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Summary of the survey of economic and social developments in the Economic and Social Commission for Western Asia region, 2008-2009

Summary

Until the last quarter of 2008, member countries of the Economic and Social Commission for Western Asia (ESCWA) exhibited steady economic expansion, boosted by higher-than-usual oil prices, except in conflict-affected areas. However, with the onset of the global financial crisis and the steep drop in oil prices, growth prospects for 2009 are becoming increasingly uncertain. Real gross domestic product (GDP) growth for 2009 is forecast to be about 2 per cent. At the economic level, the impact of the financial crisis has had a fourfold effect: a plunge in financial and real-estate asset prices; a collapse in commodity prices, including energy, metal and food, although food prices remain relatively high, hurting the poor; shortages of monetary liquidity, particularly of the United States dollar, in local and international money markets; and a rapid decline in export earnings. At the social level, the following issues may arise: a decreasing effective income level, particularly for the poor; rising unemployment; a potentially significant change in the demographic structures of the countries of the Gulf Cooperation Council as a result of return migrations and possibly a remittances decline; and a depletion of fiscal resources for social safety nets.

Even before the crisis, the region as a whole had not been expected to meet the Millennium Development Goals in view of the faulty structure of existing policies. At the economic level, industrialization and full employment policies remain elusive goals. At the social level, there were some remarkable advances in the areas of health and education, but the regional starting point had been quite low, and, insofar as the "development as freedom" paradigm goes, the region is still far from realizing its developmental potential. Paucity of data notwithstanding, there is a greater need to remediate faulty policy than to gauge the inevitable, baleful impact of the crisis on the poor.

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Crisis or not, in a conflict-affected developing context in which the rate of unemployment — a key measure of welfare and development — holds nearly steady at the double-digit level and responds poorly to fluctuations in growth rates, the vast majority of the lower strata, who are already in dire need, could likely sustain little more harm than they have already suffered. Financial crises erode a greater share of income from the globally integrated rich than from the locally disenfranchised poor. Still, if, in order to minimize the financial losses, the monetary stance undercuts the State capacity to expand a fiscal stimulus that is meant to cushion the impact of the crisis on the poor, then the tenets of the social contract are best re-examined. Already a huge part of the region's savings do not get funnelled back into national or regional investment, unequivocally implying that this leakage is underpinned by an articulation of various levels of security that has for long undermined the potential for development. In an ESCWA regional context, security should be understood in three ways: first, national security, including the protection of the right of the peoples of the region to self-determination; secondly, democratic security through the promotion of the citizenship rights of the peoples of the ESCWA countries and the institution of democratic accountability; and, thirdly, human security, particularly the right to social protection and decent employment, which should be promoted through regional regulation and economic integration. These manifestations of security should be considered not separately but either in their totality or as a combination in which national security mediates the rights of the poor and holds primacy over all other aspects of security. Such security measures, when considered in their entirety, will facilitate the transition to the new rights-based economic development strategy being proposed for the ESCWA region. It is this question of how to construe this concept of security so as to enable us to chart a better course for development in the region, that will constitute the thematic part of the survey this year. The objective could be restated as the need to re-examine the relationship between security and the space for autonomous economic policies in the region on the basis of existing literature, international experience and the specific features of the countries in the ESCWA region.

Contents

I. Recent economic and social development trends

A. The global context

1. The expansion of the world economy came to an abrupt halt in the fourth quarter of 2008. The global recession, led by the developed economies, continues to loom large in 2009. The credit crunch that had existed in financial markets in the United States of America and Western Europe since the summer of 2007 became a global financial crisis following the collapse of major financial institutions in the United States in September 2008. Due to a surging counterparty risk among financial institutions, international money and capital markets were essentially frozen as of the early part of the fourth quarter of the year. The financial crisis forced a debasement of the balance-sheet positions of financial sector entities through de-leveraging and affected corporate and household sectors in developed countries. Balance-sheet adjustments have resulted in the downward revision of investment planning, corporate inventories, human resource allocations and consumption behaviour. The contraction of economic activities has led to a contraction of effective demand and to rising unemployment. Economies that rely on exports for growth have already experienced a significant decrease in export earnings. The weak prospects of global demand growth have spearheaded deflation in commodity prices and shipping costs from their historical peak, in the second quarter of 2008. A series of coordination efforts aimed at addressing the financial crisis were made during the summit meetings of the Group of 20 held in November 2008 and April 2009, which elaborated a vision of a new international financial architecture accompanied by coordinated fiscal-stimulus action.

2. During 2008, developing countries, including ESCWA member countries faced the impact of the global financial crisis in four stages: first, plummeting financial and real-estate asset prices; secondly, the collapse of commodity prices, including energy, metal and food; thirdly, shortages of monetary liquidity, particularly of United States dollars in local and international money markets; and, fourthly, a rapid decline in export earnings. The repatriation of foreign funds started in the second quarter of 2008 in many emerging markets. That repatriation was a facet of international investment portfolio adjustments by risk-averse investors and a reflection of their preference for safety and liquidity. That resulted in a gradual tightening of monetary liquidity globally, which reversed the trend of financial and real-estate asset prices, including those of developing countries. As liquidity pressures grew, exporters and importers in developing countries faced increasing difficulties obtaining trade finance. Moreover, the rapid decline in effective demand at the global level reduced export earnings all around. Owing to their limited exposure to securitized financial products of developed countries, developing countries were initially seen as insulated from the financial crisis. However, given the linkages to the global goods, services and finance markets, contagion resulted, and their growth prospects face increasing uncertainty.

3. The global financial crisis is anticipated to have an impact on social development mainly in four channels and in various stages: decreasing effective income, particularly of the poor; rapidly rising unemployment; a change in the demographic structure due to return migrations; and the threatened depletion of fiscal resources for social safety nets, including, potentially, a drop in remittances and in official development assistance. Rapid inflation in food prices through 2007

and 2008 had already eroded the purchasing power of the poor, who already spend a large proportion of their income on food. Despite international commodity price deflation since 2008, recent severe droughts in many agrarian parts of the world, along with higher-than-average food prices amounting to a higher import bill in a time of current account difficulties, are still causing serious concerns with respect to world food security. Lower growth prospects due to the financial crisis are likely to constrain the consumption demand of the world's poor. According to the International Labour Office,[1] the number of persons unemployed in 2009 is projected to increase by 18 million to 51 million in comparison with 2007. The effect of unemployment will be more severe in developing countries, as most of them are in demographic transition phases in which high fertility rates coexist with decreasing mortality rates. Moreover, chronic unemployment rates are typically high among younger people and women. Therefore, more restricted employment generation is envisaged so as to delay the social transition to greater participation by young people and women in labour markets. Furthermore, the global financial crisis has heightened nationalistic tendencies concerning job-protection measures, particularly in developed countries. Prospects for unemployed foreign workers are increasingly uncertain; often such workers have to return to their home countries, where jobs are scarce, Governments have taken a contractionary fiscal position and fiscal austerity has weakened allocations for the social safety nets that guard against impoverishment.

4. Against that global backdrop, ESCWA member countries showed resilience in terms of economic expansion until the end of 2008. Yet growth prospects for 2009 appear increasingly uncertain. Excepting those countries and territories that suffered from military conflicts and security instabilities, business sentiment and consumer confidence in the region have been stable and positive since 2002. Confidence has begun to erode owing to the collapse in crude-oil prices and regional asset prices in financial assets and real estate. Lack of investor confidence and of comprehensive automatic stabilizers such as unemployment insurance, as well as an already extremely low labour share out of national income, represent real sources of concern for the region's economic growth prospects. Moreover, it is almost certain that the global financial crisis will have a significant impact on the region's social development and affect recent achievements in terms of reform and institutional development. The increasing economic and social uncertainty is further undermining the already precarious general sense of security shared by the ESCWA population.

B. Oil sector development

5. According to an estimate by the Organization of the Petroleum Exporting Countries (OPEC), total world demand for crude oil in 2008 averaged 85.6 million barrels per day, while the total supply averaged 85.8 million barrels per day. Demand for crude oil is estimated to have decreased in 2008 by 0.3 million barrels per day over the previous year. The weak demand of Organization for Economic Cooperation and Development countries became apparent from the start of the year, and the expected demand growth from developing countries did not materialize. Projecting weak real demand prospects, OPEC maintained a reduced production

[1] International Labour Organization, *Global Employment Trends*, January 2009.

quota from its peak of the last quarter of 2005. OPEC then decided to cut the quota further in October and December 2008 and gradually decrease output by 4.2 million barrels per day. As the demand for crude oil is projected to be weakened further into 2009, OPEC is expected to comply with its present production ceiling of 24.8 million barrels per day with the possibility of another reduction during the year. It is estimated that, as a result, their limited expansion capacity for exploration and production, non-OPEC countries' 2009 crude-oil production will remain at 2008 levels. Given the global situation, demand and supply of crude oil is expected to balance out at around 81.5 million barrels per day in 2009, 5 per cent lower than in 2008.

6. Crude-oil prices surged in the first half of 2008 to a historical high and then declined to levels not seen since early 2005. The OPEC reference basket price marked a high of $140.73 per barrel on 3 July 2008, closing the year at $35.58 per barrel. The surge in crude-oil prices in 2008 was caused by financial speculation in crude-oil futures. During the extraordinary price surge, decreasing real demand for fuel products such as gasoline and heating oil caused a substantial decline in refinery margins. In the second half of 2008, revised perceptions of the world's growth prospects along with reduced crude-oil demand and enhanced refining capacity, particularly in Asia, jointly alleviated crude-oil supply pressures. Early in 2009, the OPEC reference basket price tended to stabilize in the range of $40 to $50 per barrel. However, major crude-oil producers hope for a sustainable price at around $70 per barrel to support investment in exploration, production and refining for the long run. Speculative forces still remain in crude-oil futures markets and, together with economic uncertainty, make the projection of volatile crude-oil prices difficult. With this caveat, the average OPEC reference basket price is projected to remain in the range of $42.5 to $52.5 per barrel in 2009.

7. The total crude-oil production of ESCWA member countries is estimated to have stood at 20.2 million barrels per day on average in 2008, up 3.6 per cent from the previous year. Gulf Cooperation Council (GCC) production is estimated to total 16.0 million barrels per day, whereas the estimate for other ESCWA crude-oil-producing countries, namely, Egypt, Iraq, the Sudan, the Syrian Arab Republic and Yemen, stands at 4.1 million barrels per day. In 2009, the total crude-oil production of ESCWA member countries is projected to be 17.5 million barrels per day. The significant reduction in the production level is due to the prompt compliance with the OPEC quota by OPEC member countries in the ESCWA region. Moreover, with the exception of Iraq and the Sudan, the capacity constraint is expected to cause a moderate decline in the crude-oil production of non-OPEC-member countries in the region. The ESCWA region's gross oil export revenues in total are estimated to stand at $637.1 billion for 2008, an increase of 41.8 per cent over the previous year. However, owing to weak price and production prospects, total gross oil export revenues are projected to be $307.7 billion in 2009, down 51.7 per cent from 2008.

C. Output and demand

8. The average real GDP growth of ESCWA countries, which was 5.2 per cent in 2007, is estimated to be 6.0 per cent for 2008 and is forecast at 2.1 per cent for 2009 (see table below). On the production side, surging international commodity prices in the first half of 2008 positively affected the region's energy- and commodity-related sectors, including crude-oil production, oil refining, liquefied natural gas and

petrochemical products. Wealth accumulated from previous periods, together with the ongoing positive sentiments of businesses, rentiers and well-off consumers, have sustained expenditure and growth well into the year. The resulting domestic demand expansion contributed to the continuing rapid growth of business services and the communications, construction, financial services, tourism and transport sectors. However, the collapse of commodity and petrochemical product prices rapidly undermined business confidence in the second half of 2008. Moreover, the swift decline of prices in financial assets and real estate weakened prospects for growth in domestic demand. As a result of the prompt actions taken by the region's monetary authorities, the systemic risks of the region's financial sector were kept in check. However, as the region's commercial banks have become more cautious in their lending activities, credit growth for the private sector is projected to be subdued substantially.

9. Real GDP growth in GCC countries is estimated to have averaged 5.7 per cent in 2008, after registering 4.5 per cent in 2007. Despite the fact that crude-oil prices have declined rapidly since July 2008, GCC economies registered record oil export revenues and another year of considerable fiscal surpluses in 2008. The sudden change in outlook for the world economy is the result of the global financial crisis having affected business and consumer confidence in the region and heightened uncertainty. Despite media reports of weak performances in the region's stock markets and real estate sector, the announcement of delays in mega-projects and the slowdown in real estate markets, a considerable number of economic actors and policymakers in GCC countries considered the economic fundamentals to be sound. That view was based on the accumulated surpluses and relative resilience of Gulf economies despite the collapse in crude-oil prices, which reflects, albeit in small part, some of the achievements of GCC countries in terms of economic diversification. The importance of diversification cannot be overestimated, since the economies of GCC countries continue to depend largely on oil revenues, and the structure of their economies is much as it was during the previous oil boom of the 1970s. The current income effect of oil revenues had been leveraged through the international and domestic asset markets with the development of the financial sectors. Asset markets have linkages to the activities of non-oil economic sectors, which are principally speculative in nature, particularly the real estate sector. The non-oil economic sectors may have contributed to consistently more added value in GCC economies in recent years; however, a less-than-proportionate impact was witnessed because asset bubbles burst with the stock-market adjustment and, although the income generated by the non-oil economic sectors had contributed to the consistent expansion of domestic demand since 2002, a major chunk of consumption demand had been driven by affluent consumption demand, which came to an abrupt end with the onset of the crisis.

10. For 2009, however, GCC countries are forecast to experience a considerable decline in real GDP growth, to an average of 1.1 per cent. To some extent, the estimate counts the structural de-leveraging around the financial sector in the subregion, but that projected weakening is due mainly to prompt compliance with the significant cut in the OPEC production quota of OPEC member countries in the subregion, namely, Kuwait, Qatar, Saudi Arabia and the United Arab Emirates. Owing to the strong readiness of the Governments of those countries to provide fiscal support, domestic demand in the subregion is not expected to shrink to the same degree. The contraction of net exports is the main cause of the real GDP

decline. Along those lines, Kuwait is projected to grow at 0.7 per cent, Saudi Arabia at 0.7 per cent and the United Arab Emirates at 0.5 per cent. Qatar is projected to grow at 7.0 per cent, which is much higher than the subregion's average. This is the result of the country's advantageous position as a major global liquefied natural gas exporter. Non-OPEC members in the subregion, namely, Bahrain and Oman, are projected to register a moderate growth rate of 2.0 and 1.5 per cent, respectively, on the basis of a moderate decline in crude-oil production levels.

Real GDP growth rate and consumer inflation rate, 2005-2009

(Annual percentage change)

	Real GDP growth rate					*Consumer inflation rate*				
Country /area	*2005*	*2006*	*2007*[a]	*2008*[b]	*2009*[c]	*2005*	*2006*	*2007*	*2008*[b]	*2009*[c]
Bahrain	7.9	6.5	8.1	6.3	2.0	2.6	2.1	3.3	3.5	3.5
Kuwait	11.4	6.3	4.6	6.1	0.7	4.1	3.1	5.5	10.4	5.7
Oman	6.0	7.2	6.1	6.0	1.5	1.9	3.4	5.9	12.4	6.0
Qatar	6.1	12.2	9.5	16.0	7.0	8.8	11.8	13.8	15.0	11.2
Saudi Arabia	5.6	3.2	3.4	4.2	0.7	0.7	2.2	4.1	9.9	4.5
United Arab Emirates	10.5	9.4	5.2	7.4	0.5	6.2	9.3	11.1	18.6	5.2
GCC countries[d]	**7.3**	**5.6**	**4.5**	**5.8**	**1.1**	**2.8**	**4.3**	**6.3**	**12.0**	**5.2**
Egypt[e]	6.8	7.1	7.2	6.5	4.5	4.9	7.6	9.5	17.1	9.7
Iraq	-0.7	6.2	5.0	8.9	5.0	37.0	53.2	30.8	2.7	5.0
Jordan	7.1	6.3	6.0	6.0	3.6	3.5	6.3	5.4	14.0	6.5
Lebanon	1.1	0.0	4.0	5.5	3.0	-2.6	1.5	6.7	11.7	5.7
Sudan	8.6	11.3	10.0	8.5	4.2	8.4	7.2	8.0	15.0	11.0
Syrian Arab Republic	4.5	5.1	6.6	6.5	3.2	7.4	10.0	4.5	14.7	6.0
Yemen	5.8	4.5	4.7	4.5	2.0	11.8	10.8	7.9	19.0	12.7
Occupied Palestinian Territory	6.7	-8.3	0.6	-1.7	-1.0	3.5	3.8	2.7	9.8	5.2
More diversified economies[d]	**5.0**	**5.8**	**6.4**	**6.6**	**4.0**	**9.8**	**14.2**	**11.5**	**13.9**	**8.2**
Total ESCWA region[d]	**6.5**	**5.7**	**5.2**	**6.1**	**2.1**	**5.3**	**7.9**	**8.2**	**12.7**	**6.3**

Source: National sources unless otherwise stated.

[a] The estimated figures for Bahrain, Kuwait, Oman, Qatar and Iraq as at 15 March 2009.

[b] March 2009 estimates.

[c] March 2009 forecasts.

[d] Figures for country groups are weighted averages, where weights for each year are based on GDP in 2000 constant prices.

[e] For GDP growth rate of Egypt, the figures are for the country's fiscal year, which starts in July and ends in June of the following year.

11. GDP growth in the subregion of more diversified economies is estimated to have averaged 6.5 per cent in 2008, up slightly from 6.4 per cent in 2007. Despite precarious external balances resulting from weak current account positions, domestic demand continued to grow, with firmly positive capital account balances. Moreover, oil exporters in the subregion also benefited from strong gross oil export revenues. During 2008, the more diversified economies saw increased investment

activities in the construction, telecommunications, financial and service sectors. Despite consistent efforts aimed at industrial development, the subregion has yet to establish a sufficiently strong manufacturing base for export-led growth. However, that lesser reliance on the manufacturing of exports has in effect insulated the subregion from the impact of the rapid decline in demand associated with the decline in global demand since the fourth quarter of 2008. The financial sector also maintained sufficient monetary liquidity during the initial phase of the global financial crisis. Underdevelopment in the area of manufacturing and finance attenuated a steep and abrupt fall in economic activity. Yet, from a development perspective, it would have been of more value had the region been more developed in those areas and more prudent in arranging its protection mechanisms.

12. For 2009, the more diversified economy subregion is projected to mark a moderate average growth rate of 4.0 per cent. A weakened capital account position is expected, and a risk of balance of payments difficulty remains. However, it is envisaged that, owing to the solid position of foreign reserves at central banks in the subregion, such risk will stay relatively low. Declining consumer price inflation also helped only moderately in supporting domestic demand, because labour earns an unusually small share of total income (25 per cent). Business and consumer confidence is projected to be relatively stable in spite of the increasing uncertainty in connection with chronic structural issues such as unemployment, since much of the economic activity is associated with rents as opposed to a dynamic rise in productivity. It is expected that, for Iraq and the Sudan, investment activity will continue to have an impact on growth potential and that stability will continue to increase. Iraq is projected to grow at 5.0 per cent and the Sudan at 4.2 per cent. Estimates for Egypt, Jordan, Lebanon and the Syrian Arab Republic reflect mainly the weakened capital account positions, with consideration given to the strong position of foreign reserves at those countries respective central banks. Export earnings in both goods and services are expected to decline in 2009, but the capital account position is expected to be sufficient to cover the weak current account position during the year. Domestic demand growth in Iraq and the Sudan is expected to face certain constraints, leading to moderate growth in real GDP. Egypt is projected to grow at 4.5 per cent, Jordan at 3.6 per cent, Lebanon at 3.0 per cent and the Syrian Arab Republic at 3.2 per cent. The rapid decline in gross oil export revenues is expected to affect the growth prospects of Yemen. However, the deteriorating current account position is expected to be covered by the central bank's accumulated foreign reserves and international support. Moderate domestic demand growth is projected, increasing the GDP growth rate in Yemen to 2.0 per cent in 2009.

13. Recently revised official figures have confirmed that the Occupied Palestinian Territory continues to experience depressed economic activity. The physical blockades, continuing security instability and hostilities have imposed severe constraints on the Territory's economic activities. Unpredictable flows of international development aid have precluded fiscal efforts at reconstruction and development. Moreover, the intensity of Israeli military actions in the Gaza Strip during a period of 22 days in December 2008 and January 2009 caused devastating destruction to human and physical capital. It is estimated that the Occupied Palestinian Territory will register a second year of negative economic growth, at a rate of minus 1.0 per cent.

D. Costs and prices

14. Average consumer price inflation in the ESCWA region is estimated at 12.7 per cent for 2008, compared with 8.2 per cent in 2007. Owing to consistent growth in domestic demand, the ESCWA region had already been under mounting inflationary pressure at a time when international commodity prices, including for energy, metal and food items, started surging at an alarming rate in 2007 and 2008. The extraordinary hike in international grain prices was immediately reflected in the prices of food items. In the past few years, a consistent rise in the rental prices of business and residential properties had been observed, in parallel with the rising value of property assets. Additionally, the rising price of construction materials inflated the nominal value of newly built properties and associated rental prices. For non-oil-exporting countries, the hike in crude-oil prices resulted in higher transport costs. Consumer price inflation peaked in the second half of 2008. However, compared with the rapid decline of commodity prices in international markets, food prices in the region generally have remained well above their long-term trends. A certain high-end stickiness of food prices is due to market segmentation, wholesalers' overpricing of their inventories, and a resilient price level for processed foods. Property rental prices veered downwards in the region in the fourth quarter of 2008. The growth of private-sector wages, particularly in GCC countries, also has been flattened amid increasingly uncertain employment situations. By the end of 2008, inflation pressure on ESCWA member countries had substantially tapered off.

15. The forecast for the consumer price inflation rate in the ESCWA region is 6.3 per cent, reflecting the expected slower growth in domestic demand, with the exception of Qatar, where growth is projected to be higher than the average. However, the region, owing to structural differences, is not expected to experience deflation, which may be a concern for some developed countries. The global supply-demand condition of grains is projected to be stable in 2009. However, several agrarian parts of the ESCWA region experienced severe droughts lasting until early February 2009, and the supply situation may remain fragile, subject to several other risk factors. Moreover, speculative funds, which contributed to the extremely volatile price movements of international grain prices in commodity futures markets in 2008, may renew their purchasing interests depending on developments in the credit and other financial markets.

E. External sector

16. Despite the collapse of crude-oil prices in the second half of 2008, the ESCWA region's external sector performance has remained strong on average for the year. The total current account surplus of GCC countries is estimated at $236 billion for 2008, up from $195 billion in 2007. The total current account surplus of the more diversified economies is estimated at $22 billion, up from $6 billion in 2007. Egypt, Jordan, Lebanon, the Sudan and Yemen are estimated to record current account deficits in 2008, owing mainly to the rising prices of commodity imports and declining exports towards the end of the year. However, the deterioration of current account positions was compensated for by strong capital account positions. At the end of February 2009, the import cover ratio of foreign reserves was estimated at 8.8 months for Egypt and 8.5 months for Jordan, based on the net reserves position.

The ratio is estimated at 21.4 months for Lebanon and 16.3 for Yemen, on the basis of the gross reserves position. Net exports from the region are projected to decline considerably in 2009. Exports of commodity-related goods and products such as crude oil and petrochemical and other chemical products are projected to decrease. Exports of apparel products from the qualifying industrial zones of Egypt and Jordan are expected to decline, despite their price competitiveness in the United States. Meanwhile, moderate growth in domestic demand is expected to sustain import levels in real terms. Egypt, Jordan, Oman, the Sudan, the Syrian Arab Republic, the United Arab Emirates and Yemen are forecast to have current account deficits.

17. Exchange rates of ESCWA member countries stayed stable in 2008. GCC countries, with the exception of Kuwait, have remained pegged to the United States dollar. Jordan and Lebanon also have maintained a United States dollar peg. Kuwait has kept its currency pegged to a basket of foreign currencies, and the Syrian Arab Republic has remained pegged to the Special Drawing Right. Among the countries that have adopted a United States dollar currency peg, restricted monetary policy has become the focus of policy debates. Calls for foreign-exchange regime reforms, including a de-pegging and/or a revaluation of national currencies against the United States dollar, intensified as the dollar fell. Appreciation pressures increased, particularly for GCC countries, during the first quarter of 2008. Speculative inflows of foreign funds, in anticipation of the revaluation of regional currencies, caused a surge of liquidity. As the United States dollar strengthened and the region’s policymakers renewed their commitment to the present foreign-exchange regimes, speculative flows subsided. As foreseen by the previous survey, the repatriation of speculative foreign funds caused a violent liquidity swing, particularly in Kuwait and the United Arab Emirates. GCC countries are expected to maintain the present foreign-exchange regime for 2009. The GCC summit in December 2008 confirmed January 2010 as the target date for the GCC currency union, with plans to further discuss details in the course of 2009. As the financial crisis unfolded in the international capital and money markets, the monetary authorities of the more diversified economies started to take a cautious approach to their foreign-exchange rate policy. Egypt, the Sudan and Yemen allowed a gradual devaluation of their national currencies against the United States dollar. In the first quarter of 2009, Iraq suspended the gradual appreciation of its national currency against the United States dollar, a measure that had been in effect since November 2006. Jordan, Lebanon and the Syrian Arab Republic announced their intention to maintain their foreign-exchange rate regimes as a policy aimed at protecting their economies from the impact of the global financial crisis.

F. Social dynamics

18. The global financial crisis could have a direct and negative impact on social conditions in the ESCWA region, as elsewhere. Up-to-date records do not exist yet that would allow for accurate stocktaking. However, whatever the outcome of the crisis, the region as a whole had not been expected to meet the Millennium Development Goals within the stipulated time frame in view of the faulty structure of existing policies. The prolongation of the current crisis may not only worsen social conditions, but also narrow the space available for social expression, the enjoyment of human rights, in particular gender equality, and peaceful development.

Some aspects of the crisis can already be discerned. In terms of demographics, for example, the economic boom that occurred prior to 2008 in GCC countries expanded the foreign workforce in those countries, and minor instances of reverse migration have been noted. Still, their demographic composition remains complex. For 2007, the population growth rate stood at 8.2 per cent in Bahrain, 6.8 per cent in Kuwait, 6.4 per cent in Oman, 17.7 per cent in Qatar, 2.4 per cent in Saudi Arabia and 6.1 per cent in the United Arab Emirates. The ESCWA region, including the GCC countries, is still in a demographic transition phase, in which a low mortality rate and a high fertility rate coexist. However, with the exception of Saudi Arabia, the rapid population growth in GCC countries has been caused mainly by an influx of foreign workers rather than by a change in the fertility and death rates. In 2007, the proportion of foreign nationals in the total population was estimated at 49 per cent in Bahrain, 69 per cent in Kuwait, 29 per cent in Oman, 27 per cent in Saudi Arabia and 80 per cent in the United Arab Emirates. In the same year, the proportion of foreign nationals in that segment of the population aged 15 years and older stood at 81 per cent in Qatar. Media reports from Kuwait and the United Arab Emirates suggested that foreign workers had started to return to their home countries after having been laid off. The concentration of the working-age population, which is due partly to the demographic transition and partly to the in-migration of foreign workers, is potentially beneficial for development, as it may provide what has been referred to as a demographic window of opportunity. However, when employment opportunities grew scarce, a situation characterized by positive opportunities reversed, and the sensitive topic of a “population balance” between national and foreign workers, particularly among persons of working age, has been a dominant issue in national debates.

19. As of the first quarter of 2009, no significant number of returning migrants has been reported in more diversified economies that are home countries to a substantial number of migrants working in GCC countries, North America and Europe and that depend on remittances to partly redress balance of payments shortages. If the economic impact of the global financial crisis persists, an increasing number of returning migrants is envisaged, and, in view of the scarcity of employment opportunities in the more diversified economies, the already chronic problem of unemployment could get worse. The International Labour Office estimated the unemployment rate for 2008 in the Middle East at 9.4 per cent and in North Africa at 10.3 per cent.[1] The unemployment rate in those two regions has shown signs of improvement in recent years, but is still higher than in other regions of the world. The anticipated deterioration in employment conditions led the League of Arab States, at its first Arab Economic, Social and Development Summit, held in January 2009, to designate 2010-2020 as the “Arab decade for employment and reducing poverty by half”. However, in the absence of radical redistributive policies aimed at closing the huge income gap and of an emphasis on development through increased industrialization, it is unlikely that future prospects for employment creation or poverty reduction will be very bright.

20. Reform measures aimed at social development in the region recorded certain advances in 2008. In the budget formation for the fiscal year covering 2008, the fiscal priorities of the region’s Governments included education and health. That trend has continued in fiscal year 2009, in parallel with economic stimulus packages aimed at coping with the global financial crisis. Labour market reform has been ongoing in GCC countries, including a review of the sponsorship system for foreign

workers, a review of the status of foreign workers, a proposal for minimum-wage guidelines for nationals, and proposals for labour-law reforms. To mitigate severe consumer inflation in 2008, wage adjustments were made in several countries of the region, including Jordan, in the form of a revision of minimum wage, and in Lebanon in the form of a revision of public-sector wages. However, these do not fully meet the necessary minimum requirements, and the absence of autonomous labour organizations throughout the region allows wage gains to take the form of charity as opposed to rights. Jordan is planning to establish an unemployment fund within the country's Social Security Corporation in 2009. Despite the Governments' statement that social development is a fiscal priority, the concern remains, particularly for the more diversified economies, that the anticipated deterioration of fiscal positions may result in a decline in government spending on social development and that the prolongation of the global recession along with depressed oil prices might lead to outcomes similar to those experienced following the collapse of oil prices that began in 1981.

21. Developments in the area of gender equality have continued to garner attention in the ESCWA region, reflecting the fact that an increasing number of women who complete their higher education cannot participate in labour markets owing to cyclical patterns characteristic of a rent-based economy that already shortchanges the entire labour force. The unemployment rate for women in the region remains substantially higher than the unemployment rate for men. According to an estimate by the International Labour Office, the unemployment rate for women was 13.3 per cent in the Middle East and 15.9 per cent in North Africa[1] for 2008, whereas the rate for men was 8.2 per cent in the Middle East and 8.1 per cent in North Africa. It is feared that the anticipated deterioration of employment conditions in the region as a result of the global financial crisis will have adverse consequences, disproportionately affecting women job-seekers.

G. Policy developments

22. Policymakers in the region faced an increasingly difficult dilemma in 2008 as consumer inflation soared and unemployment rates remained stubbornly high. Fiscal expansion was sought in order to achieve development targets, while monetary authorities tightened their monetary stance with the declared intention of alleviating inflationary pressures. With the exception of Egypt, where a floating exchange rate regime was adopted, monetary authorities in the region face a restricted policy space that is subject to the stability of foreign exchange rates. Nevertheless, liquidity management by monetary authorities in the region, particularly Kuwait and the United Arab Emirates, have effectively tightened monetary stances. As a result, the balance sheets of the central banks in Kuwait and the United Arab Emirates contracted from the second to the third quarter of 2008. In view of the global financial crisis, the monetary authorities in the region have reversed the policy of monetary easing that had been in place since September 2008. A series of reductions in interest rates have been observed in the region since October 2008, together with a reduction in commercial banks' reserve requirements and the provision of extra liquidity facilities. Several countries in the region, namely, Egypt, Jordan and Qatar, have been more cautious in connection with monetary easing; a reversal in the monetary stance led to a gradual decrease in interbank money-market rates, which had shot up in September 2008. In addition to monetary easing, policy measures

taken in the region to cope with the global financial crisis included, in most cases, fiscal and institutional support for the financial sector. Kuwait, Qatar and the United Arab Emirates took measures to enhance the commercial banks' balance sheets. Jordan, Kuwait, Saudi Arabia and the United Arab Emirates announced that they would guarantee bank deposits.

23. The fiscal response to the global financial crisis varied among ESCWA member countries. For fiscal year 2009, expansionary fiscal stances were sought in GCC countries that had accumulated sizeable fiscal surpluses since 2002. According to the national budgets of GCC countries, infrastructure investment, health and education, and social provisions were emphasized. A more cautious fiscal stance was taken in the more diversified economies subregion owing to a revised outlook and public debt constraints. Rapidly declining oil revenues forced Iraq, the Sudan and Yemen to consider fiscal austerity measures. Across the region, further weakening of revenue prospects could lead to declining government budgetary spending. With the importance of a fiscal stimulus having been greatly emphasized lately with a view to safeguarding global stability and economic growth in the aftermath of the financial crisis, the countries in the more diversified economies may require additional international support in order to avoid contractionary stands.

H. Prospects

24. The economies of the ESCWA region are projected to grow on average at 2.1 per cent in real GDP in 2009, while the consumer inflation rate is expected to decline to 6.3 per cent. The region's growth rate is expected to be the lowest since 2002. Inflationary pressures have diminished since 2008, but the level of consumer inflation is projected to stay above that of 2005. Despite the severe downward adjustments in the prices of crude oil, commodity-related products, financial assets and real estate, moderate growth in domestic demand is forecast for 2009. However, the examples of Japan and the United States of America show that there could be a time lag of 18 to 24 months before a downward asset price adjustment shows up in the real economy, although at the regional level it could take less time. As the region's asset prices in real estate and the stock market peaked in the second quarter in 2008, the region will likely still be in a phase characterized by mixed sentiments about growth prospects in the near future. A case in point is the emergence of various views on the availability of monetary liquidity in the first quarter of 2009. While central banks and commercial banks in the region claimed sufficient availability of liquidity, the business sector reportedly faced an unavailability of funds. Commercial banks in the region became increasingly risk-averse and tightened their lending performance. The lack of sufficiently profitable projects, with consideration given to risk factors, led to an increase in the availability of liquidity within the banking sector. Meanwhile, the business sector faced an increasingly difficult situation in the area of financing. The time lag observed in Japan and the United States suggests that business sector confidence in the ESCWA region may continue well into 2009. However, given the looming uncertainty in connection with economic conditions external to the ESCWA region, including crude-oil prices and the global recession, the risk of economic contraction in the region in 2010 remains.

25. As economic growth prospects for 2009 and 2010 appear to be increasingly weak in the ESCWA region, the role of the public sector is expected to grow to

assist in the promotion of economic development. As the crisis started with the credit crunch and de-leveraging in the financial sector of the United States and Western Europe, the region's monetary authorities have turned to supporting the financial system. Since September 2008, the ESCWA region's monetary authorities have successfully defended the banking systems of their respective countries through prompt policy responses. Any further monetary stimulus, if unaccompanied by a fiscal stimulus, is unlikely to have any lasting effect on the real economy, especially if the banks do not become more involved in industrial development finance. De facto, the present steps are a form of insurance for private banking by the State sector. However, had the present measures been taken in consortium at the regional level, these channels alone could have represented a commitment to and public insurance for long-term loans committed to regional development in the long run. That alone would have attenuated the risks that regional banks face in committing themselves fully to regional industrial development. The fiscal stances of ESCWA member countries have varied significantly. Efforts at the national level must be strengthened so as to avoid fiscal contraction on economic and social spending, including on economic infrastructure, social protection, social safety nets, employment, education and health, and additional frameworks for global and regional cooperation are urged to strengthen the prospects of national economic growth.

II. Security and development

26. The acknowledgement that security is an inherent dimension of development and that conflicts represent one of the most important impediments to the improvement of the well-being of populations has led to the inclusion of security concerns in developmental policies. The link between security and development has become a principal policy issue in recent years, with a number of international institutions, government think tanks and academic researchers pointing to the interrelations between these two concepts. For instance, the Secretary-General, in his report entitled "In larger freedom", recognized that "In an increasingly interconnected world, progress in the areas of development, security and human rights must go hand in hand. There will be no development without security and no security without development" (see A/59/2005, annex). Situating the problematic in an ESCWA regional context, where conflicts or the threat of conflict have seriously undermined human development in general, the survey this year will analyse the emerging concerns with consideration given to the notion of security as it relates to the process of economic development. It will investigate the relationship between various levels of security, including human security, conflicts and the intervention policies of State, in line with article 1 of the International Covenant on Economic, Social and Cultural Rights, which states that "All peoples may, for their own ends, freely dispose of their natural wealth and resources".

27. The survey finds that the ESCWA region has been negatively affected by conflicts and that human security has been greatly undermined in the process. More importantly, the survey finds that, whereas conflicts have at times served as a form of "primitive accumulation", leading to a subsequent improvement in terms of economic and social development, in the ESCWA region conflicts disengaged social assets, adding to the problem of resource underutilization. Of the two paths of capital accumulation — accumulation by commodity realization and accumulation by dispossession — the region is subject to the diktat of the latter process.

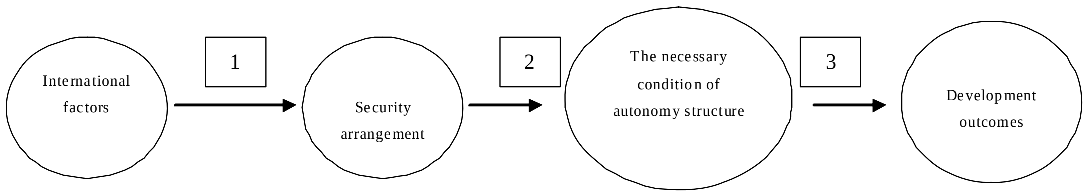
28. In view of the persistence of conflict in the ESCWA region, various threats to individuals exist beyond the usual concept of human security. National security determines all levels of security, including human security, depending on the strength or weakness of the alliance with the nexus of global power. Certain countries have been locked into a particular orbit that engenders a counter-inertia for development. A real GDP per-capita growth rate of near 0 per cent over 35 years and a less-than-desirable social developmental outcome show that many ESCWA countries represent empirical cases of “de-development”. The historical trajectory of those countries could shift depending on the extent to which the interplay between national and international forces allows for the retention of a bigger share of the social surplus in the national economy for the sake of industrialization and development. Certainly, cross-border class ties have come into play, facilitating the process of surplus usurpation. The development of the ESCWA region in relation to security is therefore an outcome of the multi-tiered power structure; the continuing flux of international relations has thus far situated many ESCWA countries on the dispossession side of capital accumulation.

29. As a social and economic process that involves increasing the productive potential and the freedom by which people exercise the right to realize their potential, development has a number of requirements. They are social, political and institutional in nature and define to a large extent the direction, form and probability of success of development. These conditions can be summarized under the heading of the “autonomy structure” of an economy, including the domestic, regional and international institutions in charge of policymaking and resource allocation. A number of factors determine the form, direction and capacity of such an autonomy structure. Chief among those factors is the notion of security and its converse, conflict. This is an analytical proposition made for the purpose of illustration, for, in actuality, political entities are in a continuous state of flux, moving between security and insecurity. Nonetheless, security arrangements, military expenditures and the international, regional and domestic balance of power all influence the autonomy structure and thus the policy space available for people to retain and redistribute a greater share of the social product.

30. The survey focuses on the relationships between security and economic development, on the basis of the insight that each security arrangement entails a certain pattern of resource allocation. The question is no longer simply how to reduce conflicts, but also what kind of security arrangement is in place, which allows autonomy over policy. Terms of power in lieu of terms of trade offer us a new perspective for analysing the determinants of the autonomy structure of the ESCWA member States. Those terms of power are determined by the interplay of national comprador forces and international forces within a context in which capital accumulation, rent-seeking and profiteering are predicates of, and hold primacy over, nationalistic forms of social organizations. Security arrangements in the ESCWA region are rarely the result of domestic developments or even of regional developments; they have to be understood in the context of the international division of political power, of which the Arab world represents the periphery. The geostrategic importance of the area has meant that the international powers have, to a large extent, an interest in determining its security arrangements and thus its autonomy over its own policy. Such a focus on the international roots of the security arrangements in the Arab world does not, however, negate the effect of domestic and historical factors. Nevertheless, it provides a rudimentary framework which enables

these factors to be distilled and reorganized for a better understanding of the issues. It is for that reason that security and sovereignty become interrelated goals and form necessary, albeit insufficient, conditions for sound economic development. Sufficiency will require, in addition to the satisfaction of this “sovereignty condition”, the establishment of a domestic coalition for a pro-poor and rights-based development policy.

Graphical representation of the argument



Key:

1 Spatial model of security: model that links the regional security arrangement to the international division of political power and deteriorating terms of power

2 Security and the governance structure: argument that links the regional security arrangement to the domestic and regional governance structures

3 Autonomy structure and the policy space: argument that links autonomy to development outcomes via the policy space

31. The policy implications are by no means straightforward, if one sets aside the obvious conclusion of a reduction in the number and costs of conflicts in the ESCWA region. It is assumed that a reduction in the number of conflicts will reduce such costs and contribute positively to development in the region. In itself, such a recommendation is broad-based and beyond the scope of any regional or international agency, because the spontaneity of capitalist accumulation would have to be brought under some level of control. However, at the very least, the need to include issues relating to conflict prevention and alleviation in the process of reflection on the developmental policies of the region should be highlighted.

32. The pervasiveness of war and conflict in the ESCWA region has accentuated the rentier characteristics of the States in the region. The dependence of those States on oil and strategic rents has limited their dependence on their local societies, and that weakness in terms of their infrastructural power has been exacerbated by the mode and extent of conflicts in the area. It has long been known that the presence of strong States with a certain level of sovereignty is one of the necessary preconditions for economic development. This necessary concomitance highlights the central role of State interventions in sustaining and developing the capitalist economy. As such, a recommendation of an institutional nature aimed at reforming State institutions in the ESCWA region in order to make them more accountable and responsive to the needs and desires of the population can form the basis of a policy direction. It is only by replacing the principle of legitimacy based on “rentierism” with a democratic principle of legitimacy holding that States could be made more responsive to their societies and thus more efficient. While little can be done to arrest conflict and redress the terms of power, that is, what was described as the necessary condition for development, much can be done, however, to augment the sufficient condition of development: pro-poor and rights-based development policies.

33. As highlighted in the previous *Survey of Economic and Social Developments in the ESCWA Region*, any credible policy for social and economic development

must have a regional dimension. The exigencies of globalization bring back the “Seers project” of extended nationalism and regional blocs. Moreover, a number of challenges faced by the contemporary Arab world, including the current economic crisis, require a concerted regional risk-pooling response, rather than a country-based response. A policy recommendation could centre on the need to improve and deepen regional integration and cooperation through the development of new institutions and the reorganization of existing ones. Closer integration among ESCWA nation-States will not only improve their socio-economic situation but will also reduce the likelihood, and thus costs, of conflicts.