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PRELIMINARY OVERVIEW OF ECONOMIC DEVELOPMENTS IN THE ESCWA REGION IN 1999

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Foreword

Late in 1996, the *Preliminary Overview of Economic Developments in the ESCWA Region* was initiated as a forerunner publication issued prior to the more detailed and comprehensive *Survey of Economic and Social Developments in the ESCWA Region.* The *Preliminary Overview* is now published regularly before the close of the year as an early indication of the state of the economy; later, the *Survey* provides a wider scope and more in-depth analyses. The *Survey* is issued in the second quarter of the following year. The first publication of its kind in the region, the *Preliminary Overview* has proved to be a valuable resource for numerous end-users in different fields.

Encouraged by the positive responses we have received, we now present the fourth issue of the *Preliminary Overview.*

It is our experience that the first three issues of the *Preliminary Overview* fulfilled their primary objective of providing an early assessment of economic developments in the region. More importantly, however, they also offered reliable estimates that were not significantly different from the final data published later. The overall picture of economic developments in the region as depicted in the first three issues of the *Preliminary Overview* was largely confirmed by that presented in the corresponding issues of the *Survey.* Nonetheless, it should be borne in mind that the figures quoted for both the ESCWA region and individual countries are preliminary estimates and in the final analysis may well change. The *Preliminary Overview* and the *Survey* are complementary publications but serve two different objectives. The *Preliminary Overview* responds to the need for a preliminary assessment of economic developments at year's end, while the *Survey* presents a more precise and comprehensive analysis based on the final data.

Beginning last year, it was decided that the *Preliminary Overview* would include an annex in which a single issue of possible interest to our readers would be addressed. In the 1998 *Preliminary Overview*, the focus was on the sustainability of crude oil production in the region. In this year's annex, imbalances in resource allocation are highlighted; defence and military expenditures are reviewed and the need for increased investment in human development is emphasized.

As with the previous three issues, the 1999 *Preliminary Overview* supplements its assessment of the region's economic performance in 1999 with a broad outlook for 2000.

H. El-Beblawi

Hazem El-Beblawi
Executive Secretary

17 December 1999

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EXPLANATORY NOTES AND ABBREVIATIONS

The following symbols have been used in the tables throughout the publication:

Two dots (..) indicate that data are not available or are not separately reported.

A dash (—) indicates that the amount is nil or negligible.

A hyphen (-) indicates that the item is not applicable.

Parentheses ( ) indicate a deficit or decrease, except as otherwise stated.

A slash (/) indicates a school year or a financial year (e.g., 1981/82).

Use of a hyphen (-) between dates representing years, for example, 1981-1983, signifies the full period involved, including the beginning and end years.

Details and percentages do not necessarily add up to totals, because of rounding.

In both the text and tables of the study, references to "dollars" ($) indicate United States dollars, unless otherwise stated.

Bibliographical and other references have, wherever possible, been verified.

The following abbreviations have been used:

b	barrels
b/d	barrels per day
ESCWA	Economic and Social Commission for Western Asia
FDI	foreign direct investment
GCC	Gulf Cooperation Council
GDP	gross domestic product
HDI	human development index
ILO	International Labour Organization
IT	information technology
KD	Kuwaiti dinars
OPEC	Organization of Petroleum Exporting Countries
RO	rials Omani
UNDP	United Nations Development Programme
WTO	World Trade Organization

EXECUTIVE SUMMARY

This preliminary overview of economic developments in the region comprising the territories of the members[1] of the Economic and Social Commission for Western Asia (ESCWA) provides readers with an assessment of the outlook for the region in 2000, based on a review of economic developments in the region in 1999.

Outlook for 2000

In 2000, developments in the energy (oil and gas) sector are again expected to have the dominant impact on the economies of the region. Other factors that will markedly affect economic performance in Western Asia include: (a) developments pertaining to the economic sanctions imposed on Iraq since 1990; (b) the speed and success of the implementation of economic reforms and structural adjustment measures by ESCWA members; (c) the inflow of foreign direct investment (FDI); (d) the scarcity of water and its impact on agricultural output for several ESCWA members; and (e) progress in the Middle East peace process and the dividends of peace, if any. A reallocation of resources from military and defence programmes to human development would greatly enhance the long-term prospects for the region (see annex).

Real gross domestic product (GDP) growth is expected to accelerate for every ESCWA member next year. For the region as a whole, excluding Iraq, real GDP is projected to grow 4.1 per cent in the year 2000. The determining factor will be the significant increase in oil production, prices and revenues. Higher growth in the important oil and gas sector in the Gulf Cooperation Council (GCC) countries[2] will greatly enhance the performance of the external sector, improve budgetary positions and contribute to more rapid economic growth in these countries. Notable improvements in the economies of the GCC countries are expected to have considerable positive spillover effects on the other economies of the region, mainly through increased exports, tourism revenues and financial aid.

In 2000, real GDP growth in the GCC countries is projected to accelerate to 3.8 per cent, with individual rates ranging from 2.6 per cent in Kuwait to 4.7 per cent in the United Arab Emirates. Within the GCC group, the economic growth forecast is the most positive for the United Arab Emirates, owing not only to higher growth in the oil and gas sectors but also to the resurgence of its re-export activities and increased FDI inflows. Oman's real GDP growth in 2000 is projected at 4.5 per cent, the second highest rate among the GCC countries. Further acceleration of GDP growth in Oman will come from one of the largest gas liquefaction projects in Western Asia, which will be inaugurated during the year. This project, which has taken four years to complete, is projected to generate about $1 billion in revenues annually for the Sultanate. Qatar will also benefit from the parallel rise in production and revenues in both the oil and gas sectors. Saudi Arabia's real GDP growth is projected at 3.6 per cent in 2000, a rate twice as high as the preliminary estimate for 1999. The surge in the energy sector, higher government expenditures and the growing confidence of the private sector, encouraged by recent economic reforms, are expected to further boost economic growth and development in the Kingdom. Kuwait's projected real GDP growth of 2.6 per cent in the year 2000 is several times higher than the preliminary estimate of 0.5 per cent for 1999. Kuwait's economic growth is expected to be spurred by developments in the energy sector as well as foreign direct investment by multinational corporations attracted by recently decreed laws and regulations.

For the countries with more diversified economies[3] in the region, real GDP growth is projected to average 4.7 per cent in 2000, with rates ranging from 1.7 per cent in Jordan and 1.8 per cent in Lebanon to 6.2 per cent in Egypt. Egypt's economic growth will continue as a result of the increase in domestic and foreign direct investment, continued steady growth in the tourism sector, and the implementation of gigantic development projects in the Sinai Peninsula and the New Valley. The economy of Yemen is projected to grow by 4.5 per cent and that of the West Bank and Gaza Strip by 4 per cent in the year 2000. Yemen will benefit significantly from higher economic growth propelled by the oil

[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 Yemen.

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

[3] Egypt, Jordan, Lebanon, the Syrian Arab Republic and Yemen.

sector. Both the Government of Yemen and the Palestinian Authority are expected to be major beneficiaries of financial aid and in-kind support from the World Bank, several United Nations agencies and major donor countries. Real GDP growth in the Syrian Arab Republic is projected to rise to 2 per cent in 2000, from the preliminary estimate of 0.5 per cent in 1999. Both Jordan and Lebanon are expected to see their real GDP edge upwards to about 1.8 per cent, stimulated mainly by lower interest rates and marked increases in tourism; these rates are significantly below the growth targets of between 3 and 5 per cent set for the next several years by the Governments of both countries.

The oil sector in the region is expected to register excellent performance in 2000. Oil revenues should rise markedly with the notable increases in both production and prices in comparison with 1999. Projections for oil prices in the year 2000 differ widely, depending on assumptions made with regard to the decisions of the Organization of Petroleum Exporting Countries (OPEC) on production levels, given the rising demand and falling inventory levels in the major oil-importing countries. OPEC members can increase their oil production by over 5 per cent and still maintain an average price of $22 per barrel ($22/b) for 2000. Such a price level would finally be above the $21/b targeted by OPEC for several years, and more than 25 per cent higher than its $17.5/b annual average for 1999. Significantly higher oil revenues are expected in 2000 in the region, with some countries also receiving much higher revenues from the sale of gas and petrochemicals.

Labour market conditions in the region differ markedly between the GCC countries and the countries with more diversified economies. The labour market conditions for GCC nationals will improve significantly in 2000. Higher government expenditures, faster economic growth, a rise in the inflow of FDI, and the continued application of the labour force indigenization policy (the replacement of expatriate workers with local labour) will collectively enhance employment opportunities for job-seeking GCC nationals. Even with the continuation of the indigenization policy, the total number of expatriate workers may not decline in 2000 in the GCC countries, as it did during the 1998-1999 period, owing to the higher economic growth and greatly improved financial conditions and economic outlook. Meanwhile, employment conditions in most of the countries with more diversified economies in the region are not expected to improve much in 2000. Although some employment opportunities are expected to arise abroad, they will be relatively limited. Given the current labour surplus, labour market conditions will improve and employment opportunities will increase significantly in these countries only when average annual GDP growth rates reach 5 per cent.

Inflation rates for most ESCWA members are expected to remain under control in 2000 as Governments maintain generally prudent monetary and fiscal policies. However, some imported inflation can be expected owing to higher prices for imports from East Asian countries, whose respective currencies will continue to appreciate as they recover from the sharp depreciation in 1997 and 1998. The fiscal positions of the GCC countries are expected to improve again next year, and most of the Governments in this group will be able to achieve their stated target of a balanced budget by 2000. This is likely to take place despite substantial increases in government expenditures, thanks to the even higher projected increases in oil and other revenues. Budget deficits as a percentage of GDP will decline and/or remain low among the ESCWA members with more diversified economies. With the exception of Lebanon, whose budget deficit as a percentage of GDP is projected to fall to 12.2 per cent in 2000, the ESCWA members are projected to record budget deficit to GDP ratios of below 3 per cent. Lebanon is aiming to lower its deficit to GDP ratio to 5 per cent by 2003.

The region's external sector performance is expected to improve, albeit with major differences between the GCC countries and other ESCWA members. Substantial improvement is predicted for the external sector of the GCC countries in 2000. Although imports are projected to increase significantly next year, they will be greatly outpaced by sharply higher exports, in particular oil, gas and petrochemicals. Balance-of-trade surpluses will widen in all GCC countries, and current accounts are forecast to show a surplus in most countries in this group. For several of the countries with more diversified economies, the balance-of-trade gaps will remain wide despite rising exports and falling imports. Current account positions will be notably enhanced by higher projected tourism revenues and expatriate remittances, particularly in Egypt, Jordan, Lebanon and the Syrian Arab Republic.

Preliminary overview of 1999

Economic growth accelerated in the region in 1999, specifically during the second half of the year. Preliminary estimates indicate that the combined real GDP of the ESCWA members, excluding Iraq, grew by a rate of 2.8 per cent in 1999. Given that the region's annual population growth rate stood at around 2.5 per cent, real GDP per capita increased slightly in 1999. The 2.8 per cent growth rate in 1999 was higher than the rate of 1.9 per cent registered in 1998 but lower than the 3.4 per cent real GDP growth achieved by the region in 1997.

Real GDP growth rates differed significantly between the GCC countries and the countries with more diversified economies, and among the countries of each group. Preliminary estimates indicate that in 1999 the combined real GDP growth rate for the GCC countries as a group was 2.2 per cent, while the countries with more diversified economies achieved a 4.1 per cent growth rate.

The factor that enhanced economic growth most in 1999 and greatly improved the outlook for the year 2000 for the majority of ESCWA members was the sharp rebound in oil prices and revenues, which began in March and continued through the end of 1999. This was particularly true for the GCC countries, where oil accounts for over 35 per cent of GDP, 75 per cent of government revenues and 85 per cent of exports.

Along with the higher oil prices and revenues, the most important factors affecting economic growth in the GCC countries in 1999 included oil production cutbacks, fiscal and monetary policies, and economic diversification and reform. All GCC countries benefited considerably from higher oil prices and revenues. Most GCC countries reduced their oil production, some by around 9 per cent; two maintained their oil production at around 1998 levels. While some countries quickly raised government expenditures at the first sign of higher oil prices and revenues, others were more cautious and increased government spending only late in the year. Since most of the currencies of GCC countries are pegged to the United States dollar, generally tight and prudent monetary policies were pursued in view of the higher interest rates in the United States of America. Those GCC countries that were more diversified and had already implemented notable economic and structural reforms registered the highest rate of economic growth within the GCC group in 1999.

For the ESCWA members with more diversified economies, excluding Iraq, preliminary estimates indicate that combined real GDP grew by 4.1 per cent in 1999, a rate slightly higher than the 3.7 per cent registered in 1998. However, real GDP growth rates for 1999 differed widely among the members of this group. Egypt, Yemen, and the West Bank and Gaza Strip are estimated to have achieved real GDP growth rates of 3.5 per cent or higher; however, Jordan, Lebanon and the Syrian Arab Republic are estimated to have witnessed real GDP growth rates of 1 per cent or lower.

Developments in the international oil market have considerable economic implications for the region. Ten of the thirteen ESCWA members are oil-exporting countries. Changes in oil prices and revenues greatly affect government revenues and expenditures, budget deficits, exports, economic growth, employment opportunities, intraregional aid and trade, and expatriate remittances. In 1999, oil prices and revenues rebounded sharply from the depressed levels of 1998. The annual average price of the OPEC crude oil basket is estimated at $17.48/b for 1999, which is about $5/b higher than the average for the preceding year, representing an increase of over 40 per cent. Oil production in the region averaged 17.7 million barrels per day (b/d) in 1999, a decline of about 3.8 per cent from the 18.4 million b/d produced in 1998. Preliminary estimates indicate that the region's oil revenues totalled $95.3 billion in 1999, a 37.7 per cent increase over the 1998 level of $69.2 billion. Despite the major increase in 1999, oil revenues remained $1 billion and $3.8 billion below their 1996 and 1997 levels, respectively. Nevertheless, higher oil revenues in 1999 greatly improved the trade and fiscal positions of many ESCWA members, in particular the GCC countries.

Labour market conditions remained generally unfavourable for job seekers in most of the countries with more diversified economies in 1999. Most countries in the region have fairly high population growth rates and significantly higher labour supply growth rates. Economic growth was at best sluggish in Jordan, Lebanon and the Syrian Arab Republic; hence, it is estimated that only negligible improvements took place in their respective domestic labour markets, despite the fact that some employment opportunities arose abroad during the latter part of the year.

In the GCC countries the indigenization of the labour force has been a declared policy for many years, but it was enforced far more strictly in 1998, a year during which financial and economic conditions deteriorated abruptly and the number of GCC nationals seeking employment opportunities continued to rise rapidly. The intensity of the Governments' efforts to replace expatriate workers with citizens seeking employment lost little steam in 1999, despite improving economic and financial conditions.

Inflation has been tamed in the region. Preliminary estimates indicate that most ESCWA members had inflation rates of 2.3 per cent or lower in 1999. Both the GCC countries and the ESCWA members with more diversified economies were able to keep inflation under control.

In 1999, budget deficits as a percentage of GDP decreased in most countries of the region to around 3 per cent or below. The largest declines were registered in the GCC countries, which had based their respective 1999 budgets on the assumption that oil prices would average around $11/b in 1999. Of the six GCC countries, only Saudi Arabia and the United Arab Emirates had projected deficits below 10 per cent of GDP. By far the largest such deficit (22 per cent of GDP) had been projected by Kuwait. The turn-around in oil prices, and hence revenues, starting in March 1999 completely altered the fiscal conditions and general economic outlook in the GCC countries.

The performance of the region's external sector improved drastically in 1999 compared with 1998, owing mainly to sharply higher oil prices. Despite reductions in the volume of oil exported by the GCC countries, the total value of these exports increased substantially owing to the 41 per cent rise in oil prices. Given the dominant share of oil in the external sector, total exports of the GCC countries increased markedly in 1999. All of the countries in this group had surpluses in their respective trade balances, and their current account positions were significantly better than they had been in 1998. The ESCWA members with more diversified economies, with the exception of Iraq usually have large balance-of-trade deficits and depend primarily on expatriate remittances from their workers abroad as well as tourism revenues to improve their current account position. This remained true in 1999, though Jordan, Lebanon and the Syrian Arab Republic were also able to reduce their balance-of-trade deficits considerably from those recorded the preceding year.

PRELIMINARY OVERVIEW OF ECONOMIC DEVELOPMENTS IN THE ESCWA REGION IN 1999

A. ECONOMIC GROWTH

Economic growth accelerated in the region in 1999, specifically during the second half of the year. Preliminary estimates indicate that the combined real GDP of the ESCWA members, excluding Iraq, grew by a rate of 2.8 per cent in 1999. Given that the region's annual population growth rate is around 2.5 per cent, real GDP per capita increased slightly in 1999. The 2.8 per cent growth rate in 1999 was higher than the rate of 1.9 per cent registered in 1998 but lower than the 3.4 per cent real GDP growth achieved by the region in 1997 (see table 1 and chart I).

Real GDP growth rates differed significantly between the GCC countries and the countries with more diversified economies, and among the countries of each group. Preliminary estimates indicate that in 1999 the combined real GDP growth rate for the GCC countries as a group was 2.2 per cent,[4] while the countries with more diversified economies achieved a 4.1 per cent growth rate.

The factor that enhanced economic growth most in 1999 and greatly improved the outlook for the year 2000 for the majority of ESCWA members was the sharp rebound in oil prices and revenues, which started in March and continued through the end of 1999. This is especially true for the GCC countries, where oil accounts for over 35 per cent of GDP, 75 per cent of government revenues and 85 per cent of exports.

Along with the higher oil prices and revenues, the most important factors affecting economic growth in the GCC countries in 1999 included oil production cutbacks, fiscal and monetary policies, and economic diversification and reform. All GCC countries benefited considerably from higher oil prices and revenues. Most GCC countries reduced their oil production, some by around 9 per cent; two maintained their oil production at close to 1998 levels. While some countries quickly raised government expenditures at the first sign of higher oil prices and revenues, others were more cautious and increased government spending only late in the year. Since most of the currencies of GCC countries are pegged to the United States dollar, generally tight and prudent monetary policies were pursued in view of the higher interest rates in the United States. Those GCC countries that were more diversified and had already implemented notable economic and structural reforms registered the highest rate of growth within this group in 1999.

Preliminary estimates indicate that among the GCC countries, the highest growth rates in 1999 were registered in the United Arab Emirates, Oman and Bahrain, and the lowest rates in Kuwait and Qatar.

Official government figures indicate that in the United Arab Emirates the non-oil sectors registered 4.7 per cent real growth in 1998, which partly offset the decline in the oil sector that year. This growth occurred because the Government was able to maintain its expenditures as planned, despite the then tumbling oil prices and revenues, by drawing on its earnings from its overseas investments, which are estimated at more than $120 billion. In 1999, the country reduced its oil production by almost 9 per cent in comparison with its 1998 level. Preliminary estimates indicate that the United Arab Emirates registered a real growth rate of 4 per cent in 1999.

Oman's real GDP is estimated to have increased by 3.7 per cent in 1999, up from the provisionally estimated growth rate of 2.9 per cent in 1998. Being a non-member of OPEC, Oman reduced its oil production only marginally in 1999. The Sultanate also benefited from the economic and structural reforms it had undertaken in previous years. In addition, the agriculture and services sectors performed well in 1999.

According to official provisional estimates issued by the Government, real GDP grew by 4.8 per cent in Bahrain in 1998, and preliminary estimates place GDP growth at 3.2 per cent in 1999. Bahrain, also a non-member of OPEC, did not curtail its oil production in 1999. State expenditures on planned projects continued,

[4] At the time this report was drafted (late November 1999), real GDP growth rate figures for 1998 were made available to ESCWA only by the Governments of Bahrain and Oman among the GCC countries. Thus, for most of the GCC countries, real GDP growth rate figures are to be regarded as preliminary estimates for both 1998 and 1999.

accelerating during the year as the Government concentrated on promoting economic growth and creating job opportunities for its national labour force. The tourism and banking sectors performed well, particularly during the second half of 1999.

Preliminary estimates indicate that Saudi Arabia's real GDP grew by a meagre 0.5 per cent in 1998 and by 1.8 per cent in 1999. This improvement is primarily due to the considerable increase in government expenditures and investment by the private sector as a result of the

TABLE 1. REAL GDP AND GROWTH RATES FOR ESCWA MEMBERS AT CONSTANT 1996 PRICES, 1997-2000
(Millions of US dollars and percentages)

						Percentage change			
Country/area	1996	1997	1998	1999[a]	2000[b]	1997	1998	1999[a]	2000[b]
Bahrain	6101.9	6291.1	6593.0	6804.0	7028.5	3.10	**4.80**	3.20	3.30
Kuwait	30654.3	31512.6	30945.4	31100.1	31908.7	2.80	(1.80)[a]	0.50	2.60
Oman	15277.8	16255.6	16727.0	17345.9	18126.5	6.40	**2.90**	3.70	4.50
Qatar	9059.3	10010.5	10260.8	10394.2	10830.7	10.50	2.50[a]	1.30	4.20
Saudi Arabia	141321.8	145137.5	145863.2	148488.7	153834.3	2.70	0.50[a]	1.80	3.60
United Arab Emirates	47993.5	48929.4	50397.3	52413.1	54876.6	1.95	3.00[a]	4.00	4.70
GCC countries	250408.6	258136.6	260786.6	266546.1	276605.3	3.09	1.03	2.21	3.77
Egypt[c]	67591.5	71173.8	74732.5	79216.5	84127.9	5.30	5.00	6.00	6.20
Jordan	6644.4	6730.8	6771.2	6838.9	6955.1	1.30	0.60	1.00	1.70
Lebanon	12996.0	13450.9	13854.4	13965.2	14216.6	3.50	3.00	0.80	1.80
Syrian Arab Republic	21862.6	22144.6	22366.1	22477.9	22927.5	1.29	1.00	0.50	2.00
Yemen	6958.5	7319.6	7551.7	7868.8	8222.9	5.19	3.17	4.20	4.50
West Bank and Gaza Strip	3896.0	3942.8	4061.0	4203.2	4371.3	1.20	3.00	3.50	4.00
More diversified economies[d]	119949.0	124762.5	129336.9	134570.5	140821.4	4.01	3.67	4.05	4.65
ESCWA region[d]	370357.6	382899.2	390123.5	401116.6	417426.7	3.39	1.89	2.82	4.07

Source: ESCWA, based on national and international sources.

Note: Figures in boldface type are official provisional estimates.

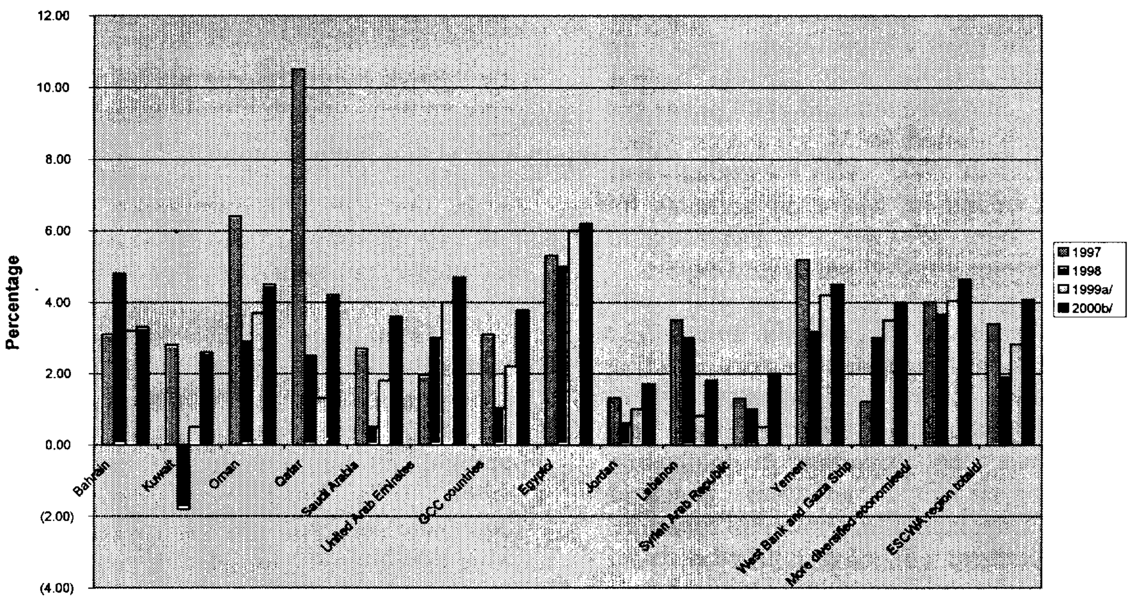
[a] Preliminary estimates.

[b] Projections.

[c] Fiscal year for Egypt starts 1 July and ends 30 June. Official figures for fiscal years 1997/98 and 1998/99 indicate real GDP growth of 6 and 6.8 per cent respectively.

[d] Excluding Iraq owing to the unavailability of reliable data.

Chart 1. Real GDP growth in the ESCWA region, 1997-2000



Note: Chart is based on figures in table 1 of the present publication.

[a] Preliminary estimates.

[b] Projections.

[c] Fiscal year for Egypt starts 1 July and ends 30 June. Official figures for fiscal year 1997/98 indicate real GDP growth of 6 and 6.8 per cent respectively.

[d] Excluding Iraq owing to the unavailability of reliable data.

sharp rise in oil prices and revenues. Non-oil sectors achieved relatively high growth rates in 1999 since they are directly and indirectly affected by higher oil revenues. The construction, real estate, banking, trade and services sectors are all estimated to have registered growth rates above 5 per cent. Real growth in the non-oil sector, which now accounts for 64 per cent of GDP, is estimated to have more than offset the 4.7 per cent decline in oil production and reductions in capital spending in the energy sector. Furthermore, in the second half of 1999 the Saudi Government announced a package of legal measures aimed at encouraging foreign investment in the country. The new legislation allows foreign investors to own property in the Kingdom. It also amends the system of local sponsorship of foreigners involved in business enterprises in Saudi Arabia. Non-Saudi Arabians, including expatriate workers, will be allowed to invest in the local stock market through the 12 established mutual funds. In addition, the Government is reviewing a new investment law aimed at reducing the obstacles faced by foreign investors, improving labour regulations, and possibly allowing foreign investors to acquire up to 75 per cent ownership in joint ventures in the Kingdom.

Preliminary estimates indicate that Qatar's real GDP grew by 1.3 per cent in 1999, after having grown by an estimated 2.5 per cent the preceding year. Qatar's oil production was 6.6 per cent lower in 1999 than in 1998. The Government maintained its austere spending plans for 1999, which hampered higher growth in the non-oil sectors. Moreover, the exodus of expatriates[5] from the country continued to depress overall market activity, particularly in the real estate, trade and services sectors.

According to preliminary estimates, Kuwait had a negative growth rate of 1.8 per cent in 1998 and a positive, though low, growth rate of 0.5 per cent in 1999. The country cut its oil production by 8.4 per cent in 1999 and was slow to increase government expenditures after oil revenues rebounded sharply from their depressed levels of 1998. The departure of expatriates during the first half of 1999 resulted in a decline in the total labour force in Kuwait by an annualized rate of 0.6 per cent, which also adversely affected economic growth in the country.

Preliminary estimates for the ESCWA members with more diversified economies, excluding Iraq, indicate that their combined real GDP grew by 4.1 per cent in 1999, a slightly higher rate than the 3.7 per cent registered in 1998. However, the rates of real GDP growth achieved in 1999 differed widely among the six members of this group: Egypt, Yemen, and the West Bank and Gaza Strip are estimated to have achieved real GDP growth rates of 3.5 per cent or higher, while Jordan, Lebanon and the Syrian Arab Republic are estimated to have witnessed real GDP growth rates of 1 per cent or lower.

Preliminary estimates indicate that Egypt's real GDP grew by 6 per cent in 1999. This is the highest rate not only among the countries with more diversified economies but within the region as a whole. Furthermore, Egypt's GDP growth rate in 1999 was higher than the rates of 5.3 and 5 per cent registered for the country in 1997 and 1998, respectively. Egypt's economy continued to perform well, mainly as a result of the economic reform and structural adjustment programme it had been implementing with great success since 1991 under the auspices of the International Monetary Fund (IMF) and the World Bank. One of the distinctive aspects of the economic reform experience in Egypt is that it has been very successful in achieving its goals without major adverse social effects, since it has been accompanied by social safety nets that have helped the vulnerable groups. Egypt's privatization programme is generally regarded as one of the most successful in the world. In 1993, there were 303 public sector companies; by September 1999 there were only 163, as 140 companies had been partially or totally privatized. The revenues from the sale of these companies totalled 11.5 billion Egyptian pounds (LE), even though their combined book value was only LE 3 billion. In 1993, 182 of the 303 public sector companies, or 60 per cent, were making a profit; that proportion has risen to 89 per cent, as 145 of the remaining 163 public sector companies currently show a profit. Furthermore, Egypt has been successful in attracting major foreign strategic investors such as Alcoa, Nestlé, Daewoo and Alcatel, to name but a few. FDI inward stock increased from $2.3 billion in 1980 to $11 billion in 1990, reaching $16.7 billion in 1998 after rising by $1.1 billion from its 1997 level. FDI inflow is expected to have doubled in 1999 to amount to around $2 billion. Government officials indicate

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[5] Expatriates account for 75 per cent of Qatar's population, and an estimated 75,000 of them left the country during the period 1998-1999.

that the returns on FDI in Egypt are considerably higher than the world average of 12 per cent. With its greater efficiency in production, surge in FDI inflows, booming tourism and rejuvenated private sector, Egypt was able to achieve a real GDP growth rate that was close to triple its annual population growth rate of about 2.1 per cent. Nevertheless, even higher GDP growth would have been registered if Egypt's banking sector were more efficient. There are many banks in Egypt, but owing to the fragmentation of the banking sector, banking services are inadequate. The sector must consolidate in order to contribute more to Egypt's economic growth and enhance its competitiveness in what is rapidly becoming a globalized world economy.

The real GDP of Yemen and that of the West Bank and Gaza Strip grew at faster rates in 1999 than in 1998. Yemen's real GDP growth rate rose from 3.2 to 4.2 per cent, mainly owing to the performance of the country's oil sector, which witnessed a 5 per cent increase in oil production and a sharp rise in prices. Higher oil revenues allowed the Government to increase its expenditures, which helped accelerate growth in the non-oil sectors. Several attacks on tourists adversely affected both the tourism sector and the inflow of foreign direct investment and dampened prospects for higher growth in 1999. In the West Bank and Gaza Strip real GDP is estimated to have grown by rates of 3 per cent in 1998 and 3.5 per cent in 1999. The economy benefited in 1999 from the services of the international airport in the Gaza Strip and from the major work done on the Gaza port. Nevertheless, the biggest boost to the economy of the West Bank and Gaza Strip came from surging tourism and from soft loans for economic development provided by the World Bank and several donor countries.

Jordan's real GDP is estimated to have grown by a meagre 0.6 per cent in 1998, and preliminary estimates indicate that the Kingdom's real GDP grew by 1 per cent in 1999. There has been a notable increase in private investment and higher growth in the services sector, particularly in tourism. The Government accelerated economic reforms as it enhanced its chances of joining the World Trade Organization (WTO) by February 2000 at the latest. However, the decline in agricultural output, caused by water shortages, negated most of the growth achieved in other sectors. In addition, relatively high interest rates continued to adversely affect the construction and real estate sectors in particular.

Lebanon's real GDP growth declined from 3.5 per cent in 1997 to 3 per cent in 1998, and slowed further to 0.8 per cent (a preliminary estimate) in 1999. The crisis in the construction sector continued in 1999, sustained mostly by high interest rates. The banking sector witnessed a slowdown in its activity in 1999 compared with 1998, manifested in the declines in annual growth rates of deposits, loans and total balance sheets. The tourism sector continued to perform well, however, with the number of visitors increasing by about 15 per cent in comparison with the 1998 level. It should be noted that since 1995 the Lebanese economy has suffered from a crisis in the real estate sector, a shortage of investment in the manufacturing sector, and excessive investment in Treasury bills owing primarily to the exceedingly high interest rates on the Lebanese pound. Interest rates on two-year Treasury bills fell from 16 to 14 per cent during the first 11 months of 1999. Nevertheless, the interest rate is still considered too high and should be reduced a lot further in order to decrease the country's debt-service burden and stimulate the economy. This is particularly important now, as the Government is raising taxes and curtailing its expenditures in an effort to reduce its budget deficit as a percentage of GDP and is struggling to service a total public debt that passed the $20 billion mark during the latter part of 1999. The Government of Lebanon declared that it would endeavour to achieve an annual GDP growth rate of 3 to 5 per cent during the coming five years. To realize this goal, the Government must adopt measures that encourage private investment, both Lebanese and foreign; accelerate economic and administrative reforms; and launch the privatization process as soon as possible.

Preliminary estimates indicate that in the Syrian Arab Republic real GDP grew by 1 per cent in 1998 but only 0.5 per cent in 1999. The country's agricultural output declined considerably in 1999, mainly owing to the 60 per cent drop in rainfall during the year in comparison with past annual averages. The agricultural sector is a major contributor to the country's economy. While the oil sector performed well, the surge in oil revenues apparently delayed the implementation of much-needed major economic reform and structural adjustment measures.

Economic growth is estimated to have increased in Iraq owing mainly to the effects of significantly higher oil revenues. Nevertheless, since the economic sanctions imposed by the

United Nations on Iraq not only restrict the country's trading activities and capital movement but also deny the Government of Iraq control over the country's oil revenues, economic conditions remained very poor.

B. A SHARP REBOUND IN OIL PRICES AND REVENUES

Developments in the international oil market have considerable economic implications for the region. Of the 13 ESCWA members, 10 are oil-exporting countries. Changes in oil prices and revenues greatly affect government revenues and expenditures, budget deficits, exports, economic growth, employment opportunities, intraregional aid and trade, and expatriate remittances. In 1999, oil prices and revenues rebounded sharply from the depressed levels of 1998. The main factor contributing to this major turn-around was the OPEC members' decision to curtail their oil production by 1.7 million b/d for a 12-month period starting 1 April 1999. This major cutback was accompanied by a reduction in production by non-members of OPEC by a total of 400,000 billion b/d, and by a jump in oil demand owing mainly to the economic recovery in East Asia and Latin America.

The annual average price of the OPEC crude oil basket is estimated at $17.48/b for 1999, which is about $5/b higher than the average for the preceding year, representing an increase of over 40 per cent (see table 2). The OPEC oil price averaged below $10/b in February 1999, before beginning its rise in March and continuing its upward trend throughout the rest of the year. It should be noted that oil prices have fluctuated sharply over the years; they were 33.6 per cent lower in 1998 than in 1997, and even in 1999, despite their sharp rebound, they remained below the 1997 level of $18.68/b. The sharp fluctuations in oil prices in recent years are shown in charts II and III.

Oil production in the region averaged 17.7 million b/d in 1999, a decline of about 3.8 per cent in comparison with the 18.4 million b/d produced in 1998. Among the ESCWA members, the largest percentage decreases in oil production were registered in Kuwait and the United Arab Emirates, which had production levels that were

TABLE 2. AVERAGE OPEC BASKET CRUDE OIL PRICE, 1996-2000
(US dollars per barrel)

	OPEC basket price
1996	20.29
1997	18.68
1998	12.41
1999[a]	17.48
2000[b]	23.00
Percentage change 1998-1999	40.87
January-1998	14.42
February-1998	13.45
March-1998	12.41
April-1998	12.76
May-1998	13.14
June-1998	11.67
July-1998	12.04
August-1998	12.84
September-1998	12.91
October-1998	12.41
November-1998	11.19
December-1998	9.69
January-1999	10.74
February-1999	9.96
March-1999	12.27
April-1999	15.00
May-1999	15.48
June-1999	15.61
July-1999	18.28
August-1999	19.66
September-1999	22.17
October-1999	21.63
November-1999[a]	23.50
December-1999[a]	25.50

[a] ESCWA estimates.
[b] ESCWA forecast.

Chart II. OPEC basket monthly prices, January 1998 - December 1999

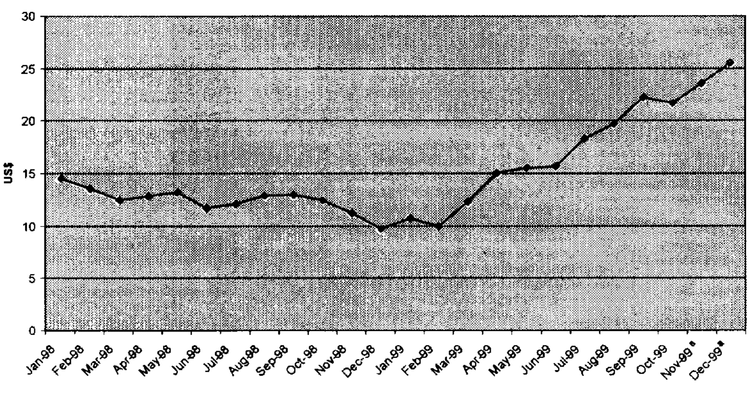
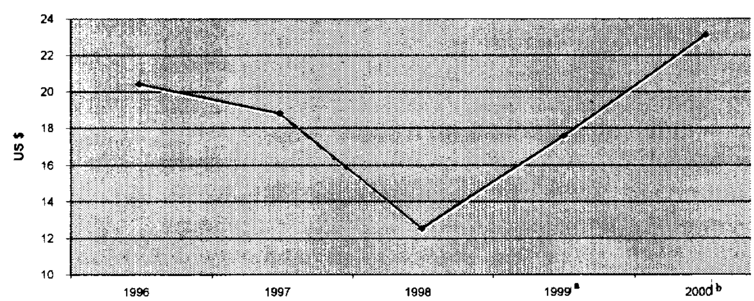


Chart III. OPEC basket annual prices, 1996-2000



Note: Charts II and III are based on figures in table 2 of the present publication.
[a] ESCWA estimates.
[b] ESCWA forecast.

about 8 or 9 per cent below their respective 1998 levels. Oil production was increased by some other ESCWA members, however, most notably Iraq, which produced an average of 2.7 million b/d, a figure more than 25 per cent higher than the 2.1 million b/d recorded for 1998. It may be noted here that because of their general adherence to the cutbacks agreed upon within OPEC, Saudi Arabia, Kuwait and the United Arab Emirates are currently left with idle oil production capacities estimated at 3 million b/d, 650,000 b/d and 500,000 b/d, respectively.

Preliminary estimates indicate that the region's oil revenues totalled $95.3 billion in 1999, a 37.7 per cent increase over the 1998 level of $69.2 billion (see table 3 and chart IV). Despite the major increase in 1999, oil revenues remained $1 billion and $3.8 billion below their levels in 1996 and 1997 respectively. Nevertheless, higher oil revenues in 1999 greatly improved the trade and fiscal positions of many ESCWA members, in particular the GCC countries.

TABLE 3. OIL REVENUES IN THE ESCWA REGION, 1994-1999
(Billions of US dollars)

Country/region	1994	1995	1996	1997	1998	1999[a]
Bahrain[b]	1.01	1.10	1.32	1.20	0.80	1.15
Kuwait[c]	10.46	12.05	14.13	13.47	8.39	10.83
Oman	4.23	4.75	5.88	5.78	3.71	5.22
Qatar	2.42	2.60	3.80	4.66	3.11	4.09
Saudi Arabia[c]	37.53	42.70	50.05	48.22	31.98	42.91
United Arab Emirates	12.30	13.35	14.98	15.27	10.26	13.16
GCC countries	67.95	76.55	90.16	88.60	58.25	77.36
Egypt	1.29	1.22	1.63	1.72	1.26	1.81
Iraq	0.37	0.37	0.38	4.59	6.79	12.02
Syrian Arab Republic	1.81	1.90	2.31	1.97	1.32	1.80
Yemen	1.54	1.40	1.80	2.19	1.53	2.26
More diversified economies	5.01	4.89	6.12	10.47	10.90	17.90
ESCWA region	72.96	81.44	96.28	99.07	69.15	95.26

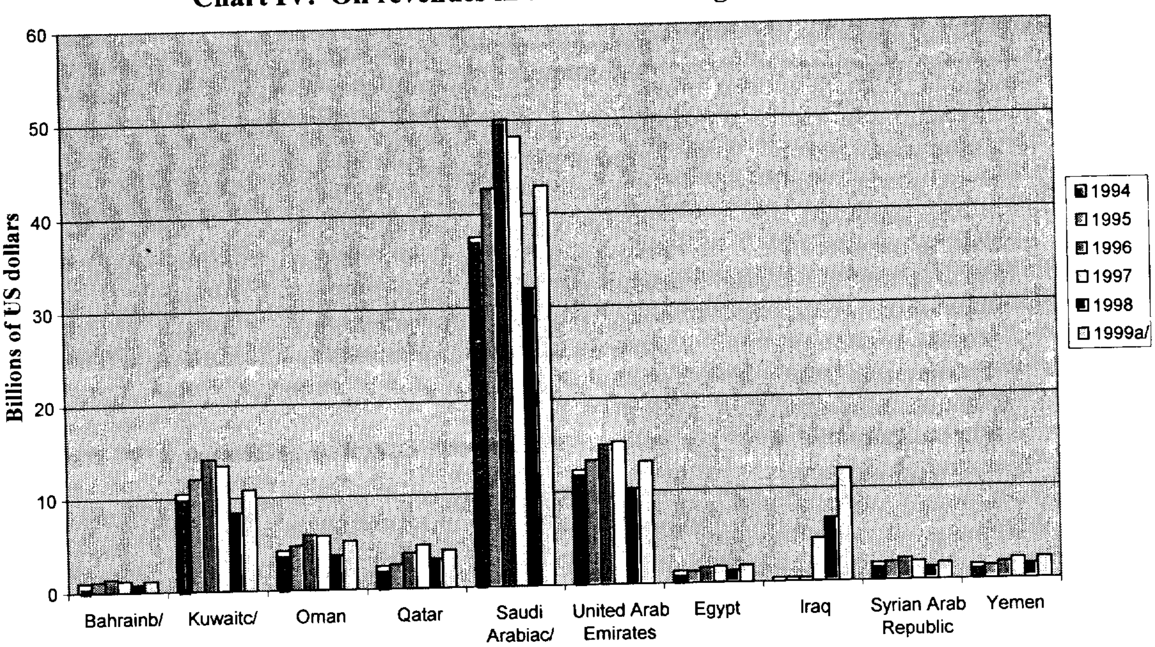
Source: ESCWA, based on national and international sources.

[a] Preliminary estimates.

[b] Includes Bahrain's share of the Abu Safa oilfield (100,000 b/d for 1995 and 140,000 b/d starting April 1996).

[c] Includes a 50 per cent share of the Neutral Zone.

Chart IV. Oil revenues in the ESCWA region, 1994-1999



Note: Chart is based on the figures in table 3 of the present publication.

[a] Preliminary estimates.

[b] Includes Bahrain's share of the Abu Safa oilfield (100,000 b/d for 1995 and 140,000 b/d starting April 1996).

[c] Includes a 50 per cent share of the Neutral Zone.

C. LABOUR MARKET DEVELOPMENTS

Labour market conditions remained generally unfavourable for job seekers in most of the countries with more diversified economies in 1999. Most countries in the region have fairly high population growth rates and significantly higher labour supply growth rates. The participation rate of women in the labour force, though rising, remains relatively low in the countries of the region. Figures indicating the share of women in the labour force in Egypt, Jordan, Lebanon, the Syrian Arab Republic and Yemen range between 21 and 30 per cent. For the rest of the ESCWA members that share is even lower, ranging between 11 and 20 per cent. Economic growth was at best sluggish in Jordan, Lebanon and the Syrian Arab Republic; hence, it is estimated that only negligible improvements took place in the domestic labour markets, despite the fact that some employment opportunities arose abroad during the latter part of the year.

In Egypt, however, economic reforms, gigantic development projects in the Sinai Peninsula and the New Valley, surging foreign direct investment and the booming tourism sector are believed to have contributed greatly to pushing the country's unemployment rate lower in 1999. Official government figures indicate that the unemployment rate in Egypt peaked at 10.4 per cent in 1993, partly owing to the return of expatriate workers as a result of the Gulf war, but declined every year thereafter. Egypt's unemployment rate dropped to 9.8 per cent in 1994, 9.6 per cent in 1995, 9.2 per cent in 1996, 8.8 per cent in 1997 and 8.3 per cent in 1998, and is estimated to have declined further, to 7.9 per cent, in 1999. It should be noted that other sources, including the International Labour Organization (ILO), estimate unemployment rates to be around 50 per cent higher than official government figures. Nevertheless, it is agreed by most analysts that Egypt's annual unemployment rate is falling. This in itself may be considered a major achievement for a country that has to create an additional 450,000 jobs for new entrants to the labour market every year.

Labour market conditions are believed to have improved in Yemen and the West Bank and Gaza Strip in 1999, compared with the preceding year. Both benefited from an acceleration in economic growth. Nevertheless, given their relatively high population growth rates of 3.5 per cent and significantly higher labour supply growth, improvements in labour market conditions are believed to have been limited.

In the GCC countries the labour market is of a different nature: expatriate workers account for the dominant share of the total labour force. Expatriate workers have contributed substantially to the economic growth and development of all GCC countries for the past three decades. However, since they were not permitted to own real estate or undertake major investments, expatriates had no choice but to remit the bulk of their earnings to their respective home countries or elsewhere.

The indigenization of the labour force has been a declared policy in the GCC countries for many years, but it was enforced far more strictly in 1998, a year during which financial and economic conditions deteriorated abruptly and the number of GCC nationals seeking employment opportunities continued to rise rapidly. The intensity of the Governments' efforts to replace expatriate workers with citizens seeking employment did not diminish in 1999, despite improving economic and financial conditions.

In Bahrain, 62 per cent of the total labour force were expatriates in 1998. This share represents the lowest proportion among the GCC countries but is still considered high in comparison with most other countries in the world. In both 1998 and 1999, the Government maintained the highest public expenditure levels the economy could sustain in order to provide greater employment opportunities for citizens. In addition, the Bahrainization policy continued.

In Kuwait, the Government issued a decree imposing a ceiling on the number of expatriate workers Kuwaiti employers could hire. The law calls for increasing the share of Kuwaitis employed in the private sector from the current 1.5 per cent to 5 per cent of the private sector labour force. The decree also provides for the payment of social and child allowances to Kuwaitis working in the private sector, similar to those provided to nationals employed in the public sector. In addition, private sector companies employing more citizens are promised preference in tendering for government projects. During the first half of 1999, the labour force in Kuwait totalled 1.25 million, which represented a decrease of 0.6 per cent in annualized terms. This reduction in the size of the total labour force took place despite the 5.8 per cent rise in the number of employed Kuwaitis, owing to the 1.9 per cent drop in the number of expatriate workers. In the public sector, which contains more than 90 per cent of employed Kuwaitis, the labour force grew by an annualized rate of 5.7 per cent, with 5,543 new labour market entrants absorbed during the first six months of the year. This indicates that the pressure on the Government to limit new hiring is not having the desired effect; in any case, the increase was made possible by the unexpected sharp rise in government revenues.

In Oman, the total expatriate labour force declined from 493,847 in 1997 to 482,527 in 1998, or by 2.3 per cent. During the same period, the number of Omani citizens employed by the public sector increased by 2.6 per cent. The Omanization drive continued in 1999, and again proved most successful in the public sector and the banking and finance sector.

In Qatar, the policy of replacing expatriate workers with nationals continued. It is estimated that around 75,000 expatriates left Qatar during the two-year period 1998-1999.

In Saudi Arabia there are more than 6 million expatriate workers, who represented 70 per cent of the Kingdom's total labour force and 90 per cent of its private sector workforce. Among the top priorities included in Saudi Arabia's Seventh Development Plan (2000-2005), announced in August 1999, is the development of the Saudi Arabian labour force and the provision of employment opportunities for nationals. The new Economic Council plans to create jobs for nationals by encouraging foreign and domestic investment and by replacing expatriate workers with local citizens.

D. TAMED INFLATION

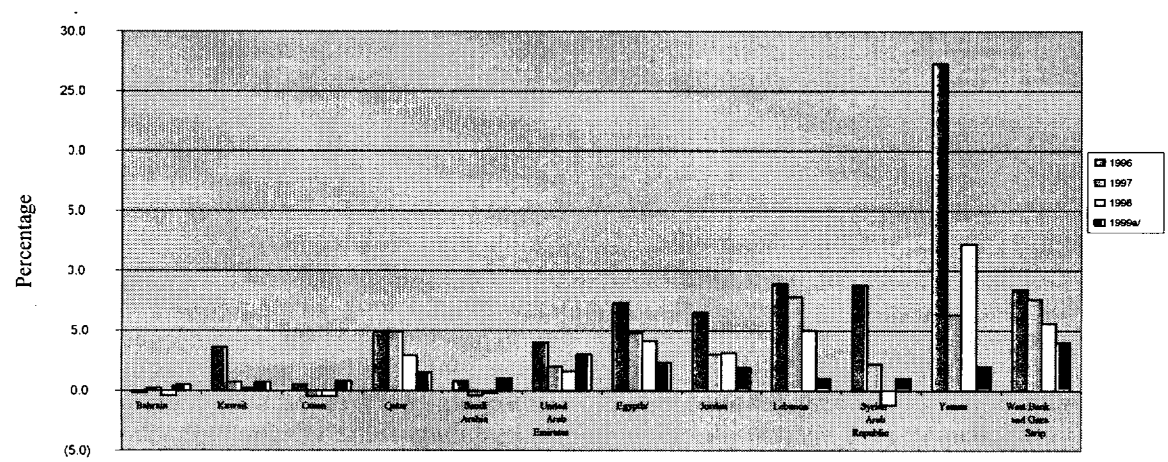
Inflation has been tamed in the region. Preliminary estimates indicate that most ESCWA members had inflation rates of 2.3 per cent or lower in 1999 (see table 4 and chart V). Both the GCC countries and the ESCWA members with more diversified economies were able to keep inflation under control.

TABLE 4. RATES OF INFLATION IN THE ESCWA REGION, 1996-1999
(Percentage)

Country	1996	1997	1998	1999[a]
GCC countries				
Bahrain	(0.2)	0.2	(0.4)	0.5
Kuwait	3.6	0.7	0.2	0.7
Oman	0.5	(0.5)	(0.5)	0.8
Qatar	4.9	4.9	2.9	1.5
Saudi Arabia	0.8	(0.4)	(0.2)	1.0
United Arab Emirates	4.0	2.0	1.6	3.0
More diversified economies[b]				
Egypt[c]	7.3	4.8	4.1	2.3
Jordan	6.5	3.0	3.1	1.9
Lebanon	8.9	7.8	5.0	1.0
Syrian Arab Republic	8.8	2.2	(1.2)	1.0
Yemen	27.3	6.3	12.2	2.0
West Bank and Gaza Strip	8.4	7.6	5.6[a]	4.0

Source: ESCWA, based on national and international sources.
Note: ( ) indicates inflation.
[a] Preliminary estimates.
[b] Excluding Iraq owing to the unavailability of reliable data.
[c] Fiscal year begins 1 July and ends 30 June the following year.

Chart V. Rates of inflation in the ESCWA region, 1996-1999



Note: Chart is based on the data in table 4 of the present publication.

[a] Preliminary estimates.
[b] Fiscal year begins 1 July and ends 30 June the following year.

Four of the GCC countries, namely Bahrain, Kuwait, Oman and Saudi Arabia, have had inflation rates of 1 per cent or lower during the past three years. Bahrain, Oman and Saudi Arabia even registered negative inflation (deflation) rates in 1998. However, preliminary estimates indicate that in 1999 inflation rates were marginally higher in four of the six GGC countries. Within the GCC group, inflation is estimated to have been highest in the United Arab Emirates, and Qatar is the only GCC country to have witnessed a decline from the previous year.

Since the currencies of all GCC countries are pegged to the United States dollar (with the exception of the Kuwaiti dinar, which is pegged to a basket of currencies dominated by the dollar), the monetary policies of the GCC countries were generally tight in 1999. Interest rates were raised in line with similar action taken by the monetary authorities in the United States. However, in all of the GCC countries, with the exception of Qatar, government expenditures were notably higher in 1999 than in 1998. Another factor pushing inflation rates upward in these countries was the partial removal of subsidies on goods and services provided by the Government.

Bahrain registered an inflation rate of 0.2 per cent in 1997 and a deflation rate of 0.4 per cent in 1998. Preliminary estimates indicate that Bahrain's inflation was 0.5 per cent in 1999, the lowest rate among all ESCWA members. Inflation rates in Kuwait were 0.7 per cent in 1997, 0.2 per cent in 1998 and, according to preliminary estimates, 0.7 per cent in 1999. Oman registered deflation rates of 0.5 per cent in both 1997 and 1998, but preliminary estimates show an inflation rate of 0.8 per cent in 1999. The inflation rate in Qatar was 4.9 per cent in both 1996 and 1997 but is estimated to have fallen to 2.9 per cent in 1998 and 1.5 per cent in 1999. Saudi Arabia had deflation rates of 0.4 per cent in 1997 and 0.2 per cent the following year; however, preliminary estimates indicate an inflation rate of 1 per cent in 1999. The United Arab Emirates had inflation rates of 2 per cent in 1997 and 1.6 per cent in 1998, and preliminary estimates show an increase to 3 per cent in 1999.

Preliminary estimates indicate that among the countries of the region with more diversified economies, Lebanon and the Syrian Arab Republic had the lowest inflation rate in 1999, put at 1 per cent. However, the inflation rate in Lebanon was lower than in 1998, while in the Syrian Arab Republic it was higher.

Lebanon's inflation rate fell from 8.9 per cent in 1996 to 7.8 per cent in 1997 and 5 per cent in 1998. The decline in the inflation rate in each of these years accompanied a decline in the country's real GDP growth rate. The trend continued in 1999: weak economic growth, accompanied by constrained government expenditures and tight monetary policies, adversely affected overall consumer demand and investment, bringing about a decline in the country's inflation rate.

In the Syrian Arab Republic, the inflation rate fell from 8.8 per cent in 1996 to 2.2 per cent in 1997, and a deflation rate of 1.2 per cent was recorded in 1998. Although economic activity remained sluggish in 1999, the severe drought experienced in the country sharply reduced output in the important agricultural sector, which pushed overall prices upward by 1 per cent.

Jordan's inflation rate was relatively low at 3 and 3.1 per cent in 1997 and 1998, respectively. It is estimated to have declined to 1.9 per cent in 1999 owing to conditions similar to those in Lebanon, including meagre GDP growth, constrained government expenditures and tight monetary policies. Jordan's inflation did not fall to an even lower level mainly because of higher agricultural commodity prices brought about by the drought.

Egypt's inflation rate fell from 7.3 per cent in 1996 to 4.8 per cent in 1997 and 4.1 per cent in 1998. The trend continued in 1999, with inflation estimated at 2.3 per cent. Prudent monetary and fiscal policies contributed to the declines in inflation rates in the country.[6]

The sharpest decline in inflation among ESCWA members in 1999 is estimated to have taken place in Yemen, where the inflation rate dropped from 12.2 per cent in 1998 to 2 per cent a year later, according to a preliminary estimate. A major factor contributing to this decline was the strengthening of the Yemeni rial in 1999, owing primarily to greatly higher oil revenues and a

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[6] Egypt's inflation rate was as high as 21 per cent in 1991, prior to the initiation of the economic reform and structural adjustment programme implemented under the auspices of the International Monetary Fund and the World Bank.

significant increase in foreign aid. In the West Bank and Gaza Strip, inflation declined from 7.6 per cent in 1997 to an estimated 5.6 and 4 per cent in 1998 and 1999, respectively.

E. DECLINES IN THE BUDGET DEFICIT AS A PERCENTAGE OF GDP

In 1999, budget deficits as a percentage of GDP declined in the region, especially in the GCC countries (see table 5 and chart VI). Most of the GCC members are major oil-exporting countries, and 1999 began amid some of the gloomiest fiscal conditions they had faced in more than a decade. The price of oil had fallen by 33.6 per cent during 1998 and stood at around \$10/b in December 1998 and \$11/b in January 1999—the lowest monthly averages recorded since July 1986. The outlook for 1999 was bleak. Austerity budgets were announced and planned capital expenditures were curtailed sharply.

Most GCC countries based their respective 1999 budgets on the assumption that oil prices would average around \$11/b in 1999. Of the six GCC countries, only Saudi Arabia and the United Arab Emirates had projected deficits below 10 per cent of GDP. By far the largest budget deficit (22

TABLE 5. BUDGET DEFICIT TO GDP RATIOS IN THE ESCWA REGION, 1997-1999
(*Percentage*)

Country	1997	1998	1999[a]
GCC countries			
Bahrain	0.1[b]	6.5	2.0
Kuwait[c]	11.5[b]	5.9	1.0
Oman	0.7	6.9	2.5
Qatar[d]	10.7	0.1	0.3
Saudi Arabia	2.9	9.4	2.8
United Arab Emirates	4.5	17.0	5.0
More diversified economies[e]			
Egypt[f]	0.9	1.0	1.3
Jordan	3.1	6.8	3.3
Lebanon	23.5	13.8	13.2
Yemen	1.1	7.7[a]	4.8
West Bank and Gaza Strip	0.4	0.8[a]	1.0

Source: ESCWA, based on national and international sources.

a Preliminary estimates.

b Indicates surplus.

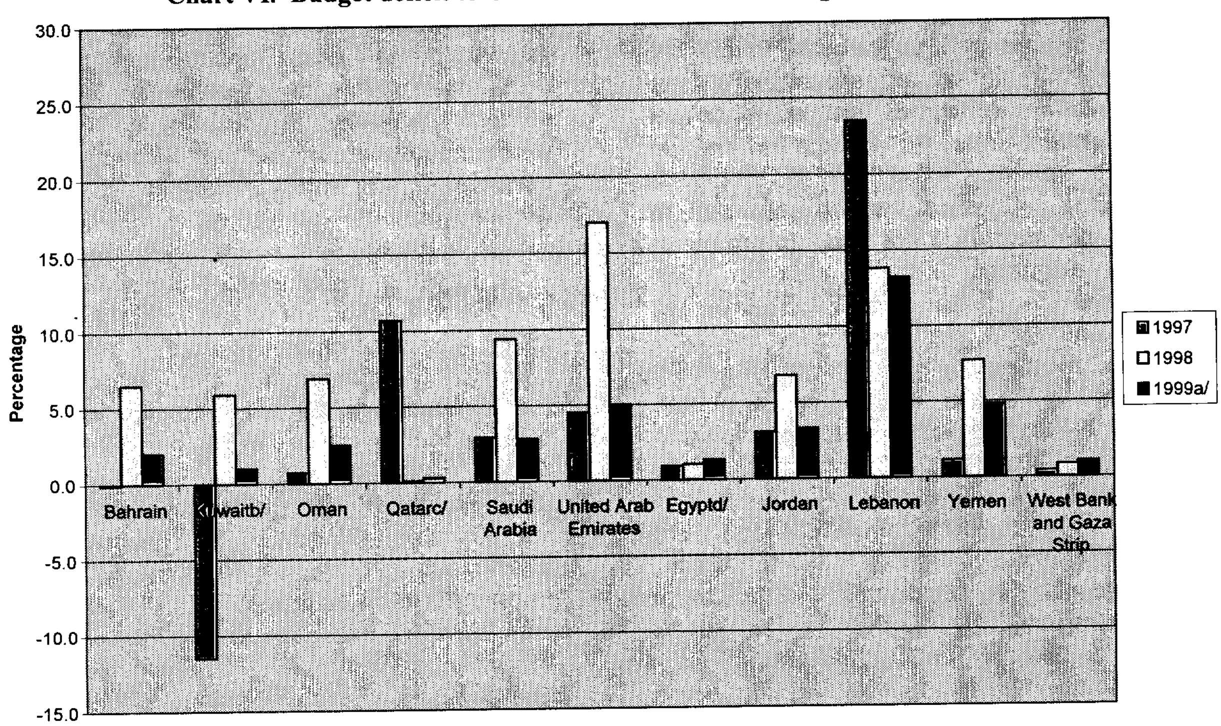
c Calculations based on the calendar year, given that official figures are based on the fiscal year 1 July to 30 June.

d Fiscal year begins 1 April and ends 31 March the following year.

e Excluding Iraq and the Syrian Arab Republic owing to the unavailability of reliable data.

f Fiscal year begins 1 July and ends 30 June the following year.

Chart VI. Budget deficit to GDP ratios in the ESCWA region, 1997-1999



Note: Chart is based on the figures supplied in table 5 of the present publication.

[a] Preliminary estimates.

[b] Calculations based on the calendar year, given that official figures are based on the fiscal year 1 July to 30 June.

[c] Fiscal year begins 1 April and ends 31 March the following year.

[d] Fiscal year begins 1 July and ends 30 June the following year.

per cent of GDP) had been projected by Kuwait. The turn-around in oil prices, and hence revenues, starting in March 1999 completely altered the fiscal conditions and general economic outlook in the GCC countries.

Bahrain had projected a budget deficit equivalent to 7 per cent of GDP for 1999. Owing to considerably higher oil revenues, and despite government expenditures above planned levels, preliminary estimates put the country's budget deficit at 2 per cent of GDP for 1999. This represents a marked improvement over the 6.5 per cent deficit to GDP ratio registered in 1998, and puts the country well on its way towards achieving a balanced budget in 2000.

Kuwait's gross budget deficit in the fiscal year ending 30 June 1999 was 1.522 billion Kuwaiti dinars (KD) (or $5.02 billion), about KD 640 million ($2.1 billion) below projections, mainly owing to higher-than-projected oil revenues. The gross deficit is calculated after 10 per cent of total revenues are deposited, as required by law, into a foreign investment fund created as a nest egg for future generations, when the country's vast oil reserves are depleted (the fund is currently valued at around $50 billion[7]). This measure inflates the deficit. In addition, earnings on government-owned assets held abroad are not included by Kuwait as part of its revenues in its fiscal budgets.

During the first half of 1999, Oman's budget deficit totalled 337.8 million rials Omani (RO) (or $877 million), which was twice as large as its deficit during the first half of 1998. Most government spending is current expenditures, so there is little room for drastic cuts. Oman had based its 1999 budget on the assumption that oil prices would average $9/b. When Oman's oil revenues increased sharply during the second half of the year, the budget deficit declined; preliminary estimates indicate that it fell from 6.9 per cent of GDP in 1998 to 2.5 per cent in 1999.

Qatar's budget deficit as a percentage of GDP was 10.7 per cent in 1997. It fell to 7.8 per cent in 1998; however, when the $700 million in revenues from the partial sale of Qatar Telecommunications (Q-Tel) is included, the deficit narrows to only 0.1 per cent of GDP for that year. Qatar maintained its austere fiscal policy in 1999, despite higher oil and gas revenues, and preliminary estimates place the country's budget deficit at 0.3 per cent of GDP.

In 1998, Saudi Arabia had envisioned a budget deficit of $4.8 billion, but the actual budget deficit for that year turned out to be $12.3 billion, equivalent to 9.4 per cent of GDP, despite severe cuts in government expenditures and a notable increase in non-oil tax revenues. The main causes were the plummeting oil prices and revenues in 1998. The reverse happened in 1999. The budget deficit was projected at $11.7 billion, but final year-end figures will show it to be several billion dollars lower, despite the increase in government expenditures and the implementation of investment projects that had been put on hold in 1998. The major factor was the turn-around in oil prices and revenues. Preliminary figures indicate that Saudi Arabia's budget deficit to GDP fell to 2.8 per cent in 1999.

The United Arab Emirates maintained government expenditures at more than $19 billion in 1998, despite declining oil revenues, by drawing on overseas earnings from the country's foreign investments, which are estimated to exceed $120 billion. The budget deficit in the United Arab Emirates totalled $7.87 billion in 1998 and was financed through withdrawals from overseas investment earnings rather than domestic borrowing. The country's budget deficit to GDP, excluding its overseas earnings, was put at 17 per cent for that year. Preliminary estimates indicate that this ratio was reduced to 5 per cent in 1999 owing mainly to the sharp increase in oil revenues.

For several years Egypt has been able to maintain its budget deficit as a percentage of GDP at around 1 per cent. This is remarkable for a country that at the start of the decade, prior to the implementation of its economic reform and structural adjustment programme, had budget deficits equivalent to around 30 per cent of GDP. Privatization accelerated in 1999 and contributed to the increase in government revenues.

[7] The Fund for Future Generations had assets valued at around $100 billion prior to the Gulf war, but by 1992 this figure had fallen to $35 billion.

Jordan successfully reduced its budget deficit to GDP ratio in 1999 by restraining government expenditures and increasing revenues. Government revenues during the first nine months of 1999 rose by 16 per cent in comparison with the same period of 1998. This increase in revenues may be attributed to improved tax collection, a 3 per cent rise in the sales tax (to 13 per cent), and the simplification of customs procedures. Considering grants from donor countries as revenues, the Kingdom's budget deficit as a percentage of GDP fell from 6.8 per cent in 1998 to an estimated 3.3 per cent in 1999. Excluding such grants, however, Jordan's budget deficit to GDP ratio dropped from 10.8 per cent in 1998 to an estimated 7.8 per cent in 1999.

In Lebanon, the budget deficit as a percentage of GDP declined from 23.5 per cent in 1997 to 13.8 per cent in 1998. In 1999, the Government restrained its expenditures and simultaneously raised its revenues. It raised taxes on income, corporate profits, alcohol, tobacco and gasoline, and raised import tariffs. Preliminary estimates indicate that Lebanon's budget deficit to GDP ratio declined to 13.2 per cent in 1999. The Government is working to reduce this ratio to 5 per cent by 2003.

Preliminary estimates indicate that Yemen was able to reduce its budget deficit as a percentage of GDP from 7.7 per cent in 1998 to 4.8 per cent in 1999. Higher oil revenues and foreign grants helped narrow the deficit. The authorities in the West Bank and Gaza Strip were able to maintain expenditures at levels close to their revenues. The budget deficit to GDP ratio for these areas was 0.4 per cent in 1997, and preliminary estimates indicate ratios of 0.8 and 1 per cent for 1998 and 1999, respectively.

F. IMPROVED EXTERNAL SECTOR PERFORMANCE

The performance of the region's external sector improved drastically in 1999 compared with 1998, owing mainly to sharply higher oil prices. Despite reductions in the volume of oil exported by the GCC countries, the total value of these exports increased substantially owing to the 41 per cent rise in oil prices. Given the dominant share of oil in the external sector, total exports of the GCC countries increased markedly in 1999. All of the countries in this group had surpluses in their respective trade balances, and their current account positions were significantly better than they had been in 1998.

Bahrain's balance of trade registered a surplus of $357.9 million in 1997 and a deficit of $284.1 million in 1998, then returned to a surplus in 1999. During the first six months of 1999, Bahrain's exports totalled $1,718 million while its imports totalled $1,499 million, which represented a trade surplus of $219 million. For 1999 as a whole, Bahrain's balance-of-trade surplus is estimated at about $350 million. Furthermore, Bahrain's current account deficit, which had widened from $304 million in 1997 to $1.1 billion in 1998, is estimated to have narrowed again in 1999 to around its 1997 level.

Kuwait's trade balance is usually in surplus. The surplus of $5.98 billion in 1997 shrank to only $937 million in 1998. In the first quarter of 1999, Kuwait's exports totalled $2,177 million while its imports totalled $2,028 million, providing a surplus of $149 million. However, during the remaining three quarters of the year the increase in exports far exceeded the rise in imports, and preliminary estimates indicate that Kuwait's trade surplus for the year will likely be around $3.95 billion. While still $2 billion below its 1997 level, Kuwait's trade surplus in 1999 was more than 300 per cent higher than its 1998 level. Kuwait's current account surplus also increased considerably in 1999.

Oman's balance-of-trade registered a deficit of $317 million in 1998, after having registered a surplus of $2.4 billion the previous year. Preliminary estimates indicate that Oman's balance of trade reverted to a surplus in 1999.

Qatar had balance-of-trade surpluses of $863 million and $359 million in 1997 and 1998, respectively. Although its trade surplus increased considerably in 1999, preliminary estimates indicate that its current account remained in deficit, owing mainly to the large annual transfers by expatriates and also to the remittances of expatriate workers leaving the country with all their savings.

Saudi Arabia's balance-of-trade surplus fell from $23.8 billion in 1997 to $5.3 billion in 1998. Although it increased sharply in 1999, preliminary estimates indicate that it remained significantly below its 1997 level. Meanwhile, the Kingdom's current account deficit, according to preliminary estimates, declined to around $8 billion in 1999, from $12.8 billion the previous year. Similarly, the trade surplus of the United Arab Emirates was noticeably higher in 1999 than in 1998 but also did not regain its 1997 level. The country's current account surplus also increased in 1999.

Among the countries with more diversified economies in the region, oil accounts for the lion's share of exports only in Iraq, Yemen and, to a lesser extent, the Syrian Arab Republic. Although oil contributes significantly to Egypt's exports, it does not account for a dominant share of the total. Jordan and Lebanon are oil-importing countries. With the exception of Iraq, all ESCWA members with more diversified economies usually have large balance-of-trade deficits and depend primarily on expatriate remittances from their workers abroad as well as tourism revenues to improve their current account positions. External sector performance varied among the different countries with more diversified economies in the region in 1999.

Egypt's imports were valued at $16.5 billion in 1998, while its exports totalled only $3.2 billion, resulting in a $13.3 billion trade deficit that year. The balance-of-trade deficit in 1998 was $4 billion larger than that registered the preceding year. During the first half of 1999, Egypt's exports totalled $1.68 billion, compared with $1.56 billion during the same period of 1998. Meanwhile, the value of its imports totalled $8.23 billion during the first six months of 1999, compared with $7.94 billion during the same period of 1998. Thus, the trade deficit was widening further. However, during the second half of 1999, the Egyptian Government granted a tax exemption on all exports in an effort to increase the country's exports and narrow the balance-of-trade deficit. Egypt's exports benefited from higher oil prices during the second half of 1999, but the country's balance-of-trade deficit is estimated to have remained large for the year. Nevertheless, revenues from the booming tourism sector, Suez Canal dues, and remittances from Egyptians abroad[8] are believed to have prevented the current account deficit from rising in 1999, a contention supported by preliminary estimates. International reserves at the Central Bank of Egypt declined in 1999, totalling about $17.4 billion in August 1999 compared with $20.1 billion in August 1998. Nevertheless, these reserves are sufficient to cover Egypt's imports for more than a year. Meanwhile, Egypt's external debt stood at $28.2 billion at the end of June 1999, having declined by 0.7 billion from its level of $28.9 billion recorded at the end of 1998.

Jordan's balance-of-trade deficit fell from $2.27 billion in 1997 to $2.04 billion in 1998 owing to the greater decline in imports than in exports, in absolute terms. The Kingdom's balance-of-trade deficit shrank by 20.6 per cent during the first half of 1999 as a result of the 10.8 per cent decrease in imports coupled with the 2 per cent increase in exports. Declining imports reflect the generally sluggish economic growth and weak purchasing power in the country. Jordan is on its way to joining the World Trade Organization. It is expected to be granted WTO membership in January or February of 2000; it will then become the 136th country[9] and the 6th ESCWA member to join the WTO, following Egypt, Kuwait, Bahrain, Qatar and the United Arab Emirates.

Lebanon's balance-of-trade deficit declined from $6.81 billion in 1997 to $6.34 billion in 1998, a reduction of 6.9 per cent. This narrowing of the country's trade deficit was the net result of an 11.5 per cent increase in exports (to $716 million) in 1998 coupled with a 5.3 per cent drop in imports (to $7,060 million). This trend continued in 1999. Total exports during the first 10 months of 1999 increased to $562 million, up 4.9 per cent from the level recorded during the same period in 1998. Imports amounted to $5.15 billion for the period January-October 1999, a 12.3 per cent decline from the total registered for

[8] There are about 2 million Egyptian expatriate workers in other Arab countries, mainly in Saudi Arabia, the Libyan Arab Jamahiriya, the United Arab Emirates, Kuwait, Jordan and Oman. There are another 1.5 million workers who have emigrated to the West and are a major source remittances, both in cash and in kind.

[9] The Republic of Georgia will likely be the 135th WTO member.

the same period of 1998. Hence, during the first 10 months of 1999, Lebanon's trade deficit shrank by 14.68 per cent to $4.59 billion, down from $5.38 billion during the same period of 1998. Sluggish economic growth and constrained purchasing power contributed to the further reduction in imports, while faster economic growth in Lebanon's main export markets accelerated the rise in Lebanon's exports in 1999. Preliminary estimates indicate that Lebanon's trade gap narrowed by 15 per cent in 1999. International reserves at the Central Bank of Lebanon increased from $5.93 billion at the end of 1997 to $6.41 billion at the end of 1998. They continued rising in 1999 and reached $6.76 billion at the end of the third quarter. Lebanon's external debt increased by 14.3 per cent, from $4.19 billion at the end of 1998 to $4.79 billion at the end of July 1999. Moreover, the share of external debt in total public debt increased during the first seven months of 1999, accounting for 24 per cent of the $19.95 billion total public debt, up from 22.5 per cent at the end of 1998. The rise in the size and share of Lebanon's external debt was primarily due to the Government's policy of gradually replacing domestic public debt with external debt, as interest charges are notably lower for the latter. This policy helps reduce the Government's overall debt-servicing burden.

The Syrian Arab Republic's balance-of-trade deficit widened sharply in 1998, having risen to $1 billion from only $112 million in 1997. This took place because the 3.3 per cent decline in imports in 1998 was far outpaced by the 26.2 per cent decline in exports. During the first quarter of 1999, the country's exports were 8.3 per cent below the level registered during the same period in 1998. However, higher oil prices during the rest of 1999 reversed the direction of Syrian exports, and preliminary estimates indicate that the trade deficit fell to a level significantly below that recorded for the preceding year.

Yemen had a similar experience. Its balance-of-trade deficit widened from $288.1 million in 1997 to $809.9 million in 1998 and is estimated to have narrowed in 1999 owing mainly to higher oil export prices.

G. Outlook for 2000

In 2000, developments in the energy (oil and gas) sector are again expected to have the dominant impact on the economies of the region. Other factors that will markedly affect economic performance in Western Asia include: (a) developments pertaining to the economic sanctions imposed on Iraq since 1990; (b) the speed and success of the implementation of economic reforms and structural adjustment measures by ESCWA members; (c) the inflow of FDI; (d) the scarcity of water and its impact on agricultural output for several ESCWA members; and (e) progress in the Middle East peace process and the peace dividend, if any. A reallocation of resources from military and defence programmes to human development would greatly enhance the long-term prospects for the region (see annex).

Real GDP growth is projected to accelerate for every ESCWA member next year. For the region as a whole, excluding Iraq, real GDP is projected to grow by 4.1 per cent in the year 2000. The determining factor will be the significant increase in oil production, prices and revenues. Higher growth in the important oil and gas sector in the GCC countries will greatly enhance the performance of the external sector, improve budgetary positions and contribute to more rapid economic growth in these countries. Notable improvements in the economies of the GCC countries are expected to have considerable positive spillover effects on the other economies of the region, mainly through increased exports, tourism revenues and financial aid.

Real GDP is projected to accelerate to 3.8 per cent in the GCC countries in 2000, with individual rates ranging from 2.6 per cent in Kuwait to 4.7 per cent in the United Arab Emirates. Within this group, economic growth is forecast to be highest in the United Arab Emirates, owing not only to higher growth in the oil and gas sectors but also to the resurgence of its re-export activities and greater FDI inflow. Oman's real GDP growth in 2000 is projected at 4.5 per cent, the second highest rate among the GCC countries. Further acceleration of GDP growth in Oman will come from one of the largest gas liquefaction projects in Western Asia, which will be inaugurated during the year. This project, which has taken four years to complete, is projected to generate about $1 billion in annual revenues for the Sultanate. Qatar will also benefit from the parallel rise in production and revenues in both the oil and gas sectors. Saudi Arabia's real GDP growth is projected at 3.6 per cent in 2000, a rate twice as high as the preliminary estimate for 1999. The surge in the energy sector, higher

Government expenditures and the growing confidence of the private sector, encouraged by recent economic reforms, are expected to further boost economic growth and development in the Kingdom. Kuwait's projected real GDP growth of 2.6 per cent in the year 2000 is several times higher than the preliminary estimate of 0.5 per cent for 1999. Kuwait's economic growth is expected to be spurred by developments in the energy sector as well as the foreign direct investment by multinational corporations attracted by recently decreed laws and regulations.

For the countries with more diversified economies in the region, real GDP growth is projected to average 4.7 per cent in 2000, with rates ranging from 1.7 per cent in Jordan and 1.8 per cent in Lebanon to 6.2 per cent in Egypt. Egypt's economic growth will continue as a result of the increase in domestic and foreign direct investment, continued steady growth in the tourism sector, and the implementation of gigantic development projects in the Sinai Peninsula and the New Valley. The economy of Yemen is projected to grow by 4.5 per cent and that of the West Bank and Gaza Strip by 4 per cent in the year 2000. Yemen will benefit significantly from higher economic growth propelled by the oil sector. Both the Government of Yemen and the Palestinian Authority are expected to be major beneficiaries of financial aid and in-kind support from the World Bank, several United Nations agencies and major donor countries. Real GDP growth in the Syrian Arab Republic is projected to rise to 2 per cent in 2000, from the preliminary estimate of 0.5 per cent in 1999. Both Jordan and Lebanon are expected to see their real GDP growth edge upwards to about 1.8 per cent, stimulated mainly by lower interest rates and marked increases in tourism; these rates remain significantly below the growth targets of between 3 and 5 per cent set for the coming several years by the Governments of both countries.

The oil sector in the region is expected to register excellent performance in 2000. Oil revenues should rise markedly with the notable increases in both production and prices in comparison with 1999. Projections for oil prices in the year 2000 differ widely, depending on assumptions made with regard to OPEC decisions on production levels, given the rising demand and falling inventory levels in the major oil-importing countries. OPEC members can increase their oil production by over 5 per cent and still maintain an average price level of $22/b for 2000.[10] Such a price level would finally be above the $21/b targeted by OPEC for several years, and more than 25 per cent higher than its $17.5/b annual average for 1999. Significantly higher oil revenues are expected in 2000 in the region, with some countries also receiving much higher revenues from the sale of gas and petrochemicals.

Labour market conditions for GCC nationals will improve significantly in 2000. Higher government expenditures, faster economic growth, a rise in the inflow of FDI, and the continued application of the labour force indigenization policy (the replacement of expatriate workers with local labour) will collectively enhance employment opportunities for job-seeking GCC nationals. Even with the continuation of the indigenization policy, the total number of expatriate workers may not decline in 2000 in the GCC countries, as it did during the 1998-1999 period, owing to the higher economic growth and greatly improved financial conditions and economic outlook. Employment conditions in most of the countries with more diversified economies in the region are not expected to improve much in 2000. Although some employment opportunities are expected to arise abroad, they will be relatively limited. Given the current labour surplus situation, labour market conditions will improve and employment opportunities will increase significantly in these countries only when average annual GDP growth rates reach 5 per cent.

Inflation rates for most ESCWA members are expected to remain under control in 2000 as Governments maintain generally prudent monetary and fiscal policies. However, some imported inflation can be expected owing to higher prices for imports from East Asian countries, whose respective currencies continue to appreciate as they recover from the sharp depreciation in 1997 and 1998. The fiscal positions of the GCC countries are expected to improve again next year, and most of the Governments in this group will be able to achieve their stated target of a balanced budget by 2000. This is likely to take place despite substantial increases in government expenditures, thanks to the even higher projected increases in oil and other revenues. Budget deficits as a percentage of GDP will decline and/or remain low among the

[10] Many analysts regard $22/b as mutually acceptable to major oil-importing and oil-exporting countries.

ESCWA members with more diversified economies. With the exception of Lebanon, whose budget deficit as a percentage of GDP is projected to fall to 12.2 per cent in 2000, the ESCWA members are projected to record budget deficit to GDP ratios of below 3 per cent. Lebanon is aiming to lower its deficit to GDP ratio to 5 per cent by 2003.

The region's external sector performance is expected to improve, albeit with major differences between the GCC countries and other ESCWA members. Substantial improvement is predicted for the external sector of the GCC countries in 2000. Although imports are projected to increase significantly next year, they will be greatly outpaced by sharply higher exports, in particular oil, gas and petrochemicals. Balance-of-trade surpluses will widen in all GCC countries, and current accounts are forecast to show a surplus in most countries in this group. For several of the countries with more diversified economies, the balance-of-trade gaps will remain wide despite rising exports and falling imports. Current account positions will be notably enhanced by higher projected tourism revenues and expatriate remittances, particularly in Egypt, Jordan, Lebanon and the Syrian Arab Republic.

H. RECOMMENDATIONS

Although the economic outlook is relatively bright for the region as a whole, the challenges and opportunities brought by rapid globalization require immediate and continuous action on the part of the ESCWA members. The recommendations below are provided for consideration by decision makers in the region. It should be noted that around half of the recommendations included in last year's *Preliminary Overview* are listed here: they remain valid. Member States have implemented some of the recommendations proposed to varying degrees.

Governments in the region may:

(a) Expedite structural economic reforms; in the GCC countries, the rebound in oil revenues should not lead to the stalling of the implementation of economic reform and structural adjustment policies, as it did in 1996;

(b) Promote economic diversification, particularly in the GCC countries, by moving away from the heavy dependence on oil towards greater reliance on gas, petrochemicals, aluminium and other light industries as well as the services sector;

(c) Implement policies and provide an institutional environment that will encourage the private sector to play a much greater role in the national economy;

(d) Accelerate privatization, including that of such public services as electricity, water, transport and telephone services, in a manner that guarantees transparency and accountability and safeguards against monopoly;

(e) Ensure that human resources development is based primarily on quality- and market-oriented education and training;

(f) Amend educational policies and stress the importance of vocational training for both men and women;

(g) Encourage unemployed national workers to accept employment in professions that are currently shunned owing to social rather than economic reasons, increasing awareness and participation through mass media and other means;

(h) Endeavour, when implementing programmes to replace expatriate workers with nationals, to opt for raising taxes on expatriates rather than imposing quotas to limit the number of expatriates working in their countries (this applies to GCC countries);

(i) Develop financial sector regulations that meet the requirements of a global economy;

(j) Encourage the banks in their countries to consolidate and merge in order to increase their efficiency and competitiveness;

(k) Promote exports by following in Egypt's footsteps and granting tax exemptions to all exporters (this applies to the members with more diversified economies);

(l) Consider the establishment and/or expansion of free-trade zones, promote intra-Arab trade and investment, and work towards the establishment of an Arab common market;

(m) Adopt concrete measures to achieve greater harmonization of economic liberalization policies among the ESCWA members and also with the rest of the Arab world;

(n) Attract and promote foreign investment and undertake joint ventures with major transnational corporations;

(o) Allow expatriate workers, particularly in the GCC countries, to invest in national stock markets and financial markets, as Saudi Arabia began to do in 1999;

(p) Adopt special monetary and fiscal measures that encourage expatriates and emigrants living abroad to repatriate some of their financial assets held abroad (this applies to Egypt, Jordan, Lebanon, the Syrian Arab Republic and Yemen);

(q) Encourage the private sector to repatriate some of its foreign-held assets and invest them in the local economy, in regional and/or subregional projects (this applies to GCC countries);

(r) Promote tourism by increasing marketing efforts to attract visitors from both inside and outside the region, and improving the infrastructure to better accommodate them;

(s) Reconsider and compare the advantages and disadvantages of pegging national currencies to the United States dollar, particularly in the GCC countries;

(t) Review the policy of granting subsidies for government-provided goods and services, with the aim of achieving a more efficient use of resources while also protecting the most vulnerable groups;

(u) Continue to strengthen tax administration through more efficient enforcement and collection procedures;

(v) Continue to push interest rates downwards in order to reduce debt servicing burdens and stimulate economic growth (this applies to Jordan and Lebanon);

(w) Work with the other members of OPEC to achieve oil price stability (the gradual rise in prices through the year 2000 and beyond) by engaging in a constructive dialogue with the major oil-importing countries, even though the latter rejected calls to discuss oil price stability when prices were tumbling (this recommendation applies to GCC countries that are members of OPEC);

(x) Reduce military expenditures, when possible, and allocate higher resources to economic and social development.

Annex

IMBALANCES IN RESOURCE ALLOCATION

Owing to the longstanding Arab-Israeli conflict, the Iran-Iraq war, the Gulf war and other such confrontations in the region, the Governments of Arab States were obliged to allocate sizeable resources for military and defence purposes. *The UNDP Human Development Report 1999* indicates that for 18 Arab States,[1] including all ESCWA members except Palestine, military and defence expenditures accounted for a combined average of 8.2 per cent of GDP in 1988, or more than twice the world average of 4 per cent that year.

After the end of the cold war the share of military expenditures in GDP in the world as a whole declined, falling to 2.4 per cent by 1996.

Military expenditures also declined for most ESCWA members over a 10-year period ending in 1996. As shown in annex table 1, all the countries with more diversified economies in the region had significantly smaller military and defence expenditures relative to GDP in 1996 than in 1985. With the end of the Iran-Iraq war and the Gulf war, Iraq's military and defence expenditures were reduced from 26 to 8 per cent of GDP between 1985 and 1996. Military and defence spending in Jordan and the Syrian Arab Republic also declined significantly during this period, dropping from 16 per cent to 6 per cent of GDP. The average defence expenditure to GDP ratio among the countries with more diversified economies in the region declined from 14 per cent in 1985 to 6 per cent in 1996.

The share of military and defence expenditure in GDP ranged from 5 to 13 per cent among the GCC countries in 1996. Led by

ANNEX TABLE 1. DEFENCE EXPENDITURE AS A PERCENTAGE OF GDP, 1985-1998

	1985	1996	1997	1998
GCC countries				
Bahrain	4	5	6	7
Kuwait	9	13	12	13
Oman	21	13	12	14
Qatar	6	9	14	12
Saudi Arabia	20	13	12	16
United Arab Emirates	8	5	5	7
Average for GCC countries	11.3	9.7	10.2	11.4
More diversified economies				
Egypt	7	5	4	4
Iraq	26	8	7	7
Jordan	16	6	7	8
Lebanon	9	4	5	4
Syrian Arab Republic	16	6	6	7
Yemen	10	7	7	7
Average for more diversified economies	14.0	6.0	6.0	6.2
Average for ESCWA region	12.7	7.8	8.1	8.8

Sources: International Institute for Strategic Studies, *The Military Balance 1998/99* (London, Oxford University Press, 1998); *Middle East Economic Survey*, vol. 42, No. 47, 22 November 1999.

[1] Included in this group are Algeria, Bahrain, Djibouti, Egypt, Iraq, Jordan, Kuwait, Lebanon, the Libyan Arab Jamahiriya, Morocco, Oman, Qatar, Saudi Arabia, Sudan, the Syrian Arab Republic, Tunisia, the United Arab Emirates and Yemen.

Kuwait, Oman and Saudi Arabia, each of which spent 13 per cent of GDP for military and defence purposes, the GCC countries' military allocations averaged 9.7 per cent in 1996. Military and defence expenditures relative to GDP in Oman and Saudi Arabia were reduced by almost a third, from 21 and 20 per cent respectively in 1985 to 13 per cent in 1996. In contrast, military allocations in Kuwait and Qatar surged, by 50 per cent over the same period. There was a small reduction of 1.6 per cent in the defence expenditure to GDP ratio among the GCC countries as a group from 1985 to 1996. Nevertheless, overall average military and defence spending in the region as a whole was still high at 7.8 per cent of GDP in 1996, though this was much lower than the 12.7 per cent recorded for 1985.[2]

The situation did not change significantly in 1997. The average share of military and defence expenditure relative to GDP for ESCWA members as a group was 8.1 per cent. Owing to an increase in the share of such expenditures in Qatar, from 9 to 14 per cent, the average for the GCC countries moved up by 0.5 per cent to 10.2 per cent. Minor fluctuations notwithstanding, military and defence spending relative to GDP remained about the same for the countries with more diversified economies, with the group average of 6 per cent maintained in 1997.

Total defence expenditure for the ESCWA members increased by 8.5 per cent, from $35.7 billion in 1997 to $38.7 billion in 1998. Shares of military and defence expenditure relative to GDP were also higher in 1998 than in 1997 for most members; the exceptions were Qatar, with a decline from 14 to 12 per cent, and Lebanon, with a decline from 5 to 4 per cent. With the large increase in Saudi Arabia's military expenditures as a share of GDP (from 12 to 16 per cent), the average ratio for the GCC countries rose by 1.2 per cent to 11.4 per cent in 1998. Hence, the gap between the two groups widened.

The 1999 defence budget for the ESCWA members as a group is marginally smaller at $34.3 billion, a 5 per cent reduction from the 1998 budget.

[2] International Institute for Strategic Studies, *The Military Balance 1998/99* (London, Oxford University Press, 1998).

Meanwhile, public expenditures on basic human services are relatively small in the region. Recent data are available for five members: Egypt, Jordan, Kuwait, the United Arab Emirates and Yemen. In Yemen the share of government expenditure on health care was merely 1 per cent of GDP in 1995. Health expenditure totalled 1.7 per cent of GDP in Egypt and 2 per cent of GDP in the United Arab Emirates that year. The shares of public health care expenditure relative to GDP in Kuwait and Jordan were among the highest in the ESCWA region, at 3.5 and 3.7 per cent, respectively; nevertheless, these figures were still much lower than the 1995 world average of 5.5 per cent.

Insufficient public expenditure on human resources may be contributing to the relatively high level of illiteracy among adults in the region. Annex table 2 indicates that for all ESCWA members more than 10 per cent of the population was illiterate in 1997.

ANNEX TABLE 2. ADULT ILLITERACY RATE, 1997

	Percentage
Bahrain	13.8
Egypt	47.3
Iraq	..
Jordan	12.8
Kuwait	19.6
Lebanon	15.6
Oman	32.9
Qatar	20.0
Saudi Arabia	26.6
Syrian Arab Republic	28.4
United Arab Emirates	25.2
Yemen	57.5

Source: United Nations Development Programme, *Human Development Report 1999* (New York, Oxford University Press, 1999).

Adult illiteracy rates in Jordan and Lebanon are among the lowest in the region. In the UNDP human development index (HDI) these two countries were ranked among those that had achieved medium human development; however, their illiteracy rates were well below the average of 26.2 per cent recorded for all developing countries in this group in 1997. The remaining ESCWA members have not achieved similar results, however. For example, while Bahrain, Kuwait, Qatar and the United Arab Emirates are ranked relatively high in the area of human development, their adult illiteracy rates are far above the average of 4.7 per cent for the HDI group to which they belong.

Oman, Saudi Arabia and the Syrian Arab Republic belonged to the medium-level group of developing countries, for which the average adult illiteracy rate was 26.2 per cent. About a third of the adults in these three ESCWA member countries were illiterate, so all had rates higher than the group average. In addition, about a half of all adult Egyptians and close to 60 per cent of the adult population in Yemen were illiterate. Since Egypt was ranked medium in human development, its illiteracy rate was much higher than the group average. Yemen was ranked among the countries with low human development, and its illiteracy rate was higher than the 53.5 per cent recorded for this group as a whole in 1997.

Countries in today's world are becoming more and more interconnected through increasing international trade, international financial transaction and foreign direct investment, as well as through other forms of cross-border linkage and cooperation among transnational corporations. Within the context of this globalization process, the expanding role of computers is evident in many sectors of modern economies, including finance, power generation and distribution, industrial production, commerce, communication, transportation, and research and development. Internet usage has been spreading rapidly throughout the world. Increased reliance on electronic commerce (e-commerce) is expected to bring significant changes in economic activities. All of this points to the fact that knowledge has become the critical component of success in the global economic environment and that now, more than at any other time in history, human resources have become an integral part of a country's economic growth and development. Proficiency in information technology (IT) has become especially important, as it allows the labour force to take advantage of the advancements in IT that facilitate the globalization process.

Developing countries without the human resources required to manipulate knowledge-based economic activities run the risk of falling behind their competitors in the world market. ESCWA members are encouraged not only to support the development of effective IT infrastructure, but also to invest more in the improvement of their human resources, providing basic services such as health and education in order to nurture their most important economic factor. Economic growth strategies should also include strengthening computer literacy in the workforce.

Recent developments in budget allocations in the region are not encouraging. Seven member countries raised their military and defence spending between 1997 and 1998. The increases in the United Arab Emirates, Syrian Arab Republic, Saudi Arabia and Iraq were particularly large, at 21, 20, 13 and 10 per cent, respectively. Declines in military and defence expenditures for the rest of the ESCWA members during this period were relatively small, ranging from 2 to 7 per cent, with the exception of a 17 per cent cut in Lebanon. As the region moves forward towards a just, comprehensive, and lasting peace in the coming years, it is expected to become easier for these Governments and others in the region to reduce their military and defence spending and redirect their economic resources to health, education and other sectors focusing on human development. Advanced IT as well as the human skills to take advantage of it will promote economic growth and development.