nationals. It should be noted, however, that many such ad hoc measures will interfere with the proper functioning of the labour market, and may therefore be unsustainable. In some GCC countries, most notably Saudi Arabia, Governments must train the national labour force in areas of specialization for which there is private-sector demand and for which salaries are relatively high (comparable to public-sector salaries). In 1997, the Government of Saudi Arabia increased its budget allocation for education and training to US$ 11.1 billion, an increase of more than 50 per cent over its 1996 allocation of US$ 7.36 billion. Such investment should allow the indigenous population to acquire the education and technical skills it needs to meet labour market requirements in the twenty-first century.

17. Inflation rates were generally low in most ESCWA member countries in 1996, and fell even further in 1997. Inflation rates have traditionally been much lower in the GCC countries than in the countries with more diversified economies, and 1997 was no exception. The highest inflation rate in 1997 in the GCC countries was an estimated 2.8 per cent, registered in the United Arab Emirates, while the lowest inflation rate among the more diversified economies of the region was an estimated 4.7 per cent, recorded in Jordan.

18. In 1997, inflation rates were lower in most GCC countries than in most of the other developing as well as developed countries in the world. The rates were less than 1 per cent in Oman and Saudi Arabia, and less than 3 per cent in the other GCC countries. The GCC countries continued to pursue prudent monetary policies in 1997. Furthermore, since all of the GCC countries' currencies are pegged to the United States dollar (with the exception of the Kuwaiti dinar, which is pegged to a basket of currencies), they appreciated along with the United States dollar in 1997 against the Japanese yen, all other Far Eastern currencies and most Western

European currencies. As a result, the prices of goods imported by GCC countries were lower, which helped to keep inflation rates down. It should be noted, however, that the strengthened fiscal position of the GCC Governments apparently discouraged them from making any further reduction in subsidies on goods and services provided by the public sector in 1996 and 1997, which also helped to dampen prices.

19. Among the more diversified economies, the highest inflation rate in 1997 was registered in Yemen, the region's least developed country. Yemen's estimated inflation rate of 10 per cent was, nevertheless, significantly lower than the 29 per cent recorded in 1996 and the 70 per cent recorded in 1994, before the country began implementing its economic reform programme in 1995. Similar progress was achieved in Egypt and Jordan, the other two ESCWA member countries implementing economic reform programmes under the auspices of the World Bank and the International Monetary Fund (IMF). Egypt's inflation rate fell to an estimated 6.2 per cent in 1997, down from 7.3 per cent in the previous year and 21 per cent prior to the initiation of the reform programme in 1991. The inflation rate in Jordan was reduced to an estimated 4.7 per cent in 1997, down from 6.5 per cent in 1996 and 25.6 per cent prior to 1989. Lebanon's inflation rate, which stood at 14 per cent in 1995, declined to 9.5 per cent in 1996 and 6.5 per cent in 1997. That trend reflects the institution of more conservative monetary policies by the country's Central Bank and the decline in the growth of economic activities. In the Syrian Arab Republic the inflation rate decreased from 10.3 per cent in 1995 to 8.8 per cent in 1996, and preliminary estimates indicate that it dropped further to 6.5 per cent in 1997.[3] The relatively high liquidity in the banking system prevented a greater decline in the inflation rate in 1997. In the West Bank and Gaza Strip, the inflation rate fell substantially, from 25 per cent in 1995 to about 12 per cent in both 1996 and 1997. That decline may have been caused by the sharp decrease in the purchasing power of the Palestinian people during a period characterized by very high unemployment rates and a marked decline in the level of economic activity.

II. Developments in international trade and payments

20. The ESCWA region accounted for about 2.3 per cent of total world trade in 1996, and its oil exports accounted for 75.8 per cent of the region's total exports. Intraregional trade, however, is very low: it registered about 8 per cent and 9 per cent of total trade in 1996 and 1997, respectively, compared with a level of about 65 per cent of total trade in the European Union (EU) in 1996. The factors that caused the relatively low intraregional trade in the ESCWA region include the similarity of the commodities produced in ESCWA member countries; lack of coordination in production or trade policies; shortage of the advanced technologies which need to be imported from developed countries; and other barriers that represent a constraint of trade flows among ESCWA member countries.

21. Recently, ESCWA member countries joined the Arab Free Trade Zone (AFTZ), which was established in 1997 and started implementation in the beginning of 1998. The AFTZ agreement calls for the reduction of tariffs by 10 per cent annually for 10 years. The full implementation of AFTZ will lead to solid trade cooperation and accelerate economic development in the ESCWA region as a whole.

22. Five ESCWA member countries are members in the World Trade Organization (WTO) – Bahrain, Egypt, Kuwait, Qatar and the United Arab Emirates. In 1997, three other member countries – Jordan, Oman and Saudi Arabia – made some progress with respect to accession to WTO and are expected to acquire membership during 1998. Three further countries – Lebanon, the Syrian Arab Republic and Yemen – are preparing their economies by undertaking economic reform policies in order to request accession to the WTO in 1998 or 1999.

23. As a result of falling oil prices the good performance of the international trade sector of the ESCWA region in 1996 is not expected to be repeated in either 1997 or 1998. The region's (excluding Iraq and the West Bank and Gaza Strip) total trade amounted to US$ 239.7 billion in 1996, an increase of about 11.0 per cent compared to its level in 1995. The region's trade is estimated to have decreased by 1.5 per cent in 1997 and is expected to decline by 6.9 per cent in 1998. The region's total exports, which amounted to US$ 134.6 billion, have increased by 14.5 per cent, owing primarily to the rise in oil prices in 1996, while total imports, which amounted to US$ 105.1 billion, increased by 6.8 per cent. It is estimated that the region's total exports decreased by 4.5 per cent in 1997, while total imports are estimated to have increased by 2.3 per cent. Projections for 1998 point out that the region's total exports will decline by about 14.4 per cent compared with 1997 levels to US$ 110.0 billion, while imports are expected to increase by 2.1 per cent to US$ 109.7 billion.

24. Several ESCWA member countries have their currencies pegged to the United States dollar (Bahrain, Oman, Qatar, Saudi Arabia, the United Arab Emirates). The appreciation of the United States dollar, which started in the

second quarter of 1995, has therefore also resulted in appreciation of those member countries' currencies. In addition, the values of Egyptian, Jordanian and Kuwaiti currencies have remained approximately the same against the United States dollar for the past several years. As a result, the purchasing power of each currency has increased with the prices of imports being relatively lower. However, the prices of their exports have risen in the world market compared to the goods exported from other countries, whose currencies have depreciated significantly against the United States dollar during the same period of time. In particular, the textile industry of ESCWA member countries is now faced with severe competition from other textile exporting countries in Asia, such as Malaysia and Indonesia, whose currencies depreciated by 21 per cent and 52 per cent against the United States dollar from 1995 to 1997, respectively.

25. In the GCC countries, exports amounted to US$ 122.0 billion in 1996, accounting for 90.6 per cent of the ESCWA region's total exports, an increase of 14.5 per cent over 1995 levels, owing mainly to an increase in oil prices. It is estimated that the total exports of GCC countries decreased by 4.8 per cent in 1997 as a result of the 8 per cent drop in oil prices. For 1998, it is projected that total exports of the GCC countries will decrease by 14.4 per cent compared with 1997 levels. Within this group, the largest increase of exports in 1996 was recorded by Oman and Qatar, with an increase of 21.0 per cent and 18.3 per cent, respectively. The decrease in exports in 1997 is estimated at 6.6 per cent and 6.3 per cent in Kuwait and Saudi Arabia, respectively. In 1998, the largest declines in exports among GCC countries are expected to take place in Kuwait and Saudi Arabia – projected 19.2 per cent and 18.0 per cent declines, respectively.

26. Total imports of the GCC countries are estimated to have increased by about 4.8 per cent in 1996 to US$ 72.2 billion, representing 68.7 per cent of the region's total imports. It is estimated that the GCC countries' imports increased by 3.5 per cent in 1997, and they are projected to increase only slightly, by 1.3 per cent, in 1998.The largest increase of imports have been recorded by Bahrain, Qatar and United Arab Emirates, with about 10.0 per cent increases in each country. The trade balance of the GCC countries, which recorded a surplus of US$ 49.8 billion in 1996 and increased by 34.2 per cent compared with 1995 levels, is estimated to continue to remain in surplus in 1997, albeit with a drop of about 16.9 per cent. In 1998, the trade balance surplus is projected to shrink by 46.4 per cent, mainly due to the expected drop in oil export revenues.

27. The more diversified economies in the ESCWA region have for many years registered large balance of trade deficits. Oil exports in 1996 constituted a large portion of total exports in those countries, particularly in Egypt (45 per cent), the Syrian Arab Republic (54 per cent) and Yemen (90 per cent). Non-oil exports, especially cotton lint, textile and fresh vegetables and fruits, are currently facing many constraints and stiff competition in world markets. Total exports of this group of countries have been estimated to have increased by 9.1 per cent in 1996 relative to 1995 levels, to reach US$ 12.6 billion. It is estimated that the total exports of the more diversified economies declined by about 1.4 per cent in 1997, and they are projected to decline by 1.8 per cent in 1998. The largest increases were recorded in 1996 by Lebanon and Yemen, with 10.2 per cent and 14.5 per cent increases, respectively. However, in 1997, exports are estimated to have decreased sharply in Lebanon (12.5 per cent), and in Yemen (7.2 per cent). Egypt, which achieved the largest increase in its exports (10.9 per cent) in 1997, recorded a 21.0 per cent increase in its non-oil exports, particularly manufactured goods. It is projected that Yemen's exports will decrease by 16.9 per cent in 1998, and the Syrian Arab Republic's exports will decline by 5.1 per cent, while the other countries in this group will achieve an increase in their exports by 4.6 per cent in Egypt and 2.0 per cent in Jordan.

28. Total imports of the countries with more diversified economies amounted to US$ 32.9 billion in 1996, 31.3 per cent of the total ESCWA region's imports, an 11.5 per cent increase over 1995 levels. Those imports, which are estimated to have decreased slightly – by only 0.3 per cent – in 1997, are expected to increase by 3.8 per cent in 1998. Egypt is the major importing country within this group, with its imports representing about 40 per cent of the combined imports of this group and about 12.4 per cent of the ESCWA region's total imports. Three countries in this group have recorded considerable increases in imports in 1996 – Jordan, Yemen and the Syrian Arab Republic, with increases of 19.7, 15.0 and 16.5 per cent, respectively.

29. The export/import ratio, which reflects the ability of countries to finance imports from export revenues, reached 1.28 in 1996, compared with 1.19 in 1995 in the ESCWA region as a whole. That ratio is estimated to be 1.19 in 1997, and is projected to be 1.0 in 1998. For the GCC countries, the ratio was 1.69 in 1996, compared with 1.54 in 1995; it is estimated at 1.55 in 1997, and is projected to be 1.29 in 1998. For the more diversified economies, the ratio remained at about its 1995 level of 0.39, is estimated at 0.38 in 1997 and is projected to decline further to 0.36 in 1998.

30. The total current account balance of the ESCWA region (excluding Iraq, Lebanon, the West Bank and Gaza Strip and the United Arab Emirates) has improved, recording a surplus estimated at US$ 7,125.1 million in 1996, compared with an

estimated US$ 957 million deficit in 1995. That improvement in the current account was mainly due to the increase in oil prices, which led to a substantial increase in export revenues, and positive services balances in some ESCWA member countries. The major surpluses in the current account balances were recorded in the GCC countries, particularly in Kuwait, which recorded a surplus of US$ 6,773 million in 1996, compared with US$ 4,574 million in 1995.

31. Total international reserves (minus gold) improved significantly in the ESCWA region during the past two years. In September 1997, those reserves totalled US$ 52.3 billion, compared with US$ 48.6 billion in 1996 and US$ 46.87 billion in 1995. The international reserves of the GCC countries amounted to US$ 23.36 billion in September 1997, representing 46.3 per cent of the region's total reserves. Egypt has the largest international reserves among ESCWA countries, reaching US$ 19.08 billion in September 1997, an increase of 9.66 per cent over the 1996 level. The international reserves held by the countries of the ESCWA region are sufficient to finance the region's imports for six months. However, the international reserves/imports ratio varied among the ESCWA member countries: in the GCC countries, it registered about four months, in Egypt 15.6 months.

32. Some progress has been made in the field of trade policy in the ESCWA region. Most countries have made tangible progress in their trade liberalization. Trade policy reforms were the major feature of economic reforms carried out in 1997. ESCWA member countries have implemented the required official procedures to join the AFTZ, which began implementation in January 1998 and is to be completed by the year 2007.

33. For the GCC countries, the unification of tariff rates was the cornerstone of trade negotiations in 1997 among those countries. Also, EU has decided to renew an old trade agreement with the GCC countries. The unification of tariffs, however, is a condition for the signature of the new agreement. Saudi Arabia and the Sultanate of Oman have taken the necessary steps for multilateral negotiations for accession to WTO.

34. In the more diversified economies, Egypt has made considerable progress in its trade policy. The Government has completed its commitments to WTO. It has abolished the prohibition on imports of poultry and textiles in 1997, which were exempted as a measure to protect local production of those commodities. Jordan has signed a partnership agreement with EU in 1997, and was thus the first ESCWA member country to sign such an agreement. Jordan made the required official procedures for accession to WTO. Jordan's Government aims to increase Jordan's exports to the Arab markets and EU. The Syrian Arab Republic has undertaken a comprehensive study in 1997 to evaluate the partnership agreement with EU. Official negotiations are expected to take place in April 1998. The Syrian Arab Republic has also unified the multiple exchange rates of its local currency for the general budget by Ministerial Decree No. 2163 of 1997, establishing a rate of 45 Syrian pounds to one United States dollar, with effect from January 1998. The Government will apply the same measures to unify the exchange rate for imports during 1998. Lebanon is still studying the advantages and disadvantages of joining the partnership with EU and the accession to WTO. A trade agreement was signed by Lebanon at the beginning of 1998 with the Syrian Arab Republic to reduce the tariff rates by 25 per cent annually between the two countries. The Republic of Yemen has taken the necessary steps towards trade liberalization in 1997, in the light of the application of economic reform policies with the World Bank and IMF.

III. Monetary, fiscal and financial developments

35. The monetary policy in ESCWA member countries continued in 1997 to be essentially targeted at maintaining the stability of the exchange rates. That policy also contributed to relatively low and stable rates of inflation, and maintained private-sector confidence.

36. The effectiveness of monetary policy was enhanced by financial sector reform in most ESCWA member countries. The reform, which started in the early 1990s in a number of those countries, such as Egypt and Jordan, aimed to improve the mobilization and allocation of financial resources and strengthen the system of monetary control.

37. To improve the mobilization and allocation of financial resources, several ESCWA member countries implemented various measures. First, the role of market forces in determining the rates of return (i.e., interest rates) and credit allocation was enhanced (for example, in Egypt, Jordan, Kuwait, Oman and Qatar). Those countries made significant progress in liberalizing their interest rate structure. They initially focused on deposit rates, and reduced the scope of preferential rates, especially for public-sector enterprises. Second, the portfolio of assets available to domestic savers was broadened through the introduction of new financial instruments with market-determined rates. Those instruments included certificates of deposits (Egypt, Jordan, Kuwait, Oman and Saudi Arabia), negotiable treasury bills (Egypt, Jordan, Kuwait, Lebanon, Oman and Yemen) and commercial

papers (Egypt, Jordan, Bahrain, Kuwait and Saudi Arabia). Third, most ESCWA member countries made marked progress in strengthening their financial systems through recapitalization of financial institutions (Egypt, Jordan, Kuwait, Lebanon and Oman) and improvements in prudential regulations and supervision (Egypt, Jordan, Kuwait, Oman, Lebanon, Qatar and Saudi Arabia).

38. To enhance monetary control policies, especially in the context of financial liberalization, indirect monetary control, which was introduced in 1996 in most ESCWA member countries to replace quantitative credit restrictions, began to take shape in 1997. Several ESCWA member countries made rediscount mechanisms more sensitive to market conditions, and the sale and purchase of central bank paper and treasury bills were used more widely in the management of liquidity. Moreover, reserve requirements were made more uniform across financial institutions.

39. In the GCC countries, the de facto pegging of their currencies to the United States dollar required domestic interest rates to follow closely the movements of dollar interest rates. In the process of maintaining stable priorities with the dollar, the GCC countries also established cross rates between their currencies. By eliminating inflationary finance and creating a stable monetary environment, the exchange rates of the currencies of this group of ESCWA member countries are considered to have been instrumental in encouraging the repatriation of financial resources from abroad. The financing of the current account deficits of those countries was made mainly by repatriated capital.

40. Fiscal developments in the GCC countries in 1997, particularly Saudi Arabia and Kuwait, indicate that those countries have eliminated most of the ramifications of the Gulf crisis and war of 1990/1991. The rise in oil revenues has further reduced their budget deficits. Budget deficits in fiscal year 1997 in most of those countries were financed mainly by domestic borrowing through the issuance of government bonds and treasury bills, rather than drawing on their foreign reserves or resorting to external borrowing, as was the case during most of the last few years. To reduce their budget deficits in the coming years, most GCC countries have introduced measures for increasing revenues and reducing the rise in expenditures. To that end, the decision by a number of Governments to raise prices of some public services is seen both as an indicator that domestic budget revenues will play an important role in financing budget expenditures and as a long-term fiscal policy, for establishing a more diversified domestic revenue base.

41. The 1997 budgets of most ESCWA member countries with more diversified economies continued to be deflationary, with expenditures rising at a rate below that of inflation, thus reducing expenditures in real terms. However, in 1997 they continued looking for alternative means to reduce their budget deficits, either by increasing domestic revenues through a reform of revenue-raising measures or by reducing expenditures through cutting subsidies or debt service payments. Most also resorted to domestic borrowing, while a number of them, such as Jordan and Lebanon, looked for additional funds through external borrowing.

42. As sound economic growth and financial sector reform continued and the region's financial markets increasingly became more developed, the easing of the relatively restrictive banking conditions in the region continued in 1997, resulting in a strong banking performance. In the GCC countries, growing confidence, backed by significantly improved financial results of the banking sector in 1997, has produced a brighter outlook for 1998. In Egypt and Lebanon, the rise in international activities of a number of banks, namely in the form of well-received sovereign and bank issues, is expected to further improve the profile of both countries, as well as their banking sector. With most ESCWA member countries embarking upon a new era of financial opportunities for banks, resulting from the desire of the Governments of those countries to expand private-sector involvement in economic activities, banks in the ESCWA region are expected to play a significant role in financing those activities. However, big project financing does not seem to be the only area where major financial opportunities exist. Servicing the smaller domestic corporate sector has been neglected in the past, but a number of banks in the region have begun to focus on this sector's investment banking and corporate finance needs.

43. As the privatization process gathered pace and companies moved towards increased domestic financial capabilities, the trend towards developing investment banking facilities continued in most ESCWA member countries in 1997. In addition to investment banking services, a number of banks in the ESCWA region began providing improved asset management services and competing with foreign banks in the region in 1997.

44. The privatization drive in a number of ESCWA member countries continued to benefit the stock markets of those countries since most of the privatization was carried out through public offerings. The linkages among most of the regions' stock markets improved the investment environment in the region.

IV. Status of water resources development and management

45. Water scarcity, combined with increasing water consumption caused by high population growth and development activities, presented a major challenge to planners and decision makers in the region and to their ability to develop and manage water resources of the ESCWA region optimally. High population growth, concentrated mainly in urban areas, made it necessary to allocate the financial resources needed to provide adequate and safe water supplies and sanitation services. Urbanization, industrialization programmes, and agricultural activities have all exerted additional demands on water resources to meet increasing requirements. Governments in the region, as well as various regional United Nations agencies, have become increasingly concerned with the issue of rising water demand brought about by population pressures, lack of application of adequate water management practices, and the need for increased food production, as well as the need to combat pollution in order to preserve the fragile, semi-arid environment.

46. Water shortages have become acute in the ESCWA region, with the exception of countries that have major rivers. The Nile, Euphrates, Tigris, Orentis and Litani are the major rivers that adequately provide Egypt, the Syrian Arab Republic, Iraq and Lebanon with their required water needs. Their combined surface water potential is estimated at 136 billion cubic metres (bcm). Egypt, Iraq and the Syrian Arab Republic are exploiting surface water through the use of hydraulic structures and water conveyance systems. Limited exploitation of groundwater is also taking place in Egypt, Lebanon and the Syrian Arab Republic. The GCC countries, Jordan, the West Bank and Gaza, and Yemen are exploiting groundwater resources in excess of the sustainable magnitude of the aquifer’s safe yield. Groundwater utilization in the ESCWA region as of 1996 reached 27.8 bcm, compared to 13.2 bcm of groundwater recharge, with extensive groundwater mining taking place in the GCC countries and Yemen. Water policy in most of the ESCWA region is still geared towards the development and exploitation of water resources, without clear and/or adequate implementation of management practices.

47. Non-conventional water resources of desalinated sea water, treated waste water and irrigation drainage water have been used to supplement natural sources in the domestic, industrial and agricultural sectors. Brackish and sea-water desalination has become a viable alternative in order to meet water requirements in the domestic sector in a number of ESCWA member countries. Desalination has become a major water supply component in the GCC countries as a result of groundwater salinity problems and the remote locations of potential groundwater sources that exist far from major urban areas. The ESCWA region, by necessity, has become the world leader in sea and brackish water desalination, where output reached 1.81 bcm in 1997, mainly for facilities in Saudi Arabia, Kuwait, Bahrain and the United Arab Emirates. However, the cost of water production remains high, ranging from $0.5 to 1.5 per cubic metre, which is substantially higher than what the public is charged. The situation in all the GCC countries is further complicated by a lack of conservation programmes and effective pricing schemes geared towards reducing water consumption and waste.

48. Reuse of treated waste and irrigation drainage water has become another viable non-conventional source, mainly for the agricultural sector, in a number of the ESCWA member countries. The magnitude of reuse remains small compared to the available amount of treated effluent. The volume of recycled waste water and irrigation drainage water was estimated at 6.1 bcm in 1997, mostly carried out in Egypt, the Syrian Arab Republic, and Saudi Arabia. Reuse has also been practiced on a limited basis for irrigation and urban landscaping in Jordan, Kuwait, Bahrain, the United Arab Emirates, Yemen and Oman. Increased use of treated waste water that meets World Health Organization standards contributed towards remedying the supply-demand imbalance. There is still a need for serious efforts to allocate financial resources for waste-water treatment facilities and sewage collection systems for most urban areas in order to combat water pollution and water table rise.

49. Total water demand for agricultural, industrial and domestic purposes in the ESCWA region reached 140.1 bcm in 1990, and is estimated at 158 bcm for 1997. The major consuming countries are Egypt, Iraq, the Syrian Arab Republic, and Saudi Arabia. The annual per capita water availability for countries with relatively abundant surface water, such as Egypt, Iraq, and the Syrian Arab Republic, was estimated at 995 cubic metres, 3,000 cubic metres and 1,366 cubic metres, respectively. For countries with arid and extremely arid climates, the ranges are from 300 cubic metres in Bahrain to 667 cubic metres in Oman. Water requirements are expected to reach 165 bcm by the end of the century and 233 bcm by the year 2025. Similarly, agricultural water requirements account for the majority of water use in the ESCWA region as a whole, and demand reached 123.1 bcm in 1990 and increased to 136.5 bcm in 1997. Countries where the major water consumer is the agricultural sector are Egypt, Iraq, Saudi Arabia, and the Syrian Arab Republic. In seven ESCWA member States, the GCC countries and Yemen, the volume of water used in the agricultural sector totaled 19.7

bcm in 1990, compared with an estimated at 103.4 bcm in the five remaining ESCWA member countries, and the West Bank and Gaza Strip. Agricultural water demand in the ESCWA region is expected to reach 142.1 bcm and .4 bcm in the years 2000 and 2025, respectively.

50. In the ESCWA region, the percentage of demand by sectors (domestic, industrial or agricultural) in relation to total demand for the year 1990, was estimated at 5.8, 1.1 and 93.1 per cent, respectively. For the year 2000, those percentages may reach 10.2, 1.7 and 88.1 per cent, respectively, while for the year 2025 they are expected to become 17.6, 2.9 and 79.5 per cent. In 1990, agricultural demand, when compared to total demand, ranged from 28 to 90 per cent in the northern ESCWA member countries of Egypt, Iraq, Jordan, Lebanon, the Syrian Arab Republic, and the West Bank and Gaza. For the GCC countries and Yemen, agricultural water demand ranged from 21 to 93 per cent of total water demand.

51. In most ESCWA member countries, water is provided at very low and subsidized rates in the domestic and agricultural sectors. Water charges in the domestic sector are kept as low as possible in order to minimize the burden on low-income groups in particular sectors of society. Moreover, the use of a progressive block rate tariff system is common in the domestic sector. Among ESCWA member countries, the lowest water tariffs charged to the public are in Egypt at $0.02 per cubic metre, while the highest are in Oman at $1.3 per cubic metre, depending on whether the source was surface water, groundwater or desalinated sea water. Water for irrigation is usually provided free of charge in the ESCWA region, except in Bahrain, Egypt and Jordan. The issue of pricing policy that encourages water conservation is being debated in Bahrain, Egypt and Jordan.

52. Imbalance between increasing water demand and limited water sources is being experienced by most ESCWA member States. Shortages are attributed to rising demand, the absence of effective water policy and conservation measures, and lack of sufficient funds to invest in water infrastructure systems. Water deficits of varying degrees are common in Jordan, the West Bank and Gaza, the GCC countries and Yemen. Those water shortages have been partially resolved by using desalinated water and unsustainable use of groundwater resources from both shallow and deep aquifers. In 1996, water consumption from natural and non-conventional sources, as well as reuse and conservation programmes, was estimated at 141 bcm in the ESCWA region. Desalination contributed 1.8 bcm to that total, while reuse of treated waste water and drainage water accounted for 6.1 bcm.

53. Agricultural policy, especially in the GCC countries, encouraged well-drilling programmes, continued subsidies and mechanization of water lifting and distribution systems, as well as price support for output of wheat and barley, which contributes to water shortages. As of 1997, Qatar, Saudi Arabia, the United Arab Emirates and Oman were still providing subsidies to the agricultural sector. That policy, while contributing to greater agricultural output, has resulted in the depletion of water resources, especially non-renewable groundwater sources.

54. Some ESCWA member countries have begun to realize that efficient development and management of water resources requires water policy reform, including emphasis on supply and demand management measures and improvement of legal water questions. Accelerated water policy reforms, emphasizing optimal development and management of water resources, were adopted in Jordan, where a water utilities policy and water strategies were issued in 1997. Policy reform has also been initiated in Bahrain, Egypt, Oman, Saudi Arabia and Yemen.

55. During the last five years, some ESCWA member countries have initiated limited programmes to rehabilitate water supplies (Bahrain, Egypt, Jordan, Lebanon and Saudi Arabia). Some countries constructed water impoundment structures and irrigation water conveyance systems (Egypt, Iraq, Oman, Saudi Arabia, the Syrian Arab Republic and the United Arab Emirates). Several countries initiated water reuse programmes (Bahrain, Egypt, Oman, Qatar and Saudi Arabia).

56. Review of the status of water legislation and institutional arrangements has shown that some progress has been made by some of the member States during the last few years. The extent of that progress, however, varies from one country to another, depending on the magnitude of water resource development, water utilization and the degree of competition among the different water-use sectors. Generally, most of the existing legislation in all water sectors addresses resources development and limited resource protection, without emphasis on management and enforcement aspects. Few countries of the ESCWA region have taken steps towards unifying and centralizing their water authorities (Jordan, Oman, the Syrian Arab Republic and Yemen) in order to improve institutional arrangements. Fragmented decrees addressing groundwater exploitation have been issued in the GCC countries. A few laws have also been issued in Egypt and the Syrian Arab Republic addressing pollution control and water conservation. The Syrian Arab Republic and Yemen are in the process of enacting a comprehensive water code. However, legislative efforts in the ESCWA region still fall short of the requirements for modern water legislation

addressing integrated development and management of water resources; policy formulation and implementation; guidelines for national utilization of all natural and non-conventional water-use priorities; water ownership; jurisdiction of authorities responsible for controlling utilization, protection, pricing and beneficial uses, as well as the issuance of use permits; and provisions for conflict resolution. Water legislation enforcement remains one of the major obstacles to the optimal development and management of water resources in the region.

V. Social developments

57. Urban population growth in the ESCWA region is still faster than total population growth. In the period 1975-1995, total population of the ESCWA region grew from 80 million to 145 million, i.e., about 81 per cent for the region, while the urban population for the same period increased from 37 million to 83 million, i.e., by 124 per cent. That growth was mainly caused by relatively high rates of rural-to-urban migration, a phenomenon that characterized most of the countries with more diversified economies in the region. In those countries, the natural increase of population has been declining in recent years. In the case of the GCC countries, however, high rates of urbanization have been stimulated by both international and regional migration, in addition to natural increase.

58. However, despite crowded living conditions and urban decay that characterized many central city locations and older neighbourhoods in low-income and middle-income countries, the continued urban growth is in itself indicative of the sustained comparative advantage of cities, particularly larger ones, over smaller centres and villages. Cities generate employment, or at least raise the expectations of migrants for finding employment. They also offer better standards of housing and public infrastructure than rural areas. Thus, at an aggregate level, almost 90 per cent of the total urban population in the ESCWA region has access to clean drinking water, compared to only 33 per cent for the rural population. With respect to connection to sewage systems, no less than 53 per cent of the population in urban areas have access to such facilities, compared to only 34 per cent for rural residents. It should be noted, however, that at a desegregated level there is a high incidence of urban-urban inequalities, as well as inequalities within the same urban area. Moreover, most urban areas in the region offer more prospects for recreation, sports and cultural activities, which in turn reinforce the importance of cities as national and regional magnets, often attracting the youth and young entrepreneurs.

59. Urbanization policies in the region have so far had limited success in curbing the spatial imbalance associated with the urbanization process. A number of measures have been adopted by most ESCWA member countries to promote rural development, including agricultural development projects, expansion and upgrading of the physical infrastructure in the rural hinterland, and new town development strategies to spatially diffuse urban growth. However, such measures are often offset by the limited financial and administrative capacity of public-sector agencies to implement such ambitious and comprehensive strategies. As a result, the tendency towards urban concentration and the differential growth of larger cities to the detriment of smaller ones will probably continue. Moreover, capital investments on roads, infrastructure, public transport, schools and hospitals display a clear urban bias, although that may be justified since cities have highest population density rates in their respective territories. The current situation in Western Asia, therefore, provides an incentive for businesses, financial institutions and industrial establishments to locate in or close to urban areas.

60. Examples of urban growth in the ESCWA region include the Amman-Zarqa urban corridor, which represents the largest urban agglomeration in Jordan and the high concentration of most industrial activities, social and educational facilities. Damascus, Cairo and Alexandria display similar patterns, where large investments in infrastructure development and the establishment of satellite towns to the main urban agglomerations have only reinforced rural-to-urban migration.

61. Administrative decentralization of government agencies and jurisdictions has recently gained popularity in ESCWA member countries, and is in line with the agenda of Habitat II. Some important policy measures have also been initiated by national Governments, private institutions and non-governmental organizations to address human settlements challenges into the twenty-first century through an integrated and multidisciplinary approach. It is interesting to note that those measures have included innovative approaches in monitoring urban changes through the production, updating and analysis of urban and housing indicators, which are timely, standardized and comparable in different contexts and across time.

62. The establishment of national committees on human settlements in several ESCWA member countries has also met favourable responses, particularly in developing fora for negotiations between state and public sector agencies and private organizations.

63. In some ESCWA member countries, adverse social effects may have resulted from structural adjustment programmes and economic reforms, especially in the short term. For example, the effects of the reduction in food subsidies are illustrated by the fact that adjusting countries experienced urban “bread” riots (Egypt in 1977 and Jordan in 1996). The pressure exerted by demographic factors (rapid population growth, large family size, high dependency ratios) and insufficient levels of agricultural production, coupled with the gradual cut in subsidization of basic goods, is leading to poverty and unemployment among urban poor population.

64. Informal sectors in the region have expanded during the implementation of the economic reform programmes, providing added employment opportunities in some ESCWA member countries. However, such expansion is not always an indication of positive development, and may simply have been caused by the impoverishment of those who are engaged in the informal sector. In Iraq, for instance, engagement in the informal sector since the mid-1980s has been one of the coping strategies during the economic recession, and was further intensified with the severe economic crisis after the Gulf war and the continuation of the United Nations-imposed sanctions. War and conflict led to impoverishment of a new group – the former middle class. Some low-paid activities (which had almost disappeared during the oil boom of the 1970s) began to emerge again in Baghdad and the poor or lower-middle class people engage themselves in those informal activities just to survive. More and more children and teenagers are seen in the street selling cigarettes, newspapers or cleaning car windows in search of badly needed income. In Baghdad, many professionals and managerial employees opt to be engaged in other informal activities, in addition to their formal jobs, again just to survive.

65. In Lebanon, relatively speaking, the standard of living deteriorated considerably because of the effects of the 17-year civil war. The destruction was so severe that the quality of life of many Lebanese people is now no better than what it was in 1975.[4] The gap between the rich and the poor is drastic, although they live together in close proximity in Beirut. Sixty per cent of families receive less than 1,200,000 Lebanese pounds (US$ 790) a month, and it is estimated that a family needs twice that figure to cover expenses, an amount that 90 per cent of the people do not have. In the streets of Beirut, child-labour of teenage boys was a common occurrence in 1998. There is a general criticism in Lebanon that there is insufficient social spending compared to spending on infrastructure.

66. To reschedule the country’s international debt, Jordan followed an IMF programme that reduced subsidies and froze the salaries of public-sector employees, and Jordan must begin to cut into a government payroll that still accounts for nearly 50 per cent of the workforce, adding to the already high level of unemployment in 1998.

67. Some countries, such as Egypt and Lebanon as well as the West Bank and Gaza Strip, have a higher rate of poverty in rural areas than in urban areas. For instance, in Lebanon 28 per cent of families were estimated to be living below the absolute poverty line (US$ 618) in 1993, and in rural areas poverty incidence was as high as 40 per cent. In rural areas, 75 per cent of the families whose primary income provider was in agriculture were poor, and two thirds of the extremely poor lived in rural areas.

68. Although the economic reform package and privatization should bring positive effects to the rural economy, the rural poor sector could be very negatively affected by those programmes. Any reduction in state subsidies may cause hardship on the rural poor in general, in particular to the vulnerable among them. The rural poor’s reliance on food subsidies is alarming. In Egypt, subsidized food contributed 17.9 per cent of food expenditure of the poorest quartile of the rural households and 50 per cent of their per capita calorie intake in 1992. Furthermore, structural adjustment programmes may encourage an export-oriented agricultural strategy of high-value and low-nutrition crops aimed at the European market. Such an export-oriented strategy is a negative coping mechanism for rural agricultural producers and the rural poor, who need domestic food supplies and nutrition for their own consumption.

69. The ESCWA region has a large youth and children population. At the regional level, young people between the ages of 15 and 24 are projected to account for 19.7 per cent of total population in the year 2000. Also, children under age 15 will account for 40.2 per cent of the total population.

70. It was reported by the government-supported organization Save the Iraqi Children that more than 700,000 children under the age of five died because of the blockade after the Gulf war and the Government’s policy to allocate its limited revenues elsewhere.[5] Children died from lack of food, lack of medicine and contaminated water. It is reported that every month approximately 5,000 children under the age of five die. It is estimated that there are approximately 2 million starving children in Iraq. Once-rare childhood diseases are now common. Spare incubator parts are now nearly impossible to find. Anaemia is common among children, and pregnant women are particularly vulnerable to the disease. Water-related diseases, such as typhoid and diarrhea, are prevalent since the Government is not able to repair sewage systems in many areas. Many Iraqi children now study in

schools with poor buildings, no windows and very limited supplies.

71. The Lebanese civil war also led to a steady deterioration in the standards and quality of education and training in Lebanon. The educational sector gradually lost its vital link with the productive and employment sector, and education for youth began to lose its benefits in terms of guaranteeing employment.

72. Furthermore, wide disparities in standards of living throughout the region, as well as within countries, have led to increasing social tension and crime rates, particularly among youth in low-income neighbourhoods.

73. The number of disabled persons in the ESCWA region is projected to reach 11,268,000 in the year 2000. There is, moreover, a significant underenumeration of the disabled population as a result of cultural and social pressure. Social stigma exists in families with a disabled family member, particularly a disabled female family member. The overwhelming majority of disabled persons are not educated, and are still illiterate in many countries of the region. Also, the magnitude and scope of the disability problem in the region has been increasing owing to the aftermath of civil unrest, military occupation and the Gulf war.

74. Disability is associated with poverty. For example, in 19 communities in the southern district of the West Bank, in 1994-1995, 32 per cent of poor families reported having disabled member(s), compared with 11 per cent of high-income families and 13 per cent of middle-income families.

Notes

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

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

[3] Preliminary official estimates, however, put the country's annual inflation rate at 1.7 per cent for the period up to October 1997.

[4] Not GNP per capita but the quality of life measured in terms of "human deprivation" indicators; see United Nations Development Programme, *Human Development Report*.

[5] Other sources reported similar figures. UNICEF estimates that 675,000 Iraqi children died due to the academic sanctions imposed on Iraq.

Socio-economic indicators for the ESCWA region, 1995-1997

	1995	*1996*	*1997*[a]
Gross domestic product at constant 1992 prices (billions of United States dollars)[b]	298.7	315.0	325.7
Real GDP growth rate (percentage)[b]	2.9	5.5	3.4
Population in the ESCWA region[b] (millions)	124.0	127.1	130.3
Population growth rate (percentage)[b]	2.79	2.50	2.50
Per capita real GDP (United States dollars)[b]	2 409	2 479	2 500
Growth rates (percentage)	(1.7)	2.9	0.9
GDP at nominal prices (billions of United States dollars)[b]	317.9	351.6	377.3
Per capita GDP in nominal prices (in United States dollars)	2 563	2 766	2 896
Growth rates	(2.8)	7.9	4.7
Exports (billions of United States dollars)[b]	115.1	134.6	128.5
Imports (billions of United States dollars)[b]	97.9	105.1	107.5
Balance of trade (billions of United States dollars)[b]	17.2	29.5	21.0
Current account balance (billions of United States dollars)[c]	(1.0)	7.1	N/A
International reserves (billions of United States dollars)[d]	46.9	48.6	52.3
International reserves/import ratio (months)[d]	5.0	5.6	6.0
Crude oil production (millions of barrels per day)	16.390	16.273	17.345
Crude oil revenues (billions of United States dollars)	81.6	100.1	99.1
Proven oil reserves (billions of barrels)	571.0	571.3	583.4
Proven oil reserves/total world oil reserves (percentage)	57.1	56.7	57.3
Proven oil reserves/production (years) (percentage)	95.4	96.2	92.2

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

Note: Parentheses ( ) denote a deficit or negative.

[a] Preliminary estimates.

[b] Excluding Iraq, and the West Bank and Gaza Strip.

[c] Excluding Iraq, the West Bank and Gaza Strip, Lebanon and the United Arab Emirates.

[d] Excluding Iraq, the Syrian Arab Republic, and the West Bank and Gaza Strip.