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SURVEY OF ECONOMIC AND SOCIAL DEVELOPMENTS IN THE ESCWA REGION 1999-2000

SUMMARY

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CONTENTS

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 the ESCWA members, excluding Iraq, grew by a rate of 3.12 per cent in 1999; this 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 GCC countries and the countries with more diversified economies, and among the members of each group. Estimates indicate that in 1999 the combined real GDP growth rate for the Gulf Cooperation Council (GCC) countries[1] as a group was 2.63 per cent, while the ESCWA members with more diversified economies,[2] 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.

Along with 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 the GCC countries benefited considerably from developments in the oil sector. 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, 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 varied 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 per cent or higher, while 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. 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 US$ 17.47 per barrel for 1999, which is about US$ 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 US$ 93.94 billion in 1999, a 35.8 per cent increase over the 1998 level of US$ 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.

The high rate of unemployment among youth is a serious problem in many ESCWA member countries. The youth unemployment rate is around three times as high as the rate for the total labour force. The situation is more serious for young women, as the share of first-time job seekers in the total unemployed female population is significantly higher than the equivalent rate for men, which means that young women are facing extreme difficulty in finding work after graduation. Women's share of the adult labour force in the labour-sending ESCWA member

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

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

countries ranges from 20 to 30 per cent; their 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 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 US$ 11 per barrel in 1999.

The performance of stock markets in the ESCWA region was mixed in 1999. Some markets benefited from higher oil prices and the return of investor confidence, while others were 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 around US$ 128 billion in 1998 to US$ 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 the GCC countries increased markedly in 1999. The current account positions of all countries in this group were significantly better in 1999 than in 1998. The increase in oil prices had a positive effect on the external accounts of the more diversified economies as well. The oil exporters in this group (Egypt, the Syrian Arab Republic and Yemen) benefited directly from the higher oil prices, and the group as a whole benefited indirectly through increases in their exports to the Gulf countries, larger workers' remittances and financial aid from GCC countries, as such flows are usually positively correlated with oil revenues.

Research and development expenditures as a percentage of gross national product (GNP) remained meagre, standing at around 0.2 per cent in many ESCWA member countries and below 0.05 per cent in some. The future of national systems of science and technology in the ESCWA member countries is highly dependent upon the graduates from institutions of higher learning and upon those who have completed technical and vocational training. Recent reviews of these institutions offer cause for both concern and a degree of hope.

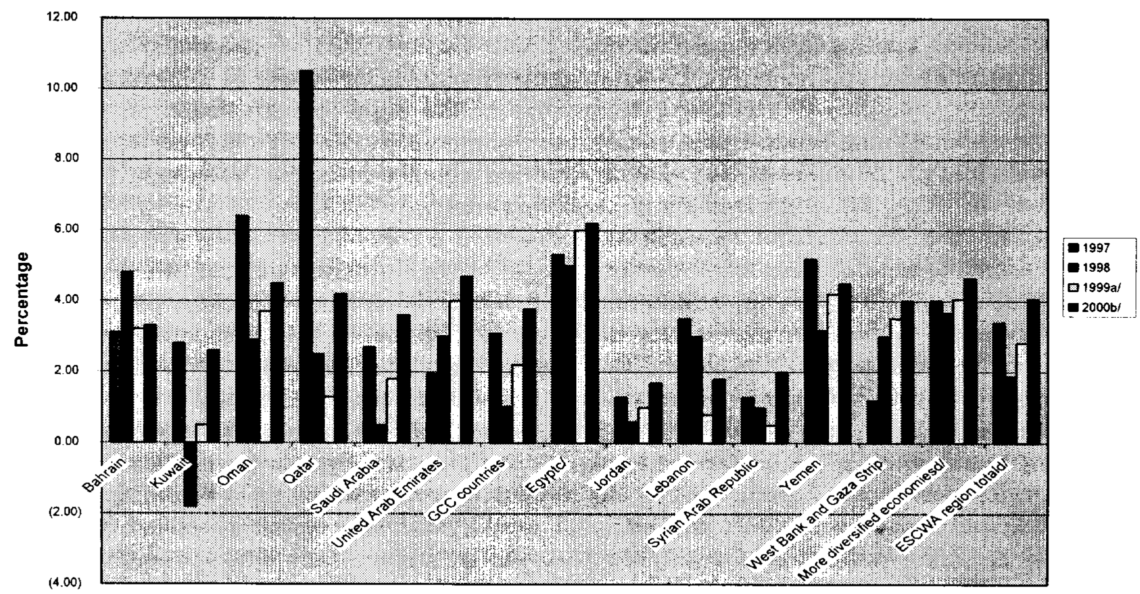
In the ESCWA region, non-governmental organizations (NGOs) are emerging as contributors to the process of democratization and as catalysts and agents of change in the participatory development model.

I. AGGREGATE ECONOMIC PERFORMANCE

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 GDP growth achieved by the region in 1997 (see the chart below).

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.

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



Source: ESCWA, based on national and international sources.

[a] Preliminary estimates.

[b] Projections.

[c] The 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.

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 was achieved 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—estimated at more than US$ 120 billion.

In 1999, the country reduced its oil production by almost 9 per cent in comparison with the 1998 level. Preliminary estimates indicate that the United Arab Emirates registered a real growth rate of 6 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 4.5 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, 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.

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 was 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 were 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 Arabian 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.

In Qatar real GDP grew by an estimated 1.3 per cent in 1999, in comparison with estimated growth of 2.5 per cent 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.

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.

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 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 per cent or higher, while Lebanon and the Syrian Arab Republic are estimated to have witnessed real GDP growth rates of 1 per cent or lower.

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 implemented 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 the country has been very successful in achieving its economic reform goals without major adverse social effects, because the growth process has been accompanied by social safety nets that have helped 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 163 companies belonging to the public sector currently show a profit. Furthermore, Egypt has been successful in attracting major foreign strategic investors such as the Aluminum Company of America (ALCOA), Nestlé, Daewoo and Alcatel, to name but a few. Foreign direct investment (FDI) inward stock increased from US$ 2.3 billion in 1980 to US$ 11 billion in 1990, reaching US$ 16.7 billion in 1998 after rising by US$ 1.1 billion from its 1997 level. FDI inflow is expected to have doubled in 1999 to around US$ 2 billion. 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. 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.

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 rose from 3.2 to 4.2 per cent, mainly owing to the performance of the country's oil sector, in which production increased by 5 per cent and prices rose sharply. 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 FDI inflows 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 4.1 per cent in 1998 and 4.6 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 1.7 per cent in 1998 and by 2.1 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.

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 US$ 20 billion mark during the latter part of 1999. The Government of Lebanon declared that it would endeavour to achieve 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.

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 considerable decline in the country's agricultural output 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.

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 restricted the country's trading activities and capital movement but also denied the Government of Iraq control over the country's oil revenues, economic conditions remained very poor.

Oil production in the region averaged 17.74 million barrels per day in 1999, a decline of about 3.3 per cent in comparison with the 18.35 million barrels per day 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 12.02 and 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 barrels per day, a figure around 20 per cent higher than the 2.11 million barrels per day 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, 650,000, and 500,000 barrels per day, respectively.

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 rate of women's participation 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 in the West Bank and Gaza Strip in 1999. Both benefited from an acceleration in economic growth. Nevertheless, given their relatively high population growth rates (3.5 per cent for both) and significantly higher labour supply growth rates, 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. These workers have contributed substantially to the economic growth and development of all GCC countries for the past three decades. However, as 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.

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 decree 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. It 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 preferential treatment 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 comprised more than 90 per cent of all 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 represent 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 newly established Economic Council plans to help create jobs for nationals by encouraging foreign and domestic investment and the replacement of expatriate workers with local citizens.

Four of the GCC countries, namely Bahrain, Kuwait, Oman and Saudi Arabia, have had inflation rates of 1 per cent or less 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; 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 except 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.

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, as 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. Economic activity remained sluggish in 1999; however, the severe drought experienced in the country sharply reduced output in the important agricultural sector and pushed overall prices upward by 1 per cent.

The rate of inflation in Jordan 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 downward trend continued in 1999, with inflation falling to an estimated at 2.3 per cent. Prudent monetary and fiscal policies contributed to the decline in inflation in the country.

The sharpest decline among ESCWA members in 1999 appears to have been registered 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 much 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

The effectiveness of monetary policy in most ESCWA member countries was enhanced during the period 1996-1999 by the introduction of new (as well as changes in existing) rules and regulations in the financial system. In a number of member countries, including 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, including Lebanon and the United Arab Emirates, have broadened the range of assets available to savers through financial instruments with market-determined rates.

Improving the mechanisms of monetary control, especially in the context of financial liberalization, has 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, legal reserve requirements have been made more uniform for institutions throughout the financial sector.

The decline in market liquidity in most of the member countries during 1998 and the first half of 1999 pushed up market interest rates in these countries, however. These rates stabilized during the second half of 1999, following the rise in market liquidity that accompanied the upturn in oil revenues in the GCC countries and the spillover from these countries to the other 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 (for example, Jordan and Oman) encouraged the banking sector to offer the public a range of competitive savings schemes with cash incentives and promotional prizes. In other member countries, including Egypt, Lebanon and Saudi Arabia, the monitoring of money and capital market operations by the central banks was enhanced; bank credit policies, asset quality, the quality of management, the credit appraisal system, adherence to central bank rules and regulations, and other issues relating to solvency, liquidity and general performance were carefully examined.

During the past few years, new fiscal policy trends emerged in most ESCWA member countries. In the GCC countries, the fluctuation in the price of oil, the major source of their budget revenues, necessitated a number of revisions in government spending priorities, the aim being to reduce the growth rate for budget expenditures and consequently the budget deficit. In the member countries with more diversified economies, significant efforts were made to put together deflationary budgets, in which 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 resource mobilization, such as improving tax collection methods, introducing new taxes and raising the rates of existing ones, and 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 for public utilities and services or by reducing subsidies and granting lower increases in public sector wages and salaries.

In 1999, a number of GCC countries, in particular Oman, Qatar and Saudi Arabia, planned to introduce legislative reforms aimed at encouraging foreign investment and thereby 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, at a broader level, to establish a solid economic foundation by strengthening the role of the private sector in such a way as to diversify sources of budget revenues.

Fiscal reforms in ESCWA member countries with more diversified economies have been designed to eliminate public finance imbalances, apply the principle of relative scarcity of resources, eliminate the squandering of government financial resources, and facilitate the move towards economic conditions under which public sector enterprises can become efficient and thus commercially viable. The reduction of indirect subsidies has become a major component of most of these countries' fiscal reform plans, with particular attention given to introducing efficient tax regimes, streamlining the civil service, strengthening fiscal administrative capacity and improving transparency in expenditures.

Despite the pledges from most Governments of ESCWA member countries to pursue privatization, their commitment to public investment has been largely maintained, with a rise of between 20 and 25 per cent in the category of public services. An examination of detailed expenditures indicates that in most member countries, in particular the GCC countries, the increase originates mainly from defence and other, unspecified items of expenditure, while spending on education and health services, for example, has 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 the light of the upturn in oil prices during the second half of 1999, given that the Governments had hoped to underwrite the expenditures budgeted for these two particular areas but had postponed doing so owing to low oil prices during the first half of 1999.

III. THE PERFORMANCE OF THE EXTERNAL SECTOR

The single most important external event that affected the region during 1999 was the phenomenal increase in oil prices during the second half of the year following the March 1999 decision by OPEC members to decrease 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 in the second quarter of 1999, the downward trend in their exports witnessed over the previous few 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 between 1997 and 1998. In Oman, oil exports rose 41 per cent between the first and second quarters of last year, after declining by 31 per cent in 1998 in comparison with 1997. The increase in oil prices and revenues had positive repercussions on the external accounts of the more diversified economies as well—either directly, for the oil exporters among them (Egypt, the Syrian Arab Republic and Yemen), or indirectly, through increases in their exports to the region, workers' remittances and financial aid from GCC countries, as such flows are usually positively correlated with oil revenues.

Many of the more diversified economies in the region rely on the GCC market for their exports; for Lebanon and Jordan, this market accounts for more than 40 per cent of total exports. However, as oil exports had not yet recovered at the beginning of the year, the share of intraregional exports in total exports for most of the more 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 increase its intraregional export share (by about 4 per cent) during this period. With the rise in oil prices, however, this situation is believed to have improved during the second half of 1999.

The region's international reserves, minus gold, 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 decline in its international reserves (by 17 per cent). However, reserves in Egypt were still covering a comfortable seven months of imports. The surge in Jordan's foreign currency reserves despite the country's weak current account performance is likely attributable to deposits made by various Arab countries in support of Jordan after the death of King Hussein in February of last year. At the end of 1999, import coverage was high in Lebanon and Jordan; it was also high in Kuwait but lower in other GCC countries.

The external debt situation in the member countries saw no major changes in 1999. Among 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 in Qatar, and continued to decline in 1998, except in Qatar and Yemen. Qatar's debt-to-GDP ratio reached 101 per cent in 1998, up from 79 per cent in 1996, and its debt service ratio was among the highest in the region, at over 12 per cent. In order to better manage its external debt, Qatar has adopted the strategy of diversifying its sources of international financing by funding new projects from external loans and bonds rather than relying exclusively on volatile oil and gas income. The latter is used to reinforce the State's reserves and cover its external debt repayments. Countries with 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.

The member countries remain committed to globalization. Jordan was accepted into the 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, as the country is resisting the reduction of its import tariffs to the requisite minimum and the opening of key sectors to foreign investment.

In November 1999, after almost two decades of debate, the GCC countries approved the establishment of a customs union by 2005. 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 (EU). However, the implementation process is likely to take some time owing to disagreements among GCC members about the speed and extent of the tariff reductions. The Arab countries had also agreed in 1997 to set up a greater Arab free trade area over a 10-year period starting 1 January 1998. Implementation has begun but is advancing slowly. Some ESCWA member countries are also part of the Euro-Mediterranean Partnership and have signed agreements to establish a free trade area between the EU and countries along the Mediterranean Sea by 2010. Among the ESCWA members, only Jordan and Palestine (the Palestinian Authority) have signed the Partnership agreements; Egypt, Lebanon and the Syrian Arab Republic are still in negotiations.

IV. SCIENCE AND TECHNOLOGY IN THE ESCWA REGION: AN ASSESSMENT

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

Research and development centres and institutions of higher learning are two of the best developed types of institutions within the national systems of science and technology in the member countries. Much greater effort is needed in creating instruments that complement traditional institutional forms; particular attention should be given to setting up standards, quality and calibration establishments; outreach and extension services; and institutional and regulatory arrangements for making venture capital available for science and technology capacity-building.

Research and development institutions in the member countries often have fragmented and unstable organizational structures, suffer from poor management practices, and operate under severe financial constraints; as a consequence, their contributions to priority socio-economic development issues tend to be limited.

Research and development expenditure as a percentage of GNP stands at around 0.2 per cent in many member countries and is below 0.05 per cent in some. The higher percentages of research and development expenditures pertaining in some of the ESCWA member countries are a mere one tenth of what many developed countries spend on research and development as a percentage of GNP.

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

The rate of women's participation in research institutions is higher in Egypt than in other ESCWA member countries. However, new employment opportunities made available by the creation of new standards, quality testing and allied institutions are being pursued by many more women than before in a number of ESCWA member countries.

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 into specialized science and technology publications. Considering the above-mentioned shortcomings in local research and development activity, it is hardly surprising that the output of such activities in the member countries tends to lag behind that of other countries and regional groupings. This is partly illustrated by the level of patenting activity in these countries.

The future of national systems of science and technology in the member countries is highly dependent upon the graduates of institutions of higher learning and of technical and vocational training institutions. Recent reviews of the state of these institutions offer cause for both hope and concern.

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

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 across all member countries, including the GCC countries.

In general, the financial resources being allocated to higher education are inadequate. This is particularly harmful for 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.

One of the more telling indicators of the access to and utilization of modern information sources is the number of top-level domain names (TLDNs) set up by a particular country on the Internet. The ESCWA members, whose total population constitutes 2.7 per cent of the global population, appear to have set up only around 0.05 per cent of the world's TLDNs. Wide variation pertains among the member countries; by January 2000, the Syrian Arab Republic was in possession of just one TLDN, while the United Arab Emirates had more than 19,700.

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

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

Interesting patterns in technology transfer activity are revealed by the contracts concluded during the period 1992-1999 by the member countries with suppliers providing technology embodied in equipment and services as well as know-how in numerous forms. The GCC countries, in particular Saudi Arabia and the United Arab Emirates, occupied a leading position in spending on technology transfer contracts. Combined, these two countries were responsible for as much as 56 per cent of the US$ 147 billion in contracts concluded by all of the member countries during this period.

Contracts involving infrastructure-building, with particular emphasis on telecommunications facilities, and industrial development activity appear to account for most of the expenditure between 1992 and 1999—around 62 per cent of the total value of all contracts concluded during this period. The total amount spent on communications infrastructure exceeded US$ 5.2 billion.

V. GENDER-SENSITIVE PARTICIPATORY DEVELOPMENT

There is a direct relationship between the process of gender mainstreaming and that of sustainable development. 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 the mainstreaming of a gender perspective into the policies, plans, programmes and projects of international, regional, national and non-governmental organizations. In the ESCWA region and worldwide, the marginalization of women and newer forms of social exclusion will persist, affecting poor and vulnerable women in particular. Globalization and structural adjustment present enormous challenges (including potentially adverse effects on gender relations) as well as a multitude of new opportunities for women and men in ESCWA member countries.

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

The population of the 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 region's population has been growing by an estimated 2.9 per cent per year. The average annual rate of population growth is projected to decline from 2.9 to 2.2 per cent by 2015. The region's total fertility rate is estimated at 4.1 for 2000 but is projected to drop to 3.3 in 2015. At the regional level, life expectancy at birth is estimated at 71.1 years for 2000 and is projected to increase to 73.4 years in 2015. The combination of high fertility and low mortality rates has led to an imbalance in the age structure of the population and has created a population momentum phenomenon. There are two implications here: first, the youthful age structure will guarantee that the absolute number of births will be high, even if the total fertility rate declines; second, the increase in the working-age population will exert high pressure on the absorption capacity of the labour market. Therefore, early population stabilization (over a 20-year period) will make a crucial contribution to realizing the objective of sustainable economic development.

Unless comprehensive macro-level measures (targeting women at various micro and household levels) are undertaken 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 low female participation in the labour force.

Investment in education has improved over the years, as reflected by the increase in overall access to education for both women and men in the ESCWA region and the Arab world as a whole. However, there does not appear to be a strong association between education and fertility in the region; improved secondary enrolment is combined with persistently high fertility rates. This suggests that while education is a prerequisite for stabilizing population growth, it is not sufficient for achieving a marked decline in total fertility. The levels of women's employment and education are two inseparable, interrelated variables that do affect their decisions regarding the desired number of children.

Marriage patterns reveal that in the 1990s the mean age at first marriage in seven ESCWA member countries was below 22.5 years, with the total fertility rate 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 lower than the average for countries with similar GNP per capita in other regions. The male-female gap in marriage age is still wider for the ESCWA member countries than for other country groupings. Because the reproductive span for an Arab woman is still very long, and because birth spacing is a recent practice in many ESCWA member countries, fertility rates will remain high for a considerable number of years to come. With regard to contemporary methods of family planning, statistics indicate that the use of contraceptives at the regional level rose from 28 per cent in 1985 to 40 per cent in 1997. Despite the increases in contraceptive use, fertility rates remain high owing to deficiencies in knowledge and information among women.

The consequences of weak interaction between socio-economic forces and fertility are illustrated by the visible imbalance in the structure and composition of the population. Even though the share of children under age 15 dropped, at the regional level, from 41 per cent in 1990 to 40 per cent in 1995 and 38.1 per cent in 2000, and is expected to decline further, to 32.6 per cent, in 2015, the absolute number of children 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 (aged 15-24) is currently 18.6 per cent of the total population at the regional level; this figure is expected to remain fairly constant over the period under review. The demographic transition process has a direct impact on the labour force participation rate. Even if fertility rates decline in the region, the reduction in the labour supply (in particular the supply of first-time job seekers) will be delayed by an estimated 10 to 25 years, and the labour force is projected to continue to grow by more than 3 per cent annually until 2015.

Supply exceeds demand for the female labour force in almost all of the member countries. This creates the potential for further underutilization of this group. A gender-mainstreaming development paradigm is a prerequisite for sustainable human resources development, as the latter cannot be achieved without gender equality.

At the dawn of a new millennium, the imbalance between social and economic development initially created by the sudden upsurge in oil revenues in the 1970s has not yet been totally eliminated in the region, though improvement during the past few decades has been significant. The shortfalls in social development are more pronounced for females, a fact made clear when data are presented for each gender separately. When the rankings of ESCWA member countries in the human development index (HDI) are subtracted from their rankings in the gender-related development index (GDI), the difference is negative in all cases, indicating an insufficient level of gender mainstreaming in human development. Available data for some member countries also indicate that their gender empowerment measure (GEM) rankings are very low on the world scale.

During the past few decades, the ESCWA region has seen a substantial increase in the primary school enrolment rate for both sexes, and the gender gap has been minimized, except in Yemen, where the gross enrolment rate is 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 in Iraq and 53 per cent in Yemen.

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 other countries with similar GDP per capita. At all levels of education, the female-to-male ratio has increased consistently during the past few decades, and in a few Gulf countries, more women than men are enrolled in universities. However, almost all member countries have female enrolment rates (all levels combined) that are significantly lower than those registered for other countries with similar GDP per capita. A significant amount of concern has also been expressed regarding the quality of education in the region, in particular that of higher education.

Labour skills need to be upgraded and improved if the region is to meet the challenges of globalization, including the requirements of the technological and information revolution. Concrete measures should be taken to achieve that goal and to improve education and technical skills. The ratio of technical training to formal secondary training is very low in most member countries, especially in the GCC countries and Lebanon.

In the ESCWA region, NGOs are becoming more active contributors to the democratization process and are evolving into catalysts and agents of change in the participatory development model. Despite the differences in their objectives and instruments, most of these NGOs operate at the grass-roots level, are similar in orientation, inclusive in terms of membership, and pursue a participatory approach at the structural and management levels. NGOs tend to be participatory and gender-oriented, with extensive outreach to meet the needs of all categories of citizens. In Arab countries, for example, women's NGOs have typically been very well organized and have often assumed the role of national Governments in providing services to citizens in times of conflict and need.

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, as catalysts and agents of change. NGOs have gained momentum in their efforts to raise the general level of public awareness and to meet global challenges at the regional level. Their advocacy function carries special significance as the world enters a new era.

NGOs play a vital role in society, and women in the ESCWA region can make use of this framework to effect changes in various ways: (a) as pressure groups (including consumer groups); (b) as agents of change in social development, focusing on areas such as fertility control, the education of girls, marriage, birth spacing and family planning; (3) as efficient service providers in connection with developmental and welfare activities; and (d) as advocates for change with respect to human rights and national legislation. The success of the participatory development model depends on the way in which all parties—civil society, the State and the private sector—interact as they work to achieve a common goal. Gender mainstreaming in policies and programmes is imperative. The objective is to achieve balanced and truly sustainable regional development through the joint efforts of people of all ages, including youth and the elderly, whether male or female, in order to create a "society for all".