Distr.
GENERAL
E/ESCWA/ED/2001/5
18 April 2001
ORIGINAL: ENGLISH

ECONOMIC AND SOCIAL COMMISSION FOR WESTERN ASIA

SURVEY OF ECONOMIC AND SOCIAL DEVELOPMENTS IN THE ESCWA REGION 2000-2001

SUMMARY

United Nations
New York, 2001

01-0421

CONTENTS

EXECUTIVE SUMMARY

Fueled by developments in the oil sector, economic growth accelerated in the 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 and 2.7 per cent registered in 1999 and 1998, respectively. The main 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] economic reform and liberalization policies pursued by the Governments also contributed to growth.

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 was 5 per cent, while the members with more diversified economies, excluding Iraq, achieved a 3.7 per cent growth rate.

Estimates indicate that the region's oil revenues totalled US$ 163 billion in 2000—more than twice the 1998 level of US$ 70 billion and 68.3 per cent larger than the 1999 level of US$ 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 totalled US$ 171.6 billion.

For most of the members with more diversified economies, labour market conditions in the year 2000 remained generally unfavourable for those seeking work. 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 considerably in 2000, owing to the 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 ESCWA members with more diversified economies were able to keep inflation under control. Estimates indicate that most members had inflation rates of less than 3 per cent in 2000.

Monetary policies in ESCWA member countries continued to be essentially targeted at maintaining exchange rate stability in 2000. These policies helped ensure relatively low and stable rates of inflation and sustained 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 projected for fiscal year 2000. A number of these countries, in particular Kuwait and Oman, had based their budget projections on modest oil price assumptions; hence, actual oil revenues (a substantial contributor to budget revenues) were significantly higher than expected. The considerably higher oil earnings allowed the GCC countries not only to increase their capital expenditures, but also to reduce or eliminate their respective budget deficits.

Overall trade performance in 2000, as in past years, was determined largely by the performance of oil exports in the region. GCC country exports (including oil) are estimated to have increased by 56 per cent. Among the countries with more diversified economies, those exporting oil also registered high export growth rates on account of the high oil prices—39 per cent for Egypt, 22 per cent for the Syrian Arab Republic and 72 per cent for Yemen. However, others in this grouping registered relatively weak export performance—7 per cent for Jordan and a low 3 per cent for Lebanon. Overall, the increase in oil prices and revenues led to enhanced 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 members. In 1999, intraregional exports

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

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

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

accounted for around 5.5 per cent of the total and intraregional imports around 9.3 per cent. High tariffs and the complexity of border procedures and formalities are among the main reasons for the low level of trade between member countries. Facilitating international transport and trade requires a multifaceted approach that includes improvements in infrastructure as well as the operation of an integrated transport system.

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

I. AGGREGATE ECONOMIC PERFORMANCE

Fuelled by developments in the oil sector, economic growth accelerated in the region during 2000. Estimates indicate that the combined real GDP of the ESCWA members, excluding Iraq, rose by 4.5 per cent in 2000, a rate considerably higher than the corresponding rates of 1.7 and 2.7 per cent registered in 1999 and 1998, respectively.

TABLE 1. REAL GDP AND GROWTH RATES IN THE ESCWA REGION AT CONSTANT 1997 PRICES, 1998-2001
(*Millions of US dollars and percentages*)

						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	—	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.

Notes: ( ) indicates negative growth.

Figures may not add up due to rounding.

An em-dash (—) indicates that the item is nil or negligible (no change).

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.

Real GDP growth rates varied significantly between the 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 was about 5 per cent, while the members with more diversified economies achieved 3.7 per cent growth. 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.

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.

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 (WTO). Saudi Arabia undertook major policy changes favouring economic reform and liberalization in 2000 in an effort to acquire WTO membership and achieve sustainable economic development. It should be noted that in 2000, unlike in 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.

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.

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.

In Iraq the rate of 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.

Developments in the international oil market have considerable economic implications for the region. Of the thirteen ESCWA members, only three—Jordan, Lebanon and Palestine—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 US$ 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 US$ 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.

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

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.

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 was the instant additional unemployment of around 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.

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 around 70 per cent of the GCC countries' population under the age of 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.

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.

Inflation rates in the GCC countries ranged from 0.8 per cent in Bahrain to 2.6 per cent in Kuwait, according to 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 estimated to have risen slightly in five of the six GCC countries in 2000.

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 and 8 per cent respectively.

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.

The oil sector in the region is expected to perform fairly well in 2001, though not as well as in 2000. Oil production in the member States is expected to decline so that the average oil price can be maintained at around US$ 24 to US$ 25 per barrel. The price of the Organization of Petroleum Exporting Countries (OPEC) crude oil basket is projected to average around US$ 25 per barrel in 2001, which is around 9.4 per cent below the average of US$ 27.6 per barrel recorded for 2000. Since both production and prices are expected to decline in 2001, oil revenues will likely be lower than in 2000. Nevertheless, such revenues are projected to remain significantly higher than those registered in 1999 and should continue to boost economic growth and development, particularly in the GCC countries, and to have positive effects on government budgets and public debts.

The pace of economic reform and privatization is expected to increase in the region in 2001. Countries such as Lebanon and Saudi Arabia that are applying for WTO 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 be accelerated in Egypt and Jordan and introduced in Lebanon in 2001.

Real GDP is projected to grow by 3.4 per cent in the region in 2001, exceeding the population growth rate of 2.5 per cent for the second consecutive year. This growth rate would be lower than that recorded in 2000 but higher than the rates registered in 1999 and 1998.

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 qualifiying 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.

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 around 3 per cent or less.

II. MONETARY, FISCAL AND FINANCIAL DEVELOPMENTS

The monetary policies in ESCWA member countries remained essentially targeted at maintaining exchange rate stability in 2000. These policies helped ensure relatively low and stable rates of inflation and sustained private sector confidence.

The effectiveness of monetary policies in the region in 2000 was enhanced by the financial sector reforms implemented in most ESCWA member countries. These reforms, initiated in the early 1990s, were adopted to improve the process of mobilizing and allocating financial resources for development and to strengthen the system of monetary control. To this end, the role of market forces in determining interest rates and 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, especially in Egypt and Jordan, was initially on deposit rates and on reducing the scope of preferential rates, particularly for the public sector.

The range of assets available to the domestic public was broadened, particularly in Jordan, Lebanon and GCC countries such as Kuwait and Saudi Arabia. This was achieved 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 members, notably 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 by adopting prudent regulations and enhancing supervision.

In 2000, most ESCWA members intensified efforts to improve the mechanisms of monetary control, especially in the context of financial liberalization. Such 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 resorted to more widely than in the past in managing liquidity.

The de facto pegging of the GCC countries' currencies to the United States dollar meant that domestic interest rates rose along with dollar-based interest rates in 2000. However, by eliminating inflationary finance, maintaining a stable monetary environment and announcing plans for the privatization of some public sector companies, the GCC States were able to strengthen public confidence in the steadiness of domestic exchange rates, a factor considered to have been instrumental in encouraging the repatriation of financial resources from abroad.

The policy of supporting national currencies to maintain a generally stable exchange rate against the United States dollar could have some negative implications for ESCWA members, because such a regime relies on interest rate and foreign exchange intervention to keep the exchange rates of national currencies within a fixed or moving band in the exchange rate regime. Expecting the band to hold, banks in ESCWA member countries with such an exchange rate regime may borrow dollars or use the dollar deposits of their customers to buy high-yielding government bonds and/or Treasury bills and notes denominated in their respective domestic currencies. In any country, a devaluation of the domestic currency would result in the banks being left with significant losses in United States dollars, and the central bank would be compelled to intervene, using its international reserves to ameliorate the resulting problems for those banks. This happened in Egypt in 2000: the Central Bank of Egypt was forced to intervene in the foreign exchange market to help local banks compensate for their dollar losses and meet public demand for foreign currencies.

The decline in market liquidity (slower money supply growth) in most ESCWA member countries during the first half of 2000 was matched by a similar drop in bank credit and bank liquidity growth rates. In addition to the changes in the composition of government expenditure, factors that contributed to the decline in the growth of the money supply included restraints on 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 the increased outflow of financial resources in the form of current and capital transfers for external transactions.

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, time and savings deposits with the central banks, and current deposits with other domestic banks. In Lebanon, Oman and Saudi Arabia, currency swaps were arranged between domestic banks, involving the buying and selling of foreign currencies, in order to minimize the risk of fluctuations in the value of national currencies versus the United States dollar.

The above-mentioned monetary policies were pursued further 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 those 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 of bank credit policies, asset quality, quality of management, the credit appraisal system, adherence to central bank rules and regulations, and other issues relating to solvency, liquidity and general performance.

Growth in the money supply (M_1)[4] for ESCWA members such as Jordan, Kuwait and Saudi Arabia was attributed partly to the expansion in bank credit for both the public and private sectors, and partly to the expansion in net foreign assets, derived from increased external aid and grants in the case of Jordan, and from the strengthening of the foreign exchange portfolio owing to the rise in oil revenues in the case of Kuwait and Saudi Arabia.

Time and savings deposits increased substantially in Egypt and Jordan as various steps were taken to liberalize currency regulations. However, money supply (M_1) remained primarily a function of budgetary outlays in both countries.

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 projected for fiscal year 2000. A number of these countries, in particular Kuwait and Oman, had based their budget projections on modest oil price assumptions; hence, actual oil revenues, which constitute a substantial proportion of budget revenues, were significantly higher than expected. The considerably higher oil earnings allowed the GCC countries not only to increase their capital expenditures, but also to reduce or eliminate their respective budget deficits.

Total budget expenditures for the GCC countries as a group were projected to increase from US$ 89 billion in fiscal year 1999 to around US$ 95 billion in fiscal year 2000, or by around 6.5 per cent, while total revenues were expected to increase from around US$ 73 billion to US$ 78 billion, resulting in a combined budget deficit of around US$ 17 billion for 2000. During the latter part of the 1990s, this group of ESCWA members witnessed a downward trend in the budget deficit to GDP ratio. In fiscal year 2000, however, most of the GCC countries are expected to have achieved budget surpluses, in the light of the preliminary actual budget surpluses registered as a result of the surge in oil revenues during the second half of the year.

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

Awareness has been growing in the GCC countries of the need for greater fiscal discipline in order to reduce dependence on volatile oil revenues. Such revenues have constituted an average of around 80 per cent of total budget revenues. The government decision in a number of Gulf countries, including Kuwait, Saudi Arabia and the United Arab Emirates, to raise prices and user fees for public services and utilities appears to indicate that domestic budget revenues will play an increasingly important role in financing budget expenditures, constituting part of a long-term fiscal policy aimed at establishing a more diversified domestic revenue base. Efforts have been made to halt the rise in domestic indebtedness, ensure macroeconomic stability and strengthen confidence in the domestic financial system.

The GCC countries do not appear to expect the earnings from the higher public service and utility prices and fees to add significantly to budget revenues; rather, the generation of income in this manner is considered a representative component of the much larger efforts being undertaken by the Governments of these countries to prevent waste and rationalize consumption, particularly of electricity, water and gasoline, and to eliminate the subsidies allocated for these and other items in the budget.

In 2000 the budgets of most ESCWA members with more diversified economies remained deflationary, with expenditures rising at a rate below that of inflation, which meant a reduction in expenditures in real terms. This group of ESCWA members continued to explore alternative means of reducing their budget deficits, both by instituting reforms to raise domestic revenues and by reducing subsidies or debt service payments to lower expenditures. At present, domestic revenues in the budgets of

[4] M_1 = currency in circulation + demand deposits.

Egypt, Jordan and the Syrian Arab Republic almost completely cover current budget expenditures. In these countries, domestic and external borrowing, as well as the foreign aid and grants received, appear to be utilized solely to finance capital expenditures.

ESCWA members with more diversified economies have resorted increasingly to instruments of domestic resource mobilization, such as improving tax collection methods, introducing new taxes and raising existing tax rates, and increasing the use of financial instruments such as government bonds and Treasury bills. These measures are expected to remain in place, as Governments seek to compensate for the decline in import tariff revenues resulting from the implementation of WTO policies.

The fiscal reforms undertaken during the past several years by ESCWA members with more diversified economies have been designed to eliminate public finance imbalances, apply the principle of relative scarcity of resources, and facilitate the move towards economic conditions under which private sector enterprises can become efficient and thus commercially viable. The reduction of indirect subsidies has become a major component of most 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 rise in oil prices, most of the stock markets in the ESCWA region performed unsatisfactorily in 2000. The exception was Saudi Arabia's stock market, which ended the year with net gains. The Egyptian stock market registered the highest losses, with an overall decline of close to 40 per cent, followed by the Amman Bourse, with a decline of around 20 per cent.

The Governments of most ESCWA member countries appear to have kept a tight rein on budget expenditures, thus limiting the positive impact of higher oil prices on private sector activities. Consequently, business sentiment, as reflected in stock market activity in these countries, remained subdued. The recent Palestinian uprising (intifada) and escalating regional tensions during the second half of 2000 discouraged the conduct of business, including stock market participation, in much of the ESCWA region. The relative lack of transparency, the poor flow of information, the absence of new market entrants with sufficient capitalization, and the slow pace of privatization also contributed to the poor performance of most of the region's stock markets.

The outlook for stock markets in the ESCWA region is mixed. They are expected to remain weak during the first half of 2001, but the prospects for a turnaround in the second half are good, depending on several factors. First, the lowering of the interest rate by the United States Federal Reserve System in early 2001 is believed to indicate the start of a downward trend in the development of interest rates in the United States during the coming year. This is likely to lead to a reduction in interest rates in the domestic markets of ESCWA member countries, given that most of the local currencies are directly or indirectly pegged to the United States dollar. Historically, there has always been a positive correlation between lower interest rates and heightened stock market activity in the region. Second, a resolution of the current problems between Israelis and Palestinians and a return to the peace process would have a positive impact on the region's stock markets, particularly in the West Bank and Gaza Strip and in Jordan. Third, the continued commitment to reform initiatives, such as the opening up of economies to foreign investors in the GCC countries and the enhancement of privatization activities in, for example, Egypt, Jordan and Lebanon, would improve the business environment and attract local and foreign financial resources to the region's stock markets. A decline in oil prices and revenues would, however, have an adverse impact on stock markets in the GCC countries.

The reform of the monetary system in ESCWA member countries is expected to continue during the next few years. If the Governments of the GCC countries do not lower expenditures planned for 2001 in line with projected reductions in oil revenues, they can expect to see a return or widening of their budget deficit.

III. EXTERNAL SECTOR PERFORMANCE

During 2000, the ESCWA region was affected by two major external developments: a continuous increase in the price of oil and perceptible progress in the globalization process.

Oil prices rose sharply in 2000, reaching their highest level since 1990. This had a positive impact on the financial situation in both the GCC countries and the ESCWA member States with more economies. In 2000, unlike in 1996, the substantial increase in oil revenues did not divert the Governments of the GCC countries from implementing their economic reform and diversification policies. Efforts were directed mainly towards repairing the large balance-of-payments deficits resulting from the sharp deterioration in oil prices in 1998. 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. Further, the benefits of higher oil prices spilled over into the more diversified economies in the form of workers' remittances, tourism revenue and investment.

Economic reform and liberalization policies were pursued by the Governments of most ESCWA member countries to keep pace with the globalization process. Emphasis was given to policies aimed at boosting private sector participation in the economy and attracting FDI. In addition, several ESCWA member countries took steps to accelerate their accession to the WTO Agreement and secure membership in the Euro-Mediterranean Partnership. Oman became the seventh ESCWA member to gain admission to the WTO; Saudi Arabia undertook major policy changes with regard to foreign investment laws in an effort to acquire WTO membership; Lebanon and Yemen are amending all of their commercial legislation in order to join the WTO; Egypt and the European Union (EU) signed a Euro-Mediterranean association agreement; and Lebanon and the Syrian Arab Republic are in active negotiations with the EU for the same purpose. On the regional front, plans and activities linked to the establishment of the Greater Arab Free Trade Area (GAFTA) were consolidated; by early 2001, tariffs had been reduced by an average of 40 per cent and non-tariff barriers had been lowered as well. In addition, a number of bilateral free trade agreements were concluded between ESCWA members in 2000.

Overall trade performance in 2000, as in past years, was largely determined by the performance of oil exports in the region. The exports of GCC countries are estimated to have increased by 56 per cent. Among the ESCWA members with more diversified economies, those exporting oil also registered high export growth rates—39 per cent for Egypt, 22 per cent for the Syrian Arab Republic and 72 per cent for Yemen—on account of the high oil prices. Others in the more diversified group recorded relatively weak export performance—7 per cent for Jordan and a low 3 per cent for Lebanon; however, the outlook for their exports is good, as higher oil prices should feed into increased demand for their products in the Gulf States.

The geographic distribution of exports in 2000 remained similar to that of the previous year. The share of total exports dispatched to developing countries was relatively high, especially among ESCWA members with the more diversified economies. The oil-exporting countries in the region tended to ship their oil to industrialized countries (mainly Japan) as well as to other Asian countries. The more diversified economies had a broader geographic range of export partners. Although a large share of their exports went to the Middle East and Europe, these countries were active in pursuing new markets in Asia, Eastern Europe and even Africa. The western hemisphere, however, remained untapped.

Intraregional exports rose by an estimated 2 per cent during the first half of 2000 in comparison with the first half of 1999. Among the GCC countries, the share of intraregional exports in total exports was highest in Bahrain (at 34 per cent) because of its more diversified export base, followed by Oman and the United Arab Emirates. Other GCC countries that were able to diversify their exports and rely less on oil also had relatively high intraregional export shares. In Oman and the United Arab Emirates intraregional exports accounted for 15 and 9 per cent of total exports and grew by around 16 and 17 per cent, respectively, in 2000. Moreover, these two countries accounted for a high proportion of all intraregional exports for the ESCWA members as a group; during the first half of 2000, 30 per cent of such exports came from the United Arab Emirates and 16 per cent from Oman. Among the more diversified economies, intraregional exports are crucial for ESCWA members such as Jordan and Lebanon; during the first half of 2000, such exports accounted for 30 and 40 per cent of the total for these two countries, respectively. Among the more diversified economies, Lebanon registered the highest growth in intraregional exports, at 13 per cent. This reflects Lebanon's ability to penetrate local markets but may also signal its inability to compete in other markets. Within this group of ESCWA members, Egypt's contribution to total intraregional exports was by far the greatest, at US$ 459 million (more than double the amount of any of the other more diversified economies).

The increase in oil prices and revenues, which began during the second half of 1999, led to enhanced economic growth and a rise in imports in the ESCWA region during 2000 (the effects of higher oil prices on the economy were not immediate). Total imports for the region, excluding Iraq and the West Bank and Gaza Strip, rose by 11 per cent in 2000; this followed a decline in imports in 1999 driven mainly by low oil prices in 1998 and slow economic growth. For the GCC countries as a group, imports grew by 12 per cent between 1999 and 2000. Oman and the United Arab Emirates registered much lower rates than other countries in this group because of their limited reliance on oil revenue. Imports for the more diversified economies grew by around 9 per cent between 1999 and 2000. In Lebanon, however, import growth came to a virtual halt during 2000 as the country was burdened by economic stagnation. Against a backdrop of weak import and economic performance, Lebanon's new Government undertook major import policy reforms in November 2000, reducing the average tariff from 16 to 6 per cent. A change in policy direction was also perceptible in the Syrian Arab Republic towards the end of 2000.

FDI increased during 2000, partly as a result of increased oil revenues and partly as a result of the progress achieved through structural reforms. Saudi Arabia attracted the most FDI of any ESCWA member in 1999, with inflows of US$ 4.8 billion, 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, attracting two thirds of the regional total. The next highest recipient in the region in 1999 was Egypt, whose estimated US$ 105 billion in FDI represented an increase of nearly 40 per cent over the previous year. Bahrain and the United Arab Emirates also registered increased FDI inflows. Bahrain has made a concerted effort to improve the business environment for foreign investors and now has a sound legal system that allows foreign firms to resolve disputes satisfactorily. The United Arab Emirates has continued its efforts to attract FDI, especially in Dubai, and took a major step towards becoming the regional centre for information technology (IT) with the opening of Dubai Internet City on 30 October 2000. Jordan and Oman experienced a sharp decline in FDI inflows in 1999. 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 Strip. It should be noted, however, that Jordan is still attracting interest from foreign investors in the IT sector because of its large pool of highly skilled workers.

Foreign investment policy reforms intensified during 2000, partly to attract more foreign investment and partly to comply with WTO requirements. A fundamental change in 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 established the General Investment Authority and in April 2000 introduced 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 that all businesses have a Saudi Arabian sponsor, and the 49 per cent limit on the foreign ownership of enterprises within the Kingdom. The law also provides incentives for long-term investment; among other things, the top corporate profit tax rate has been reduced from 45 to 30 per cent for both foreign and local companies. In addition, the new law simplifies licensing and authorization procedures.

Changes in the overall balance of payments are largely driven by changes in oil prices and affect both the oil-exporting countries and the countries with more diversified economies. In 2000, efforts were directed mainly towards repairing the large balance-of-payments deficits experienced by GCC countries in 1999 following the deterioration in oil prices in 1998.

Owing largely to the surge in oil export revenues, the current account balance improved in 1999 for all ESCWA members for which data are available, though most still showed a deficit. In 1999, Saudi Arabia's current account deficit dropped to less than 2 per cent of GDP, and Egypt, increased tourism revenues, workers' remittances and export earnings were mainly responsible for narrowing the current account deficit. Bahrain registered the highest deficit, at 6 per cent of GDP. Kuwait and Jordan had a current account surplus.

External debt declined for all ESCWA members except Jordan and Lebanon in 2000. The GCC countries used their increased oil revenue to ease their foreign debt burden. Jordan, Qatar and the Syrian Arab Republic remain the most highly indebted countries in the region. Qatar's external debt has been rising largely because of the enormous financial costs associated with the development of its North Field; the country's foreign 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 its high fiscal deficit; in 2000 net public debt was equivalent to 150 per cent of estimated GDP.

The commitment of ESCWA members to globalization is growing. Jordan joined the WTO in December 1999, and Oman became the Organization's 139th member on 9 November 2000 following more than four years of preparatory negotiations. Oman was required to implement a series of changes in its policies as a condition for WTO membership, including abolishing import fees for goods entering by air, land or sea; raising the maximum share of business ownership by foreign investors from 49 to 70 per cent; and authorizing 100 per cent foreign ownership of enterprises providing certain financial services, such as banks, insurance companies and brokerages, beginning in 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 terms of the WTO Agreement.

As mentioned previously, a number of bilateral free trade agreements were concluded between Arab countries in 2000. Such agreements are allowed under GAFTA and are certainly beneficial; however, they are not always consistent with one another. In addition, Jordan signed a free trade agreement with the United States. This agreement was concluded more rapidly than anticipated and is expected to be approved by the United States Congress in mid-2001. This is only the fourth such agreement to be signed by the United States; the American Government entered into 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. Several years ago the two countries signed an agreement on qualifying industrial zones.

In 2000, as in past years, trade performance in the region was determined primarily by oil prices. There were some notable efforts to diversify exports, upgrading their technological content, and generally become better integrated into the world economy. However, there is a clear need for ESCWA members to work even harder to improve their export competitiveness and export diversification. Technology and labour skills must be upgraded and productivity enhanced in all ESCWA member countries, but especially in those with labour shortages (namely, the GCC countries). Labour-scarce countries should establish product niches in areas in which world exports are growing rapidly, such as electronics. Countries such as Egypt, the Syrian Arab Republic and Yemen are abundant in labour with low skill levels; such labour typically costs little but is not very productive. These countries will have to raise productivity if they are to increase their competitiveness in the international market. This is especially important in the textile sector, as Egypt and the Syrian Arab Republic rely heavily on textile exports and may lose markets traditionally protected under the Multifibre Arrangement, which is to be fully dismantled during the present decade.

A number of policies must be implemented to improve export competitiveness and facilitate diversification. First, domestic policies should be designed to attract FDI to export sectors in order to enhance the potential for technology transfer. The Euro-Mediterranean partnership provides opportunities for that purpose, as specific provisions for technology transfer are included in the relevant association agreements. Second, trade barriers between countries need to be reduced dramatically or eliminated to encourage deeper and less vulnerable trade integration with the rest of the world. The WTO provides a well-established framework for trade liberalization. ESCWA member countries that have not yet joined the WTO (including Lebanon, Saudi Arabia, the Syrian Arab Republic and Yemen) should intensify their efforts to gain membership. Third, regional coordination arrangements currently being negotiated or implemented, including the Euro-Mediterranean Partnership and GAFTA, must be supported by a comprehensive process of true economic integration if the member countries are to realize their full trade potential. Finally, Governments need to continue to invest in education, especially secondary education, and to upgrade skills in order to improve labour productivity and thereby raise the competitiveness of locally produced goods in both the domestic and international markets.

IV. DEVELOPMENTS IN THE TRANSPORT SECTOR

One of the most important issues for regional cooperation and integration is the facilitation of transport and trade between ESCWA members. In 1999, intraregional imports and exports accounted for only 9.3 and 5.5 per cent of the trade total, respectively. High tariffs and the complexity of border procedures and formalities are among the main reasons for the low level of trade between ESCWA members. Facilitating international transport and trade requires a multifaceted approach that includes improvements in infrastructure as well as the operation of an integrated transport system.

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. The network increased by 8.5 per cent during the period 1995-1998.

Only five countries in the ESCWA region have railway networks, namely, Egypt, Iraq, Jordan, Saudi Arabia and the Syrian Arab Republic. Tracks cover a total of about 16,400 km. Egypt's 9,300-km railway network carried about 97 per cent of the region's total rail passenger traffic and 52 per cent of the total cargo transported by rail. Total track length in the region increased by 6 per cent between 1990 and 1998. Total passenger movement increased by 33.3 per cent during this period, while cargo traffic rose by only 2.3 per cent.

The busiest seaports in the region in 1999 were Dubai, Alexandria, and Jeddah, with 11,711, 4,581 and 4,324 ship arrivals and annual cargo traffic of 39,703,000, 28,056,000 and 17,895,000 tons, respectively. Dubai port emerged as the regional leader in container handling, dealing with 3,060,000 twenty-foot equivalent units (TEU) in 2000, despite competition from other Gulf ports such as Salalah in Oman and Khor Fakkan in the United Arab Emirates, which handled 1,033,000 and 1,014,000 TEU respectively. In January 2000, the merchant fleet in the ESCWA region totalled 11.67 million deadweight tons (DWT), accounting for only 2 per cent of the world total for ships weighing over 300 gross tons.

The highest levels of air traffic (arrivals and departures) were registered in Egypt, Saudi Arabia and the United Arab Emirates. Abu Dhabi airport handled 3.8 million passengers in 1999, a 15 per cent increase over the 1998 figure. Dubai airport handled 10.78 million passengers in 1999 and around 12 million in 2000. In Saudi Arabia, the construction of King Fahd airport, located 50 km north of Dammam, was completed at a cost of around US$ 2 billion.

Transport has an important role to play in supporting sustainable development. Efforts to develop an integrated transport system in the region began more than 25 years ago but have been pursued more urgently in the past several years. The facilitation of international transport in the region will contribute significantly to improving competitiveness in international trade, especially that involving industrial and agricultural products and services, which are in greater demand in the present context of globalization.

In May 1999 the ESCWA members issued a statement in which they approved the development of the Integrated Transport System in the Arab Mashreq (ITSAM) and adopted the proposed regional transport network. The development of ITSAM has proceeded along three major tracks, with efforts focusing on the regional transport network itself, the associated information system and the methodological framework for policy analysis. The work carried out thus far in all three areas has been endorsed by experts in the region, who have provided appraisals, expressed their satisfaction with the information system and modelling approach utilized, and supported the continuation of efforts to develop ITSAM until the model becomes operational. The experts have emphasized the importance of obtaining accurate information to apply the model, and of promoting its use as a decision support system for policy makers concerned with facilitating transport and trade in the region. These recent developments will allow decision makers to better analyse policies and formulate action plans at the national and regional levels.

The operational and logistical aspects of transport and trade procedures at border crossings are complicated in most developing countries for a variety of reasons. The process generally requires the provision of information, with numerous documents and forms exchanged between trading partners, government authorities, shipping agents freight forwarders, custom agents and others. The entities involved and signatures needed may easily exceed several dozen, and the steps required to complete the transaction are often numerous and time-consuming. Such inefficiencies can only harm national and regional economies. The importance of facilitating transport as a means of strengthening regional cooperation and integration is clear. Transport experts and policy makers in the region met in February 2001 to endorse 11 major recommendations emanating from a recently completed study on the facilitation of international freight transport in the region. The six-volume study includes a detailed field review of transport and trade procedures in five ESCWA member countries, namely, Egypt, Jordan, Lebanon, the Syrian Arab Republic and the United Arab Emirates. It also provides a comparative analysis relating to the selected countries and identifies problems and causes. In brief, the study strongly recommends that each ESCWA member establish a national committee for transport and trade facilitation comprising representatives of all concerned entities to address all relevant issues, including the simplification of procedures, transparency, the development of legislation, human resources, institutional structures, agreements and conventions, multimodal transport and the application of advanced information and communications technologies.

The gradual, systematic implementation of the recommendations approved by transport experts in the region regarding the development of ITSAM, the adoption of the Agreement on International Roads in the Arab Mashreq, transport facilitation and the application of ICT should result in considerable improvement in international transport and trade in the region.

The outlook for the region's transport sector is generally positive. Most of the infrastructure is already in place, with exception of the railway network. However, existing facilities require considerable improvement, and design, operation, safety and maintenance standards as well as logistical procedures must be harmonized.

A number of transport projects are currently under way in the region.

In Yemen, a 175-km highway between Seyhout and Nashtoun on the eastern border with Oman is under planning and is expected to cost around US$ 114.3 million. In the Syrian Arab Republic, the largest project to be put out to tender in 2000 was the 100-km Latakia-Ariha highway, which will cost US$ 250 million. In Egypt, the Qantara bridge across the Suez Canal linking Africa and Asia is under construction. In Lebanon, work on the Arab highway will be completed in several stages.

Saudi Arabia, the leading investor in railways in the region, initiated plans in the year

2000 to connect its east and west coasts by a railway line that would pass through Riyadh and would also serve the mining areas in the northern part of the country. The Syrian Arab Republic is planning to invest US$ 160 million to establish a railway route between Deir al-Zor and Albu Kamal, providing a link in the line extending to Basra in Iraq (and eventually the Iranian border). It is estimated that another US$ 100 million will be needed to build the Aleppo-Maydan Ikbis link, which will connect the Syrian and Turkish railway networks. Lebanon is presently considering the reconstruction of a railway link between Tripoli (Lebanon) and Akkari (Syrian Arab Republic).

Dubai port is expected to remain the leading port in the region, handling more than 3 million TEU of container traffic. Salalah port in Oman will continue to grow, as will Aden port in Yemen; the two are expected to handle 1.9 million and 1.6 million TEU in the medium term. Two major new Egyptian ports (El-Ein el-Sokhnah and Sharq el-Tafreea') are currently under construction.

Plans are being made to double passenger capacity at Abu Dhabi airport and to expand its shopping and duty-free areas by 1,700 square metres (m^2) and 4,000 m^2 respectively by the year 2004; renovations are expected to cost US$ 600 million. King Abdul Aziz airport in Jeddah, Saudi Arabia, will be upgraded to increase its capacity to 21 million passengers annually by the year 2020 at a cost ranging between US$ 500 and US$ 600 million. In Egypt, the Government is planning to increase the number of airports from 19 to 30 at a cost of around US$ 1.2 billion. Most of the new airports will be constructed on a build-operate-transfer (BOT) basis.

The improvements in transport system analysis, infrastructure, operation, management and planning, when implemented, will enhance the competitiveness of products and services in the region, and higher demand will mean an increase in the interregional and intraregional transport of goods from ESCWA member countries. However, factors that may undermine trade growth, including increased regional and worldwide competition and the lack of vision, coordination, funding, public administrative reform and/or political will, should be given the attention they deserve.

V. BUILDING UP SOCIAL CAPITAL

Research and empirical evidence increasingly indicate that investment in social capital formation constitutes a critical dimension of sustainable economic development; however, policy makers rarely give it the attention it deserves.

Serious questions have emerged regarding whether the provision, distribution and monitoring of social services by central Governments is sustainable or effective, given the rapidly changing demographic and social conditions and the political economy of the ESCWA region. While the State Government has maintained or even increased its strategic planning role, the scope for the participation of other social actors, namely the private sector and civil society organizations, is expanding. There is a need to develop innovative and productive modes of partnership that would allow countries to establish a more efficient, equitable and sustainable pattern of service delivery. These issues are at the core of the social capital formation.

Public expenditure on social support, in particular care for disabled persons and the elderly, has been less than adequate in many countries of the region, as a result of which the role of the family and community (using primary bonding social capital) in providing services to its members in need has become ever more important. The family occupies a central position in society in the ESCWA region. Family and kinship relations pervade all levels and aspects of social interaction and political systems. The family, the primary form of bonding social capital, is still a powerful source of support, providing nurturing, education and other types of care. In war-torn areas of the region such as Lebanon and the West Bank and Gaza Strip, the family has played a crucial role in ameliorating the negative effects of armed conflicts. In such contexts, people tend to withdraw into the family for protection, care and safety; they also seek family and kinship group solidarity to ease security and economic pressures.

Arab society has long given special attention to the elderly. However, shifts in the region's population have undermined traditional patterns of caretaking. More precisely, there has been a rapid decline in the share of children (aged 0-14) in the total population and a proportional increase in the working-age group (aged 25-64), accompanied by an increase in the relative share of the elderly segment (aged 65 and above). This trend is likely to continue in the near future. Such demographic changes are making it harder for families to provide care for their elderly. Other social transformations occurring as a result of, *inter alia*, industrialization and rapid urban growth, the erosion of traditional values, increasing costs of living and housing problems, are also affecting the family's capacity to provide proper care for the elderly and the needy in the ESCWA region.

NGOs in the ESCWA region have emerged as a viable actors in the delivery of social services. Their number has increased considerably, growing from some 70,000 in 1994 to around 120,000 in 1998. This expansion has been matched by an increase in the scope of NGO operations, budgets and members (including volunteers and paid staff). In sum, a "scaling-up" of the NGO role in development is taking place.

Though the visibility of NGOs in public life has expanded, their potential for playing a more proactive role in development—rather than undertaking gap-filling functions—has not yet been fully tapped. This will occur only with the adoption of institutional reforms that allow solid and sustainable partnerships between different actors to evolve in a productive pattern. Local authorities constitute a particular area of concern in the region, as they have gradually been given greater responsibility for urban social service delivery, yet often have insufficient financial, technical and institutional resources or political backing to perform efficiently.

For most countries in the region, building up social capital and institutionalizing participatory development are not likely to be among the priority concerns of planners and policy makers in the short and medium terms. In any case, sustainable participatory development cannot be fully realized until the issues of political, economic, social, environmental and cultural sustainability have been adequately addressed. Good governance is the basis of political sustainability and provides a supportive, enabling environment for people's participation. Without proper governance, social capital formation will remain slow and unsustainable.