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Regional cooperation**Summary of the survey of economic and social developments in the ESCWA region, 2002-2003***Summary*

In 2002, gross domestic product (GDP) in the region of the Economic and Social Commission for Western Asia (ESCWA), excluding Iraq and the West Bank and Gaza Strip, grew by 1.88 per cent, even less than the meagre 2.46 per cent by which it had grown in 2001. The region's feeble economic performance in 2002 reflects a slowdown in the performance of the oil sector, low rates of economic activity throughout the world and the negative impact on the private sector of heightened political tensions in the region. While inflation rates remained low, developments in the labour market and with respect to employment remained unfavourable.

Institutional and policy reforms aimed at promoting trade and investment activities in member countries continued. However, the potential benefits of regional integration remained largely untapped. The share of intraregional trade in total exports from the ESCWA region stood at 7.5 per cent in the first half of 2002, barely changed from the same period in 2001. Foreign direct investment (FDI) inflows into the ESCWA region corresponded to only 0.16 of world FDI inflows and future prospects are not encouraging because of concerns over regional tensions.

Social problems in the ESCWA region have persisted. Unemployment among youth and women has reached alarming proportions in the region. More than one third of the population in the ESCWA region is aged less than 15 years, and the entry to the labour market of that segment of the population over the forthcoming 15 years will exacerbate current unemployment problems. Education policies have not responded to the needs of labour markets, and illiteracy rates are alarmingly high, reaching some 30 and 16 per cent for women and men, respectively, in 2000. Although nutrition is currently comparable with levels in developed countries, poverty continues to be a serious social problem in several parts of the region.

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I. Aggregate economic performance

A. Economic growth

1. In 2002, gross domestic product (GDP) in the region of the Economic and Social Commission for Western Asia (ESCWA), excluding Iraq and the West Bank and Gaza Strip, grew by 1.88 per cent, even less than the meagre 2.46 per cent by which it had grown in 2001. On average, GDP growth rates in the ESCWA region have, since the early 1980s, been outstripped by population growth, a situation that remained unchanged in 2002. Per capita GDP decreased by an estimated 0.62 per cent, while the population is estimated to have grown by an average of 2.5 per cent. The growth performance of the ESCWA region was significantly below that of most other developing regions of the world, both in absolute and per capita terms. The region's feeble economic performance in 2002 reflects a slowdown in the performance of the oil sector, low rates of economic activity throughout the world and the negative impact on the private sector of heightened political tensions in the region.

Table

Real GDP and growth rates in the ESCWA region at constant 1995 prices, 2000-2003

(Millions of US dollars and percentages)

Country/area	1999	2000	2001	2002 ^a	2003 ^b	Percentage change			
						2000	2001	2002 ^a	2003 ^b
Bahrain	6 864.2	7 228.4	7 574.5	7 878.2	8 226.5	5.3	4.79	4.01	4.42
Kuwait	27 542.3	27 921.1	27 609.1	27 611.9	28 407.1	1.38	(1.12)	0.01	2.88
Oman	15 430.9	16 277.9	17 792.4	18 306.6	18 916.2	5.49	9.30	2.89	3.33
Qatar	13 155.0	13 918.0	14 866.0	15 514.2	16 665.3	5.80	6.81	4.36	7.42
Saudi Arabia	154 108.1	161 593.4	163 510.1	164 720.1	170 073.5	4.86	1.19	0.74	3.25
United Arab Emirates	51 997.8	58 383.8	60 135.3	62 240.1	65 613.5	12.28	3.00	3.50	5.42
GCC countries subtotal	269 098.3	285 322.6	291 487.4	296 271.0	307 902.0	6.03	2.16	1.64	3.93
Egypt	82 547.7	85 486.2	88 157.7	89 841.5	91 117.3	3.56	3.13	1.91	1.42
Jordan	7 530.3	7 847.6	8 175.3	8 503.1	8 842.4	4.21	4.18	4.01	3.99
Lebanon	12 341.3	12 341.3	12 526.4	12 778.2	13 033.7	0.00	1.50	2.01	2.00
Syrian Arab Republic	22 165.8	22 298.8	23 056.8	23 829.2	24 377.3	0.60	3.40	3.35	2.30
Yemen	5 332.8	5 568.7	5 757.2	5 987.5	6 197.6	4.42	3.38	4.00	3.51
More diversified economies subtotal	129 917.9	133 542.6	137 673.4	140 939.5	143 568.3	2.79	3.09	2.37	1.87
ESCWA region total	399 016.2	418 865.2	429 160.8	437 210.5	451 470.3	4.97	2.46	1.88	3.26

Source: ESCWA, based on national and international sources.

Note: () indicates negative growth. GCC = Gulf Cooperation Council.

^a ESCWA estimates.

^b ESCWA projections.

2. Growth in the six States of the Gulf Cooperation Council (GCC)¹ declined from 2.16 per cent in 2001 to an estimated 1.64 per cent, and was therefore insubstantial when compared with the record growth of 6.03 per cent in 2000. Growth rates continued to vary substantially from State to State. In 2002, while Kuwait yet again had the lowest growth rate, namely an estimated 0 per cent, that represented an increase over the 1.2 per cent contraction in economic activity in 2001. Qatar had the highest growth rate, namely 4.36 per cent, and that represented a serious decline from the 2001 highest rate of 9.3 per cent realized by Oman.

3. The main factors influencing growth in the highly oil-dependent States of the Gulf Cooperation Council (GCC) in 2002 included low levels of oil production and a consequently modest level of oil revenue, despite the high price of oil in 2002. Increases in domestic liquidity, the low interest rates prevailing in 2002 and fairly high public spending levels led to strong performance in the non-oil sectors.

4. Overall, combined GDP growth in the more diversified economies² (excluding Iraq and the West Bank and Gaza Strip) slowed from an average 3.09 per cent in 2001 to an average 2.37 per cent in 2002, while remaining almost one percentage point above the average growth rate of GCC States.

5. Of the group of countries with more diversified economies, Jordan had the highest estimated growth rate of 4.01 per cent, while Egypt, with 1.91 per cent, had the lowest. While growth in the West Bank and Gaza Strip is likely to have again attained negative double-digit levels in 2002, no estimates were made in 2002 because there is a lack of data on the exceptional and deteriorating economic and human conditions prevailing in those areas.

6. Common factors influencing growth in this group of countries include the continuing weakness of world economic activity, low export demand and the low number of non-Arab tourist arrivals. However, intraregional tourism increased in 2002, benefiting the more diversified economies with the capacity to absorb tourism, including, in particular, Jordan, Lebanon and the Syrian Arab Republic.

7. While growth in the more diversified economies is generally more uniform than in GCC States, the economies, and therefore the factors influencing growth in that group of countries, are more diverse. In Egypt and Jordan, the fiscal stance was tight due to strained fiscal positions in these countries. Moreover, the increased requirement of the central Government for financing has led to some degree of crowding out of private borrowing, which, combined with reduced domestic credit and liquidity, has decreased private spending. However, the Syrian Arab Republic and Yemen saw an expansionary fiscal stance in 2002 in conjunction with the higher oil revenues of those countries, which contributed positively to growth. While Lebanon was negatively affected by high interest rates, a tight fiscal position and perceived unsustainable public finances, it managed to improve confidence and lower interest rate prospects as a result of the successful outcome of the Paris II donor conference in November 2002.

B. Oil prices and production in 2002

8. Developments in international oil markets and political tension are among the most important economic factors in growth in the ESCWA region. The only three ESCWA members that do not produce oil, namely Jordan, Lebanon and Palestine,

remain affected by the oil revenues of their neighbours, given the extensive economic ties in the region, workers' remittances, intraregional economic aid and other financial flows.

9. In recent years, oil prices have rebounded from the record low US\$ 12.28 per barrel (/b) in December 1998. The average basket crude oil price of the Organization of Petroleum Exporting Countries (OPEC) for 2002 was \$24.36/b, a small increase from the 2001 price of \$23.12/b.

10. Oil production in the ESCWA region accounted for 25.6 per cent of the world total in 2002, and is estimated to have averaged 16.7 million barrels a day (Mb/d), representing a fall of 6.3 per cent from the 2001 level. Saudi Arabia alone, by far the largest oil producer in the region, decreased production by 3 per cent to 7.7 Mb/d. That cut in production was a consequence of OPEC production quota cuts that took effect at the beginning of the year. Of the oil-producing countries of the ESCWA region, only Yemen reported increased oil production in 2002.

11. Largely as a result of production cuts, total oil revenues are estimated to have decreased by 12.31 per cent from those of 2001 to \$121.3 billion in 2002. Only Bahrain, the Syrian Arab Republic and Yemen are estimated to have increased their oil revenues in 2002. While Saudi Arabia remains the largest oil exporter in the region, its oil revenues are estimated to have decreased by 16.5 per cent to \$52.6 billion in 2002.

C. The employment situation

12. In recent years, the slow rate of growth and the ensuing rise in unemployment, which are linked to structural and cyclical aspects of the regional economy, have been major causes for concern in the ESCWA region. The region has the highest number in the world of new entrants to the labour market per year, and persistent discrepancies between business requirements and labour market training exacerbate the situation. Current official figures for unemployment have reached high levels, often in double digits. When disguised unemployment, underemployment and despondency rates are factored in, official figures may well underestimate the unemployment situation, which is particularly severe among youth and women in the ESCWA region. Women make up a fraction of the work force and the majority of unemployed persons in ESCWA member countries. Policies to improve the employment situation have been formulated throughout the region, and such policies continued to be implemented in 2002. However, while most member countries agree on the importance of decreasing the high rate of unemployment among women, more could be done to that effect. Labour market conditions remained poor throughout the region in 2002, regardless of policies, largely because poor economic growth was coupled with continuing high population growth rates averaging around 2.5 per cent. New jobs were not created in sufficient numbers to meet the high number of new entrants to the labour force.

D. Inflation

13. The national currencies of GCC States are pegged to the United States dollar and, as a result, inflation rates in those countries have for many years been low. As the dollar depreciated in 2002, imports of non-United States origin became more

expensive. However, increased import prices had not yet affected general price levels in GCC States in 2002. Inflation rates in those countries thus remained low, ranging from a negative 0.7 per cent in Oman to 2.9 per cent in Kuwait. In the more diversified economies of the ESCWA region, inflationary pressures generally also remained low. The exceptions were in Lebanon, where inflation increased from 0 to 4 per cent in 2002, mainly because of the introduction of the new value-added tax (VAT), and in Yemen, where double-digit inflation levels persisted in 2002, fuelled by high domestic demand.

II. Monetary and fiscal developments

A. Monetary developments

14. In 2002, the economies of the ESCWA region were affected by the events of 11 September 2001, which had a negative impact on, in particular, the oil, export and tourism sectors, and placed pressure on the national currencies of some ESCWA member countries. However, those events motivated some holders of Arab capital to seek investment and business opportunities in the region rather than abroad, thereby increasing deposits in the banking systems of the region and stimulating activity in capital markets. The overall monetary environment in the ESCWA region remained stable in 2002.

15. During 2002, the money supply grew by 6.89 per cent: in 2001, the rate was 2.67 per cent. The overall money supply therefore rose to some \$364.6 billion. As a result of the fixed exchange rate and currency stabilization policies adopted by ESCWA member countries, which continued to be pursued throughout 2002, the national currencies of those countries, with the exception of the Egyptian pound, remained stable against the dollar and other international currencies. In line with the observed growth in monetary expansion in 2002, the average inflation rate in the region rose slightly, while the average interest rate decreased from 7.34 per cent in 2001 to 6.55 per cent, thereby continuing the general trend that has prevailed for several years.

B. Fiscal developments

16. Largely as a result of declining oil and non-tax revenues, weak tax revenue growth, and shrinking capital expenditures, public finances in the region deteriorated during 2002, with revenue falling at rates exceeding the decline in spending. Fiscal deficits and indebtedness continued to grow, with increasing ratios when deflated by the region's GDP.

17. Government revenue in oil-producing countries was affected by the decline in oil revenue. In other countries of the ESCWA region, notwithstanding the reform of their tax systems, tax revenues did not achieve the desired growth. The combined results of those two considerations caused public revenue in the ESCWA region to shrink by 13.3 per cent in 2002, to \$132.4 billion. Fiscal authorities tended to control public spending by lowering capital expenditure, but left current expenditure at high levels. Consolidated public spending figures for the region reveal a decline of 6.3 per cent from 2001, to \$150.7 billion. The observed decrease in revenues, that has exceeded the decline in spending, has increased the budget deficits of ESCWA

member countries. Combined deficit figures for the region rose from some \$8.7 billion in 2001 to \$20.2 billion in 2002. When deflated by public spending, the deficit ratio increased sharply, from 5.4 per cent in 2001 to 13.4 per cent in 2002. Regional deficit-to-spending ratio is therefore high by international standards. Even when deflated by GDP, the deficit ratio has increased from 2.1 per cent in 2001 to 4.7 per cent in 2002.

C. Financing for development

18. The ESCWA member countries have been taking measures to strengthen and develop their financial sectors. Domestic reforms have been carried out and special focus placed on increasing dependence on market forces, strengthening organizational and supervisory frameworks and enhancing domestic competition and the mobilization of domestic savings. The financial sector in the ESCWA region is dominated by the banking system, which is considered the primary source of financing for development.

19. In line with the reform programmes adopted by ESCWA member countries, the banking sector has witnessed sustained growth in its overall activity since the early 1990s. In 2001-2002, total banking sector assets increased by 6.1 per cent to \$520.0 billion, while customer deposits increased by 9.4 per cent to \$350.7 billion. The resources mobilized by the banking sector therefore constituted 67.4 per cent of total assets in 2002. In the same year, the sector extended credit to the economies of ESCWA member countries to the value of some 74.4 per cent of customer deposits, to reach \$257.2 billion. In 2002, the consolidated capital base of domestic banks grew by 14.4 per cent to \$48.5 billion.

20. Notwithstanding positive developments in mutual savings and institutional investor institutions in the ESCWA region over the past few years, the overall situation of the market is still below desired levels on average when compared with developing countries. The relative importance of such institutions differs in the various ESCWA member countries.

21. Capital markets in the region have recorded significant growth since the mid-1990s. The number of listed companies on domestic capital markets rose from 1,645 in 2001 to 1,658 in 2002. As regards trading in the region's capital markets, the value of traded shares increased by 11.5 per cent in 2001-2002 to \$60.5 billion. The number of traded shares grew by 17.9 per cent, to 28.9 million. The average share price index for the whole ESCWA region progressed from 830.06 points in 2001 to 925.97 points in 2002, an increase of 11.55 per cent. This clearly reflects greater demand by local and international investors for the shares of many listed companies on the regional markets.

D. Debt

22. Because fiscal deficits in several ESCWA member countries continued to be fuelled by excessive current spending and lower revenues, public debt in those countries has increased over the past few years. Debt ratios in some of those countries are considered extremely high by international standards, and in some cases external debt is growing faster than domestic debt.

23. Consolidated debt in eight countries, namely Bahrain, Egypt, Jordan, Kuwait, Lebanon, Oman, Qatar and the Syrian Arab Republic, grew from some \$294.5 billion in 2001 to \$307.1 billion in 2002.

24. When deflated by GDP, the total debt ratio in several ESCWA member countries is high by international standards. The average debt ratio of seven ESCWA member countries, namely Bahrain, Egypt, Jordan, Kuwait, Lebanon, Qatar and the Syrian Arab Republic, declined from 86.38 per cent in 2001 to 83.89 per cent in 2002.

25. Debt servicing in six ESCWA member countries, namely Jordan, Kuwait, Lebanon, Egypt, Oman and Qatar, amounted to some \$9.3 billion in 2002, compared with \$10.6 billion in 2001, reflecting a decline in interest rates on public debt in some countries, and the restructuring of debt portfolios in others. The average debt service to revenues ratio in Egypt, Jordan, Kuwait, Lebanon and Qatar declined from 30.18 per cent in 2001 to 26.51 per cent in 2002. The average debt service to exports ratio for the five above-mentioned countries was some 78.40 per cent in 2002, against 87.84 per cent in 2001.

III. Trade and foreign direct investment

26. The recent slump in world economic growth and uncertainties over international security put constraints on economic activity relating to both international trade and foreign direct investment (FDI) in the region. Meanwhile, institutional and policy reforms aimed at promoting trade and investment in ESCWA member countries continued and began to show promising results in some of those countries. However, the potential benefits of regional integration remained largely unrealized. International trade in the Palestinian territories continued to fall in 2002, and is currently at a critical level. Internal closures and military incursions into the Palestinian territories hampered export and import activities and the efforts of the Palestinian Authority to facilitate trade.

27. In 2002, the total value of exports of ESCWA member countries was \$179 billion, while the total value of imports was \$142 billion. Of those exports, 85 per cent came from GCC member States, which also accounted for 72 per cent of all imports. Crude oil and other oil-related products continued to be the main products exported from the ESCWA region.

28. Given that the performance of oil-related economic sectors drives demand for imports in the ESCWA region, overall trade in the region was greatly influenced by developments in oil markets in 2002. Total exports from the region decreased by 4.8 per cent from 2001. Although in 2002 the average oil price stayed just above that of 2001, weak world economic growth and constraints placed on crude oil production by OPEC quotas resulted in a fall in total exports from the region and, in particular, from GCC member States, where the decrease amounted to 5.1 per cent. Weak world demand also affected exports from the more diversified economies, and exports from those countries dropped by 2.9 per cent in 2002 from their level in 2001.³ Total imports into the ESCWA region decreased by 1.1 per cent in 2002: those destined for GCC member States decreased by 1.5 per cent, while those destined for the more diversified economies decreased by a modest 0.1 per cent.

A. Trade flows

29. The largest volume of exports from the ESCWA region in 2002 was to the developing Asian countries: in the first half of 2002, the period for which data were available, 35.2 per cent of such exports went to those countries. The most important origin of imports to the ESCWA region was the European Union: during the first half of 2002, 33.4 per cent of all such imports came from European Union member countries. The “eastward export-westward import” trend of the ESCWA region, which was established in the 1990s, thus continued in 2002, particularly in the GCC States. In the more diversified economies, the European Union is both the most important destination of export flows and the most important origin of import flows. In the first half of 2002, 28.7 per cent of those economies’ exports went to the European Union, while 32.3 per cent of imports came from that source.

B. Intraregional trade

30. The share of intraregional trade in total exports from the ESCWA region did not change in 2002: in the first half of that year, the ratio stood at 7.5 per cent of total exports having been 7.4 per cent in the same period in 2001. In the first half of 2002, the contribution made by GCC States to intraregional trade was 76.8 per cent, a slight decrease from the 77.7 per cent of the corresponding period in 2001.

31. While intraregional markets accounted for a fraction of total trade, the more diversified economies are more dependent on such markets for their exports. Of the ESCWA member countries, Jordan was the most dependent on intraregional export markets: in the first half of 2002, 40.3 per cent of its exports went to other ESCWA member countries, with Iraq being the largest trading partner. Regional export markets were also important for Lebanon, with 35.6 per cent of its exports going to other ESCWA member countries in the first half of 2002. Of the GCC States, Oman was the most dependent on intraregional export markets: in the same period, 10.4 per cent of its exports went to fellow ESCWA member countries.

32. An evaluation of the patterns of the geographical concentration of intraregional trade using a new geographical concentration index for ESCWA member countries shows that, for Oman and Qatar, intraregional export destinations were limited in the first half of 2002. During the same period, the concentration of intraregional imports was relatively high in Bahrain, Egypt and Oman. The degree of intraregional concentration of export destinations was lower than that of import origins in Bahrain, Egypt, Jordan, Kuwait, Lebanon and Oman, while the opposite was the case in Qatar, Saudi Arabia, the Syrian Arab Republic and the United Arab Emirates.

33. The relative contribution of intraregional trade to the total net export position varies among ESCWA member countries. Intraregional trade contributed positively to net exports in Jordan, Lebanon, Saudi Arabia and the Syrian Arab Republic, while a negative contribution was made by such exports in Bahrain, Iraq, Kuwait, Oman, Qatar and Yemen during the first half of 2002. The contribution to the net export positions of Egypt and the United Arab Emirates was neutral. A similar pattern was seen during the same period in 2001 other than in Egypt, where the contribution made by intraregional trade to the country’s net export position in 2001 was positive. For the ESCWA member countries with negative net export positions,

namely, Egypt, Jordan, Lebanon and the Syrian Arab Republic, the promotion of intraregional trade continued to be important, in order to improve trade balances.

C. Foreign direct investment

34. Inflows of FDI into the ESCWA region peaked in 1998, when they amounted to \$6.7 billion, representing 1 per cent of total world FDI inflows. In 2001, the most recent year for which the data are available, FDI inflows to the ESCWA region totalled \$1.1 billion, corresponding to 0.16 per cent of total world FDI inflows. Despite the efforts exerted by Governments in the ESCWA region, non-economic factors outweighed economic factors, and investors were in general more reluctant to take risks. Privatization schemes, institutional developments and policy reforms were put in place, particularly in Egypt, Jordan and Saudi Arabia. However, the prospects for FDI inflows are not encouraging: in 2002, concerns over regional tensions made investors extremely cautious.

IV. Social developments

35. In 2002, social problems persisted in the ESCWA region: member countries continued to grapple with poverty; the uneven distribution of income; the unbalanced provision of such basic social services as health and education; urbanization and population movements; and the limited participation of women in the development process. Despite commitment and concerted efforts to provide equal access to education for women and men, illiteracy remains high, especially among women, in many countries of the region. Unemployment is highest among youth, especially women, and the widest gender gaps in the world in labour force participation are to be found in the ESCWA region. In 2000, women represented 26 per cent of the labour force in the region.

A. Employment problems

36. Youth unemployment has reached alarming proportions throughout the region. Structural imbalances in the region have not been conducive to the creation of sufficient jobs to absorb the annual increase in the economically active population. In the few sectors where increases in production have been seen, they were not in employment-intensive economic activities.

37. The high unemployment rate of youth can be attributed to the slowdown in economic activity during the 1990s; the failure to match education and skills development to the evolving needs of the labour market; the low efficiency of public and private employment agencies; and the lack of programmes aimed specifically at youth employment. The negative trend is exacerbated by inappropriate legislation, the absence of clear gender-sensitive social policies and the absence of measures designed to meet the challenges and seize the opportunities afforded by globalization and the information revolution for achieving social equity and gender equality for sustainable development.

B. Population dynamics

38. The ESCWA region has a young population: more than one third of the region's population is aged less than 15 years, and this segment of the population will enter the labour force over the forthcoming 15 years.

39. However, fertility is declining throughout the region, particularly in Egypt and Lebanon. The total fertility rate in the region dropped from 6.05 live births per woman in 1980 to an average of 4.6 in 2000 and is expected to further decline to an average of 4.2 during the period from 2000 to 2005. That decline, combined with increased life expectancy, is expected in the future to end the trend towards an increasing youth population. In 2000, the percentage of the population aged 60 years and over was 5.6 per cent and is expected to increase to 8.9 per cent by 2025. At the regional level, life expectancy at birth between 2000 and 2005 is 61.2 years for women and 65.1 years for men.

40. With the exception of Iraq and Yemen, nutrition has improved in most ESCWA member countries. Notwithstanding the urban-rural divide at the country level, the overall standard of nutrition in the region, as measured in caloric intake per capita, is approaching that of developed countries.

C. Education policies

41. Further indicators of social development are education levels and illiteracy rates, especially among women and girls. While both have improved in most ESCWA member countries since the 1970s, illiteracy rates remain alarmingly high, particularly in the less developed and conflict-stricken countries. Adult illiteracy rates, especially among women, are relatively high in several countries in the ESCWA region and in 2000 reached some 30 per cent for women, compared with 16 per cent for men.

42. Education policies in the region are not responding to the demands of the labour market: they do not provide individuals with the quality of education needed for employment. With respect to vocational and technical education, particularly in the GCC States, the aim has been to promote the skills needed by the public rather than the private sector. Little emphasis has therefore been placed on entrepreneurial skills, know-how and technical applications of theories learned. As a result, there has been a decrease in basic illiteracy, combined with an increase in technical illiteracy as defined to fit the new era of technological development and globalization; a high rate of unemployment and underemployment, especially among new graduates and new entrants into the labour market; a lack of the skills crucial to joining and competing with a global labour force; and a decline in productivity.

D. Poverty and the gender gap

43. Poverty continues to be a serious social problem in several countries in the ESCWA region. During the period from 1984 to 1999, over 20 per cent of the populations of both Egypt and Yemen was living below the national poverty line. The wide gap in consumption between the poorest and richest segments of the populations of ESCWA member countries is another indicator for poverty in the region, and this is reflected in income distribution across the countries of the region.

44. Poverty has been exacerbated by the fact that public spending on social services as a percentage of GDP in ESCWA member countries has not increased over the past 10 years, and in some countries has even declined. A significant part of national expenditure is allocated to military expenditure owing to existing political instability in the region.

45. Socio-economic gender gaps persist in many countries. In a few, the continued low level of girls' education has serious negative implications for employment opportunities and income-generating activities. The political participation of Arab women remains very limited, even by the standards of other developing or least developed countries: in 2000, women comprised 3.4 per cent of parliamentary representatives. The number of women appointed to high-ranking government posts or decision-making positions continues to be among the lowest in the world.

V. Globalization and regional integration

A. Globalization and the ESCWA member countries

46. World trends towards globalization, electronic commerce (e-commerce) and the rise in the number of regional trade blocs means that ESCWA member countries, and the Arab world as a whole, must take the necessary action both to address the challenges and risks of an integrating world economy, and to seize the opportunities presented by globalization and regional integration. Positive steps have been made by some countries of the region, through increased awareness of and participation in multilateral trading agreements, bilateral interregional agreements, bilateral intraregional trading agreements, transport and trade facilitation, energy policy coordination, and promotion of the sectors most vital to the region's economies. However, many challenges remain before ESCWA member countries and the Arab world as a whole may maximize the benefits of globalization and regional integration.

47. Many countries in the Arab region are moving towards greater participation in the global economy. The main avenue towards globalization is membership in the multilateral rules-based trading system of the World Trade Organization (WTO). As of February 2003, WTO had 145 members, 75 per cent of which were developing countries. The Organization was established in 1995, at the conclusion of the Uruguay Round of the General Agreement on Tariffs and Trade (GATT), of which original signatories in the Arab world included Bahrain (1993), Djibouti (1994), Egypt (1970), Kuwait (1963), Mauritania (1963), Morocco (1987), Qatar (1994), Tunisia (1990) and the United Arab Emirates (1994). Between 1995 and 2000, 11 Arab countries joined WTO. Seven of the 13 ESCWA members currently belong, namely Bahrain, Egypt, Jordan, Kuwait, Oman, Qatar and the United Arab Emirates. Three ESCWA member countries have observer status and are in the process of accession, namely Lebanon, Saudi Arabia and Yemen. The ESCWA member countries are taking an increasingly active role in the multilateral trading system, both in terms of recent accessions and participation in the ministerial meetings. The Fourth WTO Ministerial Conference was held in 2001 in Qatar, an ESCWA member country. That Conference culminated in the Doha Agenda for Development. Implementation of the Doha Agenda for Development will give developing

countries, including Arab countries, the opportunity, for the first time, to incorporate their interests in the text of the WTO Agreement, seven years after it was ratified.

B. Interregional integration and the ESCWA member countries

48. Eleven countries in the southern Mediterranean region and the Palestinian Authority have implemented or are in the course of negotiating bilateral trading agreements with the European Union. Those countries include Algeria, Cyprus, Egypt, Israel, Jordan, Lebanon, Malta, Morocco, the Syrian Arab Republic, Tunisia and Turkey. Cyprus and Malta are expected to become full members of the European Union in 2004. Bilateral Euro-Mediterranean Association agreements are concluded under the Euro-Mediterranean Partnership, launched by the Barcelona Declaration in 1995 in order to replace previous cooperation agreements with those countries, some of which dated back to the 1970s. The Barcelona Declaration is a European Union programme for promoting economic development in the southern Mediterranean region. It provides financial and technical support for Mediterranean partner countries undertaking the transition to free trade with the 15 European Union member States. The first generation of agreements consisted primarily of the European Union granting market access to the developing countries of the southern Mediterranean under the Generalized System of Preferences. Agricultural products were not included. The new generation of agreements also excludes agricultural products and requires reciprocal liberalization of merchandise trade in the Mediterranean partners' markets. The long-term goal of the Euro-Mediterranean Partnership is to establish a free trade area by 2010. That will require full trade liberalization between the Mediterranean partners. While those partners have been successful in negotiating European Union Association agreements, a great deal of progress remains to be made on regional integration if the 2010 target is to be met.

49. On 17 December 2001, Jordan and the United States began implementing a free trade agreement with their first round of tariff reductions. The two partners agreed to eliminate tariffs on merchandise trade between their countries over a 10-year transition period. Tariffs will be reduced in four stages: tariffs of less than 5 per cent *ad valorem* will be phased out within two years; those between 5 and 10 per cent will be phased out over four years; those between 10 and 20 per cent will be phased out over five years; and those which exceed 20 per cent will be eliminated over 10 years. The Agreement also requires the enforcement of existing labour laws in both countries and the establishment of a Joint Forum on Environmental Technical Cooperation in order to ensure enforcement of existing environmental regulations. Both countries have agreed to promote free e-commerce and to meet international standards for the protection of intellectual property rights. A mechanism for trade dispute settlement is included in the Agreement.

C. Intraregional Arab integration

50. The countries of the Arab region have worked towards regional unity ever since the League of Arab States was formed in 1945 by Egypt, Iraq, Lebanon, Saudi Arabia, the Syrian Arab Republic, Transjordan and Yemen. Other efforts towards regional cooperation include the Treaty for Joint Defense and Economic Cooperation (1950), the Convention for Facilitating Trade and Regulating Transit (1953), the Arab Economic Unity Agreement (1957), the Arab Common Market

(1964), the Gulf Cooperation Council (1981), the Arab Cooperation Council (1989) and the Arab Maghreb Union (1989). However, most of those regional agreements were neither implemented nor effectively enforced. The latest efforts aimed at Arab regional integration, undertaken since the late 1990s, have been more successful. Significant success has been realized by GCC in forming a customs union, and more serious moves to establish the Greater Arab Free Trade Area (GAFTA) have been made.

51. The idea of GAFTA, which was first introduced in 1981, was given new life in 1997 with increasing Arab interest in regional integration. Under GAFTA provisions, tariffs and similar charges and non-tariff barriers to intra-GAFTA trade in industrial goods will be reduced or eliminated over a 10-year period which began on 1 January 1998. By 2002, the 14 GAFTA member States had effectively reduced tariffs on intra-GAFTA industrial trade by 50 per cent. At a meeting of the Economic and Social Council of the League of Arab States in Cairo in February 2002, it was agreed to accelerate implementation of GAFTA from 2002 to 2005. The time schedule for liberalization includes a 60 per cent reduction in tariff barriers by 2003, 80 per cent reduction by 2004 and zero tariffs by 2005. In 2002, with the accession of Algeria, membership increased to 15.

52. The Council was formed in 1981 by Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates. One of the goals of member States is to form an economic union which, by 2010, will employ a common currency. In 1988, GCC States took the first steps towards a customs union by agreeing to a standard band of external tariffs ranging from 4 to 20 per cent. In December 1992, the GCC Patent Office was formed in order to formulate patent regulations and related by-laws. In 2002, Governments agreed to apply a Common External Tariff of 5 per cent by January 2003. Bahrain and Saudi Arabia have successfully lowered their external tariffs, which previously ranged from 5 to 20 per cent and 5 to 12 per cent, respectively. Oman was given more time in which to lower its external tariffs, which ranged from 5 to 15 per cent. Kuwait, Qatar and the United Arab Emirates originally had external tariffs of 4 per cent, below the Common External Tariff. They have been given more time in which to raise their external tariff rates.

53. Progress has been made in linking electricity grids in the Arab region. Several stages have been implemented in the electricity linkage project agreed upon in 1992 by Turkey and the ESCWA member countries of Egypt, Iraq, Jordan and the Syrian Arab Republic, which were joined by Lebanon in 2000. Another project, in the GCC States, comprises three stages. The first links eastern Saudi Arabia with Bahrain, Kuwait and Qatar; the second links the Omani electricity grid with that of the United Arab Emirates, while the third stage will join together the two grids that were linked in the first two stages. Egypt and the Libyan Arab Jamahiriya have made progress towards finalizing the linkage between their electricity grids, and a Libyan and Tunisian linkage will soon be completed.

54. Air, land and maritime transport networks have developed substantially in the ESCWA region. On 10 May 2001, member countries adopted the Agreement on International Roads in the Arab Mashreq. Eleven members have signed and three have ratified the Agreement, which will improve the intraregional road network. The proposal includes a road network that exceeds 31,400 kilometres and will require high-quality specifications that conform to the road standards used in Europe. A high-quality regional road network will improve the flow of goods between ESCWA

member countries. Bahrain and Qatar have agreed to build a causeway connecting the two countries, and work on it will begin in 2003. Work was begun on the Agreement on International Railways in the Arab Mashreq in March 2002. Furthermore, Lebanon, Jordan and the Syrian Arab Republic have signed an agreement to open new airways between their countries that will cut travel times between the three countries, reduce transport costs and encourage intraregional trade and higher volumes of passengers.

VI. Conclusions, outlook and policy recommendations

A. Conclusions

55. Economic growth in the ESCWA region slowed to 1.88 per cent in 2002, down from an already meagre 2.46 per cent in 2001, and the per capita growth rate remained negative. Slow growth in 2002 is mainly attributed to a cut in oil production by the main oil exporters following the tightening by OPEC of production quotas; continued sluggish world economic activity; and the negative impact on private sector economic activity of heightened political tensions in the region.

56. Notwithstanding high oil prices, total oil revenues are estimated to have decreased in 2002 by 12.31 per cent from those of 2001, to \$121.3 billion. While interest rates fell slightly in 2002 and exchange rates remained largely stable, fiscal positions deteriorated because revenue increases were outweighed by increases in public expenditure, fuelling already high levels of public debt in some member countries. The external sector of ESCWA member countries performed less well in 2002 than in 2001. Total and intraregional trade levels fell and FDI levels remained low. In contrast, capital markets and the banking sector continued to grow, further increasing the potential for financing for development in the ESCWA region.

57. While inflation rates remained low throughout the region in 2002, the low economic and high population growth contributed to continued labour market and unemployment problems in the region. Youth unemployment and unemployment among women are reaching alarming proportions. Education policies have not been responding to the needs of labour markets. Furthermore, illiteracy rates have remained alarmingly high, reaching some 30 per cent for women as against 16 per cent for men in 2000. A similar gender gap persisted in many other socio-economic areas in ESCWA member countries, and problems of increasing poverty persisted.

B. Outlook for 2003

58. Economic growth in the ESCWA region in 2003 will depend primarily on the political situation in the region, including the developments in Iraq and the Middle East peace process. That situation will affect the risk perceptions of private investors, public investments and developments in the petroleum sector. In early 2003, already high oil prices continued to rise, largely because of the continuing disruption of oil exports from Venezuela and the effect on oil prices of the situation in Iraq. The average OPEC basket crude price baseline on which growth projections for 2003 are based is set at \$26/b. Oil revenues are expected to increase in 2003 as a result of likely OPEC production quota increases and high oil prices, while

investments are expected to drop significantly as a consequence of the political situation.

59. Negative secondary effects on economic activity throughout the region of the military conflict in Iraq have also been taken into account, and it is still important to stress the likelihood that growth projections will have to be revised downwards, especially for the more diversified economies, in the case of continued or increasing tensions of the region. With this caveat in mind, overall growth in the ESCWA region is projected to reach 3.26 per cent in 2003, with a slightly higher projected average for the GCC States of 3.93 per cent because of the expected strong performance of the oil sectors of those countries. Growth in the group of countries with more diversified economies is expected to reach 1.87 per cent. Given that the population growth rate is not expected to change in 2003, per capita growth rates are expected to be slightly positive in 2003.

60. Inflation rates are expected to remain generally low throughout the region in 2003, although the depreciation of the dollar vis-à-vis the euro may place slight upward pressure on imported goods prices. Inflation in Egypt may increase, following the depreciation in early 2003, when the Egyptian pound was allowed to float. The outlook for unemployment is negative, because the growth of the labour force continues to outstrip that of the economy. Largely for the same reasons, progress towards the Millennium Development Goal of poverty reduction is not expected in 2003. The fiscal situation of more diversified economies is also expected to deteriorate as well, while stronger oil revenues in GCC States may contribute to the lowering of fiscal deficits in that part of the ESCWA region. Banking and capital market activity is expected to be sluggish because of increased risk perceptions. Trade, including oil, is expected to increase moderately in 2003 because of the expected strong performance of oil sectors and the positive income effects on oil-exporting countries. At the same time, a considerable fall in intraregional trade activities and in FDI inflows is expected as a direct consequence of the conflict in Iraq.

C. Policy recommendations

61. The recent poor growth in the ESCWA region indicates the torpidity of the rate of expansion in the existing productive capacity. The persistence of low rates over two decades, however, points to a much deeper problem with the institutional framework that does not allow for successive and vigorous expansions in capital accumulation. Without a fundamental change in the institutional structure that underpins the process by which resources are ploughed back into the region, therefore, the slow rate of capital accumulation may remain unaltered. Long-term security and a market-enhancing investment mechanism also remain central to encouraging higher growth in economies of the ESCWA region.

62. Growth rates continue to be more volatile in the ESCWA region than anywhere else in the world, because of the high dependence on international oil markets and political instability. Increasing diversification away from oil therefore continues to be recommended. Moreover, increased financial, capital and goods market integration within the ESCWA region could complement diversification efforts; even out sharp income fluctuations between the highly

volatile oil-dependent economies and the more diversified economies of the region; and strengthen the resilience of the ESCWA region to future financial and real shocks. Moreover, regional integration in general would give the ESCWA region a common platform from which to meet the challenges of integrating into the world economy.

63. The promotion of intraregional trade remains the key to success in diversifying the products exported from the region and stabilizing the external deficits of the group of ESCWA member countries with negative trade balances. In addition to the removal of tariff and non-tariff barriers to trade, and regulatory reforms of financial and capital markets, monetary stability and fiscal discipline are fundamental to the enhancement of integration in the ESCWA region. Macroeconomic policy cooperation between ESCWA member countries should be considered with a view to achieving that end.

64. The absence of integrated social policies in the ESCWA region has contributed to increasing levels of poverty and deprivation. In consequence, Governments must develop the capacity to undertake social impact assessments of macroeconomic policies and integrate social concerns and human rights into the formulation of macroeconomic policies. The importance of giving special weight to poverty and unemployment issues in the policy formulation process cannot be sufficiently emphasized.

Notes

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

² Egypt, Iraq, Jordan, Lebanon, Palestine, the Syrian Arab Republic and Yemen.

³ While total net exports decreased by 16.8 per cent, the net export position of the ESCWA region remained positive for the fourth consecutive year.