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Summary of the survey of economic and social developments in the Economic and Social Commission for Western Asia region, 1999-2000

Executive summary

Economic growth accelerated in the region in 1999, specifically during the second half of the year. Provisional estimates indicate that the combined real gross domestic product (GDP) of Economic and Social Commission for Western Asia (ESCWA) members, excluding Iraq, grew by a rate of 3.12 per cent in 1999. The 3.12 per cent growth rate in 1999 was higher than the rate of 2.31 per cent registered in 1998 but lower than the 3.39 per cent real GDP growth achieved by the region in 1997.

Real GDP growth rates differed significantly between the Gulf Cooperation Council (GCC) countries and the countries with more diversified economies, and among the countries of each group. Estimates indicate that in 1999 the combined real GDP growth rate for the GCC countries** as a group was 2.63 per cent, while the ESCWA members with more diversified economies,*** excluding Iraq, 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.

* E/2000/100.
** Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates.
*** Egypt, Iraq, Jordan, Lebanon, Syrian Arab Republic, Yemen, and the West Bank and Gaza Strip.

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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. 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. The 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, estimates indicate that combined real GDP grew by 4.1 per cent in 1999, a rate slightly lower than the 4.97 per cent registered in 1998. However, real GDP growth rates for 1999 differed widely among the members of this group. Egypt, Jordan, Yemen, and the West Bank and Gaza Strip are estimated to have achieved real GDP growth rates of 2.0 per cent or higher; however, 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 13 ESCWA members are oil-exporting countries. In 1999, oil prices and revenues rebounded sharply from the depressed levels of 1998. The annual average price of the Organization of Petroleum Exporting Countries (OPEC) crude oil basket is estimated at $17.47 per barrel for 1999, which is about $5 per barrel higher than the average for the preceding year, representing an increase of over 40 per cent. Estimates indicate that the region’s oil revenues totalled $93.94 billion in 1999, a 35.8 per cent increase over the 1998 level of $69.15 billion. 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.

High unemployment rates among youth present a serious problem for many ESCWA member countries. The youth unemployment rate is about three times the equivalent rate for the total labour force. It is more serious for young women because the share of first-time job seekers among the total unemployed female population is significantly higher than the equivalent rate for men, indicating extreme difficulty for young women in job searching after graduation. Women’s share of the adult labour force in the labour-sending countries in the ESCWA region ranges from 20 to 30 per cent, and the share is even lower in the GCC countries, ranging from 10 to 20 per cent.

In the GCC countries, the indigenization of the labour force has been a declared policy for many years but 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 Governments' efforts to replace expatriate workers with citizens seeking employment continued in 1999, despite improving economic and financial conditions.

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 about 3 per cent or less. The largest declines were registered in the GCC countries, which had based their respective 1999 budgets on the assumption that oil prices would average about $11 per barrel in 1999.

The performance of the stock markets in the ESCWA region in 1999 was mixed, with some markets benefiting from higher oil prices and the return of investors' confidence and others held back by low levels of economic growth, relatively high interest rates and delays on the reform and privatization tracks. Overall, the market capitalization of stock markets in the ESCWA region increased by 8 per cent, from about $128 billion in 1998 to $138 billion in 1999.

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 GCC countries increased markedly in 1999. The current account positions of all countries in this group were significantly better in 1999 than in the previous year. Meanwhile, the increase in oil prices had positive repercussions on the external accounts of the more diversified economies as well. These countries benefited either directly from higher oil prices (for the oil exporters among them — Egypt, the Syrian Arab Republic and Yemen) and/or indirectly through an increase in their exports to the Gulf countries, larger workers' remittances and financial aid from GCC countries since such flows are usually positively correlated with oil revenue.

Research and development expenditures as a percentage of gross national product remained low, at about 0.2 per cent in many ESCWA member countries and falling below 0.05 per cent in some. The future of national systems of science and technology in the ESCWA member countries is highly dependent on graduates from the institutions of higher learning as well as technical and vocational training institutions. Recent reviews of the state of these institutions offer both causes for concern and grounds for some hope.

In the ESCWA region, non-governmental organizations, especially quality and gender-sensitive NGOs, are emerging as contributors to the process of democratization and as catalysts and agents of change in the participatory development model.

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I. Aggregate economic performance

1. Economic growth accelerated in the region in 1999, specifically during the second half of the year. The 3.12 per cent growth rate in 1999 was higher than the rate of 2.31 per cent registered in 1998 but lower than the 3.39 per cent real gross domestic product (GDP) growth achieved by the region in 1997 (see figure).

2. Real GDP growth rates differed significantly between the GCC countries and the countries with more diversified economies, as well as among the countries of each group. Estimates indicate that in 1999 the combined real GDP growth rate for the GCC countries as a group was 2.63 per cent, while the countries with more diversified economies, excluding Iraq, achieved a 4.10 per cent growth rate.

3. 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.

4. Official government figures indicate that in the United Arab Emirates the non-oil sectors registered 4.7 per cent real growth in 1998, partly offsetting the decline in the oil sector during that year. This growth was achieved because the Government was able to maintain its expenditures as planned despite the then tumbling oil prices and revenues. It was able to do so 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 6.0 per cent in 1999.

5. 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. It 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.

6. 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 4.5 per cent in 1999. Bahrain, also a non-member of the Organization of Petroleum Exporting Countries (OPEC), did not curtail its oil production in 1999. State expenditures on planned projects continued, 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.

7. Estimates indicate that Saudi Arabia's real GDP grew by only 0.5 per cent in 1998 and 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 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 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 country. It also amended 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 country.

8. Estimates indicate that Qatar's real GDP grew by 1.3 per cent in 1999, following an estimated growth of 2.5 per cent in the preceding year. Qatar's oil production was 5.97 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 from the country continued to depress overall market activity, particularly in the real estate, trade and services sectors.

9. According to provisional 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 12.02 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.

10. Estimates for the Economic and Social Commission for Western Asia (ESCWA) members with more diversified economies, excluding Iraq, indicate that their combined real GDP grew by 4.1 per cent in 1999, a slightly lower rate than the 4.97 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, Jordan, Yemen, and the West Bank and Gaza Strip are estimated to have achieved real GDP growth rates of 2.0 per cent or higher, while Lebanon and the Syrian Arab Republic are estimated to have achieved rates of 1 per cent or lower.

11. Estimates indicate that Egypt's real GDP grew by 6 per cent in 1999, 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 5.0 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 has 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 economic reform goals without major adverse social effects. This was possible because the growth process has been accompanied by introducing 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, 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 a few. Foreign direct investment (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 about $2 billion. With its greater efficiency in production, the 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. This 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.

12. The real GDP of Yemen and the West Bank and Gaza Strip grew at faster rates in 1999 than in 1998. Yemen's real GDP growth 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 4.10 per cent in 1998 and 4.60 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.

13. Jordan's real GDP is estimated to have grown by 1.70 per cent in 1998 and by 2.10 per cent in 1999. There has been a notable increase in private investment and higher growth in the services sector, particularly in tourism. However, the decline in agricultural output, caused by water shortages, negated some of the growth achieved in other sectors.

14. Lebanon's real GDP growth declined from 3.5 per cent in 1997 to 3 per cent in 1998, and slowed further

to about 0.8 per cent 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. 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 also 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 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.

15. Official government sources indicate that in the Syrian Arab Republic real GDP grew by 7.8 per cent in 1998 but only 0.5 per cent in 1999. The major factor causing the reversal of economic performance was the country's agricultural output, which 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.

16. 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.

17. Oil production in the region averaged 17.74 million barrels per day (b/d) in 1999, a decline of about 3.3 per cent in comparison with the 18.35 million b/d produced in 1998. Among ESCWA members, the largest percentage decreases in oil production were registered in Kuwait and the United Arab Emirates, which had production levels that were about 12.02 or 10.04 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 2.53 million b/d, about 20 per cent more than the 2.11 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.

18. 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. Women's participation rate in the labour force, though increasing, 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 emerged abroad during the latter part of the year.

19. 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. However, other sources, including the International Labour Organization (ILO), estimate unemployment rates to be about 50 per cent higher than official government figures. Nevertheless, it is agreed by most analysts that Egypt's annual unemployment rate is falling, a major

achievement for a country that has to create an additional 450,000 jobs for new entrants to the labour market every year.

20. 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. But given their relatively high population growth rates of 3.5 per cent and significantly higher growth of labour supply, improvements in the labour market conditions are believed to have been limited.

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

22. The indigenization of the labour force has been a declared policy in the GCC countries for many years but 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 Governments' efforts to replace expatriate workers with citizens seeking employment did not diminish in 1999 despite improving economic and financial conditions.

23. In Bahrain, 62 per cent of the total labour force were expatriates in 1998, the lowest proportion among GCC countries but still 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.

24. 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, 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.

25. 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.

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

27. In Saudi Arabia there are more than 6 million expatriate workers, representing 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.

28. Four of the GCC countries — 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 GCC

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.

29. 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 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.

30. 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.

31. 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.

32. 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, at 1 per cent. However, the inflation rate in Lebanon was lower than in 1998, while in the Syrian Arab Republic it was higher.

33. 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.

34. 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.

35. 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 low 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.

36. 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.

37. 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 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.

II. Monetary, fiscal and financial developments

38. The effectiveness of monetary policy in most ESCWA member countries was enhanced during the 1996-1999 period by changes in as well as the introduction of new rules and regulations in the financial system. In a number of member countries,

such as Egypt, Jordan, Oman and Yemen, significant progress has been made in liberalizing the structure of rates, initially deposit rates, and in reducing the scope of preferential rates, particularly for public sector enterprises. Other ESCWA member countries, such as Lebanon and the United Arab Emirates have broadened the different types of assets available to savers through financial instruments with market-determined rates.

39. Improving the mechanisms of monetary control, especially in the context of financial liberalization, necessitated a move away from quantitative credit restrictions towards indirect instruments of monetary control. In most of the member countries, the rediscount instrument has been made more sensitive to market conditions, and the sale and repurchase of central bank papers and treasury bills have been used more often in the management of liquidity. Moreover, the requirements for legal reserves have been made more uniform across the institutions of the financial sector.

40. However, the falling market liquidity in most of the member countries during 1998 and the first half of 1999 pushed up the market interest rates in these countries. These rates stabilized during the second half of 1999, following the rising market liquidity in consequence of the upturn in oil revenues of the GCC countries and the spillovers from these countries to the other group of ESCWA members, while the much needed drive for the mobilization of domestic savings was maintained. The central banks of a number of ESCWA member countries, such as Jordan and Oman, encouraged the banking sectors to offer to the public a range of competitive savings schemes with cash incentives and promotional prizes. In other ESCWA countries, such as Egypt, Lebanon and Saudi Arabia, monitoring money and capital market operations by the central banks was enhanced. It included bank credit policies, examination of asset quality, quality of management, credit appraisal system, adherence to central bank rules and regulations, and other issues concerning solvency, liquidity and general performance.

41. During the past few years, new trends have emerged in fiscal policies in most ESCWA member countries. In the GCC countries, the fluctuation in the major source of their budget revenues, namely oil, necessitated a number of revisions in government spending priorities, aimed at reducing the growth rate in budget expenditures, and consequently the budget deficit. In the member countries with more diversified economies, significant efforts were made to put together deflationary budgets, where expenditures were set to increase at a rate below that of inflation, thus reducing expenditures in real terms. In their endeavour to reduce the dependence of their budget expenditures on oil revenues, the GCC countries sought to establish certain fundamentals for a stable long-term fiscal policy, entailing the introduction of policies aimed at raising non-oil revenues and reducing expenditures. Member countries with more diversified economies resorted increasingly to instruments of domestic resources mobilization, such as improving tax collection methods, introducing new taxes and raising the rates of existing ones, as well as increasing the use of financial instruments, such as bonds and treasury bills. Both groups of member countries sought to reduce budget deficits either by raising the prices and user fees of public utilities and services or by reducing subsidies and granting lower increases in public sector wages and salaries.

42. A number of GCC countries, particularly Oman, Qatar and Saudi Arabia, planned in 1999 the introduction of legislative reforms to encourage foreign investment, thus creating a new source of revenues and reducing the fiscal burden. In this context, privatization should be pursued as a strategic policy option to attract foreign investments and establish a solid economic foundation, based on strengthening the private sector’s role in the economy in such a way as to diversify sources of budget revenues.

43. Fiscal reforms in ESCWA member countries with more diversified economies have been planned to eliminate public finance imbalances, adopt the principle of relative scarcity of resources, eliminate squandering of government financial resources and move towards economic conditions, in which public sector enterprises would become efficient, thus being rendered commercially viable. Issues concerning the reduction of indirect subsidies have become a major component of most of these countries’ fiscal reform plans, including the introduction of efficient tax regimes, streamlining the civil service, strengthening the fiscal administrative capacity and improving transparency in expenditures.

44. Despite the pledges from most Governments of ESCWA member countries to pursue privatization, the commitment of their Governments to public investment has in effect been maintained, with a rise of between 20

and 25 per cent in the category of the so-called public services. Details of the expenditures reveal that in most member countries, particularly the GCC countries, the increase originates mostly from defence expenditure and other unspecified items of expenditure, while expenditure in such areas as education and health services have decreased as a percentage of total investment and capital expenditures. This development has been of particular concern to the Governments of the GCC countries, especially in light of the upturn in oil prices during the second half of 1999, where Governments had hoped to underwrite expenditures obligated in the budget for these two particular areas but postponed action owing to low oil prices during the first half of 1999.

III. Performance of the external sector

45. The single most important event that characterized the region on the external front during 1999 was the phenomenal increase in oil prices in the second half of the year following the March 1999 decision by OPEC members to cut production. For GCC countries (four of which are members of OPEC), the reduction in oil production was more than offset by the rise in prices. Starting the second quarter of 1999, the declining trend in their exports witnessed over the previous years began to reverse. In Kuwait, for example, oil exports increased by 24 per cent between the first and second quarters of 1999, after declining by 37 per cent in 1998 compared to 1997. In Oman, oil exports rose 41 per cent between the first and second quarters of 1999, after declining by 31 per cent in 1998 compared to 1997. The increase in oil prices and revenues had positive repercussions on the external accounts of diversified economies as well — either directly for the oil exporters among them (Egypt, the Syrian Arab Republic and Yemen) or indirectly through an increase in their exports to the region, workers' remittances and financial aid from GCC countries since such flows are usually positively correlated with oil revenue.

46. Many of the diversified economies in the region rely on the GCC market for their exports, which often accounts for more than 40 per cent of their total exports (such as for Lebanon or Jordan). But with oil exports not yet recovered at the beginning of the year, the share of intraregional export to total exports for most diversified economies declined between the first half of 1998 and the first half of 1999, by about 4 per cent for Jordan, 18 per cent for Lebanon, 20 per cent for the Syrian Arab Republic and 40 per cent for Yemen. Only Egypt was able to slightly increase its intraregional export share, by about 4 per cent over the same period. However, with the rising oil prices, this situation has probably improved during the second half of 1999.

47. International reserves, except gold, in the region increased between 1998 and 1999 for most countries — 27 per cent for Bahrain, 22 per cent for Kuwait, 50 per cent for Oman, 20 per cent for Saudi Arabia, 12 per cent for the United Arab Emirates, 50 per cent for Jordan, 19 per cent for Lebanon and 37 per cent for Yemen. Only Egypt registered a deterioration in its international reserves, which dropped by 17 per cent between 1998 and 1999. However, reserves in Egypt were still covering a comfortable seven months of imports. The surge in Jordan's foreign currency reserves despite a weak current account performance is probably due to deposits made by various Arab countries in support of Jordan after the death of King Hussein in February 1999. At the end of 1999, import coverage was high in Lebanon, Jordan and Kuwait, and lower in other GCC countries.

48. External debts of ESCWA member countries do not show major changes in 1999. In the highly indebted countries, mainly Jordan, Qatar, the Syrian Arab Republic and Yemen, the debt-to-GDP ratio declined slightly in 1997 compared with 1996 except for Qatar, and continued to decline in 1998 compared with 1997, except for Qatar and Yemen. Qatar's debt-to-GDP ratio reached 101 per cent in 1998, from 79 per cent in 1996, and its debt service ratio was among the highest of the region, at over 12 per cent. In order to better manage its external debt, Qatar's strategy has been to diversify its sources of international financing by funding new projects from external loans and bonds rather than volatile oil and gas income. The latter is used to reinforce the State's reserves and meet its external debt repayments. Countries with a relatively low external debt as a share of GDP, mainly Bahrain, Kuwait, Lebanon, Oman and the United Arab Emirates, registered a slight increase in their debt-to-GDP ratio in 1998.

49. The member countries remain committed to globalization. Jordan was accepted into the World Trade Organization (WTO) in December 1999 after passing a series of trade-related intellectual property rights laws, bringing to six the total number of ESCWA

member countries that are WTO members (the others are Bahrain, Egypt, Kuwait, Qatar and the United Arab Emirates). Oman, Lebanon, Saudi Arabia and Yemen have observer status and are continuing negotiations. For Saudi Arabia, WTO membership poses particular challenges since the country is resisting the reduction of its import tariffs to the requisite minimum and the opening of key sectors to foreign investment.

50. In tandem with WTO accession, the GCC countries approved in November 1999 the establishment of a customs union by 2005, after almost two decades of debate. The unification of tariffs will be an important step forward for the GCC countries in their negotiations to establish a free trade area with the European Union. But implementation will probably be delayed due to disagreements among GCC members on the extent and speed of the tariff reductions. The Arab countries had also agreed in 1997 to form the Greater Arab Free Trade Area over the next 10 years, starting 1 January 1998. Implementation has started but is advancing at a slow pace. Some ESCWA member countries are also part of the Euro-Mediterranean agreement to establish a free trade area by 2010 between the European Union and countries along the Mediterranean sea. Of the ESCWA member countries, only Jordan and the Palestine Authority have signed the agreement to date, while Egypt, Lebanon and the Syrian Arab Republic are still in negotiations.

IV. Science and technology in the ESCWA region: an assessment

51. Integrated and comprehensive policy documents dedicated to advancing national science and technology capabilities are still largely absent in ESCWA member countries. Isolated articles of legislation and a variety of laws, rules and regulations have given rise to implicit de facto science and technology policy regimes that are often fragmented, at times even incoherent. This has led to reduced effectiveness and efficiency in the use of already scarce resources, to emphasis on supply-side rather than demand-side considerations and to an emphasis on quantity rather than quality, in relation to science and technology manpower development. Priority areas discernible in such policy regimes include agriculture, the agro-food industries, health services and defence.

52. Research and development centres and institutions of higher learning are two of the most well developed varieties of the national system of science and technology institutions in the member countries. Much greater attention is needed in creating and complementing traditional institutional forms with standards, quality and calibration establishments, outreach and extension services, as well as institutional and regulatory arrangements for rendering venture capital available for science and technology capacity-building.

53. Research and development institutions in ESCWA member countries often possess fragmented and unstable organizational structures, suffer from poor management practices, operate under severe financial constraints and hence make limited contributions to priority socio-economic development issues.

54. Research and development expenditure as a percentage of gross national product (GNP) stands at about 0.2 per cent in many member countries and falls to below 0.05 per cent in some. The higher percentages of research and development expenditures in some ESCWA member countries are only one tenth of what many developed countries spend on research and development as a percentage of GNP.

55. A similar situation is observed in relation to human resources devoted to research and development. Thus, available figures for the number of research personnel per one million inhabitants range between 30 for the Syrian Arab Republic and 230 for Kuwait in 1997, while comparable figures in the developed countries are generally in the range of a few thousand per million. The situation with respect to technical personnel is even less encouraging, with the ratio of technicians per one million inhabitants ranging, in 1997, between 25 in the Syrian Arab Republic and about 70 in Kuwait, as opposed to figures that exceed 1,000 in the developed countries.

56. High participation by women has been registered in research institutions in Egypt, in comparison with institutions in other ESCWA member countries. New employment opportunities made available by the creation of new standards, quality testing and allied institutions are also being taken up by many more women than previously in some other ESCWA member countries.

57. Output produced by science and technology systems essentially finds expression in new and

adapted science and technology knowledge concerning products and processes. This knowledge is often contained within patents, and more often finds its way to specialized science and technology publications. Considering the above-mentioned shortcomings suffered by research and development activity, it is hardly surprising that the output of such activities in ESCWA member countries tends to lag behind other countries and regional groupings. This is partly illustrated by the level of patenting activity in these countries.

58. The future of national systems of science and technology in the member countries is highly dependent upon the graduates from the institutions of higher learning as well as technical and vocational training institutions. Recent reviews of the state of these institutions offer causes for concern as well as grounds for some hope.

59. The number of entrants into national systems of higher education has witnessed steady increases over the years. A number of member countries, in particular Saudi Arabia and the Syrian Arab Republic, are devoting greater attention to training intermediate science and technology manpower.

60. Another positive trend is that many more women now graduate with university degrees in the ESCWA member countries than at any time in the past. This is a general tendency extending over all member countries, including the GCC countries.

61. In general, inadequate financial resources are being allocated to higher education. This is particularly damaging in science and technology areas that require specialized equipment and expensive materials, as well as continuous innovation in university teaching and research facilities. The impact on the quality of science and technology graduates has been considerable.

62. One of the more telling indicators of access to and utilization of modern information sources is the number of top-level domain names set up by a particular country on the Internet. The ESCWA member countries, whose population constitutes 2.7 per cent of the world's total population, appear to have set up only about 0.05 per cent of such names worldwide. Wide variation pertains among member countries with the Syrian Arab Republic in possession of just one name in January 2000 and the United Arab Emirates with more than 19,700.

63. Telecommunication infrastructures in the member countries, essential for maintaining both internal connectivity as well as access to information resources outside the region, remain largely inadequate in terms of both network density and quality in comparison to those in the developed countries and even to world averages.

64. Technology transfer, adaptation and dissemination are core national system of science and technology tasks. In ESCWA member countries, the first task is carried out primarily by government departments and public sector enterprises through directly contracting foreign technology suppliers, with little or no involvement on the part of science and technology institutions. Hence, little action ensues with respect to adaptation and dissemination using local science and technology capabilities.

65. Contracts concluded during 1992-1999 by member countries with suppliers, providing technology in the form of both equipment and services as well as know-how in numerous forms, reveal interesting patterns in technology transfer activity. The GCC countries, particularly Saudi Arabia and the United Arab Emirates, occupy a leading position in spending on technology transfer contracts. Together, these two countries spend as much as 56 per cent of the total amount of contracts — US$ 147 billion concluded by all ESCWA member countries during this period.

66. Contracts involving infrastructure-building, with particular emphasis on telecommunications facilities, and industrial development activity appear to account for most of the expenditure during this period, about 62 per cent of the total value of all contracts concluded during the above-mentioned period. The total amount spent on communication infrastructure-building exceeded US$ 5.2 billion.

V. Gender-sensitive participatory development

67. There is a direct relation between the processes of gender mainstreaming and sustainable development. The recognition of the dynamic but socially constructed roles that women and men can play in the development process has led to a paradigm shift from the "women in development" to the "gender and development" approach, or from the integration of women into the development process to mainstreaming

a gender perspective into policies, plans, programmes and projects of international, regional, national and non-governmental organizations. Worldwide and in the ESCWA region, the marginalization of women and new forms of social exclusion will still persist, in particular affecting poor and vulnerable women. Globalization and structural adjustment pose great challenges and limit opportunities for women and men, including adverse effects on gender relations in ESCWA member countries.

68. The empowerment of women through education and productive employment and institutionalizing family planning within the context of reproductive health care are key goals for sustainability. Women's role is considered to be crucial in determining the future demographic structure of society by virtue of their reproductive function and in harmonizing the interrelationship between population and sustainable development. Women are essential elements in the participatory development process because of their direct involvement in the development of human resources.

69. The size of the population in the ESCWA region increased from 141 million in 1995 to about 167 million in 2000, and is projected to increase to 231 million in 2015. For more than two decades, the population of the region has been growing by an annual rate estimated at 2.9 per cent. The average annual rate of population growth is projected to decline from 2.9 per cent to 2.2 per cent by 2015. The region's total fertility rate is 4.1 in 2000 and is projected to drop to 3.3 in 2015. At the regional level, life expectancy at birth was 71.1 in 2000 and is projected to increase to 73.4 years in 2015. The situation of high fertility combined with low mortality has led to an imbalance in the age structure of the population and created a population momentum phenomenon. There are two implications to this population momentum. First, the youthful age structure will guarantee that the absolute number of births will be high even if the total fertility rate is declining. And second, the increase in working age population will exert high pressure on the absorption capacity of the labour market. Therefore, an early stabilization (over a 20-year period) of population will make a crucial contribution to realizing the objective of sustainable economic development.

70. As for population stabilization, unless comprehensive macro-level measures that target women at various micro- and household levels are taken at the regional level, the total fertility rate will remain well above the stabilization level of 2.1 children per woman until 2015. High fertility rates are often associated with a low level of female participation in the labour force.

71. Although investment in education has over the years improved, as reflected by the increased overall access to education for both women and men in the ESCWA region and the Arab World as a whole, education seems to be insufficiently associated with fertility in the region. An improved secondary enrolment ratio is combined with persistent high fertility rates, suggesting that while education is a necessary prerequisite for population stabilization it is not sufficient to bring about a drastic decline in total fertility from a high to a low level. The level of women's employment and their education are two inseparable, interrelated variables that will determine their decisions on the desired number of children.

72. Marriage patterns in the region reveal that in the 1990s the mean age at first marriage in seven ESCWA countries was below 22.5 years, with total fertility rates ranging between 4.1 and 7.3 per woman. However, in the rest of the region the mean age at first marriage ranged between 23 and 25 years — still much younger than the average of countries with similar per capita GNP levels in other regions of the world. Also, the male-female gap in age of marriage is still wider in the ESCWA region than in other regions, suggesting that the reproductive span of an Arab woman is still very long, and since birth spacing is a recent practice in many ESCWA member countries, fertility rates will remain high for many years to come. Examination of contemporary methods of family planning reveals that use of contraceptives at the regional level was as low as 28 per cent in 1985 but had increased to 40 per cent by 1997. Also, association between contraception and fertility is weak due to deficiencies in knowledge and information.

73. The consequences of weak interaction between socio-economic forces and fertility are illustrated by the visible imbalance in the structure and composition of population. Even though the share of children under age 15 fell, at the regional level, from 41.0 per cent in 1990 to 40.0 per cent in 1995 and 38.1 per cent in 2000, and will fall further to 32.6 per cent in 2015, the absolute number of population under 15 increased from 45.6 million in 1995 to 63.5 million in 2000, and is projected to increase by a gross increment of

29.6 million to reach 75.3 million by 2015. The share of youth (15-24) is currently 18.6 per cent of the total population at the regional level, and will remain almost constant over the period. The process of demographic transition has a direct impact on the labour force participation rate. Even if fertility rate in the region declines, there will still be a process of delayed response in terms of labour supply, particularly the supply of first-time job seekers. This is estimated to last from 10 to 25 years, and the labour force is projected to continue to grow at over 3 per cent annually until 2015.

74. Labour supply exceeds the demand for female labour force in almost all ESCWA member countries, creating a potential for further underutilization of the female labour force. The development of human resources cannot be accomplished without gender equality. Sustainable human resources development implies including gender in the development paradigm.

75. At the dawn of the new millennium, the imbalance between social and economic development, which was initially created by the sudden upsurge in oil revenues in the 1970s, has not yet been totally eliminated in the region despite significant improvement during the past few decades. The shortfalls of social development are more pronounced if the data are presented for each gender separately. When the ranking of ESCWA member countries on the human development index are subtracted from their ranking on the gender development index, the difference is negative in all member countries, indicating an insufficient level of gender mainstreaming in human development. Also, available data for some member countries indicate that their gender empowerment measure ranks are very low on the world scale.

76. During the past few decades, the ESCWA region has made a substantial increase in primary school enrolment rate for both sexes and the gender gap has been minimized, except in Yemen, where it is still significant, with a gross enrolment rate of 118 per cent for boys and 47 per cent for girls. The primary school drop-out rate is still relatively high in some member countries. In 1998, it was 28 per cent for Iraq and 53 per cent for Yemen.

77. Despite the improvement in total enrolment rates at the regional level, especially for the GCC countries, these rates remain significantly lower than those registered in countries with similar GDP per capita. In all levels of education, the female-to-male ratio has been constantly increasing during the past few decades, and at the university level, in a few Gulf countries, more women are enrolled in university than men are. However, almost all member countries have female enrolment rates (all levels combined) that are significantly lower than those registered in countries with similar GDP per capita. Also, the quality of education, particularly higher education, in the region is cause for great concern.

78. To meet the challenges of globalization, the skills of labour in the region need to be upgraded and improved to meet the requirements of the technological and information revolution. Concrete measures should be taken in that direction, as well as to improve education and technical skills. The ratio of technical training compared to formal secondary training is very low in most member countries, in particular in the GCC countries and Lebanon.

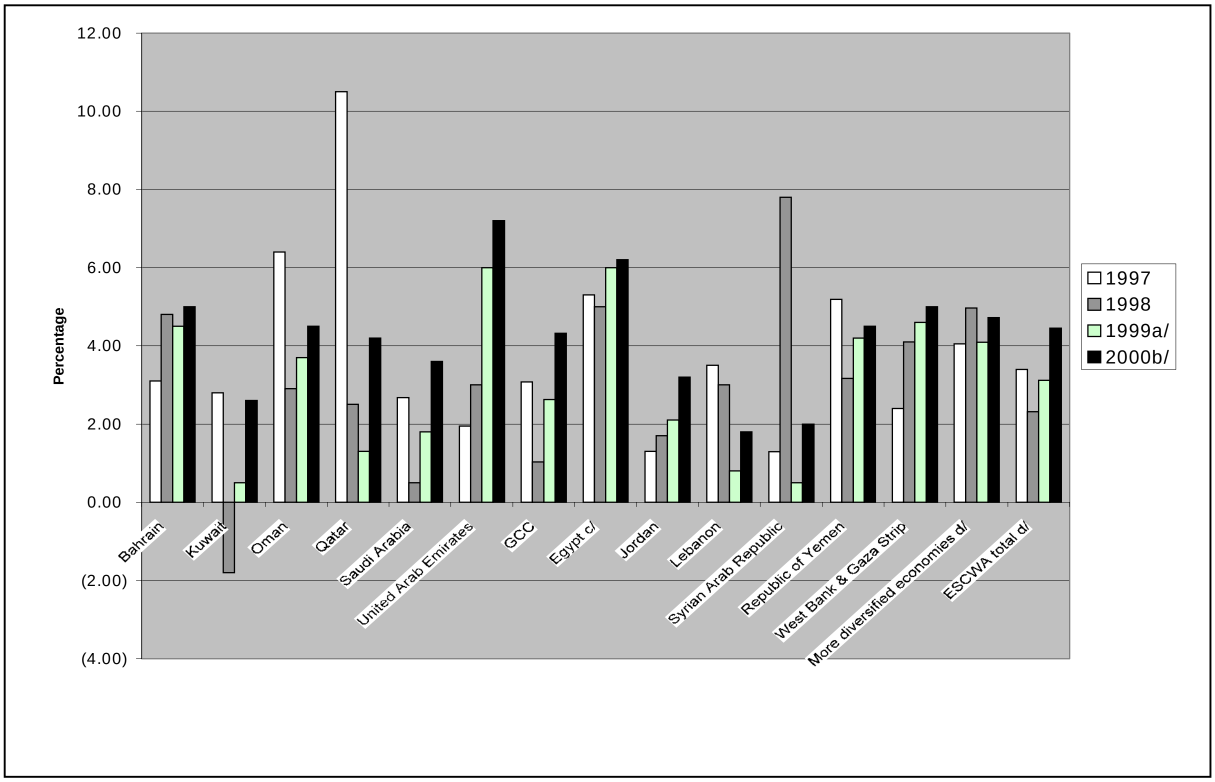
79. In the ESCWA region, non-governmental organizations, especially quality and gender-sensitive NGOs, are emerging as contributors to the process of democratization and as catalysts and agents of change in the participatory development model. Despite their diversity and the disparity in their objectives and instruments, most NGOs operate at the grass-roots level and are similar in orientation, inclusive in membership and pursue a participatory approach in their structure and management procedures. NGOs are participatory and gender-oriented, reaching out to meet the needs of all categories of citizens. In fact, in conflict-stricken Arab countries, women NGOs are very well organized and have replaced national Governments in providing services to citizens in times of conflict and need.

80. Globalization and democratization are among the serious challenges of the new millennium. The private sector and civil society (including NGOs) have emerged as central players, catalysts and agents of change, and have gained momentum in their efforts to raise awareness and to meet global challenges at the regional level. Their advocacy function carries special significance as we enter this new millennium.

81. The role of NGOs is of vital importance, and women in the ESCWA region can play multiple roles, in various ways: (a) as pressure groups (e.g., consumer groups); (b) as agents of change concerning fertility

control, education of girls, marriages, birth-spacing, family planning and other social issues; (c) as efficient service providers for developmental and welfare activities; and (d) as advocates for change with respect to human rights and legislation. The success of such a participatory development model depends on the way in which all parties, civil society, the State and the private sector interact towards a common goal. Gender mainstreaming in policies and programmes is imperative. The goal is to achieve balanced and truly sustainable development of the region, where women and men, youth and the elderly can contribute to the sustainability of participatory development.

Real GDP growth in the ESCWA region, 1997-2000



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

[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.