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SURVEY OF ECONOMIC AND SOCIAL DEVELOPMENTS IN THE ESCWA REGION, 1997-1998

SUMMARY

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CONTENTS

Executive summary

In 1997, overall economic conditions in the ESCWA region[1] improved. The 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. Although this was below the 5.5 per cent growth rate achieved in 1996, it nevertheless produced 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[2] and the more diversified economies.[3] While 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, the rate 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 which is below the 2.5 per cent population growth also projected for that year.

The factors that 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 of the previous year, despite the fall in oil prices; and (b) the initiation and acceleration of economic reforms in many countries in the region. At the same time, the main factors that prevented the ESCWA member countries from achieving a higher growth rate in 1997 included: (a) a decline in international oil prices estimated at 7.9 per cent; (b) the periodic closure of the borders of the West Bank and the Gaza Strip; (c) the political instability caused by the stalling of the Middle East peace process; (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 in the region, especially in the more diversified economies. This problem 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.

Most ESCWA members had generally low inflation rates in 1996, and rates 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 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.

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 estimate that the region's total exports will decline by about 14.4 per cent compared with their 1997 level and will register US$ 110 billion, while imports are expected to increase by 2.1 per cent to reach US$ 109.7 billion.

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

[2] The Gulf Cooperation Council members are Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates.

[3] This group includes the following countries and areas: Egypt, Iraq, Jordan, Lebanon, the Syrian Arab Republic and the Republic of Yemen, as well as the West Bank and the Gaza Strip.

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

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

The easing of the relatively tight banking conditions in the region continued in 1997. This resulted in a strong banking performance. The 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 the high population growth and development of 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, including desalinated sea water, treated wastewater and irrigation drainage water, have been increasingly used to supplement natural sources in the domestic, industrial and agricultural sectors.

Urban population growth in the ESCWA region is still increasing at a rate faster than total population growth. In the period 1975-1995, the total population of the ESCWA region grew from 80 million to 145 million, while the urban population for the same period increased from 37 million to 83 million.

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

I. OVERALL ECONOMIC PERFORMANCE AND POLICIES

1. Overall economic conditions improved in the ESCWA region in 1997. The region's 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 GCC countries and the more diversified economies in the region. While 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, which is below the region's population growth rate of 2.5 per cent.

2. Real GDP growth rates also differed among the GCC countries and among the countries with more diversified economies. Bahrain's GDP, which registered a growth rate of 3.1 per cent, is estimated to have grown by 2.8 per cent in 1997, and is projected to grow by 2.5 per cent in 1998. The Bahraini economy is the most diversified among the GCC countries, with banking the most dynamic sector in the country in 1997. In Kuwait, after registering an estimated 2.8 per cent growth in 1996, the country's GDP is estimated to have registered a 2.3 per cent growth rate in 1997, and it 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; the country's economy has apparently benefited from the economic reform policies introduced by the Government several years ago. Among the GCC countries and other ESCWA members, the highest real GDP growth rate in 1997 was in Qatar. After registering a real GDP growth rate of 10 per cent in 1996, Qatar's GDP is estimated to have registered a 15.5 per cent growth rate in 1997. These 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, but it is nevertheless expected to register a solid 7.5 per cent growth rate. This is still the highest rate among the GCC countries and other ESCWA members. Saudi Arabia, which has the largest economy of all the ESCWA members, 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 the previous year. Projections for 1998 indicate that Saudi Arabia will register a modest, yet positive, 0.8 per cent real growth in that year, 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 the high real GDP growth rates of 7.1 per cent and 9.9 per cent in 1995 and 1996 respectively. Given the country's 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 real GDP of the United Arab Emirates 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. This is mainly due to the heavy dependence of these countries on developments in the oil sector. With oil prices projected to range between US$ 12 a barrel and US$ 15.5 a barrel on average for 1998, compared with US$ 18.68 a barrel in 1997, the oil revenues of all GCC countries are projected to decline, and in some cases sharply, from their 1997 levels. Consequently, the oil sectors, which 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. With regard to those ESCWA members with more diversified economies, Egypt has the largest GDP of this group, excluding Iraq, accounting for 56.7 per cent of the aggregate GDP of this group, excluding Iraq, and 16.2 per cent of the total GDP of the ESCWA members, excluding Iraq, in 1997. Egypt's GDP is estimated to have registered a growth rate of 5.1 per cent in 1997, which is the same as that registered in 1996. Had it not been for the terrorist attack on tourists in 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. In Iraq, the poor economic conditions remained unchanged 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 US$ 5.2 billion, instead of the current $US 2 billion, every six months will probably help to improve economic conditions in the country during the second half of 1998. Furthermore, it will also contribute positively to the exports and GDP growth of some other ESCWA members, in particular 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 per cent in 1995 and 1996 respectively, it is estimated to have registered a 3.5 per cent growth rate in 1997. The reasons for the decline in growth rates in Lebanon may be attributed to the reduction in capital expenditures by the Government, coupled with a reduction in private sector investment, owing mainly to relatively high interest rates, as well as to a poor performance by Lebanese exports in 1997. The banking sector in Lebanon 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. In the Syrian Arab Republic, according to official sources, real GDP registered a 2.24 per cent growth rate in 1996. This growth rate was the lowest among the more diversified economies, with the exception of Iraq and of the West Bank and the Gaza Strip, in that year. In 1997, real GDP of the Syrian Arab Republic is estimated to have registered a 2 per cent growth rate, which is again the lowest among the region's more diversified economies, with the exception of Iraq and of the West Bank and the Gaza Strip. A 24 per cent decline in the Syrian Arab Republic's cereal output, coupled with a 3.4 per cent decline in oil production in 1997 (a year in which oil prices declined) and a decrease in tourism revenues, prevented the country from achieving a higher growth rate in that year. The Syrian Arab Republic's real GDP is projected to register a growth rate of 2.5 per cent in 1998. In the West Bank and the Gaza Strip, after registering a negative growth of 1.6 per cent in 1996, real GDP is estimated to have registered a 1.2 per cent growth rate in 1997. A major factor contributing to this modest turn-around was that the losses caused by Israel's closure of the borders to Palestinian workers were less in 1997 than in 1996, since the 57 closure days in 1997 were about one third fewer than in 1996. The Republic of Yemen, the region's least developed country, witnessed its GDP grow by 4.4 per cent in 1996 and is estimated to have achieved a 5.4 per cent growth rate in 1997. The Republic of Yemen's real GDP is projected to grow by 4 per cent in 1998.

5. With regard to GDP growth, the more diversified economies in the ESCWA region were not as adversely affected by the 7.9 per cent decline in oil prices in 1997 as were 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 in the region than on growth of the GCC countries. The efforts of the GCC countries to further diversify their economies, as well as their tax revenue base, 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 1997 total oil revenues at approximately the same level as in 1996, in spite of the falling oil prices; and (b) the initiation and acceleration of economic reforms in many countries in the region. The major factors preventing the ESCWA members 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 the 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 the considerable increases in oil production in Iraq and Qatar and the more modest increases in several other ESCWA members, the ESCWA region's oil production is estimated to have reached an average of 17.35 million barrels per day (m/b/d) in 1997. This is slightly over 1 m/b/d more than 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 these countries' 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; this represents a 7.93 per cent decline from the US$ 20.29 per barrel recorded in 1996, but it is 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 (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 the 1995 oil revenues, which amounted to US$ 81.57 billion. The estimated 6.6 per cent increase in oil production by ESCWA members and the smaller declines in oil prices in individual ESCWA members (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 region's total oil revenues for 1997 fell by only 1.03 per cent below the 1996 level. The latter was the highest level recorded in the region in more than a decade. In addition, the purchasing power of the 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 countries in South-East Asia.

10. The importance of the oil sector in the economies of most ESCWA member countries and areas is evident. Apart from Jordan, Lebanon and Palestine (the West Bank and the Gaza Strip), which do not export any oil, the ESCWA members are all oil exporters, and oil revenues continue to play a significant role in their economies, government budgets and trade balances; this is particularly true in the 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 economies in the region 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 which focus on the private sector as the engine of growth and development and as the major source of employment opportunities. The pace of economic reform varied widely among the ESCWA members. Reform efforts generally intensified in the more diversified economies, most notably in Egypt and the Republic of 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 this policy must be sustained so that these 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 the political instability in the region. This, in turn, discouraged the inflow of capital and tourists in 1997. The economic conditions in the region deteriorated further in the West Bank and the Gaza Strip with Israel's border closures. The terrorist attack on tourists in Luxor, Egypt, in November 1997 dealt a severe blow to the rapidly growing tourism sector in that country. It also affected the tourism sectors in neighbouring countries, in particular Jordan and Lebanon. Prior to the terrorist attack in Luxor, a record number of tourists were visiting Egypt. Tourism revenues

exceeded US$ 3.5 billion in fiscal year 1996/97, 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 affect adversely the economic conditions in Iraq and its major trading partners, in particular Jordan.

13. The problem of unemployment remained a formidable challenge in 1997 for many of the countries in the ESCWA region, in particular those countries with more diversified economies. This 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, the public sector was overstaffed by around 18 per cent; with the implementation of various structural adjustment and economic reform measures, the number of employees 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 around 4.5 per cent to 5 per cent achieved by the more diversified economies since 1995 may be perceived favourably, but it is not sufficient to reduce the current high rates of unemployment to any significant degree in most of these 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 entrants to the labour force in the former and the 50,000 new entrants in the latter every year. The West Bank and the Gaza Strip witnessed a decline in their unemployment rate from 24 per cent in 1996 to 21 per cent in 1997. This decline may be mainly attributed to the reductions in the number of days Israel closed its borders to Palestinian workers in 1997 compared with the previous year. 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 the Republic of Yemen appears to have remained at its 1996 level of 25 per cent. The unemployment situation in the Republic of Yemen is not expected to improve very much unless the private sector increases investment and employment significantly in the coming years. Annually, the Republic of Yemen must be able to accommodate 200,000 new additions to its labour force and to absorb the 35,000 State employees who 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 around 15 per cent over the past three years. This rate is considered high, especially in the light of the fact that real wages in Jordan generally remained stagnant during those years. In Egypt, the rate of unemployment was officially estimated at less than 9 per cent in 1997; according to other sources, however, the country's unemployment rate was around 12 or 13 per cent. In the Syrian Arab Republic, although underemployment may have been a problem, the unemployment rate is estimated to have been in the single digits in 1997.

15. The GCC countries are also concerned about unemployment: this may appear inconsistent with their practice of providing employment opportunities for millions of expatriate workers, who account for most of their respective labour forces. Expatriate workers represent 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 the 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. The salaries in the latter are considerably higher and the fringe benefits are more generous. In the GCC countries, a considerable number of workers in the public sector are already redundant, and new employment opportunities in this 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 these countries.

16. In most GCC countries, the indigenous labour force is growing at an annual rate of around 5 per cent. These 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 Kingdom's labour force is a main objective of 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 this 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 the 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 was to be enforced as of 1 January 1998. The Government of the United Arab Emirates also plans to prevent the 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 of the United Arab Emirates is considering providing incentives—including priority in awarding government contracts—to companies employing more nationals. It should be noted, however, that many of these ad hoc measures will interfere with the proper functioning of the labour market and may therefore be unsustainable. In some GCC countries, 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. Most ESCWA members had generally low inflation rates in 1996, and the rates 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 currencies of countries in South-East Asia, and most of the currencies in Western European countries. As a result, the prices of goods imported by the GCC countries were lower. This helped to keep inflation rates down. It should be noted, however, that the strengthened fiscal position of the GCC countries' Governments apparently discouraged

them from making any further reduction in subsidies on goods and services provided by the public sector in 1996 and 1997. This also helped to dampen prices.

19. Among the more diversified economies, the highest inflation rate in 1997 was registered in the Republic of Yemen, the region's least developed country. The Republic of 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 members 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 was 14 per cent in 1995, declined to 9.5 per cent in 1996 and to 6.5 per cent in 1997. This trend reflects the institution of more conservative monetary policies by Lebanon's Central Bank and the decline in the growth of economic activities in the country. 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. The relatively high liquidity in the banking system prevented a greater decline in the inflation rate in 1997. In the West Bank and the Gaza Strip, the inflation rate fell substantially from 25 per cent in 1995 to around 12 per cent in both 1996 and 1997. This 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 total of the region's exports. Intraregional trade was, however, very low: it accounted for around 8 per cent and 9 per cent of the total trade of the region in 1996 and 1997 respectively. In comparison, intraregional trade in the European Union (EU) was about 65 per cent in 1996. The factors responsible for the relatively low level of intraregional trade in the ESCWA region included: the similarity of the commodities produced in the ESCWA member countries; lack of coordination in either production or trade policies; and lack of advanced technologies, which must be imported from developed countries.

21. Recently, ESCWA members joined the Arab Free Trade Zone (AFTZ), which was established in 1997 and which started to be implemented 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 the AFTZ will lead to solid trade cooperation and accelerate economic development in the ESCWA region as a whole.

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

23. The good performance of the international trade sector in the region in 1996 is not, as a result of falling oil prices, expected to be repeated in either 1997 or 1998. Total trade in the region (excluding Iraq and the West Bank and the Gaza Strip) amounted to US$ 239.7 billion in 1996, and represented an increase of about 11 per cent over 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. In 1996, the region's total exports, which amounted to US$ 134.6 billion, increased by 14.5 per cent, owing primarily to the rise in oil prices in that year, 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 estimate that the region's total exports will decline by about 14.4 per cent compared with their 1997 level and register US$ 110 billion, while imports are expected to increase by 2.1 per cent to reach US$ 109.7 billion.

24. Several ESCWA members have their currencies pegged to the United States dollar (Bahrain, Oman, Qatar, Saudi Arabia and the United Arab Emirates). The appreciation of the United States dollar, which started in the second quarter of 1995, has therefore also resulted in the appreciation of these countries' currencies. In addition, the values of the 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 country's currency has increased, with the prices of imports being relatively lower. However, the prices of exports from these countries have risen in the world market compared with the goods exported from other countries whose currencies depreciated significantly against the United States dollar during the same period of time. In particular, with regard to their textile industries, the ESCWA members are 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 respectively against the United States dollar from 1995 to 1997.

25. In the GCC countries, exports amounted to US$ 122 billion in 1996, accounted for 90.6 per cent of the region's total exports, and represented an increase of 14.5 per cent compared with their level in 1995,

owing mainly to an increase in oil prices. It is estimated that the total exports of the 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 the total exports of the GCC countries will decrease by 14.4 per cent compared with their 1997 level. Within this group, the largest increases in exports in 1996 were recorded by Oman and Qatar, with increases of 21 per cent and 18.3 per cent respectively. The decreases in exports in 1997 are 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 the GCC countries are expected in Kuwait and Saudi Arabia, with projected declines of 19.2 per cent and 18 per cent respectively.

26. Total imports of the GCC countries are estimated to have increased by about 4.8 per cent in 1996, when they reached US$ 72.2 billion and represented 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; they are projected to increase slightly, by only 1.3 per cent in 1998, compared with 1997. The largest increases in imports were recorded by Bahrain, Qatar and the United Arab Emirates, with each country registering an approximately 10 per cent increase. 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 its 1995 level, is estimated to have maintained a 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 owing to the expected drop in oil export revenues.

27. The more diversified economies in the region have for many years registered large balance of trade deficits. Oil exports constituted a large portion of total exports in these countries, in particular in Egypt (45 per cent), the Syrian Arab Republic (54 per cent) and the Republic of Yemen (90 per cent) in 1996. The non-oil exports from these countries, especially cotton lint, textiles and fresh vegetables and fruits, are currently facing many constraints and stiff competition in world markets. Total exports of this group of countries are estimated to have increased by 9.1 per cent in 1996 compared with the 1995 level, and to have reached 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; they are projected to decline by 1.8 per cent in 1998. The largest increases in exports were recorded in 1996 by Lebanon and the Republic of Yemen, with 10.2 per cent and 14.5 per cent respectively. However, in 1997, exports are estimated to have decreased sharply in Lebanon (12.5 per cent) and the Republic of Yemen (7.2 per cent). Egypt, which achieved the largest increase in its exports (10.9 per cent) in 1997, recorded a 21 per cent increase in its non-oil exports, particularly manufactured goods. It is projected that the Republic of 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 other countries in this group will achieve increases in their exports, by 4.6 per cent in Egypt and 2 per cent in Jordan.

28. Total imports of the more diversified economies amounted to US$ 32.9 billion in 1996, accounted for 31.3 per cent of the total imports of the region, and represented an 11.5 per cent increase over their 1995 level. These 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 the more diversified economies, with imports representing about 40 per cent of the combined imports of this group and about 12.4 per cent of the region's total imports. Three other countries in this group recorded considerable increases in imports in 1996, namely Jordan, the Republic of Yemen and the Syrian Arab Republic, with increases of 19.7 per cent, 15 per cent and 16.5 per cent respectively.

29. The export/import ratio, which reflects the ability of countries to finance their imports from export revenues, reached 1.28 in the region as a whole in 1996, compared with 1.19 in 1995. This ratio is estimated at 1.19 for 1997, and it is projected to decline to 1 in 1998. For the GCC countries, this ratio was 1.69 in 1996, compared with 1.54 in 1995: it is estimated at 1.55 for 1997, and is projected to decline to 1.29 in 1998. For the more diversified economies, the ratio remained around its 1995 level of 0.39; it is estimated at 0.38 for 1997, and is projected to decline further to 0.36 in 1998.

30. The total current account balance of the region (excluding Iraq, Lebanon, the United Arab Emirates and the West Bank and the Gaza Strip) improved and recorded a surplus estimated at US$ 7.1 billion in 1996, compared with an estimated US$ 957.9 million deficit registered in 1995. This 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 members. The major surpluses in the current account balances were recorded in the GCC countries, in particular in Kuwait, which recorded a surplus of US$ 6.8 billion in 1996, compared with US$ 4.6 billion in 1995.

31. Total international reserves (minus gold) have improved significantly in the region during the past two years. In September 1997, these 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 and represented 46.3 per cent of the region's total reserves. Egypt has the largest international reserves among the ESCWA members; these reserves totalled 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 in 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 amounted to about 4 months, while in Egypt it was 15.6 months.

32. Some progress has been made in the field of trade policy in the region. Most countries have made tangible progress in trade liberalization. The trade policy reforms were the major feature of the economic reform carried out in 1997. ESCWA members have implemented the required official procedures to join the AFTZ, for which, as noted above, implementation started in January 1998. The implementation of the AFTZ 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 between them. In addition, the EU has decided to renew an old trade agreement with the GCC countries. The unification of tariffs is, however, a condition for the signature of the new agreement. Saudi Arabia and Oman have taken the necessary steps for multilateral negotiations on accession to the WTO.

34. Among the more diversified economies, Egypt has made considerable progress in its trade policy. The Government of Egypt has completed its commitments to the WTO: in 1997, it abolished the prohibition on imports of poultry and textiles, which had been exempted as a measure to protect the local production of those commodities. Jordan signed a partnership agreement with the EU in 1997 and was thus the first ESCWA member to sign such an agreement. Jordan completed the required official procedures for accession to the WTO. The Government of Jordan aims at increasing Jordan's export's to the Arab markets and the EU. The Syrian Arab Republic undertook a comprehensive study in 1997 to evaluate the partnership agreement with the EU. Official negotiations were expected to take place in April 1998. The Syrian Arab Republic also unified the multiple exchange rates of its currency by Ministerial Decree No. 2163 of 1997. With the unified rate, 45 Syrian pounds (LS) equals US$ 1; the new rate came into force as of January 1998. The Syrian 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 the EU and the accession to the WTO. A trade agreement with the Syrian Arab Republic was signed by Lebanon at the beginning of 1998 to reduce tariff rates by 25 per cent annually between the two countries. The Republic of Yemen took the necessary steps towards trade liberalization in 1997, in the light of the application of the economic reform policies with the World Bank and the IMF.

III. MONETARY, FISCAL AND FINANCIAL DEVELOPMENTS

35. In 1997, monetary policies of the ESCWA members continued to be essentially targeted at maintaining the stability of the exchange rates. This policy also contributed to relatively low and stable rates of inflation and maintained private sector confidence.

36. The effectiveness of the monetary policies was enhanced by the financial sector reforms undertaken by most ESCWA members. The reforms, which started in the early 1990s in a number of these countries, such as Egypt and Jordan, were aimed at improving the mobilization and allocation of financial resources and strengthening the system of monetary control.

37. To improve the mobilization and allocation of financial resources, several ESCWA members implemented various measures. First, the role of market forces in determining the rates of return (that is, the interest rates) and credit allocation was enhanced in Egypt, Jordan, Kuwait, Oman and Qatar. These countries made significant progress in liberalizing their interest rate structures. They initially focused on deposit rates, and reduced the scope of preferential rates, especially for public sector enterprises. Secondly, the portfolio of assets available to domestic savers was broadened through the introduction of new financial instruments with market-determined rates. These instruments included certificates of deposit (in Egypt, Jordan, Kuwait, Oman and Saudi Arabia), negotiable treasury bills (in Egypt, Jordan, Kuwait, Lebanon, Oman and the Republic of Yemen) and commercial papers (in Egypt, Jordan, Bahrain, Kuwait and Saudi Arabia). Thirdly, many ESCWA members 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 by most ESCWA members to replace quantitative credit restrictions, began to take shape in 1997. Several ESCWA members 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 these countries' currencies to the United States dollar required the domestic interest rates to follow closely the movements of the 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 countries are considered to have been instrumental in encouraging the repatriation of financial resources from abroad. The financing of the current account deficits of these countries was mainly through repatriated capital.

40. The fiscal development in the GCC countries in 1997, in particular in Saudi Arabia and Kuwait, indicates that these countries have eliminated most of the effects of the Gulf crisis and war of 1990-1991. The rise in oil revenues has further reduced their budget deficits. In fiscal year 1997, most of these countries financed their budget deficits mainly by domestic borrowing, through the issuance of government bonds and treasury bills, rather than by drawing on their foreign reserves or resorting to external borrowing, as was the case during most of the past few years. To reduce their budget deficits in the coming years, most GCC countries have introduced measures aimed at increasing revenues and reducing the rise in expenditures. To this end, the decision by the Governments of a number of these countries to raise the prices of some public services is seen as an indicator that domestic budget revenues will play an important role in financing budget expenditures. This decision is also seen as part of a long-term fiscal policy, aimed at establishing a more diversified domestic revenue base.

41. Among the ESCWA members, the 1997 budgets of most of the more diversified economies continued to be deflationary, with expenditures rising at a rate below that of inflation, thus reducing expenditures in real terms. This group of ESCWA members, however, continued in 1997 to look 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 others, 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 became increasingly more developed, the easing of the relatively tight banking conditions in the region continued in 1997, resulting in a strong banking performance. In the GCC countries, the growing confidence, backed by significantly improved financial results in the banking sector in 1997, produced a brighter outlook for 1998. In Egypt and Lebanon, the increase in international activities of a number of banks, namely in the form of well-received sovereign and bank issues, is expected to improve further the profile of both countries as well as their banking sectors. With most of the ESCWA members embarking upon a new era of financial opportunities for banks, resulting from the desire of the Governments of these countries to expand private sector involvement in economic activities, the banks in the ESCWA region are expected to play a significant role in financing these activities. However, big project financing does not seem to be the only area where major financial opportunities exist. The servicing of the smaller domestic corporate sector was 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 momentum and companies increased their domestic financial capabilities, the trend towards development of investment banking facilities continued in most ESCWA members in 1997. In addition to investment banking services, a number of banks in the region began providing improved asset management services and competing with foreign banks in the region in 1997.

44. The privatization drive by a number of ESCWA members continued to benefit the stock markets of these countries, as most of the privatization was carried out through public offerings. The linkages between most of the stock markets in the region improved the investment environment therein.

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 ensure optimal development and management of the region's water resources. 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 in order to meet the increasing requirements. Governments in the region, as well as various regional arms of United Nations agencies, have become increasingly concerned about the issue of rising water demand brought about by population pressures, lack of application of adequate water management practices, and the need to increase food production and combat pollution in order to preserve the fragile, semi-arid environment.

46. Water shortages have become acute in the region, with the exception of countries where there are major rivers. The Nile, the Euphrates, the Tigris, the Orontes and the Litani provide adequately for the water requirements of Egypt, Iraq, the Syrian Arab Republic and Lebanon. 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 being carried out in Egypt, Lebanon and the Syrian Arab Republic. The GCC countries, and Jordan and the Republic of Yemen, as well as the West Bank and the Gaza Strip, are exploiting groundwater resources in excess of the sustainable magnitude of the aquifer's safe yield. Groundwater utilization in the region as of 1996 reached 27.8 bcm, compared with 13.2 bcm of groundwater recharge, with extensive groundwater mining taking place in the GCC countries and the Republic of Yemen. Water policy in most of the region is still geared towards development and exploitation of water resources, without clear and/or adequate implementation of management practices.

47. Non-conventional water resources (desalinated sea water, treated wastewater 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 to meet water requirements in the domestic sector in a number of ESCWA members. Desalination has become a major water supply component in the GCC countries as a result of groundwater salinity problems and the remote location of potential groundwater sources far from major urban areas. The region, by necessity, has become the world leader in desalination of sea water and brackish water, with output reaching 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 US$ 0.5 to US$ 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 wastewater and irrigation drainage water has become another viable non-conventional source, mainly in the agricultural sector, for a number of ESCWA members. The magnitude of reuse remains small compared with the available amount of treated effluent. The volume of recycled wastewater and irrigation drainage water was estimated at 6.1 bcm in 1997, with most of the recycling carried out in Egypt, the Syrian Arab Republic and Saudi Arabia. Reuse has also been practised on a limited basis for irrigation and urban landscaping in Jordan, Kuwait, Bahrain, the United Arab Emirates, the Republic of Yemen and Oman. Increased use of treated wastewater that meets World Health Organization (WHO) standards contributed to remedying the supply-demand imbalance. There is still a need for serious efforts to allocate financial resources for wastewater 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 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 those 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 region as a whole, and demand reached 123.1 bcm in 1990; this increased to 136.5 bcm in 1997. Those countries in the region wherein the major water consumer is the agricultural sector are Egypt, Iraq, Saudi Arabia and the Syrian Arab Republic. In seven of the ESCWA members—the GCC countries and the Republic of Yemen—the volume of water used in the agricultural sector totalled 19.7 bcm in 1990, compared with an estimated 103.4 bcm in the other ESCWA member countries and areas, including the West Bank and the Gaza Strip. Agricultural water demand in the ESCWA region is expected to reach 142.1 bcm and 186.4 bcm in the years 2000 and 2025 respectively.

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

51. Water is provided at very low and subsidized rates in the domestic and agricultural sectors in most of the region. 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 the society. Moreover, the use of a progressive block rate tariff system is common in the domestic sector. Among the ESCWA members, the lowest water tariffs charged to the public are in Egypt, at US$ 0.02 per cubic metre (for surface water), and the highest are in Oman, at US$ 1.3 per cubic metre (for desalinated sea water). Water for irrigation is usually provided free of charge in the region, except in Bahrain, Egypt and Jordan. The issue of using pricing policies that encourage water conservation is being debated in Bahrain, Egypt and Jordan.

52. An imbalance between the increasing water demand and the limited water sources is being experienced by most of the ESCWA members. The shortages are attributed to rising demand, the absence of effective water policies and conservation measures, and a lack of sufficient funds to invest in water infrastructure systems. Water deficits of varying degrees are common in Jordan, the West Bank and the Gaza Strip, the GCC countries, and the Republic of Yemen. These water shortages have been partially relieved by using desalinated water and by resorting to an 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 region. Desalination contributed 1.8 bcm to this total, while reuse of treated wastewater 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 supports for wheat and barley outputs, which contribute to water shortages. As of 1997, Qatar, Saudi Arabia, the United Arab Emirates and Oman were still providing subsidies to the agricultural sector. This policy, while contributing to greater agricultural output, has resulted in the depletion of water resources, especially non-renewable groundwater sources.

54. Some of the ESCWA members 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 the legal aspects of this issue. 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 the Republic of Yemen.

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

56. A review of the status of water legislation and institutional arrangements shows that some progress has been made by some of the ESCWA members during the past few years. The extent of this 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. In general, most of the current legislation in all water sectors addresses resource development and limited resource protection, without emphasis on management and enforcement issues. A few countries in the region have taken steps to unify and centralize their water authorities (Jordan, Oman, the Syrian Arab Republic and the Republic of 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 enacted in Egypt and the Syrian Arab Republic to address pollution control and water conservation. The Syrian Arab Republic and the Republic of Yemen are in the process of enacting a comprehensive water code. However, legislative efforts in the region still fall short of the requirements for modern water legislation, which should address 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. The lack of enforcement of water legislation remains one of the major obstacles to optimal development and management of water resources in the region.

V. SOCIAL DEVELOPMENTS

57. Urban population growth in the region is still faster than total population growth. In the period 1975-1995, the total population of the region grew from 80 million to 145 million, an increase of 81 per cent. The urban population for the same period increased from 37 million to 83 million, a 124 per cent increase. This growth was mainly caused by relatively high rates of rural to urban migration, a phenomenon which characterized most of the more diversified economies in the region. In these countries and areas, the natural increase in population has been declining in recent years. In the case of the GCC countries, however, high rates of urbanization have been stimulated both by international and regional migration, as well as by the natural increase in population.

58. However, despite the crowded living conditions and urban decay which characterized many central city locations and older neighbourhoods in low and middle income countries, the continued urban growth is in itself indicative of the sustained comparative advantage of cities, particularly larger cities, over smaller centres and villages. Cities generate employment, or at least raise migrants' expectations of 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 region have access to clean drinking water, compared with only 33 per cent of 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 with only 34 per cent of rural residents. It should be noted, however, that at a disaggregated level, there is a high incidence of urban-urban inequalities, and inequalities within the same urban area. Moreover, most urban areas in the region offer greater prospects for recreation, sports and cultural activities which, in turn, reinforce the importance of cities as national and regional magnets, often attracting young people as well as 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 members to promote rural development, including agricultural development projects, expansion and upgrading of the physical infrastructure in the rural hinterland, as well as new town development strategies to diffuse urban growth spatially. Such measures are, however, often offset by the limited financial and administrative capacity of public sector agencies to implement such ambitious and comprehensive strategies. As a result, the trend towards urban concentrations and the differential growth of larger cities to the detriment of the smaller ones is likely to continue, as capital investments in roads, infrastructure, public transport, schools and hospitals reveal a clear urban bias, although this may be justified since cities have the highest population density rates in their respective areas. The current situation in Western Asia, therefore, provides an incentive for businesses, financial institutions and industrial establishments to locate in urban areas or in close proximity to them.

60. Examples of urban growth in the region include the Amman-Zarqa urban corridor, which represents the largest urban agglomeration in Jordan and has a high concentration of the country's industrial activities and social and educational facilities. Damascus, in the Syrian Arab Republic, and Cairo and Alexandria, in Egypt, display similar patterns, wherein large investments in infrastructure development and the establishment of satellite towns near the main urban agglomerations have only reinforced rural to urban migration.

61. Administrative decentralization of government agencies and jurisdictions has recently gained in popularity in the region, and is in line with the agenda of the United Nations Conference on Human Settlements (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 these measures have included innovative approaches in monitoring urban changes, through the production. updating

and analysis of urban and housing indicators that are timely, standardized and comparable in different contexts and across time. The establishment of national committees on human settlements in several countries in the region has also met with favourable responses, particularly with regard to developing forums for negotiations between State and public sector agencies and private organizations.

62. Some ESCWA members may have experienced adverse social effects from the structural adjustment programmes and economic reforms, especially in the short run. For example, the effects of the reduction in food subsidies on the adjusting countries could be seen in the urban "bread" riots in Egypt in 1977 and in Jordan in 1996. The pressure exerted by demographic factors (rapid population growth, large family size and 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 the urban poor.

63. The informal sectors in the region have expanded during the implementation of the economic reform programmes. This has provided added employment opportunities in some countries in the region. However, such expansion is not always an indication of positive development: it might be caused by the impoverishment of those engaged in the informal sector. In Iraq, for instance, engagement in the informal sector since the mid-1980s became one of the coping strategies during the economic recession, and it 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 the impoverishment of a new group, namely the former middle class. Work in some low-paid activities (which almost disappeared during the oil boom of the 1970s) began to be undertaken again in Baghdad, and the poor or lower middle class have turned to these informal activities for survival. More and more children and teenagers are seen in the streets, selling cigarettes and newspapers or cleaning car windows in search of badly needed income. In Baghdad, many professionals and managerial employees resort to working in other informal activities, in addition to their formal jobs, in order to survive.

64. In Lebanon, relatively speaking, the standard of living deteriorated considerably because of the effects of the 17-year period of civil strife. The destruction was so severe that the quality of life of many Lebanese people is now no better than what it was in 1975. 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 (LL) a month (equivalent to US$ 790), and it is estimated that a family needs twice that figure to cover expenses: this is an amount beyond the means of 90 per cent of the country's population. In the streets of Beirut in 1998, child labourers (young boys) are frequently seen. The general criticism levelled in Lebanon is that there is insufficient spending on social problems compared with spending on infrastructure.

65. To reschedule its international debt, Jordan followed an IMF programme that reduced subsidies and froze the salaries of public sector employees. Jordan must begin to cut into a government payroll that still accounts for nearly 50 per cent of the workforce; this will add to the already high level of unemployment in 1998.

66. Some ESCWA member countries and areas, 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 the incidence of poverty was as high as 40 per cent. In rural areas, 75 per cent of families whose primary income provider was in agriculture were poor, and two thirds of the extremely poor lived in rural areas.

67. Although the economic reform package and privatization should have positive effects on the rural economy, the rural poor sector could be very negatively affected by these programmes. Any reduction in

State subsidies may cause hardships for the rural poor in general, and in particular for the most vulnerable among them. The reliance of the rural poor on food subsidies is alarming. In Egypt in 1992, subsidized foods made up 17.9 per cent of expenditures on food by the poorest quarter of rural households, and constituted 50 per cent of their per capita calorie intake. Furthermore, structural adjustment programmes may encourage an export-oriented agricultural strategy concentrating on 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 a high-nutrition domestic food supply for their own consumption.

68. Children and young people make up a large segment of the population in the region. It is projected that young people between the ages of 15 and 24 will account for 19.7 per cent of the region's total population by the year 2000. It is also projected that children under the age of 15 will account for 40.2 per cent of that total population .

69. It was reported by the Government-supported organization "Save the Iraqi Children" that more than 700,000 children under the age of five had died because of the blockade on Iraq after the Gulf war and because of the Government's policy to allocate its limited revenues elsewhere. The children died from lack of food and lack of medicine, and from contaminated water. It is reported that every month approximately 5,000 children under the age of five die. It is estimated that there are currently approximately 2 million children in Iraq who are starving. Once rare childhood diseases are now common in the country. Spare parts for infants' incubators are 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 diarrhoea, are prevalent since the Government is not able to repair sewage systems in many areas. The schools where many Iraqi children now study are in dilapidated buildings that are badly in need of repair and without the educational supplies to meet the children's needs.

70. In Lebanon, the civil strife led to a steady deterioration in the standards and quality of education and training. The links between the education sector and the productive and employment sectors gradually dissolved. For young people, this meant that completing one's education no longer guaranteed a job.

71. The wide disparities in standards of living throughout the region as well as within countries have led to increases in social tensions and crime rates, particularly among young people in low-income neighbourhoods.

72. The number of disabled persons in the 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 pressures. Families with a disabled family member, particularly a disabled female family member, face social stigma. The overwhelming majority of disabled persons are not educated and are still illiterate in many countries in the region. Furthermore, 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.

73. 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 well-off families and 13 per cent of families in the middle-income category.

ANNEX TABLE. SOCIO-ECONOMIC INDICATORS FOR THE ESCWA REGION, 1995-1997

	1995	1996	1997[a]
Gross domestic product (GDP) (billions of US dollars)[b] at constant 1992 prices	298.7	315.0	325.7
Real GDP growth rate (percentage)[b]	2.9	5.5	3.4
Population in the ESCWA region[b] (in millions)	124.0	127.1	130.3
Population growth rate (percentage)[b]	2.79	2.50	2.50
Per capita real GDP (US dollars)[b]	2 409	2 479	2 500
Growth rates (percentage)	(1.7)	2.9	0.9
GDP at nominal prices (in billions of US dollars)[b]	317.9	351.6	377.3
Per capita GDP in nominal prices (in US dollars)[b]	2 563	2 766	2 896
Growth rates	(2.8)	7.9	4.7
Exports (billions of US dollars)[b]	115.1	134.6	128.5
Imports (billions of US dollars)[b]	97.9	105.1	107.5
Balance of trade (billions of US dollars)[b]	17.2	92.5	21.0
Current account balance (billions of US dollars)[c]	(1.0)	7.1	N/A
International reserves (billions of US 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 US 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.

Notes: Parentheses ( ) denote a deficit or negative.

a/ Preliminary estimates.

b/ Excluding Iraq and the West Bank and Gaza Strip, owing to the lack of comprehensive data.

c/ Excluding Iraq, the West Bank and Gaza Strip, Lebanon and the United Arab Emirates, owing to the lack of comprehensive data.

d/ Excluding Iraq, the Syrian Arab Republic and the West Bank and Gaza Strip, owing to the lack of comprehensive data.