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Summary of the survey of economic and social developments in the Economic and Social Commission for Western Asia region, 2000-2001

Executive Summary

Fuelled by the oil sector, economic growth accelerated in the Economic and Social Commission for Western Asia (ESCWA) region in 2000. Estimates indicate that the combined real gross domestic product (GDP) of the ESCWA members,[1] excluding Iraq, grew by a rate of 4.5 per cent in 2000. This was considerably higher than the growth rates of 1.7 per cent and 2.7 per cent registered in 1999 and 1998, respectively. The factor behind this acceleration in 2000 for the majority of members was the surge in oil prices and revenues. In the Gulf Cooperation Council (GCC) countries,[2] the contributions of economic reform and liberalization policies pursued by the Governments have also been important.

The real GDP growth rates varied significantly between the GCC countries and the ESCWA members with more diversified economies,[3] and among the members of each group. Estimates indicate that in 2000 the combined real GDP growth rate for the GCC countries as a group was 5 per cent, while in the more diversified economies, excluding Iraq, it was 3.7 per cent.

Estimates indicate that the region's oil revenues totalled $163 billion in 2000 — more than twice the 1998 level of $70 billion and 68.3 per cent larger than the 1999 level of $96.6 billion. The region's oil revenues in 2000 were far greater than the annual levels recorded during the 1990s, and were at their highest level since 1981, when they had totalled $171.6 billion.

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For most of the members with more diversified economies, labour-market conditions in the year 2000 remained generally unfavourable for job seekers. Economic growth was not sufficiently high to provide job opportunities for the unemployed and accommodate the rising number of new entrants to the labour market. In the GCC countries, however, employment opportunities for nationals improved notably in 2000, owing to a significant acceleration in economic growth and the continued application of labour indigenization policies.

Inflation rates remained low in the region, as both the GCC countries and the members with more diversified economies were able to keep inflation under control. Preliminary estimates indicate that most members had inflation rates of less than 3 per cent in 2000.

The monetary policies in ESCWA member countries continued in 2000 to be essentially targeted at maintaining the stability of the exchange rates. These policies contributed to ensuring relatively low and stable rates of inflation and maintained private sector confidence.

The jump in oil prices and production, and hence revenues, during the second half of 2000, enabled most GCC countries to finance the budget deficits that they had projected for fiscal year 2000. A number of these countries, particularly Kuwait and Oman, relied on modest oil price assumptions in their budget projections for fiscal year 2000, and hence actual oil revenues and subsequently budget revenues were significantly higher than originally projected. The considerably higher oil revenues allowed the GCC countries not only to increase capital expenditures, but also to reduce — or eliminate altogether — their respective budget deficits.

The overall trade performance in 2000 was again driven by the performance of oil exports in the region. Exports (including oil) of GCC countries are estimated to have increased by 56 per cent. Among the group of more diversified countries, the oil-exporting countries also registered high growth in their exports on account of high oil prices — 39 per cent for Egypt, 22 per cent for the Syrian Arab Republic and 72 per cent for Yemen. Other more diversified countries, however, had a relatively weak export performance — 7 per cent for Jordan and a low 3 per cent for Lebanon. The increase in oil prices and revenues led to increased economic growth and a rise in imports in the ESCWA region during 2000.

One of the most important issues for regional cooperation and integration is the facilitation of transport and trade between ESCWA member States. In 1999, the share of ESCWA member countries of their total exports did not exceed 5.5 per cent and their share of total imports was 9.3 per cent. Among the main reasons for this weak intraregional trade have been the complexity of border procedures, formalities and tariffs between ESCWA countries. Facilitation of international transport and trade entails a multifaceted approach that would involve improvements in the infrastructure as well as the operation of the integrated transport system.

Public expenditure on social support systems, particularly care for the elderly and disabled persons, was less than adequate in many countries of the region. On the other hand, non-governmental organizations in the ESCWA region have emerged in recent years as viable actors in the delivery of social services. Nevertheless, the expanded visibility of non-governmental organizations in public life, in particular their potential for playing a more proactive role in development — rather than undertaking gap-filling functions — has not yet been fully tapped.

[1] The ESCWA members are Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia, the Syrian Arab Republic, the United Arab Emirates, the West Bank and Gaza Strip, and Yemen.
[2] Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates.
[3] Egypt, Iraq, Jordan, Lebanon, the Syrian Arab Republic, the West Bank and Gaza Strip, and Yemen.

Contents

I. Aggregate economic performance

1. Fuelled by developments in the oil sector, economic growth accelerated in the region during 2000. Estimates indicate that the combined real gross domestic product (GDP) of the members of the Economic and Social Commission for Western Asia (ESCWA), excluding Iraq, rose by 4.5 per cent in 2000 (see table). The 4.5 per cent growth rate in 2000 was considerably higher than the corresponding rates of 1.7 per cent and 2.7 per cent registered in 1999 and 1998, respectively.

2. Real GDP growth rates varied significantly between the Gulf Cooperation Council (GCC) countries and the ESCWA members with more diversified economies, and among the countries of each group. Estimates indicate that in 2000 the combined real GDP growth rate for the GCC countries as a group was about 5 per cent, while the ESCWA members with more diversified economies achieved a 3.7 per cent growth rate. All of the GCC countries achieved higher real GDP growth rates in 2000 than in 1999. However, among the ESCWA members with more diversified economies, only Jordan, the Syrian Arab Republic and Yemen registered higher growth rates; the other three members saw their real GDP growth rates decline in 2000 owing to different factors.

3. For the majority of ESCWA members, the factor most responsible for accelerating economic growth in 2000 was the surge in oil prices and revenues, which began in March 1999 and continued through 2000. Unlike the previous year, the rise in oil prices in 2000 was accompanied by an increase, and not a decrease, in oil production. The direct and indirect impact of the oil sector's outstanding performance was particularly evident in the GCC countries, where oil has for the past several years accounted for more than 35 per cent of GDP, 75 per cent of government revenues and 85 per cent of exports.

4. The economic reform and liberalization policies pursued by the Governments of the GCC countries also contributed to the acceleration of economic growth in those countries. The implementation of policies designed to boost private sector participation in the economy and attract foreign direct investment (FDI) intensified in 2000. As a result of several years of economic reform and liberalization, Oman became the seventh ESCWA member to gain admission to the World Trade Organization. Saudi Arabia undertook major policy changes favouring economic reform and liberalization in 2000 in an effort to acquire World Trade Organization membership and achieve sustainable economic development. It should be noted that in 2000, unlike 1996, the jump in oil revenues did not divert the Governments of the GCC countries from the implementation of economic reform and diversification policies developed the preceding year. Higher oil revenues and an increase in government expenditures, coupled with a greatly improved investment climate, led to a notable increase in private sector activity in the economies of the GCC countries.

5. Estimates indicate that among the GCC countries, the highest economic growth rates in 2000 were registered in Qatar and the United Arab Emirates, and the lowest rates in Kuwait and Oman.

6. Estimates for the ESCWA members with more diversified economies, excluding Iraq, indicate that their combined real GDP grew by 3.7 per cent in 2000, a slightly lower rate than the 4.0 per cent registered in 1999. However, the rates of real GDP growth achieved in 2000 varied widely among the members of this group: Egypt, Jordan and Yemen are estimated to have achieved real GDP growth rates of 3.2 per cent or higher, while the Syrian Arab Republic is estimated to have witnessed real GDP growth of 2.5 per cent. Lebanon witnessed zero growth in 2000 and estimates suggest that real GDP declined by 3.5 per cent in the West Bank and Gaza Strip.

7. As for Iraq, economic growth is estimated to have increased, owing mainly to higher oil production and revenues. Nevertheless, the economic sanctions imposed by the United Nations since August 1990 have continued to depress economic conditions in the country. The sanctions not only restrict Iraq's trading activities and capital movement, but also deny the Government control over the country's oil revenues.

Real GDP and growth rates in the ESCWA region at constant 1997 prices, 1998-2001
(Millions of United States dollars and percentage)

						Percentage change			
Country/area	*1997*	*1998*	*1999*	*2000*[a]	*2001*[b]	*1998*	*1999*	*2000*[a]	*2001*[b]
Bahrain	6 349.0	6 653.1	6 915.9	7 199.5	7 487.4	4.79	3.95	4.10	4.00
Kuwait	30 020.0	29 479.6	29 627.0	30 693.6	31 461.0	(1.80)[a]	0.50[a]	3.60	2.50
Oman	15 837.0	16 264.6	16 105.2	16 588.4	17 251.9	2.70	(0.98)	3.00	4.00
Qatar	11 298.0	12 248.2	12 676.8	13 437.5	14 270.6	8.41	3.50[a]	6.00	6.20
Saudi Arabia	146 494.0	148 837.9	149 433.3	157 054.4	162 551.3	1.60	0.40	5.10	3.50
United Arab Emirates	50 394.0	50 494.8	50 747.3	53 690.6	54 227.5	0.20	0.50	5.80	1.00
GCC countries	260 392.0	263 978.2	265 505.5	278 663.9	287 249.6	1.38	0.58	4.96	3.08
Egypt[c]	75 617.0	79 851.6	84 642.6	88 874.8	92 874.1	5.60	6.00	5.00	4.50
Jordan	6 976.0	7 178.3	7 400.8	7 689.5	7 920.1	2.90	3.10	3.90	3.00
Lebanon	14 865.0	15 311.0	15 464.1	15 464.1	15 773.3	3.00	1.00	0.00	2.00
Syrian Arab Republic	16 613.0	17 875.6	17 536.0	17 974.4	18 603.5	7.60	(1.90)	2.50	3.50
West Bank and Gaza Strip	4 170.0	4 571.2	4 893.0	4 721.7	4 910.6	9.62	7.04	(3.50)	4.00
Yemen	6 627.0	6 946.4	7 097.9	7 325.0	7 544.7	4.82	2.18	3.20	3.00
More diversified economies[d]	124 868.0	131 734.0	137 034.3	142 049.3	147 626.4	5.50	4.02	3.66	3.93
ESCWA region[d]	385 260.0	395 712.2	402 539.8	420 713.2	434 876.0	2.71	1.73	4.51	3.37

Source: ESCWA, based on national and international sources.
Note: ( ) indicates negative growth.
[a] ESCWA estimates.
[b] ESCWA projections.
[c] The fiscal year for Egypt starts 1 July and ends 30 June.
[d] Excluding Iraq owing to the unavailability of reliable data.

8. Developments in the international oil market have considerable economic implications for the region. Of the 13 ESCWA members, only 3 — Jordan, Lebanon and the West Bank and Gaza Strip — are not oil exporters. The performance of the oil sector greatly affects government revenues and expenditures, budgetary positions, exports, economic growth, employment opportunities, intraregional trade, tourism, banking and expatriate remittances. The level of development aid provided by the GCC countries is closely tied to oil revenues. For example, during the 1980s, the GCC countries donated $45.3 billion in aid to developing countries in the region and elsewhere. With the lower oil revenues in the 1990s, they provided an estimated $18.4 billion in development aid. In 2000, the oil sector performed exceptionally well in most countries of the region. World oil prices surged by 58 per cent, and estimates indicate that the region's oil production increased by 6.3 per cent and its oil revenues by 68.3 per cent.

9. Estimates indicate that the region's oil revenues soared, totalling $163 billion in 2000. This was more than twice the 1998 level of $70 billion and 68.3 per cent larger than its 1999 level of $96.6 billion. Actually, the region's oil revenues in 2000 have been far greater than the annual levels recorded in the 1990s and at their highest level since 1981, when they totalled $171.6 billion. Preliminary estimates indicate that the combined oil revenues of the GCC countries amounted to $130 billion, an increase of $54 billion over the 1999 level. Saudi Arabia's oil revenues alone are estimated at $74.3 billion for 2000, which is about $31 billion more than the level for the preceding year.

10. For most of the ESCWA members with more diversified economies, labour-market conditions

remained generally unfavourable for those seeking work in 2000. Economic growth was not sufficiently high to create work opportunities for the unemployed and also accommodate the rising number of new entrants to the labour market. The chronic unemployment problem faced by these ESCWA members remains a difficult challenge, given the already large pool of job seekers. Unemployment rates published by official sources, though generally not low, are usually about a third lower than estimates made by independent sources in most of the member countries with more diversified economies. Nevertheless, the respective Governments are aware of the problem and its potentially dangerous economic, social and political effects, and have thus undertaken specific measures to address it. The rate of women's participation in the labour force continued to rise only modestly, so the proportion of women in the labour force remained relatively low in 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, the share is even lower, ranging between 11 and 20 per cent. Developments in the labour markets in 2000 differed between the members with more diversified economies and the GCC countries, and among the members of each group.

11. By far the most adverse developments in the labour market in 2000 took place in the West Bank and Gaza Strip. One of the effects of the closure of these areas by Israeli authorities has been the instant additional unemployment of about 125,000 workers with jobs in Israel. The unemployment rate in the West Bank and Gaza Strip was estimated at 11 per cent during the first half of 2000; in the second half of the year, during border closures, the unemployment rate was estimated to have reached close to 30 per cent. Such a high rate would easily increase the proportion of the area's population living in poverty from 21 to 28 per cent, according to World Bank estimates.

12. In the GCC countries, the labour market is of a different nature: expatriate workers account for a major share of the total labour force, ranging from about 33 per cent in Bahrain to almost 90 per cent in the United Arab Emirates. Expatriate workers hold a variety of jobs, ranging from those that are relatively low-paying and require minimum skills and education to professions that require the most technically advanced knowledge and experience. In most cases, GCC nationals refuse to accept low-paying manual jobs that require minimum skills. However, they often lack the technical skills required for high-paying positions. Over the years, however, more and more GCC nationals have acquired the education and skills needed for the better-paying jobs. The population growth rates for nationals of the GCC countries are among the highest in the world, averaging more than 3.5 per cent annually. With an average of about 70 per cent of the GCC countries' population under age 30, the population and the national labour supply will continue to grow at relatively high rates for many years. The Governments of the GCC countries are aware of the need to create employment opportunities for their nationals. Moreover, the large sums of capital transferred out of the GCC countries annually as remittances by expatriate workers have given the authorities an added incentive to intensify their labour-force indigenization efforts and replace expatriate workers with nationals whenever feasible.

13. Inflation rates remained low in the region, as both the GCC countries and the ESCWA members with more diversified economies were able to keep inflation under control. Estimates indicate that most ESCWA members had inflation rates of lower than 3 per cent in 2000.

14. Inflation rates in the GCC countries ranged from 0.8 per cent in Bahrain to 2.6 per cent in Kuwait, according to preliminary estimates. Since the currencies of all the 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), they appreciated notably in 2000 along with the United States dollar versus most other currencies, including the euro, individual European currencies and the Japanese yen. This reduced the costs of imports from Europe, Japan and other trading partners, in terms of local currencies, which helped maintain inflation rates at relatively low levels. Nevertheless, and as a direct consequence of considerably higher government expenditures and private sector consumption, inflation rates are preliminarily estimated to have risen slightly in five of the six GCC countries in 2000.

15. Estimates indicate that Lebanon had the lowest inflation rate among the members with more diversified economies. In fact, the inflation rate of negative 0.8 per cent estimated for Lebanon was the lowest in the region in 2000. Yemen and the West Bank

and Gaza Strip had the highest inflation rates in the region, estimated at 8.5 per cent and 8 per cent, respectively.

16. Economic developments and growth in the ESCWA region in 2001 will be greatly affected by the following factors: (a) developments in the energy (oil and gas) sector; (b) developments pertaining to the economic sanctions imposed on Iraq since 1990; (c) progress in the Middle East peace process; (d) the speed and success of privatization and the implementation of economic reforms by ESCWA members; (e) FDI inflows; (f) the scarcity of water and its impact on agricultural output for several ESCWA members; and (g) the promotion of information and communication technologies (ICT) and electronic commerce.

17. The oil sector in the region is expected to perform fairly well in 2001, though not as well as in 2000. The region's oil production is projected to be reduced so as to maintain the average oil price per barrel (b) at about $24 to $25. Meanwhile, the average price of the Organization of the Petroleum Exporting Countries (OPEC) crude oil basket is projected to be about $25/b in 2001, which is about 9.4 per cent below the $27.6/b level for 2000. Since both oil production and prices are projected to decline in 2001, oil revenues are expected to be lower than in 2000. Nevertheless, oil revenue levels are still projected to remain significantly higher than their 1999 level, and are expected to boost economic growth and development, particularly in the GCC countries, and would have positive effects on government budgets and public debts.

18. Economic reform and privatization are expected to accelerate in the region in 2001. Countries such as Lebanon and Saudi Arabia that are applying for World Trade Organization membership are likely to speed up their economic reforms and introduce legal and regulatory changes that will encourage trade and investment. Privatization is expected to accelerate in Egypt and Jordan and be introduced in Lebanon in 2001.

19. Real GDP is expected to grow by 3.4 per cent in 2001 in the region, and hence exceed the population growth rate of 2.5 per cent for a second consecutive year. Though this growth would be below that recorded in 2000, it remains higher than that achieved in 1999 and in 1998.

20. Labour-market conditions for GCC nationals will continue to improve significantly in 2001. Higher government expenditures, increased FDI inflows, a more committed private sector and the continued application of labour-force indigenization policies will further boost demand for national workers. Labour-market conditions are also expected to improve for the members with more diversified economies, though only modestly, given the sizeable pool of unemployed and the large annual additions to the labour supply. Higher economic growth, coupled with policies aimed at combating unemployment such as those adopted in Egypt and the Syrian Arab Republic, will contribute to an improvement in labour-market conditions. Jordan will also continue to benefit from the success of its qualified industrial zones (QIZs) and from making Aqaba a free trade zone. The tourism sector will provide a significant share of new employment opportunities for almost all of the members with more diversified economies.

21. Inflation rates for most members are expected to remain under control in 2001, as Governments will likely maintain prudent monetary and fiscal policies. However, economic growth and higher import prices will combine to nudge inflation rates upward in the GCC countries. Nonetheless, inflation rates in those countries are likely to remain among the lowest in the world. For most of the ESCWA members with more diversified economies, inflation is also expected to remain generally under control, with rates of about 3 per cent or less.

II. Monetary, fiscal and financial developments

22. The monetary policies in ESCWA member countries continued in 2000 to be essentially targeted at maintaining the stability of the exchange rates. These policies contributed to ensuring relatively low and stable rates of inflation, and maintained private sector confidence.

23. The effectiveness of the monetary policies in the region in 2000 was enhanced by the reform of the financial sector in most ESCWA member countries. These reforms, which started in the early 1990s, aimed at improving the process of mobilization and allocation of financial resources for development and strengthening the system of monetary control. To this

end, the role of market forces in determining the interest rates and the credit allocation was enhanced, particularly in Egypt, Jordan, Oman and Yemen. Significant progress was made in liberalizing the interest rate structure in these countries. The focus was initially on the deposit rates and on reducing the scope of preferential rates, particularly for the public sector, especially in Egypt and Jordan.

24. The variety of assets available to the domestic public was broadened, particularly in Jordan, Lebanon and most of the GCC countries, particularly Kuwait and Saudi Arabia. This was carried out through the introduction of new financial instruments with market-determined rates. These instruments included a variety of certificates of deposits, negotiable treasury bills and notes, commercial papers and other market derivatives. Most ESCWA member countries, particularly Jordan, Lebanon and Oman, also made significant progress in strengthening their respective financial systems by increasing the paid-up capital of their financial institutions, and achieving improvements through prudent regulations and supervision.

25. In 2000, most ESCWA member countries enhanced efforts aimed at improving the mechanisms of monetary control, especially in the context of financial liberalization. The efforts concentrated on moving away from quantitative credit restrictions towards indirect instruments of monetary control, such as the rediscount instrument which was made more sensitive to market conditions in most ESCWA member countries. In Jordan, Kuwait and Oman, the sale and repurchase of central bank papers and treasury bills were used more widely than previously in liquidity management.

26. In the GCC countries, the de facto pegging of the currencies of these countries to the United States dollar required the domestic interest rates to follow closely the movements of interest rates on the dollar; hence, interest rates in these countries increased in line with the rise in interest rates in the United States of America in 2000. A stable exchange rate and a similarly stable monetary environment, including the elimination of inflationary pressures as well as initiatives for privatization of some of the public sector companies, contributed to bringing about a favourable climate that encouraged the repatriation of financial resources to these countries from abroad.

27. The policies of supporting the national currencies of ESCWA member countries to maintain the regime of pegging their currencies to the United States dollar, in other words, to maintain a generally stable exchange rate against the United States dollar, could result in some negative implications for these countries. This is because such a regime would have to rely on interest rate and foreign exchange intervention to keep the exchange rate of the national currency within a fixed or moving band in the exchange-rate regime. Expecting that the band would hold, banks in ESCWA member countries with such an exchange-rate regime might borrow dollars or use the dollar deposits of their customers to buy high-yielding government bonds and/or treasury bills and notes denominated in the domestic currency of their country. A devaluation of this currency would result in the banks' being left with significant losses in United States dollars, thus forcing the central bank to intervene to help to soften the resulting problems for those banks, by using its international reserves. This is what actually happened in Egypt in 2000, when the Central Bank of Egypt was forced to intervene in the foreign exchange market to help the banks compensate for their dollar losses and meet the demand of the public for foreign currencies.

28. The decline in market liquidity, inter alia, resulting from a fall in the growth of money supply, in most ESCWA member countries during the first half of 2000 was matched by a similar fall in the growth rate of bank credit and bank liquidity. In addition to the changes in the composition of government expenditures, other factors that contributed to the fall in the growth of money supply included restraints in bank credit, exercised through a number of statutory measures (such as changes in interest rates and reserve or liquidity ratios and credit ceilings), the sale of treasury bills and bonds and an increased outflow of liquidity in the form of current and capital transfers for external transactions.

29. In Jordan, Kuwait and the United Arab Emirates, a series of measures were undertaken to regulate liquidity and improve monetary management. The measures included the introduction of a system that provided for a variety of liquidity ratios in the structure of bank deposits and for the maintenance of a certain ratio of bank current accounts in cash, of time and savings deposits with the central banks, or of current deposits with other domestic banks. In Lebanon, Oman and Saudi Arabia, the measures also included currency

swap arrangements with other domestic banks, involving buying and selling of foreign currencies in order to minimize the risk of fluctuations in the value of the national currency versus the United States dollar.

30. The monetary policies just mentioned were further pursued during the second half of 2000, following the relative rise in market liquidity that accompanied the upturn in oil revenues in the GCC countries and the spillovers from these countries to other ESCWA members. The Central Banks of Jordan and Oman encouraged the banking sector to offer the public a range of competitive savings schemes with cash incentives. In other countries, such as Lebanon, Qatar and Saudi Arabia, the monitoring of money and capital market operations by the central banks was enhanced. In Bahrain, Jordan and Kuwait, a careful examination was made concerning bank credit policies, asset quality, quality of management, the credit appraisal system, adherence to central bank rules and regulations, and other issues related to insolvency, liquidity and general performance.

31. In ESCWA member countries, such as Jordan, Kuwait and Saudi Arabia, that experienced growth in money supply M_1 (that is to say, money supply in its narrow definition), the growth was attributed partly to the expansion in bank credit to both the public and private sectors, and partly to the expansion in net foreign assets, derived from external aid and grants in the case of Jordan, and from the rise in the foreign exchange portfolio, caused by the rise in oil revenues, in the case of Kuwait and Saudi Arabia.

32. Time and savings deposits in Egypt and Jordan witnessed substantial increases, following certain steps in the liberalization of currency regulations. However, money supply M_1 remained a major function of budgetary outlays in both countries.

33. The jump in oil prices and production, and hence revenues, during the second half of 2000 enabled most GCC countries to finance the budget deficits that they had projected for fiscal year 2000. A number of these countries, particularly Kuwait and Oman, relied on modest oil price assumptions in their budget projections for fiscal year 2000, and hence actual oil revenues and subsequently budget revenues were significantly higher than originally projected. The considerably higher oil revenues allowed the GCC countries not only to increase capital expenditures, but also to reduce — or eliminate altogether — their respective budget deficits.

34. Total expenditures in the budgets of the GCC countries as a group were projected at about US$ 95 billion in fiscal year 2000, up by about 6.5 per cent over 1999 (US$ 89 billion), whereas total revenues were set to increase by about US$ 5 billion from US$ 73 billion in 1999 to US$ 78 billion in 2000, resulting in a combined budget deficit of about US$ 17 billion. During the past few years, the ratio of the budget deficit to GDP was on a downward trend for this group of ESCWA member countries. However, in most of these countries, the budget deficit/GDP ratio is expected to have turned into a budget surplus/GDP ratio in fiscal year 2000, in light of the preliminary actual budget surpluses arising as a result of the surge in the budget oil revenues during the second half of the year.

35. In 2000, most of the GCC countries institutionalized the cost-cutting measures that had been introduced in 1999 concerning project spending, while current expenditures, particularly expenditures on wages and salaries and defence and security, remained untouched. Consequently, the aggregate ratio of capital expenditures to GDP for these countries dropped from an estimated average of about 7 per cent in 1999 to about 4 per cent in 2000, while the aggregate ratio of current expenditures to GDP increased from an estimated level of about 35 per cent to an estimated level of about 39 per cent in 2000.

36. There has been a growing awareness in the GCC countries of the need for greater fiscal discipline in order to reduce dependence on the volatile oil revenues. These revenues have constituted an average of about 80 per cent of total budget revenues. The government decision in 2000 in a number of these countries, particularly Kuwait, Saudi Arabia and the United Arab Emirates, to raise the prices and user fees for public services and utilities, has been regarded not only as an indicator of the plan for domestic budget revenues to play an important role in the financing of budget expenditures, but also as a long-term fiscal policy aimed at establishing a more diversified domestic revenue base. Efforts have been made to halt the rise of domestic indebtedness, ensure macroeconomic stability, and maintain confidence in the domestic financial system.

37. The GCC countries, however, do not appear to be anticipating that the revenues generated from the rise in the prices and user fees for public services and utilities would add significantly to the budget revenues. Rather, the revenues generated would be considered a component and reflection of the much larger efforts undertaken by the Governments of these countries to prevent wastes and rationalize consumption, particularly of electricity, water and gasoline, and to eliminate the subsidies allocated for these and other items in the budget.

38. The 2000 budgets of most ESCWA member countries with more diversified economies continued to be deflationary, with expenditures rising at a rate below that of inflation, thus reducing expenditures in real terms. This group of ESCWA members, however, continued in 2000 to look for alternative means to reduce their budget deficits, either by increasing domestic revenues through a reform of revenue-raising measures or by reducing expenditures through reducing subsidies or debt-service payments. Indeed, domestic revenues in the budgets of Egypt, Jordan and the Syrian Arab Republic almost completely cover their respective budget current expenditures. Domestic and external borrowing of these countries as well as the foreign aid and grants received appears to be utilized solely to finance capital expenditures.

39. ESCWA member countries with more diversified economies have increasingly resorted 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 government bonds and treasury bills. These measures are expected to continue in the future, as Governments seek to compensate for declines in import tariff revenues caused by implementing World Trade Organization policies.

40. The fiscal reforms undertaken during the past few years by ESCWA member countries with more diversified economies were designed to eliminate public finance imbalances, observe the principle of relative scarcity of resources, and facilitate the move towards economic conditions under which private sector enterprises could become efficient and thus commercially viable. The reduction of indirect subsidies has become a major component of most of the fiscal reform plans of this group of the member countries, with particular attention given to introducing efficient tax regimes, streamlining the civil service, strengthening fiscal administrative capacity and improving transparency in expenditures.

41. In 2000, despite the rise in oil prices, most of the stock markets in the ESCWA region performed unsatisfactorily. The exception has been the Saudi Arabian stock market which ended the year with positive gains. The Egyptian stock market recorded the most negative performance with a decline of close to 40 per cent, followed by the Amman Bourse with a decline of about 20 per cent.

42. The Governments of most ESCWA member countries appear to have kept a tight rein on budget expenditures, thus reducing a positive impact on private sector activities that may have arisen from the higher oil prices. Consequently, business sentiment in the stock markets of these countries was kept subdued. The new Palestinian uprising (intifada) and the escalating regional tensions during the second half of 2000 have cast a shadow on the activities of stock markets in the ESCWA region. Furthermore, the lack of sufficient transparency, the poor information flows, the absence of new entries with large capitalization and the slow movement in the privatization process have all added to the poor performance of most of the stock markets in the ESCWA region.

43. The reform of the monetary system in ESCWA member countries is expected to continue in 2001 and during the next few years. If Governments in the GCC countries do not curtail their planned expenditures in 2001 in line with projected reductions in respective oil revenues, budget deficits will tend to widen again.

44. The outlook for stock markets in the ESCWA region is mixed. It is expected to remain weak during the first half of 2001, but there are good prospects for a turnaround in the second half. Several factors are likely to impact this outlook. First, the cut in the interest rate of the United States Federal Reserve System in early 2001 points to a downward direction in the development of the interest rates in the United States in 2001. This is likely to bias interest rates downward in the domestic markets of ESCWA member countries, given that the currencies of these countries are directly or indirectly pegged to the United States dollar. Historically, there has always been a positive correlation between lower interest rates and the rise in the region’s stock markets. Second, the resolution of the current problems in the Palestinian territories and a return to the peace track, if and when it happens in

2001, would reflect positively on the region's stock markets, particularly in the West Bank and Gaza and in Jordan. Third, the continued commitment of ESCWA member countries to economic reform initiatives, such as the opening up to foreign investors in the GCC countries and enhanced privatization activities, for example, in Egypt, Jordan and Lebanon, would improve sentiments and attract financial resources, both local and foreign, to the region's stock markets. On the other hand, projected declines in the oil prices and revenues would have an adverse impact on the stock markets in the GCC countries.

III. External sector performance

45. During 2000, the ESCWA region was characterized by two main developments on the external front: a continuous increase in the price of oil; and a perceptible progress in the globalization process. Oil prices rose sharply during 2000, reaching their highest level since 1990. This resulted in positive repercussions in the financial situation not only of GCC countries, but also of diversified countries of the region. In contrast with 1996, the steep increase in oil prices did not divert Governments of GCC countries from implementing the economic reform and diversification policies developed. Efforts were directed at repairing the large deficits in the balance of payments resulting from the 1998 sharp deterioration of oil prices. Moreover, higher oil revenues and an increase in government expenditures, coupled with a favourable investment climate, led to a notable increase in the participation of the private sector in the economies of the GCC countries. The benefits of higher oil prices spilled over to the more diversified economies in the form of workers' remittances, tourism revenue, and investment.

46. Economic reform and liberalization policies were pursued by the Governments of most ESCWA member countries to keep pace with the globalization process. These included policies designed to boost private sector participation in the economy and attract FDI. In addition, several ESCWA member countries have taken steps to accelerate their accession to the World Trade Organization and the Euro-Mediterranean Partnership: Oman became the seventh ESCWA member to gain admission to the World Trade Organization; Saudi Arabia undertook major policy changes in foreign investment laws in an effort to acquire World Trade Organization membership; Lebanon and Yemen are amending their entire commercial laws and legislatives in order to join the World Trade Organization; Egypt has signed the Euro-Mediterranean Agreement; and Lebanon and the Syrian Arab Republic are actively negotiating with the European Union (EU). On the regional front, the Great Arab Free Trade Area (GAFTA) has been consolidated and tariff and non-tariff barriers have been reduced by 40 per cent as of early 2001. The year 2000 also witnessed the conclusion of many bilateral free trade agreements among ESCWA member countries.

47. The overall trade performance in 2000 was again driven by the performance of oil exports in the region. Exports of GCC countries are estimated to have increased by 56 per cent. Among the group of more diversified countries, the oil-exporting countries also registered high growth in their exports on account of high oil prices — 39 per cent for Egypt, 22 per cent for the Syrian Arab Republic and 72 per cent for Yemen. Other more diversified countries, however, had a relatively weak export performance — 7 per cent for Jordan and a low 3 per cent for Lebanon. The outlook for their exports should improve as higher oil prices feed into increased demand for Jordanian and Lebanese products in the Persian Gulf.

48. The increase in oil prices and revenues led to increased economic growth and a rise in imports in the ESCWA region during 2000, as repercussions of higher oil prices on the economy came with a lag. After experiencing a negative growth in imports during 1999, mainly driven by low oil prices in 1998 and low economic growth, the total imports of the ESCWA region (excluding Iraq and the West Bank and Gaza Strip) rose by 11 per cent in 2000. GCC countries registered a growth rate of imports of 12 per cent between 1999 and 2000, but the United Arab Emirates and Oman registered much lower rates than other GCC countries owing to relatively lower reliance on oil revenue. Imports of the more diversified economies grew at about 9 per cent between 1999 and 2000. Imports to Lebanon, however, came to a virtual halt during 2000 as the country was burdened by economic stagnation. Against a backdrop of weak import and economic performance, major reforms in import policies were undertaken in Lebanon by the new Government in November 2000 — the average tariff was reduced from 16 to a mere 6 per cent. A change in

policy direction was also perceptible in the Syrian Arab Republic towards the end of 2000.

49. The geographical distribution of exports in 2000 remained almost similar to that in the previous year. The share of total exports going to developing countries is relatively high especially among the more diversified economies. Oil-exporting countries, however, tend to export their oil to industrialized countries, mainly Japan, as well as to Asian economies. The more diversified economies are more diversified in respect of the geographical destination of their exports. Although a large share of their exports goes to the Middle East and Europe, these countries are expanding in new markets such as Asia, Eastern Europe and even Africa. The western hemisphere, however, remains untapped.

50. Intraregional exports increased by an estimated 2 per cent during the first two quarters of 2000, compared with the first two quarters of 1999. Among the GCC countries, the share of intraregional exports in total exports was highest for Bahrain (at 34 per cent), because of its more diversified export basis. Other GCC countries that were able to diversify their exports away from oil also had high shares of intraregional exports — 15 per cent for Oman and 9 per cent for the United Arab Emirates. These two countries also registered a high growth rate in intraregional exports, at about 16 per cent and 17 per cent, respectively. Moreover, these two countries accounted for a high share of intra-ESCWA exports — nearly 30 per cent of intra-ESCWA exports came from the United Arab Emirates and 16 per cent from Oman in the first two quarters of 2000.

51. Among the more diversified economies, intraregional exports are crucial for countries like Lebanon and Jordan, where they accounted for 40 per cent and 30 per cent of their exports, respectively, during the first two quarters of 2000. Lebanon has also registered the highest growth in intraregional exports, at 13 per cent, among the more diversified economies. This reflects Lebanon's ability to penetrate such markets, but it may also reflect that country's inability to compete in other markets. Egypt, however, has the highest level of exports to the region of all the more diversified countries — US$ 459 million, or more than double the amount of any other diversified economy — and the highest contribution to intra-ESCWA exports.

52. FDI increased during 2000, partly as a result of increased oil revenues and partly as a result of progress in structural reforms. Saudi Arabia attracted the most FDI of any ESCWA member country in 1999, with FDI inflows having reached US$ 4.8 billion in that year, compared with US$ 4.3 billion in 1998 and US$ 3 billion in 1997. Saudi Arabia still accounts for the lion's share of FDI to the region, of which it attracts two thirds. The next highest recipient in the region in 1999 was Egypt with an estimated US$ 105 billion, representing nearly a 40 per cent increase over the previous year. Bahrain and the United Arab Emirates are also among ESCWA member countries that registered an increased FDI inflow. Bahrain has concentrated efforts towards improving the environment for foreign business and has a credible legal system that allows foreign firms to resolve disputes satisfactorily. The United Arab Emirates continued their efforts to attract FDI, especially in Dubai, and took a major step towards becoming the regional centre for information technology (IT) on 30 October 2000, with the opening of the Dubai Internet City (DIC). Jordan and Oman, however, experienced a sharp decline in the inflow of FDI. While in Oman some of the decline resulted from the completion of the first phase of the partly foreign-owned Salalah container port in 1998, in Jordan the decline was associated with the deterioration in the security situation in the West Bank and Gaza. Nevertheless, Jordan is still attracting interest from foreign investors in the IT sector owing to its large pool of high-skilled workers.

53. Reforms in policies related to foreign investment intensified during 2000, partly to attract more foreign investment and partly as required by the World Trade Organization. A fundamental change of attitude towards the role of the private sector and FDI in development has emerged in a number of oil-exporting countries in the ESCWA region. Saudi Arabia has established a General Investment Authority and introduced in April 2000 a new foreign investment law aimed at improving the investment climate and attracting FDI. The new legislation removed some restrictions, including the ban on foreign ownership of property, the requirement for all businesses to have a Saudi Arabian sponsor, and the 49 per cent limit on foreign ownership of enterprises within Saudi Arabia. The new law provides incentives for long-term investment, inter alia, by reducing the top rate corporate profits tax on foreign companies from 45 to

30 per cent, thus making it the same as for national companies. In addition, the new law ensures simplicity and ease in the procedures of licensing and authorization.

54. Changes in the overall balance of payments are largely driven by changes in the price of oil, which affect not only the oil-exporting countries but also the more diversified countries. Efforts were directed this year at repairing the large deficits in the balance of payments experienced last year by GCC countries that had resulted from the deterioration of oil prices in 1998.

55. The current-account balance registered an improvement in 1999 for all countries of the ESCWA region for which data were available, although it was still in deficit for most countries. The improvement came about largely as a result of the surge in oil exports. In 1999, Saudi Arabia's current-account balance as a share of GDP dropped to a deficit below 2 per cent. Kuwait and Jordan had a current-account surplus, while Bahrain registered the highest deficit at 6 per cent of GDP. In Egypt, increased tourism, workers remittances, and export revenue were the main contributors to the narrowing of the current-account deficit between 1998 and 1999.

56. External debts were on the decline for all ESCWA member countries except Lebanon. The GCC countries used their increased oil revenue to reduce the external debt burden. The most highly indebted countries of the region remain Jordan, Qatar and the Syrian Arab Republic. Qatar's rising external debt is largely owing to the large financial costs involved in the development of the North Field — external debt surged from less than 17 per cent of GDP at the end of 1992 to 87 per cent of GDP at the end of 2000. Lebanon's indebtedness continued to increase as a result of high fiscal deficit, with net public debt as a share of estimated GDP having reached 150 per cent in 2000.

57. Commitment of ESCWA member countries to globalization and to the World Trade Organization is growing, with several concrete actions taken among member countries towards that end. After Jordan was accepted in the World Trade Organization in December 1999, it was the turn of Oman this year. Oman joined the World Trade Organization on 9 November 2000 after more than four years of preparatory negotiations, becoming the one hundred thirty-ninth member of the World Trade Organization. Oman had to undertake a series of changes in its policies in preparation for joining the World Trade Organization, including abolishing import fees on goods entering by sea, air or land; raising the limit on foreign business ownership to 70 from 49 per cent; and authorizing 100 per cent foreign ownership in certain financial services such as banking, insurance and brokerages beginning 2003. Oman will remain in a transition period for the first year of its membership, during which it will need to exhibit compliance with the general World Trade Organizaton terms.

58. The year 2000 was characterized by the conclusion of many bilateral free trade agreements between several Arab countries. These agreements are allowed under GAFTA and are certainly beneficial; however, they are not always consistent with each other. Not only have bilateral free trade agreements been reached among Arab countries, but Jordan has succeeded in securing a free trade agreement with the United States. The agreement was attained more rapidly than anticipated, and the United States Congress is expected to approve it in mid-2001. The agreement is only the fourth of its kind to be signed by the United States, following similar treaties with Canada, Israel and Mexico. It eliminates all tariffs on industrial and farm goods, and opens Jordan's services markets to United States companies. This free trade agreement between Jordan and the United States is additional to the qualifying industrial zone agreement that was signed several years ago.

59. Once again, trade performance of ESCWA member countries has been dominated by oil prices; but some efforts at diversifying exports, upgrading the technological content of exports, and integrating into the world economy are noticeable. Nevertheless, it is important that ESCWA member countries continue their effort in these respects.

60. There is a clear need in the ESCWA region to improve export competitiveness and export diversification. This will necessarily entail an upgrading of technology and labour skills and productivity, for all ESCWA member countries and, more importantly, for countries that are short in labour (for example, GCC countries). Such labour-scarce countries could then find a niche in products whose world exports are growing fast, such as electronics. Countries that are abundant in low-skill labour (for example, Egypt, the Syrian Arab Republic and Yemen) typically have low-cost but low-productivity labour.

These countries will also have to raise the productivity of their labour in order to become more competitive in the international market. This is especially important in textiles, for example, since these countries, which rely heavily on exports of textiles, may lose their export markets which have so far been protected by the Multi-Fibre Arrangement (MFA) scheduled to be fully dismantled during the present decade.

61. In order to achieve higher export competitiveness and diversification, several policies need to be implemented. First, domestic policies should try to attract FDI into export sectors, in order to enhance the potential for technology transfer that ESCWA member countries need. The Euro-Mediterranean Partnership provides an opportunity for this, given its specific provisions for technology transfer. Second, trade barriers among countries need to be lowered sharply to encourage deeper and less vulnerable trade integration with the rest of the world. The World Trade Organization provides a well-established framework for trade liberalization and for the credibility of such programmes. ESCWA member countries that are not yet members of the World Trade Organization (for example, Lebanon, Saudi Arabia, the Syrian Arab Republic and Yemen) should intensify their efforts to gain membership. Third, regional coordination arrangements that are currently being negotiated or implemented (the Euro-Mediterranean Partnership and the Great Arab Free Trade Area) need to be driven by a deep process of true economic integration in order to gain their full potential. Finally, Governments need to continue to invest in education, especially secondary education, and labour upgrading so as to improve labour productivity and thus the competitiveness of locally produced goods in both the domestic and international markets.

IV. Developments in the transport sector

62. One of the most important issues for regional cooperation and integration is the facilitation of transport and trade between ESCWA member States. In 1999, the share of ESCWA countries of their total exports did not exceed 5.5 per cent and their share of total imports was 9.3 per cent. Among the main reasons for this weak interaction are the complexity of border procedures, formalities and tariffs between ESCWA countries. Facilitation of international transport and trade entails a multifaceted approach that would involve improvements in the infrastructure as well as the operation of the integrated transport system.

63. The total length of the road network in the ESCWA region (excluding Iraq, Qatar and the West Bank and Gaza Strip owing to the lack of data) is approximately 316,000 kilometres (km), 46 per cent of which is in Saudi Arabia, representing an average increase of 8.5 per cent during the period 1995-1998. Only five countries in the ESCWA region have railway networks, namely, Egypt, the Syrian Arab Republic, Iraq, Saudi Arabia and Jordan. Total length of track is approximately 16,400 km (including the Higazi railway in Jordan). In Egypt the 9,300-km railway network carried about 97 per cent of total rail passenger traffic in the region, and 52 per cent of the total cargo movement. The region witnessed an average increase of 6 per cent of rail track length over the eight-year period from 1990 to 1998. Total passenger movement increased by 33.3 per cent, while cargo traffic rose only by 2.3 per cent during the same period.

64. The busiest seaports in the region were Dubai, Alexandria and Jeddah with 11,711, 4,581, and 4,324 ship arrivals in 1999, respectively, handling an annual total cargo traffic of 39,703,000, 28,056,000, and 17,895,000 tons, respectively. Dubai port emerged as a leading port in the region in container handling. It handled 3,060,000 total equivalent units (TEU) in 2000 despite the presence of emerging regional ports such as Salalah (Oman) and Khor Fakkan (United Arab Emirates) which handled 1,033,000 and 1,014,000 TEU, respectively. In January 2000, the total dead weight tonnage (DWT) of the merchant fleet in ESCWA was 11.67 million (only 2 per cent of the world total) for ships over 300 gross tonnage.

65. The highest aircraft movements (arrivals and departures) took place in Egypt, Saudi Arabia and United Arab Emirates. Abu Dhabi airport handled 3.8 million passengers in 1999, an annual increase of 15 per cent. Dubai airport handled 10.78 million passengers in 1999 and about 12 million in 2000. In Saudi Arabia, the construction of King Fahed Airport, located 50 km north of Dammam, cost about US$ 2 billion.

66. Transport has an important role to play in supporting sustainable development processes. The facilitation of international transport in the region will have a significant impact on improving

competitiveness in international trade of industrial and agricultural products and services that are much needed in the present context of globalization. Therefore, the development of an integrated transport system was a necessary step forward. Efforts to develop an integrated transport system in the region began more than 25 years ago. More recently, in May 1999, the member States issued a statement in which they agreed on the start of the development of the Integrated Transport System in the Arab Mashreq (ITSAM), and the adoption of the regional transport network. Efforts to develop the ITSAM have proceeded along three major tracks, namely, the regional transport network, the associated information system, and the methodological framework for policy analysis. Recent developments of ITSAM along these three tracks took place in 1999, in 2000 and in early 2001 and were endorsed by experts in the region who appraised them, expressed their satisfaction with the information system and modelling approach utilized, and supported the continuation of such developments until the model became operational. The experts further emphasized the importance and necessity of obtaining correct and accurate information in order to apply such models, and the importance of using them as decision support systems for policy makers concerned with the facilitation of transport and trade in the region. Such recent developments should contribute significantly to the ability to analyse policies and formulate action plans at the national and regional levels.

67. Looking at the operational and logistic aspects, transport and trade processes across borders are generally complicated in most of the developing nations for different reasons concerning, for example, technical controls and statistics. The process generally involves the exchange of information through several documents and forms among the trading partners, government authorities, shipping agents, freight forwarders, custom agents etc. The number of entities involved, as well as the number of steps required to complete the transaction, could exceed 40. The number of signatures could easily exceed 20. The existing inefficiencies can only harm national and regional economies. Regional cooperation and integration could be greatly enhanced through such facilitation. Transport experts and policy makers in the region have recently endorsed, in February 2001, 11 major recommendations of a recently completed study on the facilitation of international freight transport in the region. The six-volume study included a detailed field review of transport and trade procedures in five member countries, namely, Lebanon, Jordan, the Syrian Arab Republic, the United Arab Emirates and Egypt. It also involved a comparative analysis among the selected countries, and the identification of problems and causes. Based on the study, it is strongly recommended that each ESCWA member State establish a national committee for transport and trade facilitation, to be composed of representatives of all concerned parties, to address all issues including the simplification of procedures, transparency, development of legislation, human resources, institutional structures, agreements and conventions, multimodal transport and the application of advanced ICT.

68. The outlook for the transport sector in the region is generally positive. Most of the infrastructure has been constructed, except for the railway network. However, the existing facilities need considerable improvement and harmonization of their design, operation, and safety and maintenance standards as well as of their logistic procedures. In Yemen, the 175-km highway between Sayhut and Nashtoun on the east border with Oman is under planning; it would cost about US$ 114.3 million. In the Syrian Arab Republic, the largest project to go to a tender in 2000 was the Lattakia-Ariha 100-km highway, at a cost of US$ 250 million. In Egypt, the Qantara bridge across the Suez Canal linking Africa and Asia is under construction. In Lebanon, construction on the Arab highway will be completed in several stages. Saudi Arabia, the leading investor in railways in the region, started planning in the year 2000 to connect its east and west coasts by a railway route that would pass through Riyadh and would also serve the mining areas in the northern parts of the country. The Syrian Arab Republic is planning to invest US$ 160 million to build a railway route between Deir el-Zor and Bou Kamal and hence it would be linked with the Iranian border by passing through Basra. Another US$ 100 million is estimated to build the Aleppo-Midan Ikbis link, which would thus connect the Syrian and Turkish railway networks. Lebanon is currently considering the reconstruction of a railway link between Tripoli (Lebanon) and Akkari (Syrian Arab Republic).

69. Dubai port is expected to continue to be the leading port in the region, handling more that 3 million TEU of container traffic. Salalah (Oman) would continue to grow significantly to approach 1.9 million

TEU and Aden (Yemen) would reach 1.6 million TEU. Two major new Egyptian ports are currently under construction, namely, El-Ein El-Sokhnah and Sharq El-Tafreea'.

70. Plans are made to double the Abu Dhabi airport passenger capacity and increase its shopping and duty-free areas by 1,700 square metres (m^2) and 4,000 m^2, respectively, by the year 2004 at a cost of US$ 600 million. King Abdul Aziz airport in Jeddah will also undergo upgrading to increase its capacity by the year 2020 to 21 million passengers annually at a cost ranging between US$ 500 and US$ 600 million. Similarly, in Egypt, the Government is planning to increase the number of airports from 19 to 30 at a cost of about $1.2 billion. Most of the new airports will be constructed in accordance with the Build-Operate-Transfer (BOT) system.

71. The systematic gradual implementation of the recommendations arrived at by transport experts in the region, namely, the development of ITSAM, the regional agreement on international roads, transport facilitation and the application of ICT, should result in considerable improvements of international transport and trade in the region.

V. Building up social capital

72. Research and empirical evidence increasingly indicate that a sound investment in social capital provides a critical dimension for sustainable economic development; however, policy makers do not often give this the attention it deserves.

73. The rapidly changing demographic and social conditions and the political economy of the ESCWA region have led to a serious questioning of the sustainability and effectiveness of having central Governments in charge of production, distribution and monitoring of social service delivery. While central Governments increasingly have a strategic planning role, the scope for the participation of other social actors, namely, the private sector and civil society organizations, is expanding. There is therefore a need to capitalize on innovative and productive modes of partnership that would allow the most efficient, equitable and sustainable pattern of service delivery. These issues are at the core of social capital formation.

74. Public expenditure on social support systems, particularly care for the elderly and disabled persons, was less than adequate in many countries of the region, while the role of the family and the community (using primary bonding social capitals) in providing services to their members in need is being emphasized. The family occupies a position of central importance for society in the ESCWA region. Family and kinship relations permeate all levels and aspects of social life, with interaction between elements of the social fabrics and the overall political system. Family, as the primary form of "bonding social capital", is still a powerful and important cell for nurturing, education and caregiving. In war-torn members of the region, such as Lebanon and the West Bank and Gaza Strip, the family has played a crucial role in alleviating the negative effects and shocks resulting from armed conflicts. In armed conflicts, there is often found a tendency to withdraw to the family for protection, caregiving and safety, and to go back to forms of family and kinship group solidarity in order to adjust to the security-related and economic pressures.

75. Arab society has long paid special attention to the elderly. However, the demographic transformation in the ESCWA region indicates a rapid decline of children (aged 0-14 years) and an increase in the proportion of the working-age group (aged 25-64 years), accompanied by an increase in the relative weight of the elderly group (aged 65 years or over). This trend is likely to be maintained in the near future. These demographic transformations are adding to the burden on the family of providing care for the elderly, particularly when family size is being reduced. This, compounded by other social transformations, including industrialization and rapid urban growth, the erosion of traditional values, increasing costs of living and housing problems, has begun to reduce the family's capacity to provide proper care for the elderly and the needy in the ESCWA region.

76. The non-governmental organizations in the ESCWA region have emerged as viable actors in the delivery of social services. They have considerably increased in number, with an estimated increase from some 70,000 in 1994 to about 120,000 in 1998. The expansion in the numbers of non-governmental organizations has been matched by the expanded scope of their operations, budget and members on board (including volunteers and paid staff), that is to say, there has been what is known as a scaling up of the role of non-governmental organizations in development.

77. Nevertheless, the expanded visibility of non-governmental organizations in public life, especially their potential for playing a more proactive role in development — rather than undertaking gap-filling functions — has not been fully tapped yet. This remains conditional on institutional reforms, which allow for the solid and sustainable partnership among different actors to evolve in a productive pattern. This particularly concerns the changing role of local authorities in the region, which are assigned expanded responsibilities for urban social services, yet in parallel have limited financial, technical and institutional resources and political backing with which to efficiently deliver them.

78. The outlook for the future, both immediately and in the medium term, for most countries in the region does not indicate that the issue of building up social capital, for institutionalizing participatory development, will become the priority concern of planners and policy makers in the region. Thus, it should be stressed that sustainable participatory development would not, then, be fully achieved, as it remains conditional on political, economic and social, environmental and cultural sustainability. Good governance is the basis of political sustainability and people's participation. Without proper governance, social capital formation will be slow and not sustainable.