Survey of

Economic and Social Developments

in the ESCWA Region

2010-2011

ESCWA

United Nations Economic and Social Commission for Western Asia

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Overview

The Survey of Economic and Social Developments in the ESCWA Region, 2010-2011 reflects the dramatic changes witnessed by the region in passing from the first to the second decade of the twenty-first century. The Survey makes observations, provides data and attempts to understand and explain the dynamics of regional, subregional and national social and economic trends. Deeper analysis is left to other dedicated flagship ESCWA publications. It aims to provide interested readers, governments and the general public with a snapshot of the current socio-economic situation and the outlook for 2012.

In a highly volatile and changing scene in the wake of the Arab uprisings, understanding the present in view of the recent past and projecting the near future is almost an impossible task. The ground rules of Arab economies that prevailed in past decades have all been put to the test, and a dramatic review of the political economy of the previous social contract is out for questioning and even outright rejection by the masses protesting in many Arab cities since the beginning of 2010. Consequently, the Survey is mainly a technical view of the major factors and variables that are affecting Arab economies, with an attempt to bridge the huge gap between the social and the economic spheres by dedicating a chapter to social policy, with a focus on major recent trends in health, education and social protection in member countries.

In the light of the central role played by oil economics in the region, the Survey looks closely at recent and projected trends in oil prices, with a view to their impact on fiscal space and, consequently, on spending on social and productive capital.

The Survey reviews GDP growth patterns and its relationship to job creation. In 2010, the more diversified economies (MDEs) in the region experienced another year of consistent growth, with average real GDP growth estimated at 3.8 per cent. Following the rally in the Eurozone and Gulf Cooperation Council (GCC) economies, the MDE subregion benefited from a positive external environment in terms of remittances, higher levels of tourism and intraregional investment. Growth prospects for MDEs vary from country to country and are affected by the wave of social movements that have spread across the region. For example, the economy of Egypt expanded by more than 5 per cent in the first two quarters of the fiscal year 2010/11 before it experienced a contraction of 3.8 per cent in the third quarter owing to the social unrest. However, 2011 marks some retreat in growth figures as a result of the political situation driven by projected contraction in the Syrian Arab Republic and Yemen and their impact on growth prospects in Lebanon and Jordan, and the slowing down of growth in Egypt. As a result, while the very short-term growth forecast appears unfavourable, with political uncertainty weighing on the economy, the long-term outlook is more promising, if stability returns to those countries.

The Survey highlights the low job-creating nature of Arab GDP growth. With the exception of 2009, persistent region-wide output growth has only marginally dented the high rates of unemployment since 2003. High unemployment, particularly among youth, is seen as a major cause of the current social unrest in North Africa and Western

Asia, coupled with ineffective social protection systems and political repression. Youth unemployment rates in the region make up two to three times overall unemployment rates. Excess labour supplies stem from many factors, namely (a) rapid population and labour force growth; (b) increasing female participation rates; (c) inadequate labour supply and demand patterns; (d) bloated public sectors; and (e) significant labour migration, especially to the GCC subregion.

As one avenue, foreign direct investment (FDI) needs to create employment such that it contributes indirectly to higher living standards and quality of life. FDI contributes to technology, management skills and productive capacities, among other things. These in turn contribute to poverty reduction in a variety of direct and indirect ways. However, most FDI in the ESCWA region only seeks profit and does not necessarily contribute significantly to employment generation. Consequently, FDI inflows do not reflect better employment scores. The experience of several countries has shown that the impact of FDI on poverty alleviation is largely determined by host country policies aiming to promote and direct monies to labour-intensive and value-creating sectors.

There is also little technology transfer given that most FDI inflows target the mining or real estate sectors as opposed to flowing into the manufacturing sector. For example, in Saudi Arabia, 40 per cent of all the inflows in 2009 went to oil extraction and real estate. In Egypt, 53 per cent of total inflows in the fiscal year 2009/10 went to the petroleum sector. In Yemen, only 10 per cent of total inflows in 2009 went to industry, tourism and agriculture, whereas the rest was directed to services.

Remittances provide a major source of external capital for many developing countries. Remittances to developing countries, which totalled US$308 billion in 2009, surpassed official development assistance (ODA), estimated at US$120 billion. According to data by the World Bank, FDI to the Middle East and North Africa (MENA) region in 2010 accounted for 3 per cent of GDP, while remittances were 4 per cent. Various research and studies prove that remittances are more resilient than other types of flows, including FDI and ODA, particularly during crises, whereby remittances are sent by the accumulated flows of migrants over a number of years. Statistics also indicate that remittance flows to developing countries declined by 5.4 per cent in 2009, but increased by 5.6 per cent in 2010. Remittances are expected to continue growing in 2011, 2012 and 2013 by 7.3, 7.4 and 7.9 per cent, respectively.

There is strong evidence in the region of a significant link between remittances received and poverty reduction. Studies of the experiences of member countries confirm that the living conditions of a considerable number of people have been improved as a result of remittances received by poor households.

Poor infrastructure in the ESCWA region limits the performance of its financial system and, in turn, weakens diversification and competitiveness. Access to finance in the region is highly concentrated. According to the World Bank, a small number of large enterprises received a disproportionate share of total credit. On the other hand, only 20 per cent of small and medium enterprises (SMEs) have line credits that account for only 8 per cent of the region's total loans. In addition, microfinance serves only 1.8 per cent of the adult population with outstanding microcredit equal to merely 0.2 per cent of the region's GDP. Housing finance is still in its infancy stage, amounting to less than 10 per cent of the total portfolio of the region.

A central theme of the Survey is the potential complementarities between the three sub-groups of the region, namely oil-exporting countries, MDEs and least developed countries (LDCs), especially in the fiscal area.

In 2011, the increase in oil prices helped to reduce public debt as a percentage of GDP in the ESCWA region, dropping to 26.2 per cent from 34.4 per cent in 2010. This ratio declined from 14.3 to 10.8 per cent in the GCC subregion, and from 75.9 to 62.5 per cent outside the GCC. While the total public debt has an upward trend, the increase in GDP has helped to dampen the effect of that increase.

After considerable declines in 2009 stemming from the global crisis, the current account balances of ESCWA member countries started to recover in 2010. The oil-importing countries in the ESCWA region have been adversely affected by the conditions on world commodity markets. As such, two distinct trends are evident in the region, namely (a) GCC countries have substantial current account surpluses that were not offset by capital account deficits and that led to considerable increases in foreign reserves; and (b) MDEs are registering increasing current account deficits.

Following the successful fiscal measures introduced by ESCWA member countries to counter the recessionary effects of the global financial crisis, high crude oil prices in 2010 allowed GCC countries to maintain expansionary fiscal policies, thereby keeping them out of the global trend of fiscal austerity measures, while MDEs were more constrained in their fiscal space. Stimulatory fiscal policies on both the current and capital accounts fronts were witnessed in the region in 2011, with regular budgets bolstered by discretionary social measures in an attempt by the governments of the region to insulate their populations from the Arab uprisings. These generous social plans, including provisions for higher social transfers and wage levels, new public sector employment opportunities and increases in private housing, came on top of previously budgeted expenses in the context of impressive development plans that were initiated in 2010 and 2011.

The social issues that the ESCWA region is currently facing, which are linked to high youth unemployment rates, high population growth and unplanned rural to urban migration, are compounded by serious environmental challenges, including water scarcity, drought and desertification. These represent serious obstacles to the achievement of comprehensive sustainable development with its three pillars, namely economic, social and environmental. Consequently, the Survey also reviews the current outlook for a sustainable development trajectory in the region and highlights the challenge of food security.

Given the prevailing dry climate, limited arable land potential and scarce water resources, agriculture is not usually a priority area in the ESCWA region. However, with a population estimated at nearly 260 million and a growth rate of more than 2.5 per cent, a continuously rising discrepancy between food production and food consumption, increasing volatility of food prices, and worsening economic and environmental situation in most rural areas, agriculture and food security have become central issues and major challenges to countries of the region. Unfortunately, the situation is not expected to improve any time soon as a result of various ongoing global crises, including the economic and financial crisis, volatile oil prices and the environment crisis (climate change and resource degradation); and, regionally, the prevailing socio-political crises within the context of the Arab uprisings.

Overall, the economic situation in 2011 and the future economic challenges in the ESCWA region are largely the result of unprecedented social dynamics that alter the world's perception of the role that Arab people can play. The wave of social movements that spread rapidly across the region was based on domestic and organic drivers of change. However, the drivers behind most Arab social movements were very similar and were the result of an accumulation of development failures over many years.

Socio-economic exclusions in ESCWA member countries are manifested in high unemployment and informalization; multidimensional poverty; different forms of inequality; and discrimination against women, youth and other vulnerable groups. The year 2010 marks the end of a decade characterized by limited improvement on any of these fronts.

Youth unemployment is much higher than total unemployment in ESCWA member countries. The problem is not cyclical; rather it is more of a deeply rooted structural challenge, hampering countries from exploiting their full productive potential. Using data spanning over a period of 20 years, the International Labour Organization (ILO) shows that, approximately 1 in 4 youth in the labour market remains unemployed in the MENA region, despite the progress made in education for both girls and boys.[1]

Unemployment in the region is accompanied by other problems of underemployment and informalization that are even more difficult to measure. Most studies consider that one-third to a half of total workers in the oil-importing countries of the region are in the informal sector. This depends also on the definition of informality, which is a very elastic concept. According to the International Monetary Fund (IMF), the size of the informal economy in oil-importing ESCWA member countries is large compared to the rest of the developing world, accounting for at least one-third of GDP in Egypt, Jordan, Lebanon and the Syrian Arab Republic. Under such conditions, a significant share of the population is excluded from any form of social protection.

This negligible reduction in working poverty in a 10-year frame relates to low labour productivity growth rates in the region. Working poverty is only one aspect of a more complex poverty in the region.

Assessing poverty rates in the Arab region using the US$1.25/day poverty line would show insignificant results of less than 5 per cent over the past decade. However, when raising this threshold to US$2.75/day, the headcount reaches around 40 per cent.[2] This implies that a large share of the population is clustered around the lower poverty line and is sometimes not addressed by policymakers. Moreover, this segment can easily fall into extreme poverty, especially under crisis situations, such as the current conditions.

Social policy plays a critical link in the emergence and sustainability of socio-economic political systems in the region that can be both democratic and developmental. The new social policy regimes that may emerge will have to be the outcome of intricate social dialogue between different interest groups.

Education reform in the ESCWA region is a socio-economic necessity and a critical element of any future democratic and developmental social policy regime for at least three reasons. First, education contributes little to social mobility in the region. Secondly, given the mismatch between the required skills of the labour market and graduate training, education fails, to a large extent, to contribute towards alleviating the region's unemployment problem. Thirdly the low quality of education deprives the region of the solid skills base needed to make it competitive in the international economy.

This may be expected from hydrocarbon-based economies in transition to more diversified structures along the depletion path of their oil wealth. But also outside the GCC subregion, the low and middle-income countries also exhibit educational attainments well below the levels expected from their per-capita income levels.

In the ESCWA region, a recent survey by the International Finance Corporation (IFC) and the Islamic Development Bank (IDB) clearly identifies the lack of professional skills, including those relating to communication, problem solving and management of organizational processes, as a key barrier to the recruitment of young people. In addition, employers complained about the irrelevance of the skills brought by the young graduates, owing to outdated curricula or lack of vocational training; and poor quality of cross-functional skills, including critical thinking, solving complex, multidisciplinary problems; making innovative use of knowledge and work ethics, among others.

Educational failings and labour market rigidities in ESCWA member countries reinforce each other and underpin the regional unemployment problem. These are further distorted by the dominant role of the public sector as the main employer.

Universal access to good education is a precondition for improved quality and for equipping students with the skills needed for productive employment. This would also improve efficiency and equality. If there are financial constraints or other resource constraints, the rationing of higher education should be based on the ability of students rather than on their background.

In revamping their social policies, countries in the ESCWA region must revamp their educational systems to better serve their human potential and improve accessibility. Within that context, affordability and the quality of education remain a priority. More resources and investments in physical infrastructure can reduce the amount of, for example, double-shift schools. Qualitative transformations are urgent: modern and advanced teacher training is required. Similarly, the shift to an emphasis on skill acquisition, including analytical, problem solving and communication skills, and work readiness training, needs to be more widespread and become a better match for labour market needs. In other words, the region needs to develop "education for employment" strategies. As noted in a report by McKinsey and Company (2011), this means developing and/or enhancing vocational training and, moreover, introducing standards and quality assurance criteria for all providers, with public sector schools and universities in charge of providing universal access to high quality education for all, and where the selection criterion is based purely on the innate ability of students.[3] However, while the resolution of the unemployment problem will depend on the ability of the economies to create new jobs, these improvements in education and their relevance for human development are urgent.

Public health indicators in the Arab region show stark disparities between individual countries, implying that an aggregate picture provides only a partial picture. Unsurprisingly, these disparities are positively correlated with differing income levels in the region. GCC countries covet the position of countries faring well in the health sector whereas LDCs in the region, namely the Sudan and Yemen, have shown little progress in their health records. In general terms, progress has been made since the 1960s and 1970s in such key health indicators as life expectancy, maternal mortality ratios and infant mortality ratios; and in improved coverage of sanitation facilities and aggregate levels of government spending on health. However, more detailed examination of specific country analyses provides clues about the scope for re-imagining the role of the State and public institutions in providing for better opportunities to improve health indicators equitably across the region.

In 2009, government expenditure on health as a percentage share of expenditure in the Syrian Arab Republic, Yemen and the Sudan stood at 1.6, 1.5 and 1.3 per cent, respectively, thereby indicating low human development (benchmarked at 1.8 per cent or less). Jordan, on the other hand, boasts an expenditure of 5.4 per cent, which is the highest in the region and surpasses the expenditure levels of all GCC countries, such as United Arab Emirates (1.9 per cent), Qatar (2.9 per cent) and Saudi Arabia (2.7 per cent).[4] A lack in government spending is reflected in terms of reduced social security spending on health and an excess of out-of-pocket private spending.

In the non-GCC countries, as a consequence of not having adequate social security, the population suffers unequal opportunities of access to medical care, thereby leaving them highly vulnerable in situations of sickness and injury. Reports show that given the lack of priority accorded to health care in the region, quality and relevance have suffered and lagged behind technologically.[5] Moreover, user fees and cost recovery have been introduced in many services, adding strains on the very poor. According to Salehi-Isfahani (2010), with longer waiting times and less availability at public facilities, users increasingly had to turn to the less affordable private sector.

Public health-care systems are also inequitably spread across the region. While all the non-GCC countries have public health care systems, these do not adequately cover the whole population, neglecting in particular rural areas and poorer income groups. These systems are urban based and often focused on mediocre tertiary care while suffering from fragmentation.[6]

Basic health care in ESCWA member countries has yet to be realized as a universal right to all citizens. There is much scope left to provide health-care facilities free of charge or at highly subsidized rates. Public health-care facilities are mostly accessible by public sector employees. Hence, in practice, public health-care systems reach out to 30-40 per cent of the population in the ESCWA region, representing those engaged in the public sector. Furthermore, the systems are fragmented because financing and risk management are split between the public funds and public agencies involved, thereby leading to considerable inefficiencies and distortions.[7]

While GCC countries may boast of a relatively better health-care system compared to the rest of the ESCWA region with respect to citizens, they fall short in providing health cover to non-citizens, namely migrant labour.

Another dimension that deserves attention is the continued extensive resort to medical care abroad, highlighting the lack of adequate impetus in upgrading scientific research and development (R and D) in nascent health-care systems.

Social welfare in the ESCWA region evolved from remnants of the old authoritarian corporatist system that took shape in the 1950s and 1960s. Populist components, such as food and energy subsidies, were introduced and are still intact. While these measures may have been popular and helped to sustain the political regime in these countries, they have been dysfunctional in the workings of labour markets in the region, particularly in a global context. This dysfunction is manifest in, among others, the lack of optimal use of its most valuable asset, namely the young and educated labour force.

Social benefits such as pensions, sickness and injury allowances are available to those already working in the government sector or the large-scale formal establishments in the private sector, but not available across board.

By highlighting the above social deficits, the Survey attempts to establish a "policy nexus", integrating macroeconomic and social policies. The separation between the two reflected the political economy of exclusion whereby profit maximization, rather than human utility maximization, has been the frame of reference of Arab economics.

After an exceptional year of upheavals and dramatic change, the observed data and analysis of the socio-economic situation in the region have led to major conclusions, as follows:

(a) The political economy of exclusion of the past decade is no longer tenable. Economics as the sole dynamic and GDP per capita as the sole measurement have acted to conceal structural deficits in the polity and societies of the ESCWA region;
(b) Economic diversification, competition, regional integration and deepening of financial markets linked to a comprehensive social agenda represent essential policy directions

the region needs to embark on urgently;

(c) Relevant statistics clearly indicate an almost schizophrenic separation between the economic and social policies of the region, thereby deepening the exclusionary nature of the social contract of the rentier State;

(d) Data clearly indicates that the region is unique in its ability to address its challenges through higher regional integration, with substantial complementarities between surplus and deficit countries in labour, capital, lands, markets and knowledge;

(e) Social unrest is a short-term challenge that could be turned into a long-term opportunity through the right macro and microeconomic, as well as social policy mix in the framework of inclusive and democratic governance. The region needs to embark on a short-term job creation action plan using its available fiscal space by investing in social and productive infrastructure along with geographically targeted interventions;

(f) The region fares reasonably well compared to peers across the world in most macroeconomic indicators and demonstrates a positive outlook that should be used to leverage FDI in support of its short-term job creation and long-term transformative changes;

(g) The region is ecologically vulnerable, especially to water poverty and food price shocks. Regional cooperation in this field aimed at introducing sustainable management of water and of the agriculture sector would create green jobs, reduce rural poverty and enhance food security.

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Abbreviations and Explanatory Notes

CSP	Concentrated solar power
DESA	Department of Economic and Social Affairs
ECA	Economic Commission for Africa
EIU	Economist Intelligence Unit
ESTLA	European Solar Thermal Electricity Association
FEMISE	Forum Euroméditerranéen des Instituts de Sciences Économiques
FDI	Foreign direct investment
GAFTA	Greater Arab Free Trade Area
GCC	Gulf Cooperation Council
GDP	Gross domestic product
IDB	Islamic Development Bank
IDB	Intra-American Development Bank
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
GEF	Green Education Foundation
GHI	Global Hunger Index
GIEWS	Global Information and Early Warning System
GWEC	Global Wind Energy Council
ILO	International Labour Organization
IMF	International Monetary Fund
INSCR	Integrated Network for Societal Conflict Research
LDC	Least developed country
LIBOR	London Interbank Offered Rate
MDE	More diversified economy
MDG	Millennium Development Goal
MENA	Middle East and North Africa
MT	Million tons
NGO	Non-governmental organizations
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
OPEC	Organization of the Petroleum Exporting Countries
ORB	OPEC reference basket
PPP	Public-private partnerships
PV	Photovoltaic
R and D	Research and Development
SME	Small and medium enterprise
UNCTAD	United Nations Conference on Trade and Development
UNEP	United Nations Environment Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
WEO	World Economic Outlook
WGI	World Governance Indicators
WHO	World Health Organization
WTI	West Texas Intermediate

CHAPTER I.

Recent Socio-Economic and Political Developments

I. Recent Socio-Economic and Political Developments

A. Global Context

Growth in the Economic and Social Commission for Western Asia (ESCWA) region depends heavily on external demand for oil and manufactured goods.[8] Thus understanding global economic dynamics is essential for explaining Arab economics. The global economy continued to recover slowly in 2011, with persistent concerns over high unemployment and weak consumer confidence, among others. Given limited room for fiscal expansion, a fragile international financial system and weak aggregate demand, the United Nations baseline forecast for the growth of world gross product was 2.8 per cent for 2011 and 2.6 per cent for 2012 (see table 1). While this is below the 4 per cent reached in 2010, it represents remarkable turnaround from the contraction of 2.4 per cent in 2009. In a pessimistic scenario, however, growth of the world economy could decrease to 0.5 per cent in 2012 and 2.2 per cent in 2013. [9]

1. Developed world

Slower economic growth is expected in the United States of America, Europe and Japan. The United States has been on its longest and deepest recession since the Second World War. In 2010, growth in the United States reached 3 per cent, however the unemployment rate remained high and the real estate market sluggish, while private consumption remained weak. United States economic growth is projected to slow down further to 1.7 per cent in 2011 and projected to deteriorate further to 1.5 per cent in 2012.

Growth in Western Asia depends heavily on external demand for oil and manufactured goods

Table 1. Growth of world output, 2006-2012 *(Annual percentage change)*

	2006	2007	2008	2009	2010	2011	2012
World output	4.0	3.9	1.6	-2.4	4.0	2.8	2.6
Comprising:							
Developed economies	2.8	2.5	0.1	-4.0	2.7	1.3	1.3
Eurozone area	3.0	2.8	0.5	-4.3	2.0	1.6	0.7
Japan	2.0	2.4	-1.2	-6.3	4.0	-0.5	2.0
United States	2.7	1.9	0	-3.5	3.0	1.7	1.5
Developing economies	7.3	7.6	5.4	2.4	7.5	6.0	5.6
Africa	5.9	6.1	5	0.8	3.9	2.7	5.0
East and South Asia	8.6	9.3	6.2	5.2	8.8	7.1	6.8
China	11.6	13	9.6	9.2	10.4	9.3	8.7
India	9.6	9.4	7.5	7.0	9.0	7.6	7.7
ESCWA region	..	6.3	7.4	1.7	4.1	5.2	4.7
Latin America and the Caribbean	5.6	5.6	4	-2.1	6.0	4.3	3.3
Brazil	4	6.1	5.1	-0.6	7.5	3.7	2.7
Least developed countries	7.6	8.1	6.7	5.2	5.6	4.9	6.0

Source: United Nations DESA (2012). World Economic Situation and Prospects, 2012.
Note: Two dots (..) indicate that data are not available or are not separately reported.

Developing countries are expected to sustain their strong performance and remain the main engine of economic global recovery

Fuelled by the strong demand for capital goods from both emerging and developing countries, the economy of Japan continued to rebound in 2010. However, the appreciation of the yen, the persistent deflation and public debt pose a significant challenge to Japan's economic growth, which is projected to reach -0.5 per cent in 2011 and 2 per cent in 2012. Furthermore, the earthquake off the Pacific coast of Tohoku resulting in a tsunami in March 2011 had a significant impact on the Japanese economy as well as on international markets, stemming from the integrated supply chains.

In the European Union the developments were diverse. While continued recovery in Germany was constant, GDP growth in the European Union was forecast at 1.6 per cent in 2011, down from 2 per cent in 2010. Drastic fiscal cuts due to austerity measures after the sovereign debt crisis in many European countries, notably Greece, Ireland, Italy, Portugal and Spain, will further exacerbate the problems of high levels of unemployment and weaken spending by the private sector. Public debts have dramatically increased, owing to the impact of the financial crisis that reduced government revenues and increased social spending.

2. Developing world

Developing countries are expected to sustain their strong performance and remain the main engine of economic global recovery. Nevertheless, their output growth (7.5 per cent in 2010) is projected to decline to 6 per cent in 2011 and 5.6 per cent in 2012.

In Asia, while China and India continue to show the strongest growth performance, economic growth in these countries is projected to decline slightly or stagnate in 2011 and 2012. The economy of China is expected to grow by 9.3 per cent in 2011 (down from 10.4 per cent in 2010), and the economy of India by 7.6 per cent in 2011 (down from 9 per cent in 2010). Confronted with uneven external demand, China's economic plan is to rely increasingly on domestic demand, while India benefited from increasing capital inflows and supportive macroeconomic policies.

Growth in Latin America is expected to slow down to 4.3 per cent in 2011, down from the GDP growth of an estimated 6 per cent for 2010. Brazil still acts as the main driver of regional growth, with strong domestic demand that boosts the export-led growth of neighbouring countries.

Most African economies seem to do better than many counterparts across the world. However, economic growth is still below potential in most countries of that continent. Africa's GDP growth is projected to reach 2.7 per cent in 2011 and 5 per cent in 2012 (compared to 3.9 per cent in 2010). The economic recovery in Africa has been driven by the demand and price increase related to primary commodities, and the rise in public investments in infrastructure and FDI.

Economic growth in LDCs improved in 2010 as a result of the increase in many commodity prices and a rebound in foreign trade as well as the rise in government spending. GDP growth for LDCs accelerated from 5.2 per cent in 2009 to 5.6 per cent in 2010. During the Fourth United Nations Conference on the Least Developed Countries (LDC-IV), which took place in May 2011 in Istanbul, Turkey, policymakers assessed the results of the 10-year action plan for LDCs that was adopted at the Third United Nations Conference on LDCs in Brussels in 2001; and agreed to new measures and strategies for the sustainable development of LDCs during the next decade.

The impact of these developments on ESCWA member countries varies from country to country, depending on the structure of each economy and its level of integration with the Eurozone and the rest of the world. Overall, however, the region is still expected to benefit from rising international oil prices, which will attenuate the unfavourable impact of the global economic situation.

3. Continued high unemployment

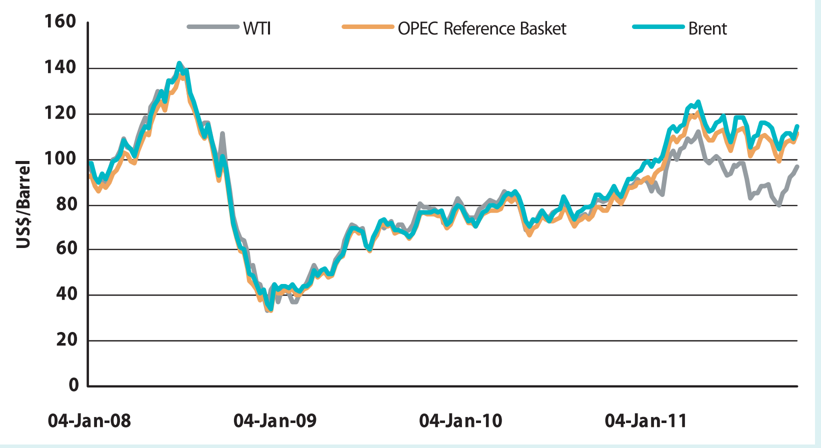
The global economy still needs to generate 22 million new jobs in order to return to the pre-crisis level of global employment.[10] The International Labour Organization (ILO) predicts that the global economy would take at least five years for employment to return to the pre-crisis level if the recovery continues at the current speed. Considering social development, the consequences of the slowdown in global economic recovery for developed and less developed countries are far-reaching and most evident in rising unemployment rates. Overall, employment in many ESCWA member countries and other developing countries continues to face serious stagnation.

B. Oil Sector Development

The oil sector development is, and is expected to remain, central in any analysis of the region's economies owing to the large revenues created. According to estimates by the Organization of the Petroleum Exporting Countries (OPEC), total world demand for 2010 averaged 86.9 million barrels per day, while total supply of crude oil averaged 86.2 million barrels per day.[11] Between 2009 and 2010, total world demand for crude oil increased by 1.8 million barrels per day. While demand in the countries of the Organisation of Economic Co-operation and Development (OECD) continues to contract slightly owing to financial uncertainty, demand from developing countries continues to increase. The OPEC members of the ESCWA region have increased their production levels moderately since January 2009, after decreasing production by 4.2 million barrels per day in response to the global recession. Crude oil production in non-OPEC ESCWA member countries remained relatively stable, given that these countries have limited capacity to expand exploration and production. The crisis in Japan, social instabilities in Arab countries and financial instabilities in the Eurozone slowed global economic growth. Consequently, demand and supply of crude oil is expected to balance out at approximately 87.8 million barrels per day in 2011, which represents an increase of 1.0 per cent on 2010.

The global economy still needs to generate 22 million new jobs in order to return to the pre-crisis level of global employment

Figure 1. **Oil prices, 2008-2011**



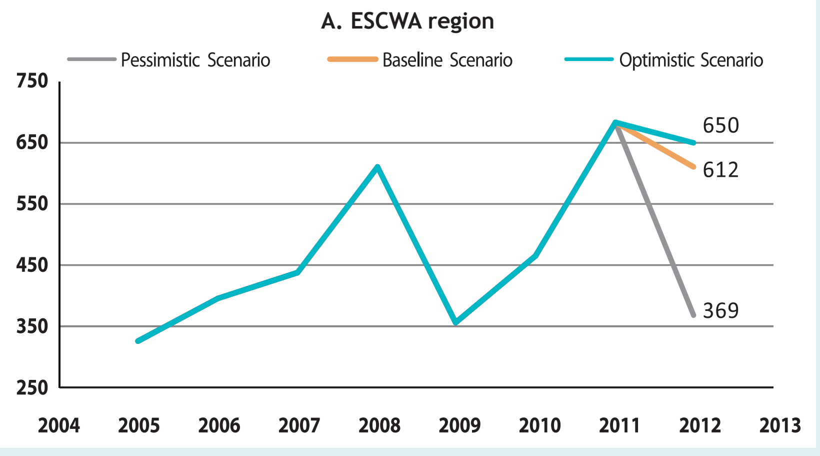
Sources: OPEC and US Energy Information Administration databases.

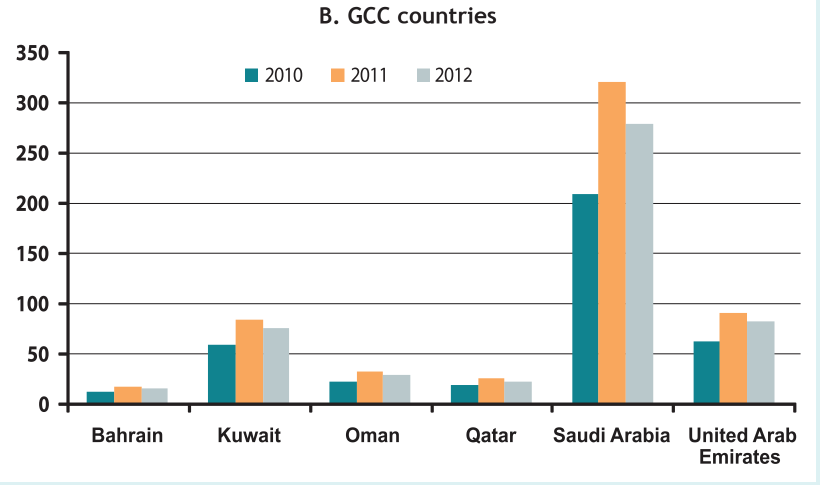
Table 2. **Crude oil estimation and forecast: OPEC reference basket, 2008-2012** *(US$ per barrel)*

	Crude oil price estimation			Forecast annual average for 2011-2012		
Year	Minimum	Maximum	Annual average	Lower	Median	Higher
2008	33.36	140.73	94.45			
2009	38.14	78	61.06			
2010	68.21	90.73	77.45			
2011				104	106	108
2012				70	95	100

Sources: OPEC database for 2008-2010, and ESCWA forecasts for 2011 and 2012.

Figure 2. **Gross crude oil export revenues** *(Billions of US$)*





Source: National data sources and ESCWA estimates and forecasts.

Significant volatility in geographical and regional demand patterns has led to a decoupling of spot and futures prices between the main global benchmarks (see figure 1).[12] The price of the OPEC reference basket (ORB) has increased by 50 per cent since mid-2010, surpassing US$100 in February 2011 for the first time since September 2008 and averaging US$118 in April 2011 before decreasing slightly during the rest of the year. Heightened political risk premiums associated with security developments in the region were priced-in, with the markets further factoring in the developments in Japan and the repercussions on global demand and supply conditions. Furthermore, security developments in the Libyan Arab Jamahiriya, which produces approximately 2 per cent of global crude oil production (1.5 million barrels per day), led to an informal reallocation of production between OPEC member countries in line with their spare capacities. OPEC production ceilings have been maintained at an average of 24.8 million barrels per day since January 2009 as the long awaited June 2011 meeting did not lead to an accord over a formal increase of these quotas (see table 2). With the quotas somewhat loosening in response to increased global socio-economic turbulences and significant declines in Libyan production, OPEC member countries informally reallocated production in line with their spare capacity. Saudi Arabia, along with Kuwait, the United Arab Emirates and Iraq, increased production levels.

The total crude oil production of ESCWA member countries was an estimated 18.5 million barrels per day, representing an increase of 1 per cent on 2009. GCC countries produced an estimated 14.5 million barrels per day, while other crude oil-producing countries in the ESCWA region, namely Egypt, Iraq, the Sudan, Syrian Arab Republic and Yemen, produced 4 million barrels per day.

Consequently, the total crude oil production of ESCWA member countries is projected to increase by approximately 6.7 per cent in 2011 to an average of 19.8 million barrels per day (see table 3). The total gross oil export revenues of the ESCWA region in 2010 were estimated at US$477 billion, against the average OPEC reference basket forecast of US$77.45 per barrel. These revenues are predicted to increase by 43 per cent in 2011 to US$683 billion against the median forecast average ORB price of US$106, with a slightly lower growth rate of 36 per cent for the oil producers in the MDE subregion on the combined increase of production and price levels.

The total production of GCC countries is expected to stand at 15.75 million barrels per day in 2011 following intensive previous investment by some member countries to lift their capacity constraints. The production in MDEs is projected to decline by approximately 1 per cent to 4.0 million barrels per day in 2011. Egypt has returned oil production to previous levels after the security situation leveled. Meanwhile, the security developments in the Sudan, Syrian Arab Republic and Yemen have severely impacted their production levels, even after these countries had succeeded in halting the observed declining trend in their production levels in 2009 and 2010 (see table 3 and figure 2).

C. Growth and Inflation Dynamics

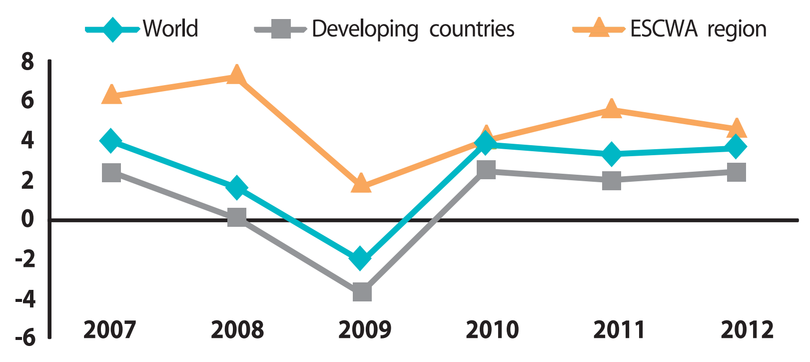
After the pessimism that prevailed in 2008-2009, the economic outlook in the ESCWA region improved during 2010. Real growth in the region continues to be strong and regional growth

Table 3. Crude oil production in the ESCWA region, 2008-2012

	Thousands of barrels per day						Percentage change		
Country	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2009/10**	**2010/11**	**2011/12**
Bahrain	185	185	182	180	180	180	-1.0	-0.1	0.0
Kuwait	2 575	2 676	2 262	2 312	2 400	2 420	2.2	3.8	0.8
Oman	653	669	713	758	770	800	6.4	1.5	3.9
Qatar	845	843	733	733	750	750	0.1	2.3	0.0
Saudi Arabia	8 816	9 198	8 184	8 166	9 200	8 900	-0.2	12.7	-3.3
United Arab Emirates	2 529	2 572	2 242	2 324	2 450	2 500	3.7	5.4	2.0
GCC countries	**15 603**	**16 143**	**14 315**	**14 473**	**15 750**	**15 550**	**1.1**	**8.8**	**-1.3**
Egypt	501	523	523	534	522	530	2.1	-2.3	1.5
Iraq	2 035	2 281	2 336	2 358	2 580	2 900	0.9	9.4	12.4
Sudan	484	500	510	515	400	450	1.0	-22.3	12.5
Syrian Arab Republic	380	377	377	386	350	390	2.4	-9.3	11.4
Yemen	313	286	283	265	170	200	-6.6	-35.8	17.6
MDEs	**3 713**	**3 966**	**4 030**	**4 058**	**4 022**	**4 470**	**0.7**	**-0.9**	**11.1**
Total ESCWA region	**19 315**	**20 109**	**18 345**	**18 531**	**19 772**	**20 020**	**1.0**	**6.7**	**1.3**

Sources: OPEC database, and ESCWA forecasts for 2011 and 2012.

Figure 3. Average real growth in selected regions, 2007-2012 *(Percentage)*



Source: National data sources and ESCWA estimates and forecasts.

surpasses both the global and developing countries averages (see figure 3). The region successfully averted the main risks posed by the financial crisis on the real, monetary, financial and external sector. However, in the wake of recent social movements in the Arab region, it now faces a set of new, region-specific challenges, as established political and economic governance arrangements are increasingly being put under pressure by the region's young populations.

Apart from ineffective social protection systems and political repression, unemployment and particularly youth unemployment is seen as a major cause of the current social unrest sweeping North Africa and Western Asia. With the exception of 2009, persistent region-wide output growth since 2003 has only marginally dented the high rates of unemployment. Rapid population and labour force growth, increasing female participation rates, inadequacies of labour supply and demand patterns, bloated public sectors and significant labour migration, especially to GCC countries, are causing excess labour supplies. In those countries where the public sector is predominantly made up of nationals, expatriates account for more than 70 per cent of the private sector labour force. The unemployment gap between nationals and expatriates is a particular source of additional social tensions that have triggered a revamping of labour policies towards the implementation of more stringent workforce nationalization strategies.

Furthermore, youth unemployment rates in the region amount to two to three times more than the average unemployment rates; and informalization, underemployment and poor quality of employment are widespread in the region. Public sector employment remains oversaturated, allowing few degrees of freedom for expansion. Political and security turbulences are strongly impacting job creation in the highly vulnerable economies of Iraq, Lebanon and Palestine. Layoffs are on the rise in Lebanon and Jordan, with the construction and tourism sectors impacted by the current political instability; while in Yemen and the Syrian Arab Republic, unemployment and poverty rates are likely to show significant increases in 2011 and 2012, due to political instability until normalization returns.

The region is estimated to have grown by 4.1 per cent in 2010, and is expected to expand by 5.2 per cent in 2011 (see table 1), with the healthy economic performance of Saudi Arabia and projected double-digit expansions in Iraq and Qatar. This contrasts starkly with the economic contractions in the Sudan, Syrian Arab Republic and Yemen. In the context of higher crude oil prices and production levels, GCC countries are projected to enjoy a robust 6.1 per cent expansion in 2011 that is driven by the healthy performances of their energy-related sectors, higher hydrocarbon revenues and a supportive stimulatory macro-policy mix. In MDEs, growth is expected to average 2.7 per cent in 2011, down from an estimated 3.8 per cent in 2010, on the back of adverse security and political developments in most of the countries in this subregion.

1. Government response

Growth prospects were boosted by heavy social spending, with the governments in the region attempting to contain popular discontent and respond to a number of social demands

Growth prospects were boosted by heavy social spending, with the governments in the region attempting to contain popular discontent and respond to a number of social demands. For example, GCC countries launched a US$20 billion fund for Oman and Bahrain (US$10 billion each) aimed at generating jobs and upgrading housing and infrastructure. In Bahrain, the Government identified the problem of low-income housing as the most pressing issue and, in response, plans to build 50,000 housing units. It has also distributed grants of approximately US$2,650 for every family and boosted housing allowances. Similarly, Oman has raised its minimum wage by 40 per cent. The largest package has been in Saudi Arabia, where a package worth 500 billion Saudi riyals (approximately US$133 billion) was announced, incorporating a minimum wage and a cost-of-living bonus for public sector workers, unemployment benefits and increases in housing loans and health spending.

Overall, with the recessionary trends in the United States and Europe depressing external demand, the region is forecast to expand by a rate of 4.7 per cent in 2012 with an expansionary fiscal stance backing a solid domestic absorption. The current volatility in oil markets is expected to continue through 2012, amid uncertainties on global growth prospects and oil demand along with concerns over spare capacity and supply levels, with the Libyan crude coming back online. While some short-term corrections will be observed, healthy demand from emerging economies and supply management action by OPEC will support an average ORB price above US$95 per barrel, which represents a price level that exceeds the fiscal break-even prices of most GCC countries.[13] These relatively favourable price developments will have a positive impact on general business and consumer confidence, underpinning a robust growth of 4.6 per cent for GCC countries, while MDEs will benefit from the spillover effects in the form of higher remittances, expanded intraregional trade opportunities and investment flows.

However, with the risk of a “debt-deflation” trap still looming, significant balance-sheet adjustments in business and finance entities remain underway in the GCC subregion amid volatile local capital markets. Monetary authorities and financial sector supervisors and regulators will have to continue to monitor internal and external liquidity conditions in order to allow a smooth completion of balance-sheet deleveraging and reorganization. Stock markets in Kuwait, Saudi Arabia and the United Arab Emirates have proved highly volatile since the start of the social movements in the region in early 2011, and have plunged, partly reversing the gains observed since 2009.

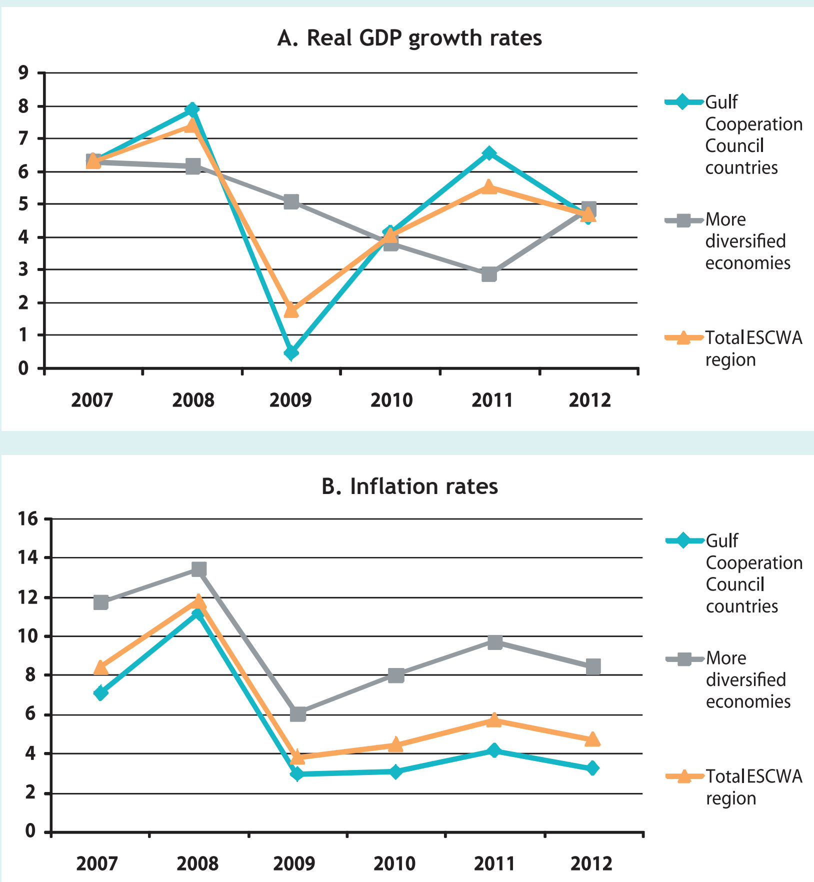
2. Inflation

Consumer price inflation has subdued since the peaks observed in the second quarter of 2008 (see figure 4). The figures for 2010 and 2011 indicate diversity in inflation developments across the region.

In GCC countries, average inflation was estimated at 3.1 per cent in 2010, dominated by the deflationary pressures in Qatar and the United Arab Emirates. Double-digit inflation figures in Egypt and the Sudan resulting from structural supply bottlenecks led to an estimated average inflation in MDEs of 8.0 per cent. In 2011, the impact of the food and energy price rises was subdued through heavy price subsidization. Specifically, increases in social spending and other current expenditures did not translate into inflation, thereby signalling the success of governments in the region in taming inflation expectations. The deflationary trends observed in Iraq, Jordan, Qatar and United Arab Emirates in 2009 and 2010 were reversed. Inflation increased in Saudi Arabia as a result of higher food prices and housing shortages, although new mortgage legislation is expected to relieve inflationary pressures in the medium term. In Yemen, projected double-digit inflation figures stem from higher commodity prices, food scarcity and political unrest. However, these overall inflationary trends mask deflationary pressures in the real estate sector, with property rents declining in almost all the countries in the region, with the notable exception of Lebanon and Saudi Arabia. In this context, weak housing markets are threatening to bring the economy of Bahrain into deflation in 2011 and the first half of 2012; while in Lebanon, an increase in inflation is expected together with a recent increase in wage levels.

For 2012, average inflation in the region is forecast to reduce to 4.7 per cent (see table 4), subdued by a variety of factors, including the anticipated moderation in prices along the global commodity complex, extensive food and energy subsidies, weak housing markets, tepid credit growth and the positive outlook for the United States dollar along with a sustained depreciation of the major emerging economies currencies. Adverse repercussions of wage increases and other social measures constitute the main downside risk to this baseline.

Figure 4. Real GDP growth and inflation rates in the ESCWA region, 2007-2012



Source: National data and ESCWA estimates and forecasts.

3. GDP growth

MDEs experienced another year of resilience in 2010, with average real GDP growth estimated at 3.8 per cent (see table 5). Given the development in the Eurozone and GCC economies, the MDE subregion benefited from a positive external environment in terms of remittances, and higher levels of tourism and intraregional investment. Oil exporters among MDEs, namely Egypt, Iraq, the Sudan, Syrian Arab Republic and Yemen, benefited from higher oil prices and stable gross oil export revenues. Jordan experienced a recovery in exports, which improved its current-account position and, despite limited fiscal policy space, the Government of Jordan achieved an estimated growth of 3.1 per cent in demand management. In Lebanon, construction and tourism led the growth, resulting in significant balance-of-payment surpluses and an estimated growth rate of 7 per cent. In Yemen, while the initiation and expansion of liquefied natural gas exports since November 2009 has helped to alleviate foreign exchange constraints, the Yemeni riyal has come under severe devaluation pressures against the United States dollar. In result, the Central Bank of Yemen has been forced to intervene heavily in defence of the currency. The growth rate for Yemen in 2010 is estimated at 3.5 per cent, while the Palestinian economy expanded by 9.3 per cent on the back of a resumption of development aid to the Gaza Strip, the relative stability in the West Bank and favourable base effects. In Egypt, growth is estimated at 1.9 per cent in the fiscal year 2010/11 down from 5.1 per cent in fiscal year 2009/10. The economy of Egypt expanded by more than 5 per cent in the first half of the year before a 3.8 per cent contraction was observed in the third quarter, owing to the social unrest.

Table 4. Consumer inflation rates in the ESCWA region, 2007-2012

Country	2007	2008	2009	2010[a/]	2011[b/]	2012[b/]
Bahrain	3.3	3.5	2.8	2.0	-0.5	3.0
Kuwait	5.5	10.6	4.0	4.0	5.5	4.0
Oman	5.9	12.6	3.5	3.4	4.2	3.5
Qatar	13.8	15.2	-4.7	-2.4	2.5	2.0
Saudi Arabia	4.1	9.9	5.1	5.3	5.5	4.0
United Arab Emirates	11.1	12.3	1.6	0.8	2.0	2.0
GCC countries	**7.1**	**11.1**	**2.9**	**3.1**	**4.1**	**3.3**
Egypt	9.5	17.1	11.8	11.3	11.5	11.0
Iraq	30.8	2.7	-2.8	2.4	6.0	5.0
Jordan	4.7	13.9	-0.7	5.0	5.4	5.5
Lebanon	6.7	10.0	1.2	4.5	6.0	6.0
Palestine	1.9	9.9	2.8	3.8	3.5	4.0
Sudan	8.1	14.9	11.2	13.2	14.0	11.0
Syrian Arab Republic	4.5	15.2	2.8	4.4	6.0	4.5
Yemen	7.9	19.0	5.4	8.5	17.0	12.0
MDEs[c/]	**11.7**	**13.4**	**6.0**	**8.0**	**9.7**	**8.5**
Total ESCWA region[c/]	**8.4**	**11.8**	**3.8**	**4.4**	**5.7**	**4.7**

Source: National data unless otherwise stated.
a/ Estimates and forecasts as of October 2011.
b/ Forecasts as of October 2011.
c/ Figures for country groups are weighted averages, where weights for each year are based on GDP at 2005 exchange rates.

The growth prospects for MDEs vary from country to country and are expected to be affected by the wave of social movements that have spread across the region. In Egypt, a country in a transitional phase undergoing significant changes in political governance, the very short-term stance appears unfavourable, with political uncertainty weighing on the economy. However, the long-term outlook is more promising, as stability returns to the country. On the other hand, in countries in which social movements have turned violent, most notably in the Syrian Arab Republic and Yemen, internal security developments have a disruptive effect on growth prospects, and the outlook remains unclear.

Economic dislocation is underway in Yemen, with an increasing risk of civil war; and security developments in the Syrian Arab Republic are not expected to calm down before the second half of 2012. These oil producers had benefited from elevated oil prices in 2010, but in 2011 the partial decline in hydrocarbon export revenues stemming from disruptions to crude oil and gas production is set to lead to the loss of an important source of hard currencies, thereby weighing on growth, pressuring balance of payments and leading to current and capital account restrictions.

The economy of the Syrian Arab Republic is projected to contract by 2 per cent, with security developments leading to

Table 5. Real GDP growth rates in the ESCWA region, 2007-2012

Country	2007	2008	2009	2010[a/]	2011[b/]	2012[b/]
Bahrain	8.4	6.3	3.1	4.5	2.5	3.5
Kuwait	4.5	5.5	-4.6	2.0	5.0	5.5
Oman	6.8	12.8	3.6	3.8	4.5	4.0
Qatar	26.8	25.4	8.6	13.4	16.0	7.0
Saudi Arabia	2.0	4.2	0.6	4.1	5.5	4.5
United Arab Emirates	6.2	7.4	-1.6	1.4	4.2	3.5
GCC countries[c/]	**6.3**	**7.9**	**0.5**	**4.1**	**6.1**	**4.6**
Egypt[d/]	7.2	4.7	5.1	1.9	3.0	3.5
Iraq	1.5	9.5	4.2	4.0	10.0	10.5
Jordan	8.5	7.6	2.3	3.1	3.0	4.0
Lebanon	7.5	9.3	8.5	7.0	2.5	4.5
Palestine	5.4	5.9	6.8	9.3	5.0	5.0
Sudan	10.2	6.0	4.5	5.5	-1.0	2.0
Syrian Arab Republic	5.7	4.3	5.9	5.5	-2.0	3.0
Yemen	4.7	4.5	4.7	3.5	-2.5	3.5
MDEs[c/]	**6.3**	**6.2**	**5.1**	**3.8**	**2.7**	**4.8**
Total ESCWA region[c/]	**6.3**	**7.4**	**1.7**	**4.1**	**5.2**	**4.7**

Source: National sources unless otherwise stated.
a/ Estimates for Kuwait, the Sudan and the United Arab Emirates as at October 2011.
b/ Forecasts as of October 2011.
c/ Figures for country groups are weighted averages, where weights for each year are based on GDP at 2005 exchange rates. Forecasts as at October 2011.
d/ The GDP growth rates for Egypt are calculated for the country's fiscal year, which starts in July and ends the following June.

a relative disruption to economic activity. However, the partial implementation of planned public infrastructure projects and a resilient agricultural sector and private consumption base will limit the adverse economic impact of the social unrest. With the return to normalization expected in the second half of 2012, favourable base effects, a planned increase in Government expenditures and prospects of higher hydrocarbon revenues, growth in the Syrian Arab Republic is expected to return to healthier positive territories. The Syrian Arab Republic had succeeded in halting declining trends in crude oil productions, further engaging in the development of its gas sector. Elsewhere, slowdown is forecast in Jordan and Lebanon, where domestic and regional instability could adversely impact remittances, tourism receipts and capital inflows.

In the case of the Sudan, prospects for 2011 hinged on the peaceful implementation of the Comprehensive Peace Agreement following the referendum in January 2011; the effective management of the oil production and refining industries between the two new Governments of the Sudan and South Sudan; and the outcome of debt relief discussions with the Paris Club of Industrial Country Creditors and international financial institutions. With the Comprehensive Peace Agreement leading to an agreement to split oil revenues evenly, the role of oil changed from a driver of conflict to an incentive for cooperation. Following the independence of South Sudan in July 2011, a new agreement has to be reached, with the management of petroleum resources representing one of the most serious challenges facing the two countries given the importance of oil receipts for both accumulation of external assets and as a contributor to fiscal revenues.

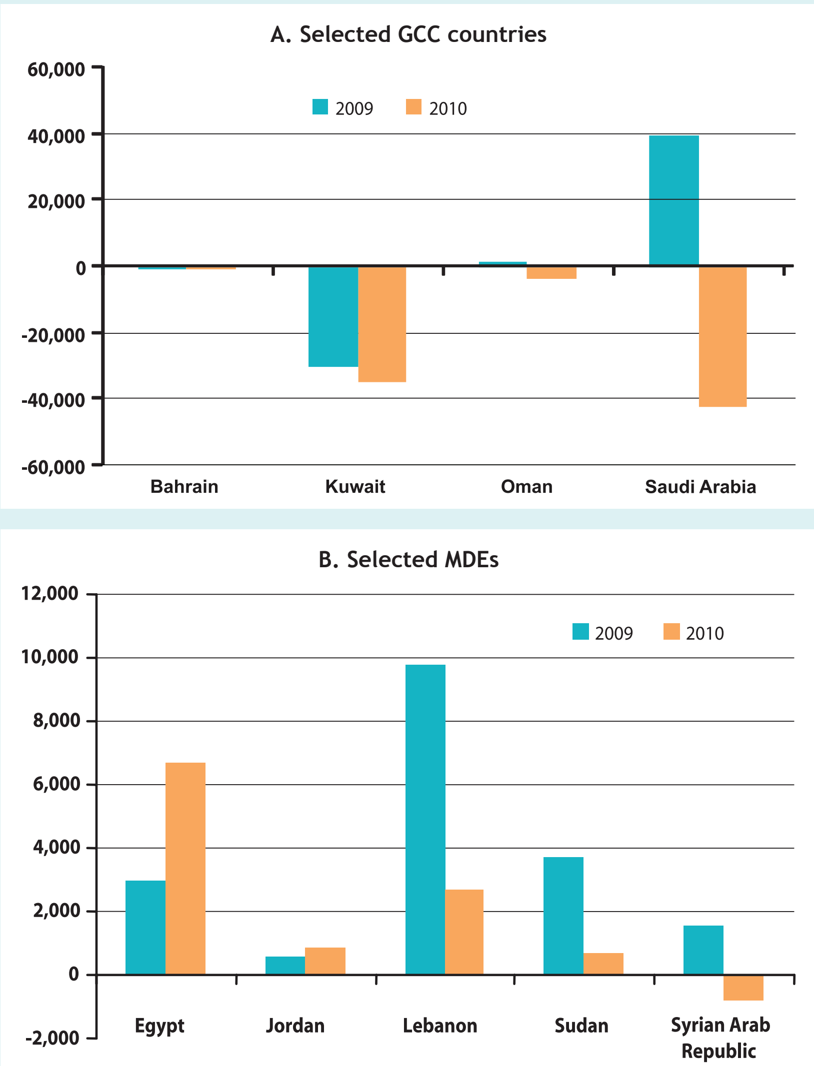
In GCC countries, real GDP growth was estimated at 4.1 per cent on average in 2010, following average growth of 0.5 per cent in 2009. Healthy increases in oil revenues and sustained growth in domestic demand were the main drivers of growth in 2010. GCC countries continued their efforts to diversify their hydrocarbon-based economies through major reforms aimed at targeting FDI towards non-oil business and manufacturing sectors. Saudi Arabia led the recovery in the subregion, with an estimated 4.1 per cent GDP growth rate in 2010, which constitutes a considerable achievement given the size of its economy. Domestic demand growth in Saudi Arabia was stable and the real estate sector recorded healthy growth. In Kuwait, real GDP growth was supported by net exports against a backdrop of lukewarm domestic demand and weak financial sector recovery. A rapid recovery in energy-related net exports and sustained domestic demand in the United Arab Emirates contributed to growth, while the real estate sector remained weak, marked by continued decreases in commercial and residential rents.

In 2011, average real GDP growth in GCC countries is forecast at 6.1 per cent, almost matching the healthy, pre-crisis levels. Domestic demand continued to be supported by active fiscal policies with a modest rally in private spending. Growth in Kuwait is forecast at 5 per cent and the country is expected to continue to register the highest budget and current account surpluses in the region. Higher oil revenues will allow the Government to support domestic demand through heavy infrastructure projects and wealth redistribution. In the case of non-OPEC member countries in the subregion, namely Bahrain and Oman, the recent social movements clouded growth prospects

With the Comprehensive Peace Agreement leading to an agreement to split oil revenues evenly, the role of oil changes from a driver of conflict to an incentive for cooperation

in the first half of the year. Bahrain is projected to grow at 2.5 per cent as a result of slower tourism and financial sector activity, while domestic demand follows increased regional transfers and investments. In Oman, relative stability has been re-established through higher social transfers and public sector employment. Real GDP growth is forecast at 3.5 per cent; domestic demand remains relatively weak despite active fiscal intervention.

Figure 5. Net financial account in ESCWA member countries, 2009-2010 *(Millions of US$)*



Source: International Monetary Fund (2011).

Economic diversification, competition, regional integration and deepening of financial markets, linked to a comprehensive social agenda constitute some essential policy directions the region should embark upon immediately.

D. Capital Flows, FDI and Remittances

1. Capital flows[14]

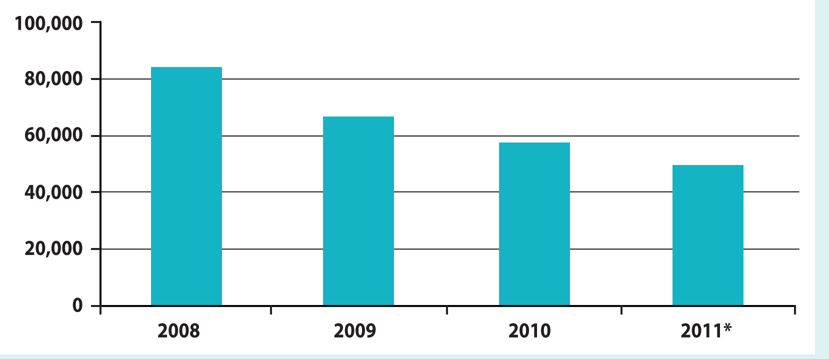
In 2009, developing countries suffered their first declines in inward international investments, which did not recover in 2010. Given that countries have enacted various protectionist measures in fragile global markets, inward international investments may continue to decline. Despite a moderate global economic recovery in both developed and developing economies, the ESCWA region overall suffered from falling capital flows in 2011, owing mostly to political upheavals and unstable business environments in several member countries.

Rising oil prices have resulted in trade surpluses in GCC countries. As a result, all those countries, with the exception of the United Arab Emirates, experienced financial account deficits. The United Arab Emirates boasts a financial account surplus because foreign entities were increasingly investing in the country, both in the form of FDI and portfolio investments (see figure 5). The United Arab Emirates decreased its holdings of foreign securities and currencies to zero following the financial crisis in 2008, but resumed its acquisitions in May 2010.

Financial account deficits in the GCC subregion stemmed mainly from increased investment abroad, both in the form of FDI and portfolio investments. For example, increasing Saudi direct investments abroad and falling FDI in Saudi Arabia led to a financial account deficit in 2010, after the surplus in 2009. Similarly, Bahrain, Oman and Kuwait witnessed capital-account deficits owing to increased investments abroad. Increasing outward FDI from GCC countries can be attributed to various factors, including the accumulation of considerable surpluses resulting from the surge in oil prices, low interest rates and high volatility of equity markets. Moreover, the adoption of diversification policies that include investing abroad in industries perceived as strategic for the development and diversification of their national economies has resulted in Saudi Arabia and the United Arab Emirates investing in farmland in Pakistan and the Sudan.

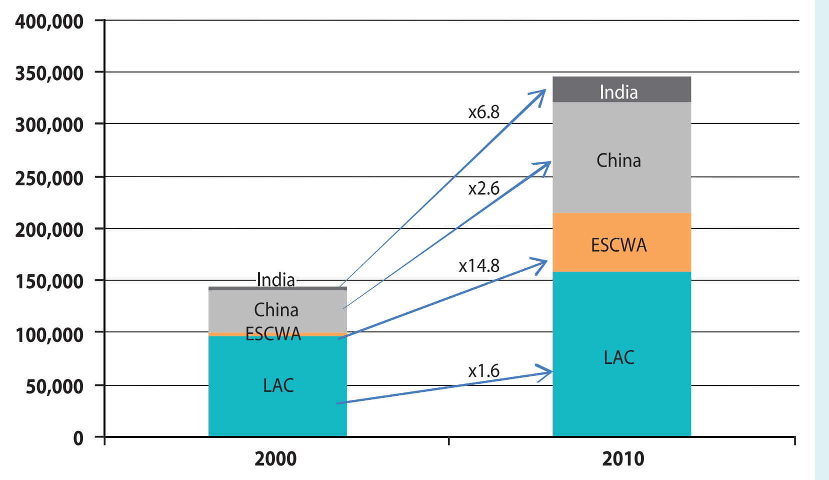
On the other hand, Egypt and Jordan recorded increasing financial account surpluses in 2010. The capital flows to Egypt were influenced by a significant drop in inflows of FDI and portfolio investments as well as declining Egyptian investments abroad.[15] Lebanon experienced a substantial decrease in its financial account as a result of the halving of outward investments and a substantial drop in portfolio investments in that country.[16] Due to the political instability in several countries in the region in 2011, investors were either reluctant to invest or were even disinvesting their capital, especially in MDEs and LDCs. The lack of security and transparency will most likely lead to further decreases of capital flows to the region, which have recently contributed to growth. For this reason, most ESCWA member countries need to rethink their development strategies and diversify towards a more sustained growth, given the sensitivity of external capital to political instability.

Figure 6. FDI inflows to the ESCWA region, 2008-2011 *(Millions of US$)*



Sources: UNCTAD, World Investment Report, various issues; and, for 2011, ESCWA forecasts.
* Estimation.

Figure 7. FDI inflows to different developing regions, 2000 and 2010 *(Millions of US$)*



Source: UNCTAD, World Investment Report, various issues.
Note: LAC refers to Latin America and the Caribbean.

2. Foreign direct investments

While global FDI flows rose moderately in 2010, they still have not bounced back to their pre-crisis levels. The underlying cause has more to do with perceived risks and regulatory uncertainty rather than financial constraints. FDI inflows to ESCWA member countries peaked in 2008 (see figure 6). Since then, they have been

Table 6. Foreign direct investment in ESCWA member countries *(Millions of US$)*

Country	2008	2009	2010[a/]
Bahrain	1 794	257	156
Kuwait	-6	1 114	81
Oman	2 528	1 471	2 045
Qatar	3 779	8 125	5 534
Saudi Arabia	38 151	32 100	28 105
United Arab Emirates	13 724	4 003	3 948
GCC countries	**59 970**	**47 070**	**39 869**
Egypt	9 495	6 712	6 386
Iraq	1 856	1 452	1 426
Jordan	2 829	2 430	1 704
Lebanon	4 333	4 804	4 955
Palestine	52	265	114
Syrian Arab Republic	1 467	1 434	1 381
MDEs	**20 032**	**17 097**	**15 966**
Yemen	1 555	129	-329
Sudan	**2 601**	**2 682**	**1 600**
LDCs	**4 156**	**2 811**	**1 271**
Total ESCWA	**84 158**	**66 978**	**57 106**

Source: UNCTAD, World Investment Report, various issues.

on a steady downward trend, even though the decline in 2010 was more moderate than that observed in 2009. Total FDI to the ESCWA region is expected to decline by 13 per cent in 2011. Considering the latest political developments in Egypt, Iraq and the Syrian Arab Republic, these figures are however subject to revision (see table 6).

FDI inflows to developing countries have been on a sharp increase in the previous decade. In 2010, developing and transition economies captured more than half of the global FDI inflows. Outward FDI from these economies reached record highs and most of these investments were directed to other developing countries. Figure 7 illustrates the pace of the growth in FDI inflows to developing regions in the period from 2000 to 2010, and shows that the ESCWA region has experienced the highest growth compared to other developing regions. Such a strong growth owed both to the low starting point in 2000 and to increasing investment opportunities, high profit margins and better investment environment in the region.

In 2010, ESCWA member countries accounted for 12 per cent of global FDI inflows. Saudi Arabia captured the majority of the total inflows, as it did throughout the previous decade, and together with Egypt, Qatar and Lebanon accounted for almost 80 per cent of all the inflows to the region. As several ESCWA reports and studies on FDI have reiterated, there is a problem of very high concentration in several oil-rich countries of the region, whereas LDCs do not obtain the necessary investment in areas that are fundamental for development, such as infrastructure and agriculture.

One of the main purposes of FDI should be to create employment such that it indirectly contributes to higher living standards and improved quality of life. FDI contributes to, among others, technology, management skills and building productive capacities. In turn, these lead to poverty reduction in a variety of direct and indirect ways. However, most FDI flows in the ESCWA region are purely profit-seeking and do not necessarily support significant employment generation. Consequently, FDI inflows do not reflect the better employment scores. The experience of several countries has shown that the impact of FDI on poverty alleviation is largely determined by the policies of host countries aimed at promoting and directing monies to labour-intensive and value-creating sectors.

Figure 8 provides a visual notion of the FDI flows to different sectors and the respective jobs created by it. While the data presented refer to the whole Arab region in the period 2003-2011, they provide a good idea of the trends in the ESCWA region as well.

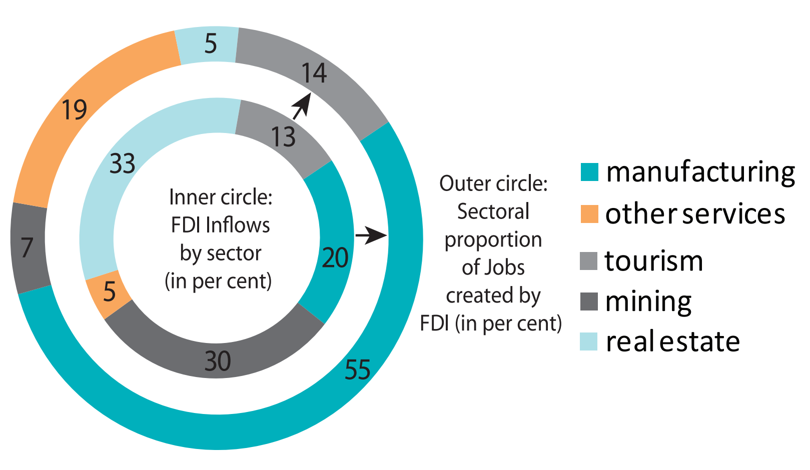
Around two-thirds of total FDI inflows in the period 2003-2011 went to the real estate and mining sectors. These two sectors accounted for only 12 per cent of total jobs created by FDI, namely 5 per cent in mining and 7 per cent in real estate. The two sectors where most jobs were created by FDI were manufacturing and other services. Manufacturing accounted for more than half of all jobs created in the respective period. Most FDI in the manufacturing sector was directed to food processing, consumer products and the textile industry.

There is also little technology transfer given that most FDI inflows target the mining or real estate sectors. For example, in Saudi Arabia, 40 per cent of all the inflows in 2009 went to oil extraction and real estate. In Egypt, 53 per cent of total inflows in fiscal year 2009/10 went to the petroleum sector.[17] In Yemen, only 10 per cent of total inflows in 2009 went to industry, tourism and agriculture, whereas the rest was directed to services.

3. Remittances

Remittances provide a major source of external capital for many developing countries. Remittances to developing countries, which totalled US$308 billion in 2009, surpassed ODA estimated at US$120 billion. According to data by the World Bank, FDI to the Middle East and North Africa (MENA) region in 2010 accounted for 3 per cent of GDP, while remittances

Figure 8. Inflows to different sectors in the Arab region and jobs created by FDI, (2003-2011)

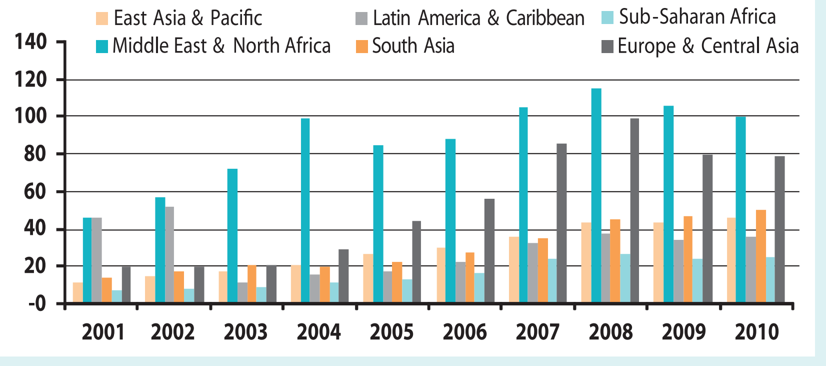


Source: World Bank (2011).

were 4 per cent. Research and studies highlight that remittances are more resilient than other types of flows, including FDI and ODA and particularly during crises, flows of migrants increased over a number of years. Available statistics also indicate that remittance flows to developing countries declined by 5.4 per cent in 2009 and increased by 5.6 per cent in 2010. Remittances are expected to continue growing in 2011, 2012 and 2013 by 7.3, 7.4 and 7.9 per cent, respectively.

Globally, the trend on remittances shows a decline in 2009, recovering again in 2010 and are expected to increase in the next three years. In 2010, global migrant remittances amounted to US$445 billion, of which US$322 billion were remitted to developing countries. According to estimates by the World Bank, remittances are expected to reach US$468 billion, US$499 billion and US$536 billion in 2011, 2012 and 2013, respectively. During the past decade (2001-2010), remittance flows to the MENA region were in the range of 3-5 per cent of GDP. Compared to counterparts across the world, statistics show that the MENA region achieved the highest level of per-capita migrant remittances during the period 2001-2010.

Figure 9. Per-capita migrant's remittances, 2001-2010 *(US$)*

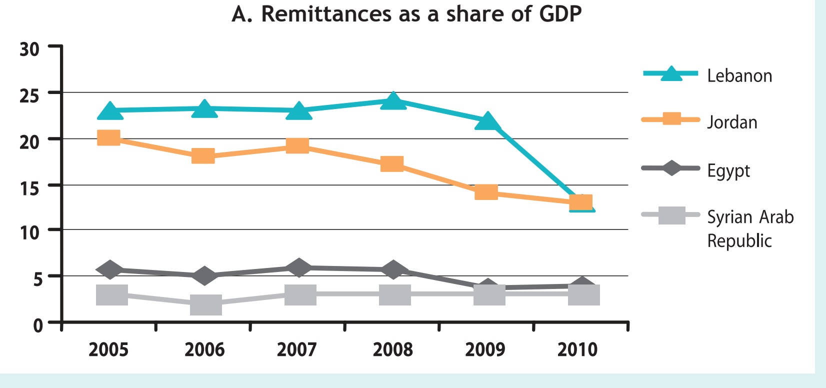


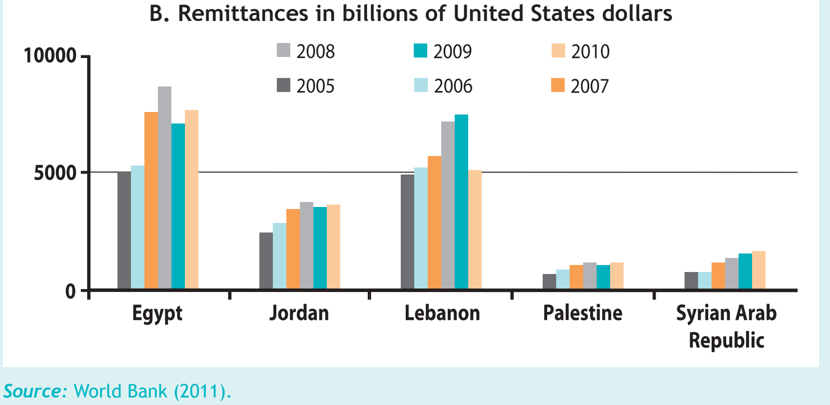
Source: Calculated by ESCWA, based on World Bank (2011).

Following the economic recovery in 2010, all regions have shown positive growth with respect to remittance flows. Remittances in the MENA region noted an increase of 5.3 per cent after the downturn in 2009. Increase in the oil price and economic expansion in GCC countries have had a positive impact on remittance flows to South Asia in 2010, which registered a largest growth (8.2 per cent), followed by East Asia (7.4 per cent). By contrast, remittance flows to Latin America and the Caribbean (1.7 per cent), and Eastern Europe and Central Asia (1.3 per cent) failed to show significant growth owing to the current crises in the United States and the Eurozone. In 2010, the Arab region received US$33.3 billion in remittances, with 39 per cent entering Egypt and Lebanon.

According to forecasts by the World Bank, remittance flows to the MENA region are expected to grow by 3.4 per cent in 2011, 5.5 per cent in 2012 and 5.6 per cent in 2013. These forecasts could change as a result of social unrest and security problems in recipient countries, which would add to the problems already faced by vulnerable populations.

Figure 10. Remittances in selected ESCWA member countries, 2005-2010





Source: World Bank (2011).

In 2009, the decline in remittances in the MENA region (6.8 per cent) was lower compared with the decline in Europe and Central Asia (12.3 per cent) and Latin America and the Caribbean (22.7 per cent). The majority of migrants from the MENA region work in GCC countries, which have been relatively resistant to the downturn. Egypt registered US$5 billion in remittances in 2006, increasing to US$8 billion in 2008 and dropping to US$7.7 billion in 2010. After peaking at US$7.5 billion in 2009, remittances inflows to Lebanon reduced to US$5.1 billion in 2010.

Remittances promote development in the region by encouraging saving, investment, growth, reduction in poverty and more equitable income distribution. Remittances have become a channel for financial resources for households in the countries of origin and have a positive impact on poverty reduction, education and improving health care.

Roushdy (2009) used the 2006 Egypt Labour Market Panel Survey data to investigate the effects of remittances on household wellbeing. The analysis found a significant link between remittances received and poverty reduction. The study further confirmed that remittances received by households contributed towards lowering poverty by 8 percentage points.

Monitoring the migration and remittance trends is crucial given that it provides policymakers with an important tool for formulating appropriate decisions. However, the availability of sound data on migrants and remittances, including capturing data on irregular movements of migrants and remittances, remains an important impediment for policy formation.

E. Financial Markets

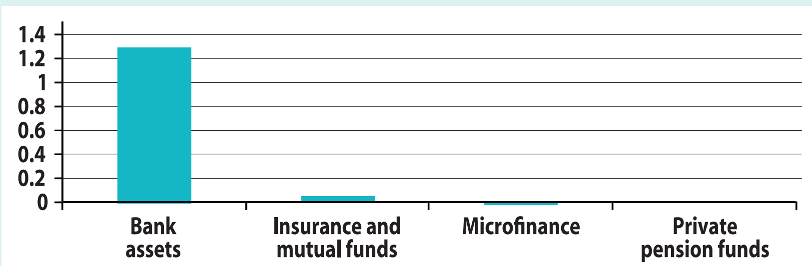
Poor infrastructure in the ESCWA region limits the performance of its financial system and, in turn, weakens diversification and competitiveness. Access to finance in the region is highly concentrated. According to the World Bank, a small number of large enterprises received a disproportionate share of total credit. On the other hand, 20 per cent of SMEs have line credits that account for only 8 per cent of total loans for the region. In addition, microfinance serves only 1.8 per cent of the adult population with outstanding microcredit equal to merely 0.2 per cent of the region's GDP. Housing finance is still in its infancy stage, amounting to less than 10 per cent of the region's total portfolio.

According to the World Bank, bank assets constitute an average of 130 per cent of GDP in the MENA region; 145 per cent of GDP in GCC countries; 140 per cent of GDP in non-GCC countries, where private banks are dominant; and 65 per cent of GDP in non-GCC countries, where State banks dominate. Bank credit to the private sector is equal to 70 per cent, 40 per cent and 12 per cent in the three groups of countries, respectively.

Overall, private credit in the region is high compared to other regions in the world. However, credit is concentrated and serves a relatively narrow segment of the region's private sector. Non-banking financial institutions remain negligible: insurance and mutual funds constitute less than 5 per cent of GDP, microfinance accounts for only as little as 0.2 per cent of GDP and private pension funds are negligible (see figure 11).

During the 2008 financial crisis, GCC countries were negatively affected by the liquidity shortage in international markets and the drop in oil prices. The nascent

Figure 11. **Assets of financial institutions, 2009 or latest available year** *(Percentage of GDP)*



Source: Rocha (2011).

Table 7. Total public debt, 2006-2011 *(Percentage of GDP)*

Country	2006	2007	2008	2009	2010	2011 (est.)
Bahrain	23.6	19.2	14.6	25.4	32	24.8
Kuwait	8.3	6.7	5.6	7	5.8	4.5
Oman	9.6	7.5	5.1	8	5.9	4.1
Qatar	13.1	8.8	8.9	28.7	20	13.7
Saudi Arabia	27.3	18.5	13.2	16	10.8	8.3
United Arab Emirates	6.8	7.8	12.5	22.5	21	16.4
GCC countries	**17.2**	**12.6**	**11.2**	**18**	**14.3**	**10.8**
Egypt	98.8	87.1	74.7	75.6	73.8	74.9
Iraq	219.6	181	110.5	143.1	112.3	38.9
Jordan	73.5	71.1	58.4	61.8	61.4	62.8
Lebanon	179.9	167.7	156.4	146.4	136.7	133.8
Sudan	89.3	82.3	69.8	78.9	68	63.4
Syrian Arab Republic	48.5	44.1	38.2	31.2	27.5	24.3
Yemen	40.8	40.4	36.4	49.9	40.6	42
MDEs	**112.2**	**99.3**	**79.1**	**83.8**	**75.9**	**62.5**
Total ESCWA region	**41.9**	**36.3**	**30.2**	**39.5**	**34.4**	**26.2**

Source: International Monetary Fund (2011).

bond market attracted the attention of these governments as an alternative source of finance that could replace the costly and uncertain external finance. In GCC countries, while there is a sizable stock of corporate and government conventional bonds and sukuk (Islamic bonds), three-quarters of these were internationally syndicated and denominated in United States dollars. With the oil wealth and revenues in the region, bond financing has been rare, with the banking system providing the needed short-run finance.

The increase in oil prices helped to reduce public debt as a percentage of GDP in the ESCWA region from 34.4 per cent in 2010 to 26.2 per cent in 2011. In GCC countries, this ratio declined from 14.3 per cent to 10.8 per cent, and decreased from 75.9 per cent to 62.5 per cent in the non-GCC subregion. While total public debt has an upward trend, the increase in GDP has helped to dampen the effect of that increase.

Public debts in Egypt, Jordan and Lebanon continue to be dominated by domestic currencies, constraining monetary policy decisions on interest rates. Raising interest rates would increase debt servicing in the three countries, thereby burdening fiscal balances and forcing governments either to borrow more or conduct contractionary fiscal policies.

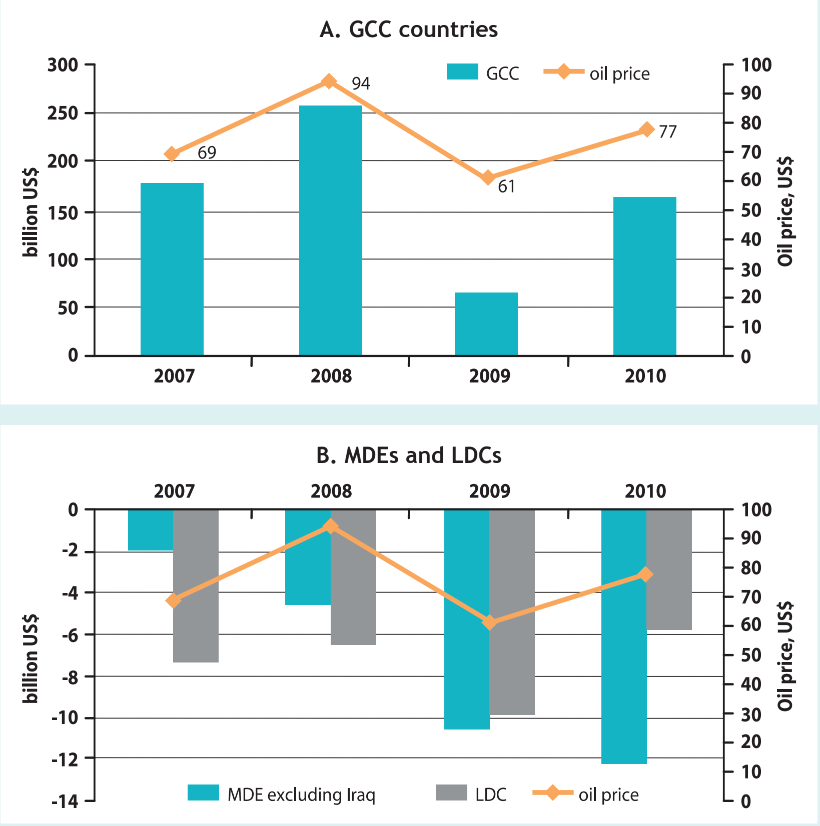
F. External Balance

1. Current account balance

After considerable declines in 2009 as a result of the global crisis, the current account balances of ESCWA member countries started to recover in 2010. The ESCWA region has been unevenly affected by the conditions at the world commodity markets. As such, two distinct trends can be witnessed in the region, namely (a) GCC countries have huge current account surpluses that were not offset by financial account deficits and that led to increases in foreign reserves; and (b) MDEs recorded increasing current account deficits. GCC countries have incurred current account surpluses, with oil revenues representing around 80 per cent of their total export revenues. As a result of increasing food prices in 2010 and the recovery of oil prices, MDEs have witnessed an increasing trend of current account deficits (see figure 12).

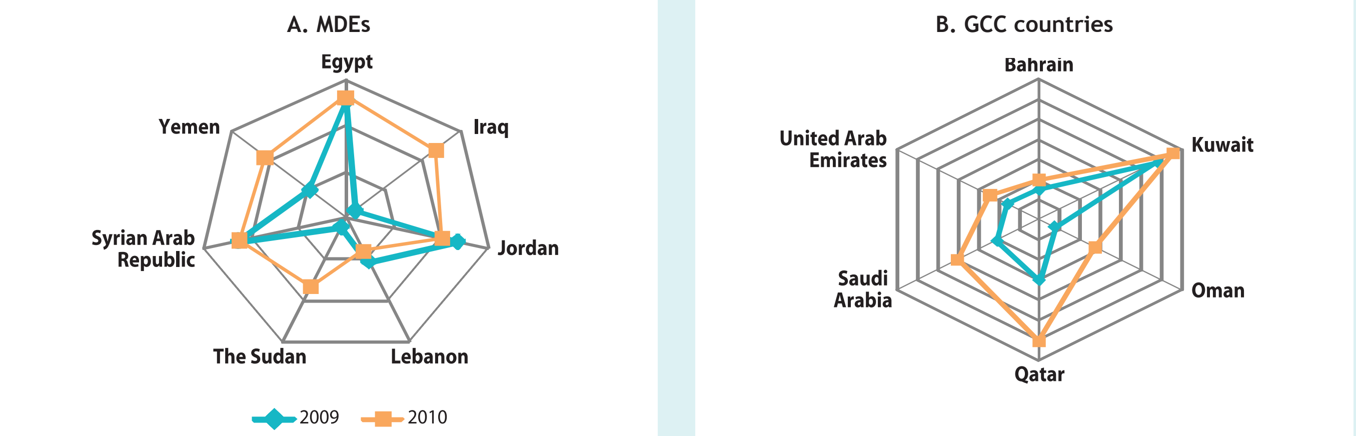
The cumulative current account surplus of GCC economies has seen a 1.5-fold increase between 2009 and 2010, reaching US$163 billion. During the same period, MDEs experienced an increase of 16 per cent in their current account deficit.[18] However, the Sudan and Yemen experienced a decrease of the deficit of

Figure 12. Current account balance in the ESCWA region, 2007-2010 *(Billions of US$)*



Source: World Economic Outlook 2011 (September 2011).

Figure 13. Current account balance in MDEs and GCC countries, 2009 and 2010 *(Percentage of GDP)*

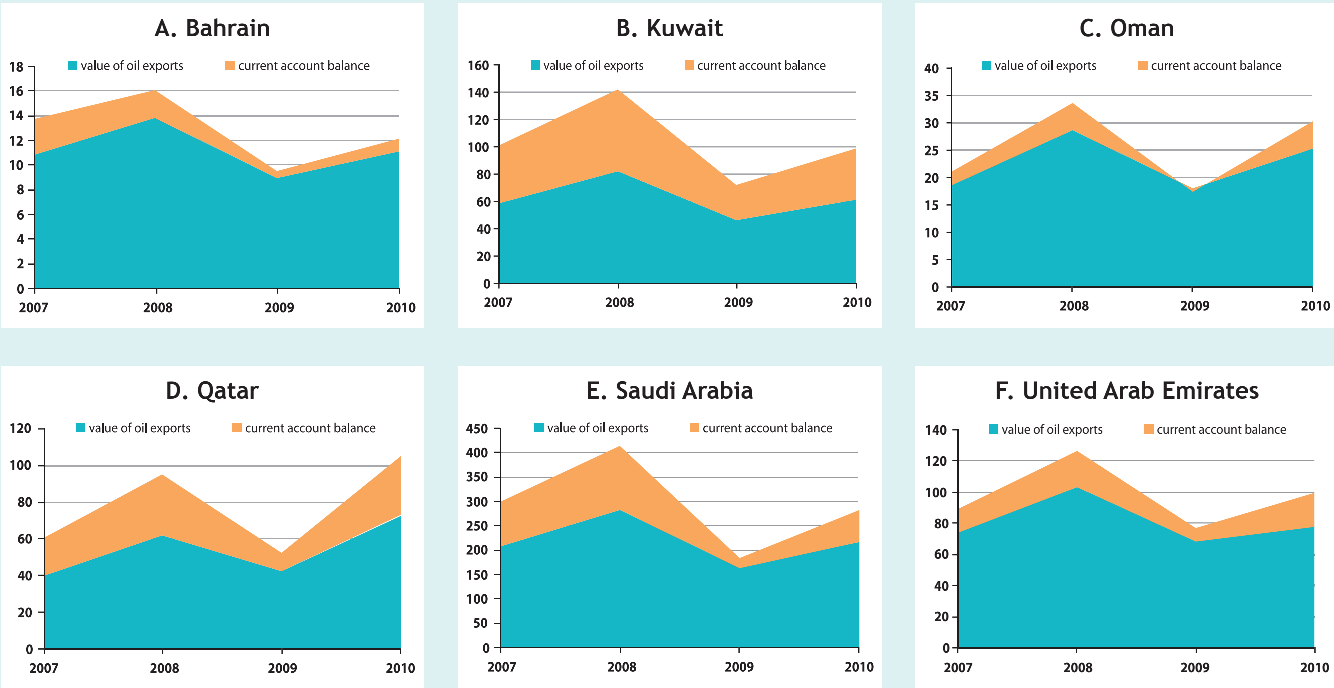


Note: Starting from the centre, the scale is 0 to -15.

Note: Starting from the centre, the scale is -5 to 30.

Source: International Monetary Fund (2011).

Figure 14. Current account balance and value of oil exports in GCC countries, 2007-2010 *(Billions of US$)*



Source: International Monetary Fund (2011).

around 41 per cent on the back of higher oil prices and new discoveries (see figure 13).

The main driver of the increasing trade surpluses in the GCC subregion are the increasing receipts from oil exports, which have increased by 30 per cent or more, whereas the net trade in services did not vary significantly in 2010 and remained negative (see figure 14).

GCC countries have traditionally had current account surpluses coupled with financial account deficits. This trend continued even in 2010, with the exception of the United Arab Emirates. In 2010, the banking system in the United Arab Emirates was actually paying more in interests and dividends than it was receiving on its foreign investments. This came as a result of the Dubai crisis in 2009, when the Emirate of Dubai lacked the resources needed to meet its debt obligations, during which the Central Bank and banks based in Abu Dhabi bought the largest shares of the debt. Overall, GCC countries accounted for balance of payments surpluses followed by an increase in foreign reserves holdings.

MDEs in the ESCWA region have experienced increasing current account deficits, owing mostly to increasing import bills, stagnating exports and therefore, widening trade deficits, as well as decreasing investment incomes.[19]

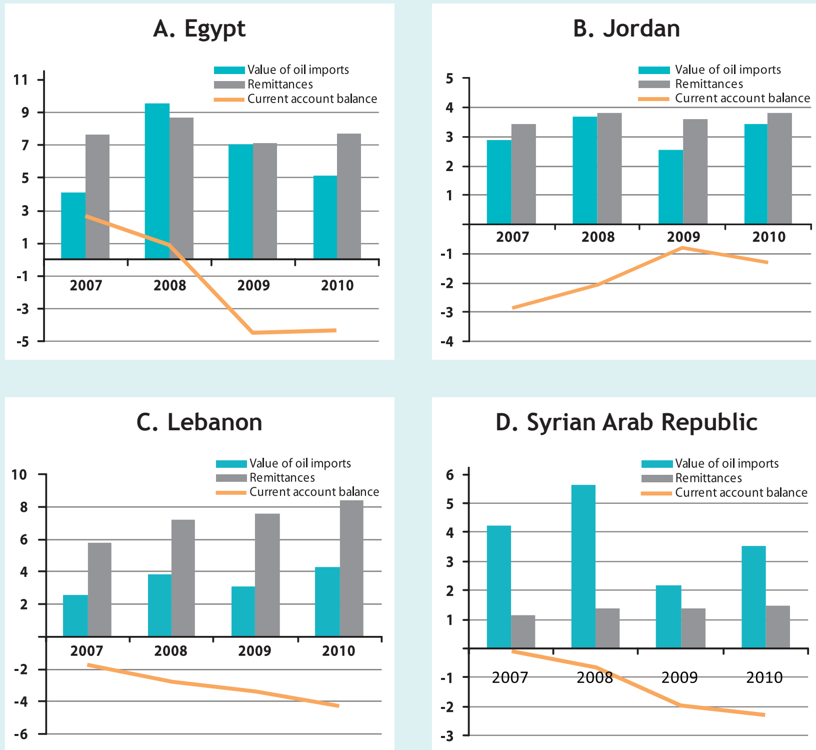
Figures 14-16 clearly indicate the relationship between the different economies in the region and their ability to address such vital issues as food security, economic diversification and unemployment, thereby offering a win-win situation for the subregions.

G. Fiscal and Monetary Policy

Monetary policy in the region remains constrained by exchange rate arrangements. Pegged exchange rate regimes are the rule, with the United States dollar as the predominant reference currency, with the exception of Kuwait and the Syrian Arab Republic;[20] while Iraq and Yemen continue to manage their currencies closely against the dollar. Consequently, monetary policy in the region is tied to the stance of the United States Federal Reserve, with any excessive interest-rate spreads encouraging unhealthy carry trades. This can leave the region's monetary authorities with limited options in the face of external exogenous pressures. An increase in money supply is also observable in Kuwait along with a moderate rise in bank lending, while a lack of momentum can be observed in Bahrain and Oman owing largely to the social unrest witnessed early in 2011. In this context, Bahrain's heavily service-dependent economy, with the financial sector accounting for up to one-quarter of GDP, runs the risk of losing its role as a financial regional hub to its neighbour, the United Arab Emirates.

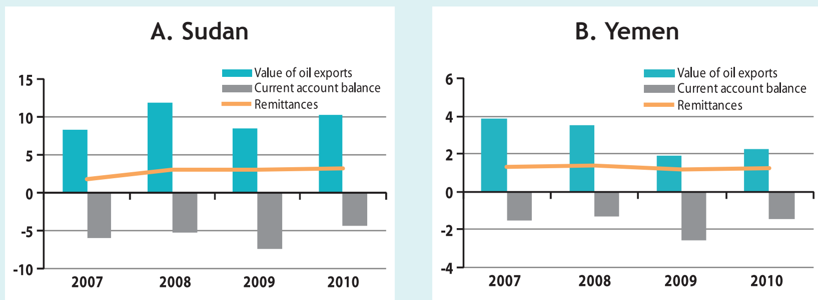
In 2010, there were few changes in managing policy interest rates, although Jordan and Kuwait lowered their rates in February, followed by Qatar in August. In 2011, the Central Bank of Qatar further lowered its policy rates to spur bank lending in the context of high liquidity and in an attempt to allow the private sector to gain its footing in expectation of the growth slowdown of 2012. After lowering its policy rates at the beginning of the year to support the economic recovery, the Central Bank of Jordan increased its deposit and repo rate in June on concerns over the alarming increases in food prices.

Figure 15. Current account balance, value of imports and remittances into MDEs, 2007-2010 *(Billions of US$)*



Sources: International Monetary Fund (2011), and World Bank (2011).

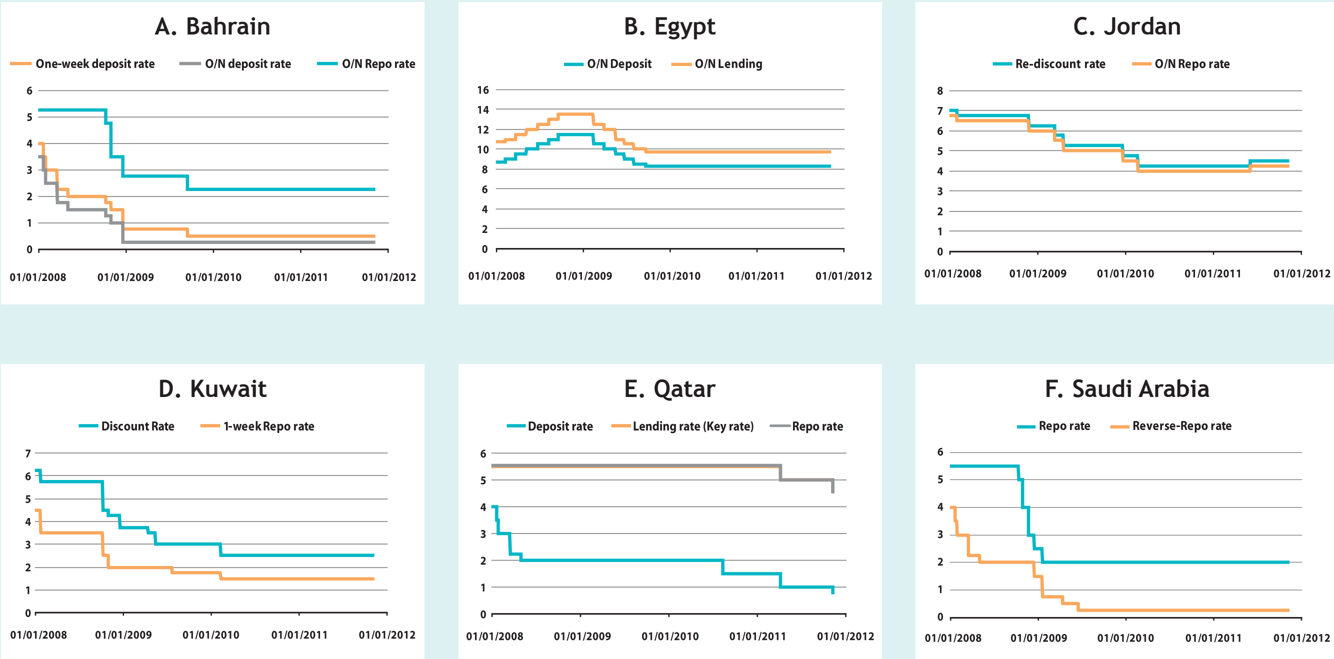
Figure 16. Current account balance, value of oil exports and remittances to LDCs, 2007-2010 *(Billions of US$)*



Sources: International Monetary Fund (2011), and World Bank (2011).

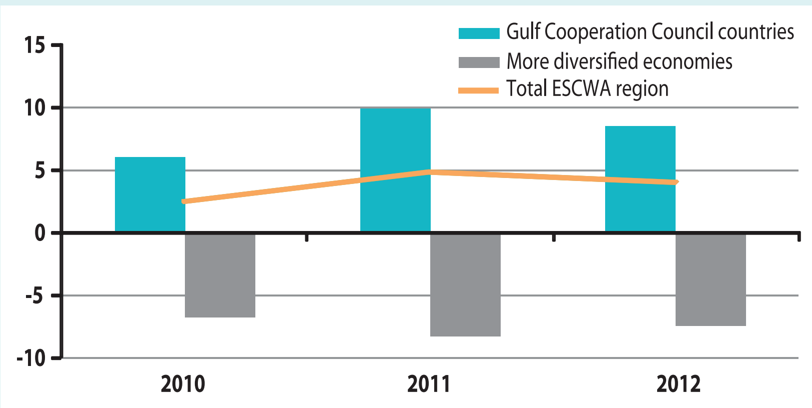
In Saudi Arabia, repo and reverse repo rates were last changed in January and June 2009, respectively. Moreover, the Kuwait Interbank Offered Rate, Saudi Arabian

Figure 17. Policy interest rates in selected ESCWA member countries, 2008-2011



Source: The monetary authorities of the respective ESCWA member countries.

Figure 18. Average budget balances in the ESCWA region, 2010-2012 *(Percentage of GDP)*



Source: National data, and ESCWA estimates and forecasts.

Interbank Offered Rate and Emirates Interbank Offered Rate all remained above the three-month London Interbank Offered Rate (LIBOR) throughout the year. The spread was marginal until the start of 2008. In the first half of 2008, it turned negative when the region was awash with liquidity. In the outlook, with the near-zero interest rate policy of the Federal Reserve and quantitative easing expected to continue until early 2013, welcome permissive monetary policies will support domestic demand, as well as corporate and consumer credit growth in the context of a sluggish external environment. In addition, the region's central banks will continue to mop up any excess liquidity through securities issuance and tight reserve requirements.

Following the successful fiscal measures introduced by ESCWA member countries to counter the recessionary effects of the global financial crisis, high crude oil prices in 2010 allowed GCC countries to maintain expansionary fiscal policies, thereby keeping them out of the global trend of fiscal austerity measures, while MDEs were more constrained in their fiscal space. Stimulatory fiscal policies on both the current and capital accounts fronts were witnessed in the region in 2011, with regular budgets bolstered by discretionary social measures in an attempt by the governments of the region to insulate their populations from the Arab uprisings. These generous social plans, including provisions for higher social transfers and wage levels, new public sector employment opportunities and increases in private housing, came on top of previously budgeted expenses in the context of impressive development plans that were initiated in 2010 and 2011.

GCC countries have the luxury of relatively easier fiscal manoeuvring (see figure 18), with high hydrocarbon revenues that allow them to maintain active fiscal stances while registering comfortable surpluses and lowering debt levels. In those countries, conservative oil price assumptions in budgeting public revenues generate built-in, ex-post surpluses over planned expenditures. Within this context, Kuwait and Qatar are set to witness fiscal surpluses for the eleventh consecutive year, while the budget deficit in the United Arab Emirates is expected to turn into surplus in 2011. Moreover, Saudi Arabia will record a surplus despite the assistance to Egypt and in addition to soft loans and grants provided to Bahrain, Oman, Morocco and the Syrian Arab Republic.

In 2012, the buffer of current fiscal surpluses is forecast to diminish in the wake of large off-budget and budgeted spending commitments on infrastructure projects as well as recurrent outlays, along with a moderate decline in hydrocarbon revenues. However, large official external assets, the availability of ample local and regional liquidity and recourse to the international capital markets with still strong, albeit slightly deteriorating credit ratings will allow oil exporters to cover any temporary fiscal shortfalls and manage the risks associated with crude oil price volatility.

In the case of MDEs, limited fiscal space continues to constrain public finance management. With a fiscal stance shifting from the initially planned austerity measures in Iraq, Jordan and Yemen, budgets are forecast to register record deficits on the back of higher public spending and slower economic growth, even if some relief will be brought by increased intraregional aid flows. In Lebanon, political uncertainty holds considerable risks for 2011 and 2012, and the expected moderation in economic activity will adversely affect the budget.

Given the weak correlation between fiscal deficits and inflation, ESCWA member countries are called upon to invest their fiscal space (albeit very limited in MDEs) in order to finance job creation and promote such transformative investments as infrastructure, health, education and innovation. They are also invited to adopt innovative financing, including public-private partnerships (PPP), to optimize the use of fiscal resources, keeping in mind their long-term public debt sustainability.

H. Social Dynamics

1. *The social dynamics of change*

Overall, the economic situation in 2011 and the future economic challenges in the ESCWA region are largely the result of unprecedented social dynamics that have altered the world's perception of the role of Arab people. The wave of social movements that spread rapidly across the region was based on domestic and organic drivers of change.

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The wave of social movements that spread rapidly across the region was based on domestic and organic drivers of change

The cases of Egypt and Tunisia, in particular, demonstrated that people in the Arab region can use non-violent power to voice their concerns, achieve ambitious targets and gain worldwide support. In other Arab countries, the movements have taken other directions and continue to yield different outcomes, including political reforms, regime change, violent conflicts and various forms of foreign interventions. The difference in form relates to country-specific factors, such as the degree of social cohesion, the power play within the inner circles of particular regimes, and the country's state of foreign affairs and alliances. However, the drivers behind most Arab social movements were very similar and were the result of an accumulation of development failures over many years.

The repercussions of the recent economic, financial and food crises that hit the most vulnerable people of the region had a trigger effect. The burden from the renewed food price hikes by the end of 2010 aggravated the situation even more in a region that is highly dependent on food imports. These developments were only the tip of the iceberg. Decades of accumulated social, economic and political exclusions have led people to the streets in protest.

2. Socio-economic exclusions as drivers of change

Socio-economic exclusion in ESCWA member countries manifests in high unemployment and informalization, multidimensional poverty, different forms of inequality, and discrimination against women, youth and other vulnerable groups. The year 2010 marked the end of a decade characterized by limited improvement on any of these fronts.

Unemployment figures are not easily available across all member countries. In 2010, ILO placed it at roughly 10.0 per cent for the MENA region, almost unchanged over the past two years (2009-2010) and representing among the highest rates in the world.[21] The instabilities resulting from the social movements further pushed the rates upwards early in 2011. In Jordan, for example, the unemployment rate was 13.2 per cent in the second quarter of 2011, compared to 12.2 per cent over the same period of 2010.[22] In Egypt, similarly, the rate increased to 12.0 per cent from 9 per cent over the first quarter period.[23] Experts also predict a similar trend in the GCC countries, with Saudi Arabia's unemployment expected to reach 10.5 per cent in 2011.[24]

Youth unemployment is much higher than total unemployment in ESCWA member countries. The problem is not cyclical; rather it is more of a deeply rooted structural challenge, hampering countries from exploiting their full productive potential. Using data spanning over a period of 20 years, ILO shows that approximately 1 in 4 youth in the labour market is unemployed in the MENA region, despite the progress made in education for both girls and boys.[25]

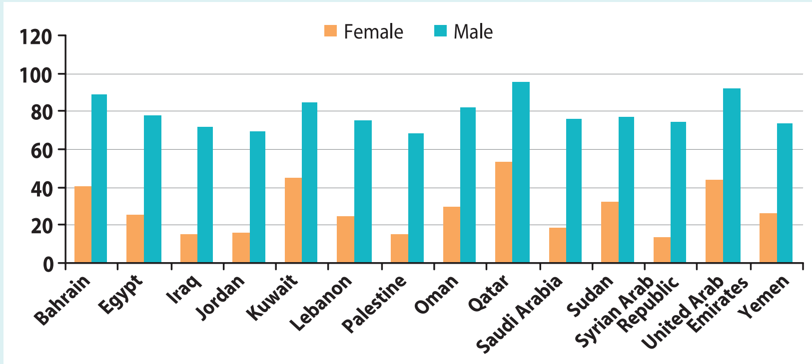
Unemployment in the region is accompanied by other problems of underemployment and informalization that are even more difficult to measure. Most studies consider that one-third to a half of total workers in the oil-importing countries of the region are in the informal sector. This depends also on the definition of informality, which is a very elastic concept. According to IMF, the size of the informal economy in oil-importing ESCWA member countries is large compared to the rest of the developing world, accounting for at least one-third of GDP in Egypt, Jordan, Lebanon and the Syrian Arab Republic. Under such conditions, a significant share of the population is excluded from any form of social protection.

According to the most recent World Development Indicators by the World Bank, 43 per cent of the labour force in Egypt, 62 per cent in Jordan, and 67 per cent in Lebanon do not contribute to a retirement pension scheme. In the Syrian Arab Republic, more than 70 per cent of the labour force lacks pension coverage. These trends exacerbate economic and social exclusions and widen inequalities, particularly under crises situations.

Another proxy of informality is vulnerable employment as measured by ILO. While vulnerable employment declined from 2000 to 2009 by 3 per cent in the Middle East, such an improvement is considered insignificant, especially compared to the economic potentials of the region. In addition, according to the same source, the share of working poor at US$2 per day is still quite important, standing at 18.7 per cent in 2009. Over the past decade the decrease in the working poverty rate has been limited to less than 1 per cent. This negligible reduction in working poverty in a 10-year frame relates to low labour productivity growth rates in the region. Working poverty is only one aspect of a more complex reality of poverty in the region.

Assessing poverty rates in the Arab region using the US$1.25/day poverty line would show insignificant results of less than 5 per cent over the past decade. However, when raising this threshold to US$2.75/day, the headcount reaches around 40 per cent.[26] This implies that a large share of the population is clustered around the poverty line and is sometimes

Figure 19. **Labour force participation, 2010**
(Percentage, by gender)



Source: International Labour Organization (2010).

not addressed by policymakers. Moreover, this segment can easily fall into extreme poverty, especially under crisis situations, such as the current conditions.

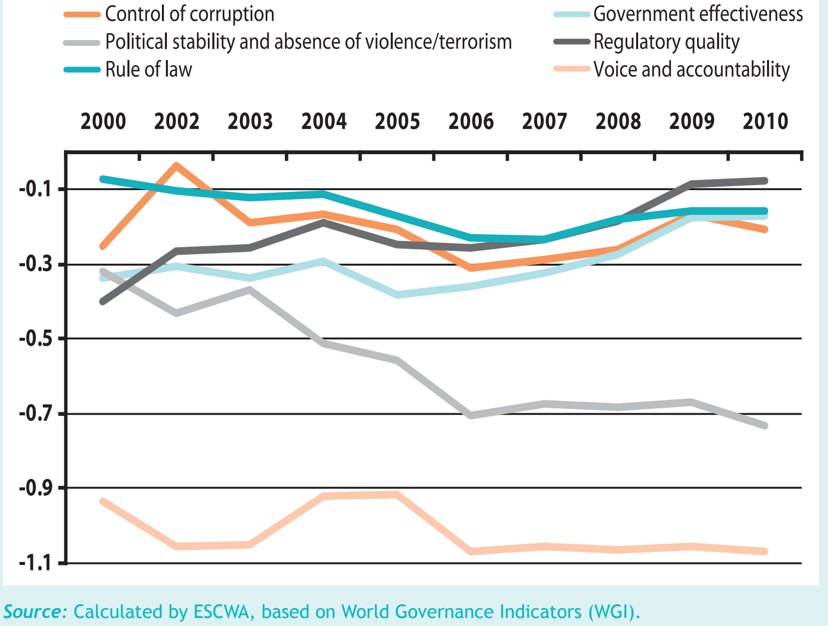
This form of economic marginalization and vulnerability plays an important role in the reproduction of inequality. It is itself the result of inequalities in terms of access to resources, employment and such public services as education and health. While levels of income inequality, as well as other forms of inequality appear to have increased, relevant statistics are scarce in the region. The Gini coefficients show moderate inequality levels in the Arab region. Such results appear to be controversial due to data quality problems, the measurement methods and tools, and to the fact that they do not coincide with general perceptions, people's claims and more importantly, the growing protests against inequality as portrayed in the uprisings in the region.

I. Development in Governance

The Arab uprisings have called for more political participation and more inclusive governance. This dimension of development has often been neglected in the past, especially in the ESCWA member countries where most reports have focused on such aggregate indicators as economic growth. A look at the governance performance and development in the ESCWA region can help to better understand the uprisings that have taken place in many ESCWA member countries.

The most comprehensive governance dataset is the World Governance Indicators (WGI), which ranks countries in six different categories using a large number of available indicators and assessments. According to these indicators, the ESCWA region is lagging behind other regions and this underperformance has not reduced in recent years. With the exception of some marginal progress in terms of regulatory quality and government effectiveness, there has been no progress in any of the six dimensions covered by the World Governance Indicators (see figure 20).

Figure 20. **ESCWA development in governance, 2000-2010**



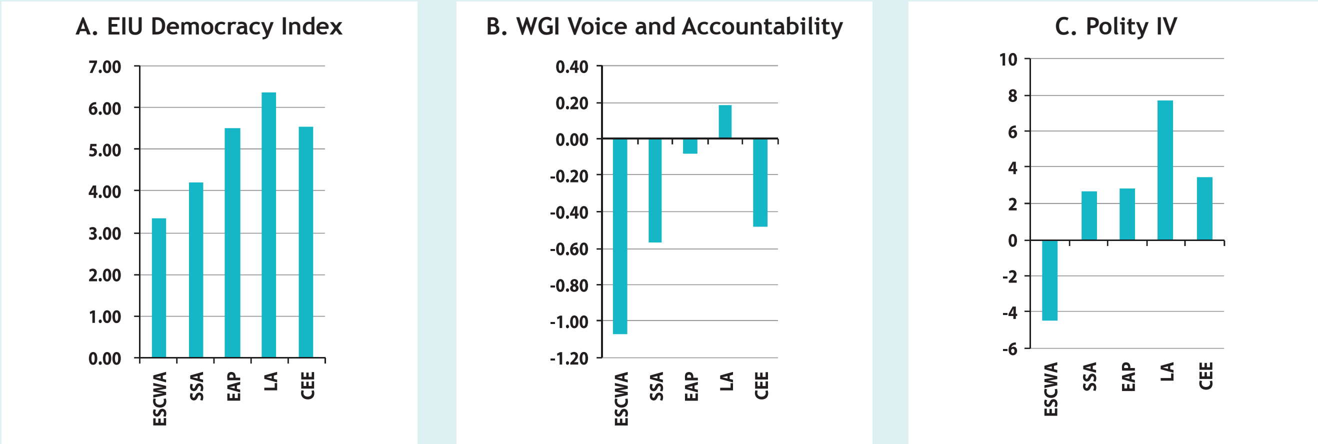
Source: Calculated by ESCWA, based on World Governance Indicators (WGI).

Moreover, over the past decade, there has been clear regression in terms of political stability, voice and accountability in ESCWA member countries. While there is no universal consensus on what the concept of governance includes, ESCWA lists seven dimensions that are believed to represent the most important aspects, namely formal political institutions, political exclusion and repression, rule of law, corruption, bureaucratic quality, military in politics and restraining economic policies.[27] Formal political institutions are covered by several indicators, including the Economist Intelligence Unit (EIU) Democracy Index, the Voice and Accountability index from WGI and the Polity IV Index (see figure 21).

Good governance is often associated with a higher share of private investment and larger FDI flows; while bad governance is often linked with low tax revenue, skewed public spending and inefficient public investment. These issues together can contribute to an underdeveloped private sector, rising inequalities and lack of job creation in countries with less efficient, inclusive and accountable governance. For example, inclusive formal political institutions can have an impact on economic performance by increasing the accountability of policymakers that forces them to make choices that are beneficial for the majority of the population. A simple cross-country analysis between governance indicators and GDP per capita confirms this. There is a strong correlation between the level of governance and the level of development.

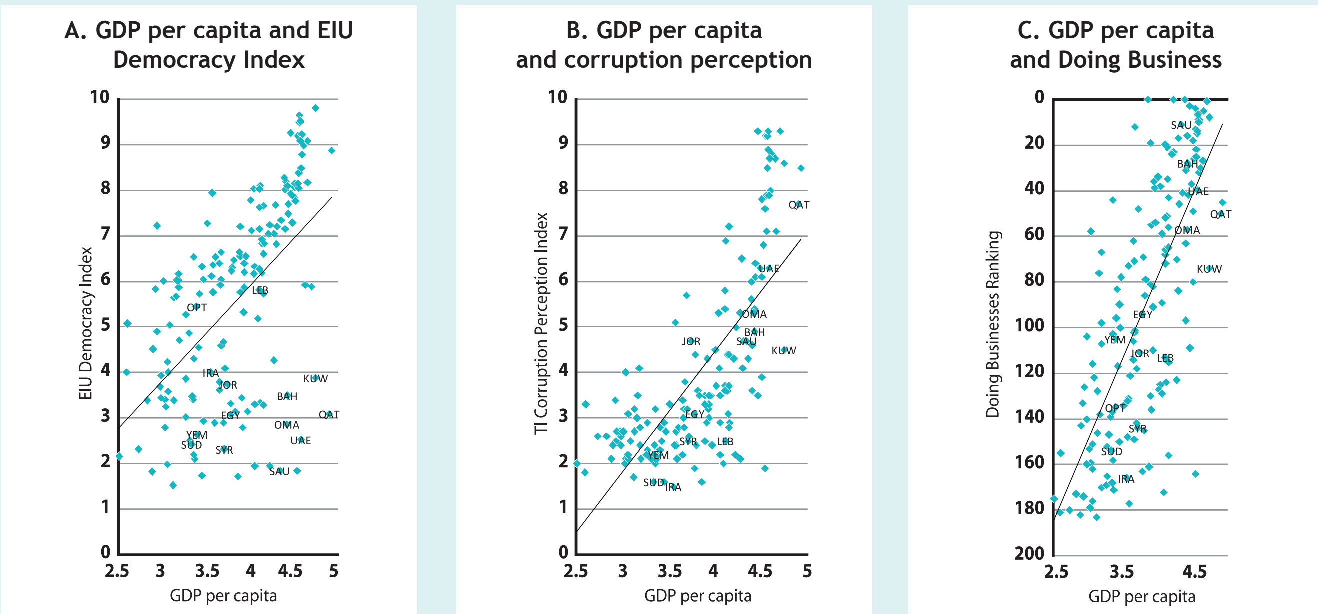
Moreover, the situation of ESCWA member countries can be assessed based on their position relative to the trend line. It is interesting to see that all ESCWA member countries, with the exception of Lebanon and Palestine, are below the trend line in

Figure 21. Three indicators for formal political institutions



Sources: *Economist Intelligence Unit (EIU), Integrated Network for Societal Conflict Research (INSCR) and World Governance Indicators (WGI).*
Note: *The acronyms in these figures refer to the following: SSA, Sub-Saharan Africa; EAP, East Asia and Pacific; LA, Latin America; and CEE, Central and Eastern Europe.*

Figure 22. Correlation between three dimensions of governance and GDP per capita



Sources: Calculated by ESCWA, based on data from Economist Intelligence Unit (EIU), Transparency International and World Bank.

figure 22a, which considers the relationship between formal political institutions and GDP per capita. This indicates that ESCWA member countries have a lower degree of democracy than that which is predicted by their level of development. Additionally, in terms of corruption, most countries have a higher level of corruption than that which is predicted by GDP per capita (see figure 22b). In terms of Doing Business indicators, some ESCWA member countries are performing above that which is predicted, such as Bahrain, Egypt, Saudi Arabia and Yemen; while others are performing below expectations, particularly Iraq, Kuwait and Lebanon being far below the trend line (see figure 22C).

In the ESCWA region, economic growth has been the predominant objective in the past decade and this has often been at the expense of more equal and participatory societies. Neglecting the social and institutional aspect of development has contributed to the unrest many countries in the region experience. The recent uprisings in the Arab region called for increased political participation, improved economic freedom, less corruption, better opportunities and a fairer distribution of resources. Consequently, governance reforms should be at the centre of attention in the years to come.

CHAPTER II.

Green Economy as an Option for Socio-Economic Development and Poverty Alleviation

II. Green Economy as an Option for Socio-Economic Development and Poverty Alleviation

A. A Green Economy Development Paradigm

As discussed in chapter I, the region has been facing serious economic, political and social challenges that affect its abilities to move towards inclusive socio-economic development. The social issues that the ESCWA region is currently facing, which are linked to high youth unemployment rates, high population growth and unplanned rural to urban migration, are compounded by serious environmental challenges, including water scarcity, drought and desertification. This represents a major obstacle to the achievement of comprehensive sustainable development with its three pillars, namely economic, social and environmental.

Assessing the socio-economic and environmental situation of the ESCWA region requires a brief outlook on and reference to what has been identified as green growth or green economy. The United Nations Environment Programme (UNEP) defines the green economy as "an economy that results in improved human well-being and reduced inequalities of the long term, while not exposing future generations to significant environmental risks and ecological scarcities".[28] Moreover, the green economy can be identified by its components, which "include the full range of instruments and tools available to policymakers, from taxes and charges, environmentally-harmful subsidy removal, to standards and regulations, education and skills development, institution building, knowledge development, capacity-building for data collection and assessment, and improved planning and governance".[29] A transition to a green economy or a simpler inclusion of its mechanisms in the socio-economic development of the region provides, according to UNEP, a good opportunity to adopt development paradigms that prioritise institution-building and a participatory approach to development.

A development model centred on a green economy can lead to faster growth that maintains and restores natural capital, enhances social equity and job creation, promotes resource and energy efficiency, and delivers more sustainable modes of living, particularly in urban areas. However, a successful transition to a green economy would require an enabling policy environment, involving the private sector, strengthening civil society and encouraging partnerships, accelerating regional integration, articulating R and D systems, improving education programmes, and leveraging new financing mechanisms aimed at facilitating technological transfer.

Green economy activities if properly designed could provide opportunities for poverty reduction and sustainable development through increased economic growth, job creation and improved governance. However, the biggest challenge for Arab countries seems to be the determination of which entry points into a green economy would have to be adopted by the State and concerned institutions in order to ensure that actions and programmes are coherent with national contexts.

Green economy activities if properly designed could provide opportunities for poverty reduction and sustainable development through increased economic growth, job creation and improved governance

It is worth mentioning that a transition to the development model of a green economy would require a new set of legislations, taxation and subsidy schemes, which should be rooted in equity, thereby providing maximum benefits for all segments of society.

B. Green Economy in Water, Energy and Food-related Sectors

The financial, food and climate change crises have shifted the international debates, with major actors exploring how sustainability concerns provide avenues for economic growth. In the ESCWA region, these crises related in particular to water, energy and food security, their interconnections and their impact on the three pillars of sustainable development place them at the edge of the green economy agenda in the ESCWA region.

Water scarcity has long been one of the major challenges facing the ESCWA region and is a major factor influencing progress towards a more inclusive, equitable and sustainable socio-economic development. This has worsened in recent years owing to rapid population growth, unsustainable consumption patterns and climate change. A total of 11 out of the 14 ESCWA member countries and territories were under the water poverty threshold in 2009, with six countries suffering from extreme water scarcity.[30] Water scarcity and insufficient access to reliable water services in urban and rural areas constrain the ability to pursue food security and have delayed the achievement of the Millennium Development Goals (MDGs), particularly those related to poverty and hunger, health, gender equality, education and environment.

Furthermore, vast amounts of energy are used to produce, treat and transfer water to users, especially in the GCC subregion, which is heavily reliant on desalination for drinking water. Meanwhile, other countries in the region suffer from electricity outages that prevent water from being pumped through distribution networks. Intermittent water services most heavily impact the poor, who are forced to spend a relatively large percentage of their income and time to secure drinking water through private water-service providers or small-scale technology fixes (water purification units, filters). The absence of proper maintenance also increases exposure to waterborne diseases.

Some member countries have already begun to implement green economic activities in the sector. For instance, the Arab region has made progress relative to improving water use efficiency, particularly with projects to harvest rainwater in rural areas. Bahrain and the United Arab Emirates have experimented with computerized water-use metering and free distribution of water-saving devices, thereby providing an example for other GCC countries. Increasing R and D to adapt innovative water-provisioning strategies to local conditions will facilitate dissemination of best practices; and an inventory of best practices and lessons learned would provide increased opportunities to share information.

Rapidly expanding populations, economic growth and widespread subsidies have contributed to rising demand for energy in the Arab region since the early 1990s, and disparities exist among Arab countries on the levels of per-capita energy and energy intensity. Despite the vital role of the energy sector in the economic and social development of Arab countries, the sector faces several challenges, including energy accessibility to some segments of the poor and rural populations in some Arab countries, the large disparity in per-capita energy consumption and energy intensity among countries, and the heavy reliance on fossil fuels to meet energy needs. In recognition of these challenges, countries in the region have been continuously revising their policy framework aimed at promoting sustainable management of the energy sector. Varying degrees of progress have been achieved in this regard, particularly on improving energy efficiency using cleaner fuels, promoting renewable energy and enhancing regional energy integration, especially given that Arab countries have a great potential for renewable energy, including solar, wind and hydro.[31]

Some Arab countries have already begun to implement green economy activities in the field of renewable energy, particularly solar water heaters and small-scale photovoltaic (PV) applications, with the establishment of several national producers and assemblers of solar water heaters and PV systems. Remarkable progress has been realized in some countries and territories, including Egypt, Jordan, Lebanon, Morocco, Palestine and Tunisia. Solar water-heaters are widely used in the residential and domestic sectors, while most PV applications are stand-alone systems for rural and remote electrification, water pumping, telecommunications and commercial advertisements.[32]

Most Arab countries have adopted policies regarding the promotion of renewable energy use, especially in the field of generating electricity from solar and wind energies in the medium and long terms.[33] Consequently, wind energy business is growing in such countries as Egypt, Morocco and Tunisia, especially in terms of operative large-scale wind farms that are connected to grids, and local manufacturing of some wind turbine components, in addition to the existence of national consultancy services firms and construction companies. The wind energy industry is envisaged to grow in some countries, including Egypt, where there are currently private sector companies involved in manufacturing wind turbine components.[34]

Concentrated solar power (CSP) technologies are currently being introduced to the Arab region through the implementation and operation of three projects in Algeria, Egypt and Morocco, which are based on parabolic trough technology integrated with combined cycle and powered by fossil fuel at night.[35] There are national potentials for developing local manufacturing of some CSP components, conditioned by the demand and the scale of the projects; and some other Arab countries, including Jordan, Kuwait, Qatar and United Arab Emirates, have announced their plans for CSP projects.[36] Despite their abundant hydrocarbon resources, GCC countries have recently witnessed a number of low carbon initiatives. These mostly include the carbon neutral Masdar City in Abu Dhabi and the integration of renewable energy and energy efficiency into the Energy City in Qatar.[37]

It is worth noting that the share of renewables in the Arab energy sector still needs to be widely promoted at the commercial level. Meanwhile, it is anticipated that the private sector will constitute the driving force for realizing the set up goals for promoting renewable energy in the future.

Some Arab countries have already begun to implement green economy activities in the field of renewable energy

Green economic growth could prove essential in the ESCWA region where the food and nutrition requirements of future generations are under serious threat

In terms of food security, green economic growth could prove essential in the ESCWA region where the food and nutrition requirements of future generations are under serious threat. According to a recent OECD publication, "productivity growth must be increased in a sustainable manner, well functioning markets must provide clear price signals that reflect the scarcity value of natural resources, and property rights must be defined so as to encourage optimal use of resources, both individually and collectively".[38]

Policymakers of the ESCWA region have the option to scout some of the green economy applications for the food and agriculture sector, including primary agriculture, fisheries and the food supply chain. Given that food security is a basic need in this region, ensuring that enough food is provided, efficiently and sustainably, for the increasing population means "increasing output while managing scarce natural resources; reducing the carbon intensity and adverse environmental impacts throughout the food chain; enhancing the provision of environmental services such as carbon sequestration, flood and drought control; and conserving biodiversity".[39]

Food security in the ESCWA region

Given the prevailing dry climate, limited arable land potential and scarce water resources, agriculture is not usually a priority area in the ESCWA region. However, with a population estimated at nearly 260 million and a growth rate of more than 2.5 per cent, a continuously rising discrepancy between food production and food consumption, increasing volatility of food prices, and worsening economic and environmental situation in most rural areas, agriculture and food security have become central issues and major challenges to countries of the region. Unfortunately, the situation is not expected to improve any time soon as a result of various ongoing global crises, including the economic and financial crisis, volatile oil prices and the environment crisis (climate change and resource degradation); and, regionally, the prevailing socio-political crises within the context of the Arab uprisings.[40]

By its definition, food security has a multidimensional aspect that includes "food availability", "food access", "food use" and "food stability".[41] This suggests that in order to address their food situation, countries will have to improve agricultural production (availability) and, moreover, to improve living conditions (access and use) and address various technical, managerial and logistical issues (stability).

In terms of food availability, the decreasing agriculture and cereal self-sufficiency ratios,[42] from the upper 70 to the lower 60 per cent level and below suggests that food availability in the ESCWA region is a challenge and that the region is more and more dependent on world markets.[43] This is also confirmed by the import dependency ratio, which shows a gradual increase in the amount of food imported since 2000. The region will remain extremely vulnerable to fluctuations in the commodity markets for the foreseeable future, with a number of countries remaining among the highest importers of cereal in the world. Food inflation is already outpacing the change in overall inflation in several countries and the added outlay to meet the rising food import bill will maintain fiscal pressures on countries, particularly the non-oil-exporting ones, and this is expected to adversely affect their ability to access the food they need for their growing populations.

Food use and food stability will also remain major challenges as exemplified below in selected countries.[44]

In Egypt, while wheat production is about 16 per cent higher for the year and 6 per cent higher than the five-year average, recent internal turmoil and the large number of refugees and returnees from other affected countries is putting pressure on food supplies. In Iraq, the import of cereal for this year is expected to reach a record high of 5 million tons mostly as a result of lower domestic production due to insufficient water for irrigation and soil degradation. In Lebanon, cereal production will cover about 20 per cent of consumption as a result of lower yields and as such, cereal import is expected to be as high as 6 per cent above the five-year average.

Cereal production will also be lower in Saudi Arabia as a result of the continued plan to phase out water-intensive crops; and cereal import is expected to reach a high of 12 million tons. In the Sudan, cereal production for 2011 is about 8 per cent higher than the five-year average though about 4 million people are expected to remain food insecure.[45] In the Syrian Arab Republic, cereal production is about 11 per cent lower than the five-year average because of lower yields stemming from insufficient rainfall and despite an increase in planted areas of around 10 per cent. The food security situation of the country is expected to worsen, particularly in the light of the ongoing civil strife, economic sanctions and the large number of refugees and displaced people. In Yemen, cereal production is 16 per cent lower than the previous year, mostly as a result of decreased planted area and lower yields due to water scarcity and lower fertilizer use. The situation is unlikely to improve given the ongoing civil strife and as a result there will be a need to import up to 2.7 million tons of cereal while about 7.2 million people (about 32 per cent of households) will remain food insecure.[46]

To respond to this rising food security crisis, countries in the region have acted upon various fronts. However, they have put more emphasis on short-term measures to secure enough food to stem the crisis rather than on building their long-term resilience. The high and volatile prices of basic food commodities have led, among others, to the establishment and/or strengthening of various safety net programmes, including, for example, food assistance to the needy, lowering prices of basic food stuff and higher minimum wages; the restricting regulation of food commodities export; the increase of food reserves and storage; the removal of import taxes and other duties on foodstuff; and the distribution of inputs to farmers. Most of these programmes are aimed at increasing food availability and easing access to food in the immediate future. However, very few countries have made much headway on long-term strategies in support of increased food security and a resilient food system, such as reducing uncertainty through better market intelligence, improving the transparency of agricultural markets, improving regional and international policy coordination mechanisms, increasing resilience through targeted investments (including employment and alternative income generation activities), and building capacity in all areas related to agricultural production and market access.[47]

A green economy can spur job creation by encouraging broad-based entrepreneurship. Modern entrepreneurs can embrace the opportunities to create new sustainable economic possibilities, which demands commitment and initiative rooted in public interest

C. Green Jobs

Transitioning towards green industries will promote job opportunities in the Arab region. This was underscored by ILO that defined a new category of workers, so called "green collars", who represent key figures in the economy of the future. The green jobs report, which was published in 2008, identified different ways in which employment will be affected as economies are redirected towards greater sustainability, namely the creation of additional jobs or shifting of some employment, including, for example from fossil fuels to renewables, from truck manufacturing to railway rolling stock manufacturing, or from land filling and waste incineration to recycling; and certain jobs could be eliminated without direct replacement.

In order to consider the case of the energy industry, the Global Wind Energy Council (GWEC) estimates that for every one megawatt of new wind capacity, 15 worker-years in job opportunities would be created covering activities from manufacturing to commissioning, thereby creating 0.33 jobs in support of regular operation and maintenance activities.[48] In the field of solar energy, it is estimated that for every new megawatt, 10 full-time manufacturing, contracting, installation and commissioning jobs could become available while also creating 0.3 jobs in support of regular operation and maintenance activities.[49]

The Environmental Affairs Agency in Egypt has established a number of regional branch offices and environmental management units, thereby creating a total of 2,000 employees in the governorates to oversee environmental management-related issues. It has been estimated that in the area of waste management in the Alexandria and Cairo Governorates, more than 15,000 jobs related to these initiatives have been created in the private sector and 1,000 monitoring-related jobs were created in the public sector. Moreover, there is a plan to generate around 100,000 new jobs related to rice straw recycling and other cleaner production initiatives. The new jobs will primarily be associated with projects related to the baling of rice straw and the cultivation of mushrooms in 600 different locations in the Delta region of Egypt. The Government has also committed to increase the capacity of wind farms, with some 75,000 jobs generated by 2020.

Currently, there are approximately 3,400 green jobs in waste management in Lebanon (solid waste management, hazardous waste management and wastewater treatment). By 2020, some 1,900 to 2,500 new green jobs are expected to be generated in waste collection, recycling and in several planned solid waste management facilities for sorting and composting and biogas generation, as well as in secondary wastewater treatment implemented, including strategies for municipal solid waste management, waste-to-energy, and the closure and rehabilitation of open dumpsites. Another 640 permanent jobs and about 400 temporary jobs could be created, as well as several thousand short-term employment opportunities in the construction of new facilities and in the supply of equipment and materials.[50]

Additionally, a green economy can spur job creation by encouraging broad-based entrepreneurship. Modern entrepreneurs can embrace the opportunities to create new sustainable economic possibilities, which demands commitment and initiative rooted in public interest.

The green economy promotes the integration of environmental considerations from the early design stages of any business enterprise internalising processes and programmes to support sustainable consumption and production. Thanks to the green economy, the private and the public sectors, whether operating in industry, agriculture or services, can diversify and expand the boundaries of their activities. In a fluctuating and unstable socio-economic scenario, such as that experienced by the ESCWA region, the diversification of economic activities, energy resources and development dynamics seem to represent a valid card to play at the table of economic planning.

CHAPTER III.

Social Policy in the ESCWA Region in the Wake of the Arab Uprisings

III. Social Policy in the ESCWA Region in the Wake of the Arab Uprisings

A. Introduction

In this chapter, social policy in the ESCWA region is examined in the following contexts: (a) political transformations that are underway in major Arab countries; and (b) existing economic realities in the region and globally.

The Arab uprisings have given rise to some key questions regarding the role of social policy in the future trajectory of socio-political and economic transformation and its stability in the region. At the same time, this has opened new possibilities for social policymaking that were barred under the autocratic regimes. This chapter argues that social policy plays a critical link in the emergence and sustainability of socio-economic political systems in the region that can be both democratic and developmental. The new social policy regimes that may emerge will have to be the outcome of intricate social dialogue between different interest groups. This chapter highlights some of these critical issues that need to be addressed in the early stages of the democratization process.

The next section examines the initial conditions that had a bearing on social policy in the region, followed by a broad outline of the evolution of the existing social welfare regimes over the past few decades and the main characteristics and the limitations of the authoritarian corporatist welfare regime that emerged in the 1950s and 1960s, and how it became increasingly dysfunctional during the era of globalization and economic reform. This is followed by a discussion of the education and health systems in the region, social insurance and labour market, and policy conclusions.

B. Evolution of Social Policy in the ESCWA Region

1. Initial conditions and their implications

ESCWA member countries form a highly diverse group in terms of economic structures and socio-economic development. At one extreme are LDCs, namely the Sudan and Yemen, with conditions of generalized poverty and highly underdeveloped social and economic infrastructures; and at the other end of the scale are the oil-rich GCC countries, with very high per-capita income levels, relatively low levels of economic diversification and ample financial resources available for social service provision. Other ESCWA member countries, namely MDEs, lie between lower middle and upper middle-income countries and contain the majority of the population in the region. More than 80 per cent of the population of the ESCWA region resides in countries with low to middle-income status. Hence, most of their social protection problems are comparatively similar. However, the high-income surplus oil economies of the GCC subregion have distinct features and problems of their own in the area of social development.

Besides economic structures and income levels, demographic features of the economies of the ESCWA region

The Arab uprisings have given rise to some key questions regarding the role of social policy in the future trajectory of socio-political and economic transformation

Table 8. Selected economic and demographic indicators of the ESCWA region

		Population	
	Per-capita GDP *(US$)*	Total number *(millions)*	Share of urban population *(per cent)*
Qatar	69 512	0.8	95.8
United Arab Emirates	49 229	4.1	78
Kuwait	48 783	2.3	98.4
Bahrain	28 068	0.7	88.6
Oman	21 047	2.4	71.7
Saudi Arabia	20 406	24	83.6
Lebanon	9 586	4.1	87.2
Egypt	4 491	74.2	42.8
Jordan	4 334	5.4	78.5
Syrian Arab Republic	4 133	18.5	54.9
Iraq	2 990	27.6	66.4
West Bank and Gaza	2 465	3.6	72.1
Yemen	2 234	20.6	31.8
Sudan	1 613	38.4	45.2

Source: World Bank (2011).
Note: GDP data relate to 2005; and population data are for 2009.

have also had important implications (see table 1). The late demographic transition has given rise to a relatively young population structure and a fast growing working-age population, which are shared characteristics of all ESCWA member countries, including the oil-rich GCC countries. On the one hand, this has heightened the significance of productive social policies pertaining to education and human capital formation. On the other hand, it has reduced the relative burden of social protection measures for the old, compared to more mature economies. However, this lower burden has to some extent been compensated by the rapid rates of rural urban migration in the ESCWA region. Traditional family and communal-based protection mechanisms give way to more formal mechanisms with urbanization, thereby increasing the burden on official social protection bodies.

The large number of countries facing social conflicts is a cause of concern, particularly given that most of these conflicts run along ethnic and religious lines. Similar tensions exist in other ESCWA member countries that are not classified as social-conflict countries, which can potentially lead to open conflicts. In some ESCWA members, including Iraq, Lebanon and Palestine, external wars of aggression have played an important direct role in exacerbating internal conflicts. In addition, other countries in the region have not been immune from the indirect effect of such external influences.

2. The limits of authoritarian corporatist social welfare regimes

By contrast to “rights based social policies of the West as a culmination of the democratisation process”,[51] the social welfare regimes in the ESCWA region in the latter half of the twentieth century emerged under very different circumstances. Despite the existence of modern constitutions in many ESCWA member countries, political rights were highly limited under authoritarian regimes, and if civil rights were not trampled on by despotic regimes, they were nonetheless circumscribed by religious considerations to lesser or greater degrees in different countries.

The social welfare regimes that have been developed in the ESCWA region since the 1950s and 1960s were initiated by States with the key objectives of nation-building as well as consolidation and preservation of State power, rather than being driven by demands from grassroots social movements and democratically mobilized social forces. Given that the social policies in ESCWA member countries were top-down and non-participatory in nature at the legislation, design and implementation levels, this has led to major gaps in social development over time. The legitimization and the preservation of State power became the driving force of social policy, thereby making it increasingly incongruent with economic realities and newly adopted economic strategies of the time.

While the State's policy of guaranteed employment for graduates was rather associated with the objective of nation-building, the emerging middle class and the small section of workers employed by the government and the predominantly State-owned formal sectors of the economy did benefit from generous social protection packages, including health insurance, subsidized housing, lifelong employment, free education and pensions. However, such transformative measures as land reforms as well as redistributive measures and subsidies on basic goods, including food and energy, were populist measures aimed at appeasing a broader section of the population. The early social welfare regime throughout the ESCWA region was akin to what has been characterized by Esping-Andersen (1990) as a conservative corporatist regime in the context of Western Europe, with important fundamental differences regarding restrictions on civil rights and lack of democracy. A more appropriate characterization in the context of the ESCWA region may be "authoritarian corporatism".

The social welfare regime in the 1950s and 1960s was in line with the economic realities of the region at the time, when the urgent task was to set up the required social and economic infrastructure for a modern economy under very adverse conditions in terms of social development. In most countries, life expectancy was at or below 50 years, with mortality rates for children aged under five at more than 300 per 1000 live births, and above 70 per cent illiteracy rates.[52]

The benefits of the social development were not equally distributed. Even in the self-declared Arab "socialist" States, namely Egypt, Iraq and the Syrian Arab Republic, vast sections of the population in the rural areas and the urban informal sectors were excluded. It was hoped that with time and the growth of the modern sector, the rest of the population would be gradually incorporated into the social welfare regime. This may not have been an unreasonable assumption during the long period of robust growth in the region between the mid-1950s and the late 1970s.

However, from the 1980s, cracks started to appear and over the following two decades, ESCWA member countries gradually moved to new development strategies based on more liberal trade and financial policies and the development of a more competitive private sector. The timing of this process and its final shape in each country was different, depending on the severity of economic imbalances, the nature of external pressure by foreign creditors and the internal socio-economic realities. The oil-rich GCC countries had the lowest levels of market regulation and protection and, given their access to oil revenues and foreign credits, they had an easier task facing the new economic realities. Economic reform in other ESCWA member countries was delayed, but by the beginning of the new millennium they had all recognized the need for a better mode of integration in the global economy on a more competitive basis and had introduced major reform measures, particularly in the areas of trade and

The legitimization and the preservation of State power became the driving force of social policy, thereby making it increasingly incongruent with economic realities and newly adopted economic strategies of the time

financial liberalization, macroeconomic stability and budgetary controls.

While this new economic strategy also needed appropriate changes in the social policy matrix, this was to a large extent neglected or treated as residual in most countries by the authoritarian governments. Even though the old social contract and various welfare benefits for the middle classes were no longer viable, there were no reforms and, in rare instances where the strategists of the economic reforms had the foresight to see the need for new social policies, they found themselves powerless to implement them in the authoritarian regimes of the region. Rather than reforming the public education system to cater for the new economic needs and financial realities, the public education system was allowed to decline in quality and resources at a critical time when the youth bulge demanded a higher degree of efficacy from the public education system. The middle classes and other politically influential and socially vocal classes opted out of the system by increasingly resorting to private tutoring and private education. A similar fate befell the health care systems in several ESCWA member countries to varying degrees, depending on the financial resources available to States and their ability to limit the increasing fragmentation of health-service provision.

Another component of the old social contract, which was abandoned, was the guaranteed employment of graduates by the State, which neither fitted into the new development strategy nor was affordable by most countries. The absence of social policy and labour market reforms led to growing youth unemployment, especially among the educated youth. As a consequence, the potentially most valuable asset of ESCWA member countries, namely its stock of educated youth, was being squandered. In the field of social protection, rather than introducing insurance systems linked to the new requirements of the labour market, resources were increasingly channelled into poverty alleviation schemes through a fragmented institutional set-up within the State itself and increasingly implemented

Table 9. Subsidies for peace in selected ESCWA member countries

Bahrain	US$100 million to families, proposing US$2500 for each family; creating 20,000 new Government jobs
Egypt	Increase food subsidies; promise to increase civil servant wages and salaries by 15 per cent
Jordan	Salary increase for civil servants and military personnel; tax cuts on fuel and food; more money to National Aid Fund for the poor
Kuwait	US$4000 for each citizen; free food for 14 months
Oman	Minimum wage increase from US$364 to US$520 a month; 50,000 new Government jobs; monthly stipend of US$380 for job seekers
Saudi Arabia	Pay increase of 15 per cent for public sector workers; unemployment benefits; affordable housing subsidies
Syrian Arab Republic	Consumption tax cut on coffee and sugar; reduced customs duties on food; more money to Social System Fund for poor; increased wages and heating allowances for civil service
Yemen	Increased welfare spending

Source: The Economist (2011).

by non-governmental organizations (NGOs), which grew in numbers by leaps and bounds. Such residual forms of social transfers, as in the case of consumer subsidies, came to be regarded by the autocratic regimes as charities bestowed upon a compliant population rather than rights-based protection and insurance mechanisms within the emerging market-led economies.[53] These gaps created by the inadequacies of the social welfare regime were increasingly filled by faith-based and communal-based charities, which created social fragmentation and in time, led to growing social conflicts.

This lack of congruence between the social policies of the autocratic regimes in the ESCWA region and the new economic realities has finally culminated in mass uprisings, predominantly led by the disillusioned youth. The immediate response of the regimes to the early signs of uprising in 2010-2011 clearly epitomizes the underlying logic of the social policy approach of the authoritarian rulers, based on political "giveaways". These so-called "subsidies for peace"[54] are merely a final caricature of political giveaways that lay at the heart of social policymaking in the era of economic reform, with the overriding objective of preservation of the power of autocratic regimes (see table 9). The Arab uprisings have created the conditions to have a fresh look at the social policies in the ESCWA region, with a view to designing policies that are not only congruent with the new domestic and international economic realities, but also constitute an important component of the required economic strategies under the new circumstances. As argued below, such "developmental" social policies can only be implemented within a participatory and democratic framework, which has hitherto been absent in the region.

C. Education: Towards a "Productivist Social Welfare Regime"?

Education reform in the ESCWA region is a socio-economic necessity and a critical element of any future democratic and developmental social policy regime. Firstly, education contributes little to social mobility in the region. Secondly, given the mismatch between the required skills of the labour market and graduate training, education fails, to a large extent, to contribute towards alleviating the region's unemployment problem. Thirdly, the low quality of education deprives the region of the solid skills base needed to make it competitive in the international economy.

In terms of educational attainment record, a recent report by ESCWA and the League of Arab States on MDGs makes it clear that while most ESCWA member countries are on track in providing basic education for their populations, the Sudan and Yemen remain far behind, while war and conflict undermines progress in Iraq, Lebanon and Palestine.[55] The report further identifies the lack of resources, gender disparity, rural-urban/regional inequalities, and below-par teaching standards as common barriers to attaining good quality universal primary education. Table 10 tabulates some basic indicators of education and literacy, demonstrating that the region has indeed made huge gains over the past few decades. Apart from Egypt, Iraq, the Sudan and Yemen, ESCWA member countries have surpassed the average literacy rates for middle-income countries of 83 per cent.[56]

Moreover, the average number of years of schooling has risen significantly since the 1980s, so that the region is quickly catching up with the average for

The Arab uprisings have created the conditions to have a fresh look at the social policies in the ESCWA region, with a view to designing policies that are not only congruent with the new domestic and international economic realities, but also constitute an important component of the required economic strategies under the new circumstances

Table 10. Basic literacy and schooling indicators in the ESCWA region

	Adult literacy rate *(percentage aged 15 and above)*					Expected years of schooling *(years)*					Mean years of schooling of adults *(years)*					Percentage of expected years
	1980	1990	2000	2005	2010	1980	1990	2000	2005	2010	1980	1990	2000	2005	2010	2010
Bahrain	69.8	84.0	86.5	87.9	90.0	10.0	13.5	13.4	14.0	14.3	4.1	6.0	8.4	9.0	9.4	65.7
Egypt	37.4	44.4	55.6	66.4	66.4	7.5	9.1	11.6	11.0	11.0	2.0	3.5	4.7	5.6	6.5	59.1
Iraq	..	..	74.0	74.1	74.1	10.3	9.2	8.5	9.7	9.7	1.5	2.9	4.8	5.3	5.6	57.7
Jordan	66.8	66.8	66.8	91.1	91.1	12.0	13.0	12.5	12.8	13.1	3.1	5.1	7.3	8.0	8.6	65.6
Kuwait	67.5	74.5	78.4	94.2	94.5	11.1	10.9	13.6	12.8	12.5	4.3	5.5	6.1	6.0	6.1	48.8
Lebanon	..	..	..	89.6	89.6	10.9	10.5	12.1	12.7	13.5	..	..	..	..	..	..
Palestine	..	..	86.1	93.4	93.8	..	..	12.2	13.0	13.1	..	..	..	..	..	..
Oman	..	..	..	83.0	86.3	3.2	7.7	11.0	11.2	11.1	..	..	..	..	..	..
Qatar	..	75.6	83.3	93.1	93.1	10.5	12.8	12.5	13.8	12.7	4.4	5.4	6.4	7.0	7.3	57.5
Saudi Arabia	..	70.8	79.4	83.6	86.7	5.9	7.8	10.9	13.2	13.5	4.2	5.5	6.6	7.2	7.8	57.8
Sudan	..	..	60.9	60.9	60.9	3.6	4.2	4.4	4.4	4.4	0.9	1.5	2.4	2.8	2.9	65.9
Syrian Arab Republic	55.7	55.7	82.9	81.9	84.7	9.3	10.0		10.5	10.0	2.6	4.1	4.7	4.8	4.9	49
United Arab Emirates	53.5	71.2	71.2	90.0	90.0	8.6	11.1	10.7	11.5	11.5	3.1	4.3	6.9	8.4	9.2	80
Yemen	..	..	47.7	55.7	63.2	..	..	7.9	8.6	8.6	0.1	0.3	1.1	1.8	2.5	29.1
Average	**..**	**..**	**72.7**	**83.4**	**83.2**	**8.6**	**10.0**	**10.9**	**11.4**	**11.4**	**2.8**	**4.0**	**5.4**	**6.0**	**6.4**	**0.6**

Sources: Literacy and schooling indicators - UNESCO (2010a).
Note: Two dots (..) indicate that data are not available or are not separately reported.

developing countries. For the ESCWA region as a whole, the average number of years of schooling tripled from less than three years in 1980 to 6.4 years by 2010.

However, the performances of most ESCWA member countries lag behind comparable developing countries in other regions. Moreover, the gross enrolment for tertiary education stood far below at 23 per cent.[57] In other words, despite progress in reducing illiteracy, the region lags in the depth of its education.

The last column of table 10 shows the mean years of schooling as a percentage of the expected years of schooling commensurate with the level of per-capita income in individual ESCWA member countries. Despite the rapid gains in GCC countries in terms of educational attainments, they fall well below expected levels. Kuwait has achieved only 48 per cent of its expected mean years of schooling, while Saudi Arabia and Qatar are at 58 per cent. The only country that comes close to its expected level of educational attainment is United Arab Emirates, with a figure of 80 per cent, though still below the average expected mean years of schooling for that country. This may be expected from hydrocarbon-based economies in transition to more diversified structures along the depletion path of their oil wealth. The low and middle-income countries in the region also exhibited educational attainments well below the levels expected from per-capita income levels.

In terms of completion rates of the primary cycle, most countries, with the exception of Iraq, the Sudan and Yemen, are on track to achieve the relevant MDG target.[58] However, the ESCWA region performs less well in terms of completing secondary education. The educational system also displays significant rates of repeaters. While the Arab region's median percentage narrowed from 8 per cent to 3 per cent between 1999 and 2007, the percentage of repeaters in the primary cycle for the ESCWA region stood at 5.6 per cent in 2007 above the average middle income rate of 3.3 per cent.[59]

Underpinning these problems are significant disparities in educational outcomes according to gender, income and locality. The lack of education remains a key characteristic of the poor, rural and female populations in the MENA region. The poorer and female segments of the population do not always enter school and when they do they often drop out earlier. A total of 60 per cent of children who were not enrolled in the ESCWA region were girls, with ratios of 62 per cent or more in Egypt, Iraq, the Sudan, Syrian Arab Republic and Yemen.[60]

The MDG report shows that while gender disparities in enrolment have narrowed throughout the region for the primary cycles, they are more pronounced for later cycles, with the possible exception of GCC countries, Jordan and Lebanon. Similarly, the out-of-school ratios for rural and urban areas are 30 per cent and 18 per cent, respectively. In remote and/or poor areas, schools are either unavailable or only accessed with difficulty. For example, the average schooling of a rural girl in Egypt is four years, which is well below the national average of 10.[61] Data for Egypt also confirms that, despite improvements, only 43 per cent of the poorest 15-19 year-olds (40 per cent) reached Grade 9, compared to 84 per cent of the richest in that age bracket (20 per cent).[62] This reflects the global fact that children from the poorest quintile are nearly four times as likely to be out of school.[63] Accordingly, factors leading to marginalization, namely poverty, gender and geography, tend to reinforce each other.

Throughout the ESCWA region, education suffers from a variety of quality-related issues, particularly the poor quality of teaching material and poor teacher training. Compared globally, the region lags behind in terms of quality and quantity of R and D and technical innovation, language, mathematics and science. The Gallup Survey (2011) confirms that while there is public satisfaction with education in GCC countries, much remains to be done in terms of quality, particularly given that GCC students ranked in the bottom third in the world in maths and science. Barber, Mourshed and Whelan (2007) highlighted the poor teacher training at most levels of the education cycles. Consequently, financial constraints are not the only problems: poor management and the lack of incentive mechanisms to encourage students and staff are also challenges. In

In the ESCWA region, a recent survey by International Finance Corporation and Islamic Development Bank clearly identifies the lack of working skills, including those relating to communication, personal and interpersonal relationships, problem solving and management of organizational processes, as a key barrier to the recruitment of young people

the rest of the region, the problems of quality (curriculum development, teacher training and practices) are compounded by inadequate physical and financial resources. The public education has declined in quality and availability. By the same token, people have increasingly resorted to private tuition and education. Out-of-pocket spending has become a necessity in Egypt and Jordan.[64]

In the ESCWA region, a recent survey by International Finance Corporation (IFC) and Islamic Development Bank (IDB) clearly identifies the lack of working skills, including those relating to communication, interpersonal relationships, problem solving and management of organizational processes, as a key barrier to the recruitment of young people. In addition, employers complained about the irrelevance of the skills brought by the young graduates, owing to outdated curricula or lack of vocational training; and poor quality of cross-functional skills, including critical thinking, solving complex, multidisciplinary problems and making innovative use of knowledge and work ethics, among others.

This signifies that unemployment in the region is associated with two education-related issues: first, low levels of educational attainment, which is an important component of human capital stock, has reduced competitiveness and the possibility of sustained employment generation in productive activities, thereby leading to structural unemployment. Secondly, the mismatch between the required skills and those produced by the education system has led to both structural and frictional unemployment.

Educational failings and labour market rigidities in ESCWA member countries reinforce each other and underpin the regional unemployment problem. These are further distorted by the dominant role of the public sector as the main employer. In GCC countries, according to Samman and Shediac (2010), a large proportion of unemployed males have low educational levels (from 53 per cent in Saudi Arabia to 69 per cent in Kuwait), while the majority of working men overstaff government sectors. Foreign workers fill the gap required by industry and the private sector, pointing out to a huge gap in vocational education, and in quantitative and qualitative skills and the need to develop "education for employment", commonly referred to as e4e.

Public sector jobs depend on tertiary education attainment, which in turn depend on scores in often outdated public examinations. This might be the reason for the finding that private returns to education are typically positive and increasing with the years of schooling, while according to some researchers, education does not appear to influence economic growth.[65] One consequence is that graduates in the region wait a long time in search of a government position or for a rewarding skilled job, so that unemployment rates among graduates in the region are higher than rates for many other middle-income countries. By contrast, the uneducated often drop out of school to work because they cannot afford to stay on, and display a lower unemployment rate, although unemployment tends to be high for all skill levels.[66]

The high returns to private education, however, must be adjusted for the fact that there is increasing resort to private tutoring to supplement public education and increase the possibility of passing public examinations. As Tansel and Bircan (2004) note, this phenomenon in developing countries stems from inadequate resources, namely lack of universities or university places, large class sizes and low public expenditures. However, the net effect is to distort the outcome. Assaad (2010) presents data on Egypt showing that the rich are the most able to put their children in university, chiefly given their ability to support them through the selection process (financially and academically).[67] Consequently, as things stand now, the free provision of tertiary education in Egypt largely benefits the rich. By the same token, the educational system has failed in its ability to increase equality or social mobility, reinforcing existing inequalities in opportunities. El-Araby (2010) similarly mentions that "free higher education for all does not guarantee equality".[68]

In outlining the way forward, some researchers have suggested that a chief problem with educational system is the dominance of the public sector and that there is now need for a shift towards private provision of higher education. However, it should be noted that private education has already appeared in the form of private tuition and/or private universities. This is largely a result of inadequate public investments, and partly through deliberate policy. However, in Egypt and Jordan, for example, topping up public spending on higher education with private spending has not fundamentally improved the tertiary sector. Universal access to a good education is a precondition for improved quality and for equipping students with the skills needed for productive employment. This would also improve efficiency and equality. If there are financial constraints or other resource constraints, the rationing of higher education should be based on the ability of the students rather than on their background.

In adjusting their social policies, the ESCWA member countries must revamp their educational systems to better serve its human potential and improve accessibility. Within this context, affordability and the quality of education remain a priority. More resources and investments in physical infrastructure can reduce the resort to double shift schools. Qualitative transformations are urgent: modern and advanced teacher training is required. Similarly, the shift to an emphasis on skill acquisition, including analytical, problem solving and communication skills and work readiness training, needs to be more widespread and become a better match for labour market needs. In other words, the region needs to develop "education for employment", or e4e. As noted in McKinsey and Company (2011), this means developing and/or enhancing vocational training and, moreover, introducing standards and quality assurance criteria for all providers, with public sector schools and universities in charge of providing universal access to high quality education for all, and where the selection criterion is based purely on the innate ability of students. However, while the resolution of the unemployment problem will depend on the ability of the economies to create new jobs, these improvements in education and their relevance for human development are urgent.

There is an opportunity for regional cooperation in the field of education for ESCWA member countries which is facilitated by the common language across the region. High synergies are possible by setting up scholarships and student and teacher exchange programmes. For example, previous scientific collaborations of the past can be revived under more democratic regimes.

Table 11. Expenditure on health, 2000 and 2008

	Total expenditure on health *(percentage of GDP)*		Private expenditure on health *(percentage of total exp. on health)*		Government expenditure on health *(percentage of total govt. exp.)*	
Region	**2000**	**2008**	**2000**	**2008**	**2000**	**2008**
Global	8.3	8.5	43.5	38.4	13.3	13.9
Eastern Mediterranean region	4.2	4.2	52.1	46.8	7.0	6.9

Source: World Health Organization (2011).

D. The Health Sector in a Comparative Context

Public health indicators in the Arab region expose stark disparities between individual countries, implying that an aggregate picture provides only a partial picture. Unsurprisingly, these disparities are positively correlated with differing income levels in the region. GCC countries covet the position of countries faring well in the health sector whereas LDCs in the region, namely the Sudan and Yemen, have shown little progress in their health records. In general terms, progress has been made since the 1960s and 1970s in such key health indicators as life expectancy, maternal mortality ratios and infant mortality ratios; and in improved coverage of sanitation facilities and aggregate levels of government spending on health. However, more detailed examination of specific country analyses provides clues about the scope for re-imagining the role of the State and public institutions in providing for better opportunities to improve health indicators equitably across the region.

The share of government expenditure on health as a percentage of the total share of government spending is indicative of the government's priorities on health. Table 11 shows the aggregate expenditure on health in the eastern Mediterranean region, drawing comparisons with the global aggregate levels of expenditure on health between 2000 and 2008. The table immediately sheds light on the trend of private expenditure on health in the Middle East, which exceeds global levels, whereas levels of government expenditure on health in the region are much less than that of the global aggregate spending. This trend may be indicative of governance and institutional priorities that focus, among others, on strategic concerns emanating from regional and global forces.

In Palestine, for example, "global decisions have led to fluctuations of funding for the United Nations Relief and Works Agency (UNRWA), the leading health and social service provider to Palestinian refugees. Multilateral and bilateral agencies also had influenced public policymaking in the economies in the Arab world, owing to demands for reform and reduced public spending. These have had disproportionate effect on low income groups".[69]

In 2009, government expenditure on health as a percentage share of expenditure in the Syrian Arab Republic, Yemen and the Sudan stood at 1.6, 1.5 and 1.3 per cent, respectively, thereby indicating low human development (benchmarked at 1.8 per cent or less). Jordan, on the other hand, boasts an expenditure of 5.4 per cent, which is the highest in the region and surpasses the expenditure levels of all GCC countries, such as United Arab Emirates (1.9 per cent), Qatar (2.9 per cent) and Saudi Arabia (2.7 per cent).[70] Overall a lack in government spending is reflected in terms of reduced social security spending on health and an excess of out-of-pocket private spending (see table 12).

Table 13 clearly points out that rising trends in private spending on health in the ESCWA region could be attributed to the lack of adequate social security expenditure on health. Social security expenditure on health is absent in Iraq, Libyan Arab Jamahiriya, Qatar, Saudi Arabia, United Arab Emirates and Yemen. While out-of pocket spending is 100 per cent in Iraq and Libya, it stands at 72.7 per cent in Qatar, 53.4 per cent in Saudi Arabia and 66 per cent in the United Arab Emirates. Spending patterns in the region across GCC and non-GCC countries substantiate the point that GCC countries, despite their relatively well endowed national health systems, have exhibited some of the lowest shares of expenditure on health as a per cent of national income relative to world averages for countries with similar standards of living.

In the non-GCC countries, as a consequence of not having adequate social security, the population suffers unequal opportunities of access to medical care, thereby leaving them highly vulnerable in situations of sickness and injury. Reports show that given the lack of priority accorded to health care in the region, quality and relevance have suffered and lagged behind technologically.[71] Moreover, user fees and cost recovery have been introduced in many services, adding the squeeze on the very poor. According to Salehi-Isfahani (2010), with longer waiting times and less availability, users have increasingly had to turn to the less affordable private sector.

In summary, the health systems in the ESCWA region are fragmented and

Table 12. Social security expenses on health and out-of-pocket expenses on health, 2000 and 2008

	Social security expenditure on health *(percentage of govt. exp. on health)*		Out-of-pocket expenditure on health *(percentage of private exp. on health)*	
Region	**2000**	**2008**	**2000**	**2008**
Global	44.9	42.2	50.7	38.5
Eastern Mediterranean region	18.4	25.8	88.0	88.9

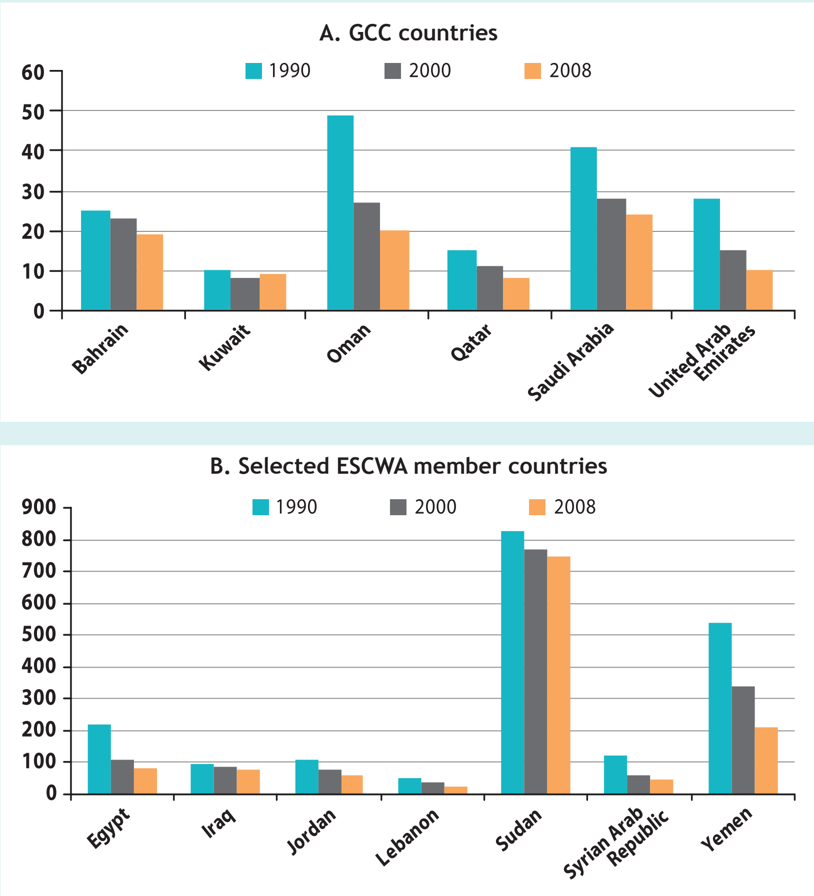
Source: World Health Organization (2011).

Table 13. Country-specific data on expenditures on health, 2000 and 2008

	Social security expenditure on health *(percentage of govt. exp. on health)*		Out-of-pocket expenditure on health *(percentage of private exp. on health)*	
Country	**2000**	**2008**	**2000**	**2008**
Algeria	35.5	31	96.7	94.7
Bahrain	0.4	1.4	68.7	57.2
Djibouti	11.3	8.8	98.4	98.6
Egypt	24.3	21.6	97.4	97.7
Iran	57.8	66.6	96.2	96.6
Iraq	0	0	100	100
Libya	0	0	100	100
Qatar	0	0	84.5	72.7
Saudi Arabia	0	0	66.7	53.4
Sudan	8.1	11.6	91.9	95.8
United Arab Emirates	0	0	69.4	66
Yemen	0	0	94.5	98.8

Source: World Health Organization (2011).

Figure 23. Changing patterns of maternal mortality in the ESCWA region



Source: World Bank, World Development Indicators.

need better management by directing government priorities towards mobilizing and allocating resources for more equitable access to universal health care.

According to ESCWA and the League of Arab States (2010), while GCC countries have low maternal mortality rates and are on track towards meeting the MDG value target, they remain behind high-income countries. The rest of the region made significant achievements in reducing maternal mortality, but may not be able to achieve the reduction by three-quarters required to meet the value target by 2015 (see figure 23).

Countries that have made significant progress in reducing maternal mortality rates also increased the proportion of births attended by skilled personnel, which indicates the depth of the health system (figure 23 illustrates the changing patterns of maternal mortality in the ESCWA region since the 1990s). Data in figure 23 corresponds with the data available on births attended by skilled personnel and antenatal care coverage (shown in figure 24) implying is that higher rates of births attended by skilled personnel and more frequent antenatal care results in lowering the rates of maternal mortality during child birth.

With respect to malnutrition, the region reflects worrying trends in hunger reduction (as an indicator, see figure 25 on country-specific distribution of underweight children aged under five). Despite a number of Arab countries scoring significant reductions in proportions of population facing hunger since the 1970s, the region is off-track with respect to the target of halving food deprivation by 2015.[72]

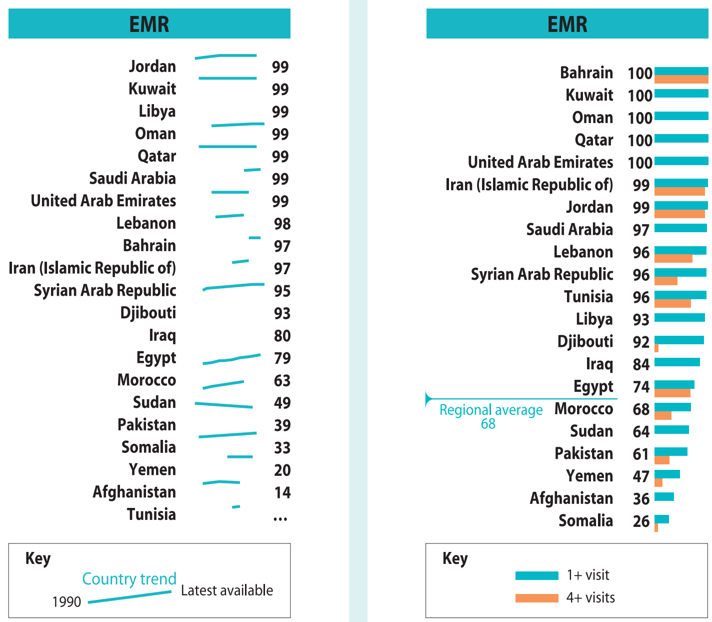
According to Abu Ismail and al-Jondi (2011), "Arab LDCs continue to suffer quite disproportionately. In these countries the under nourished persons amounted to 25 per cent of the total population in 2005. On the positive side this is 19 per cent lower than in 1990 (mainly due to a reduction in Sudan), but it is still insufficient to meet the MDG target. However, there are major variations within the LDCs. Food deprivation was reduced in Sudan, Djibouti and Mauritania, while it increased in Yemen and Comoros. In other subregions undernourishment remained constant in the Mashreq and decreased only marginally in the Maghreb and the GCC countries".

Public health-care systems are also inequitably spread across the region. While

Figure 24. Births attended by skilled personnel and antenatal care coverage in the East Mediterranean region

A. Births attended by skilled personnel

B. Antenatal care coverage: at least one visit and at least four visits *(Percentage)*



Note: The above figure shows the percentage of births attended by skilled health personnel. Within each WHO region, countries are sorted by the latest available data since 2000. In order to provide the country trends shown, the lines are derived, to the extent possible, from broadly comparable data sources.

Note: The above figure shows the percentage of women who received antenatal care from skilled health personnel at least once and at least four times during pregnancy. Within each WHO region, countries are sorted by the latest available data since 2000 for coverage of at least one visit. Regional averages are also for coverage of at least one visit.

Source: World Health Organization (2011).

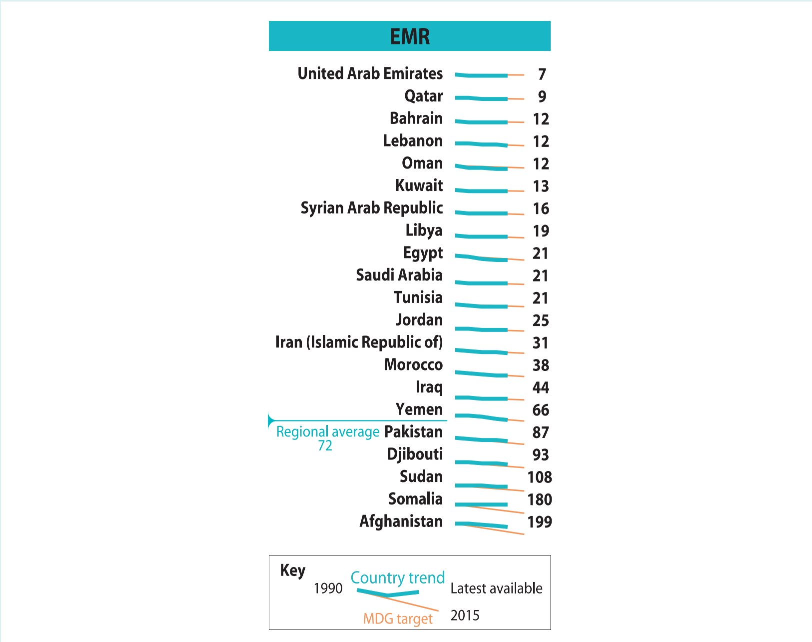
all non-GCC countries have public health-care systems, these do not adequately cover the whole population, neglecting in particular rural areas and poorer income groups. These systems are urban based, focused on often mediocre tertiary care and suffer from fragmentation.[73]

According to ESCWA and the League of Arab States (2010), maternity mortality rates in rural areas sometimes exceed those in the capital cities by five fold. Health outcomes are also differentiated by income groups, such that poorer income groups display indicators that are considerably worse than the national averages. Hence, child mortality rates are 2.6 higher for the poorest income quintiles in Egypt, while infant mortality is three times higher.[74] More generally, the loss of life expectancy index stemming from inequality stood at 21.3 per cent for the Arab region, ranging from a low of 11.1 per cent in the Syrian Arab Republic to 31.2 per cent in Yemen.[75]

Basic health care in ESCWA member countries has yet to be realized as a universal right to all citizens. There is much scope left to provide health care free of charge or at highly subsidized rates. Public health-care facilities are mostly accessible by public sector employees. Hence, in practice, public health care reaches out to 30-40 per cent of the population in the ESCWA region, representing those engaged in the public sector. Furthermore, the systems are fragmented because financing and risk management are split between the public funds and public agencies involved, thereby leading to considerable inefficiencies and distortions.[76]

While GCC countries may boast of relatively better health-care systems for their citizens compared to the rest of the ESCWA region, they fall short in terms of providing health cover to non-citizens, namely migrant labour. A sizable (70 per cent) portion of the population in GCC countries is comprised of a migrant population. This point is highlighted in the very low share of health spending as a percentage of GDP in ESCWA member countries (see figure 27). Furthermore, while GDP figures incorporate the contribution of migrant labourers to output in GCC countries, they have very limited access to the health benefits. These problems impinge on such international legal issues as the contravention of the

Figure 25. Country-specific distribution of underweight children aged under five



Source: World Health Organization (2011).

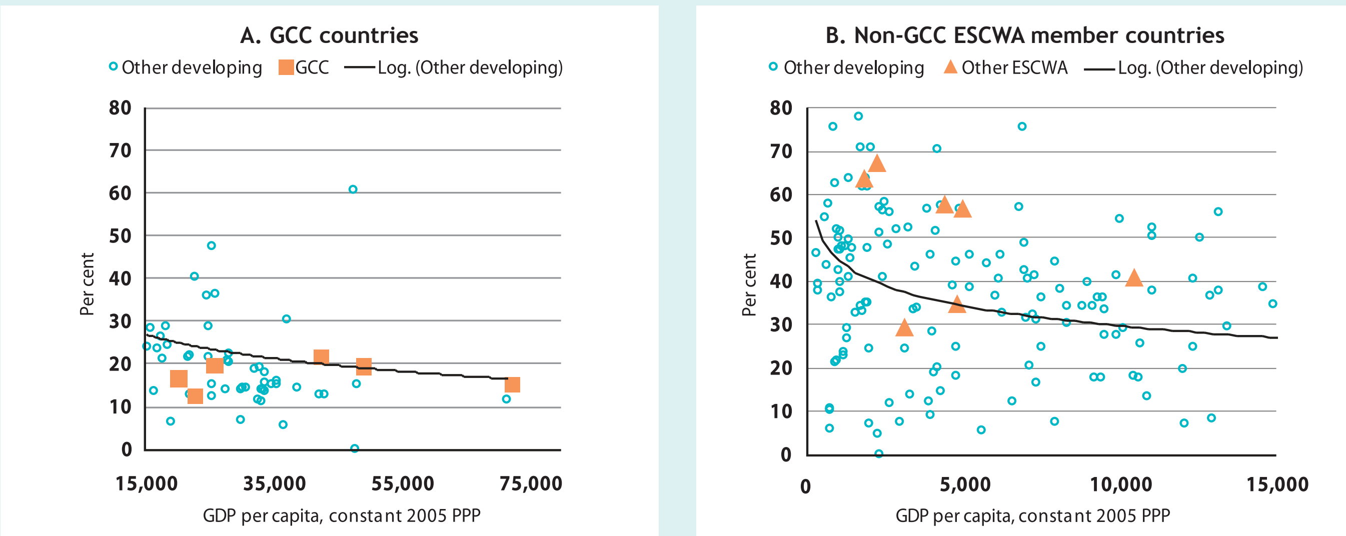
Note: The above chart shows estimated under-five mortality. The bold lines indicate trends since 1990 or since the first year for which data are available. The thin lines indicate the projected trend needed to reduce by two thirds the under-five mortality rate by 2015. Within each WHO region, countries are sorted by 2009 level.

rights of migrant labourers. Another dimension that deserves attention is the continued extensive resort to medical care abroad, highlighting the lack of adequate impetus in upgrading scientific R and D in nascent health-care systems.

E. Social Protection and Labour Markets

Social welfare in the ESCWA region evolved from remnants of the old authoritarian corporatist system that took shape in the 1950s and 1960s. Such populist components as food and energy subsidies were introduced and are still intact. While these measures may have been popular and helped to sustain the political regime in these countries, they have been dysfunctional in the workings of labour markets in the region, particularly in a global context. This dysfunction is manifest in, among others, the lack of optimal use of its most valuable asset, namely the young and educated labour force.

Figure 26. Out-of-pocket spending in ESCWA member countries, 2005-2009
(Percentage of total health spending)

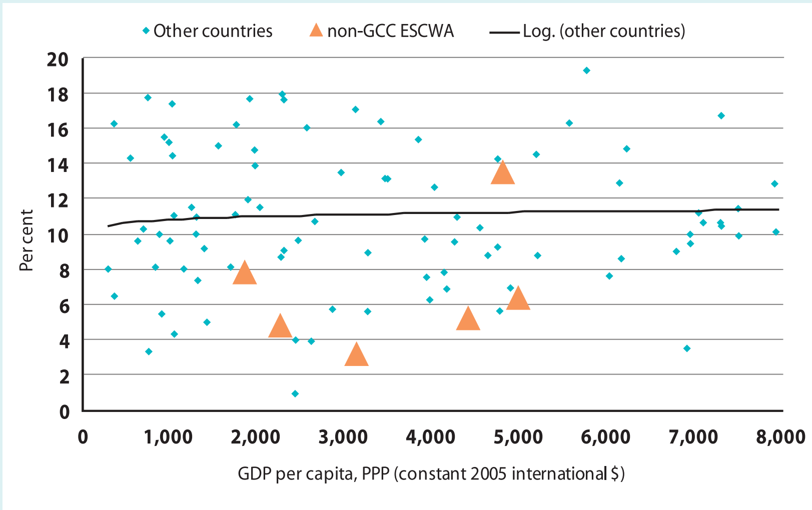


Source: World Bank (2011).

Social security systems in the ESCWA region are limited in terms of both coverage and statutory provision of programmes (see table 14). Such social benefits as pensions, sickness and injury allowances are available to those already working in the government sector or the large-scale formal establishments in the private sector. In non-GCC countries, this constitutes around 30 per cent of the workforce or less. In GCC countries, while the coverage for nationals is much higher, 70 per cent or more of the workforce fall outside the net, which consists of migrant workers, particularly those working as unskilled labour.

The limited coverage of the social security system in the ESCWA region has contributed to a segmented labour market, which highly restricts labour mobility.[77] This is exacerbated by the limited coverage of social security in terms of branches covered, where family allowances are totally absent, and where there is almost a total absence of unemployment insurance (see table 14).

Figure 27. Average share of public health in total government spending in non-GCC ESCWA member countries, 2004-2009 *(Percentage)*



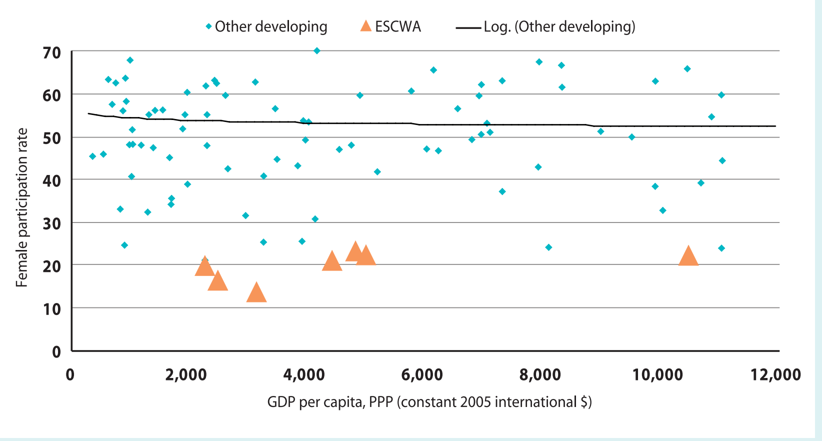
Source: World Bank (2011).

Table 14. Summary of social security programme for the ESCWA region

	Bahrain	Kuwait	Oman	Saudi Arabia	United Arab Emirates	Iraq	Jordan	Lebanon	Syrian Arab Republic	Yemen	Egypt	The Sudan
Old age	SI	SI	SI	SI	..	SI	SI	OI	SI	SI	SI	SI
Survivors	SI	SI	SI	..	..	SI	SI		SI	SI	SI	SI
Invalidity	SI	SI	SI	SI	..	SI	SI	OI	SI	SI	SI	SI
Employment injury	SI	SI	SI	SI	..		SI	a	SI	..	SI	SI
Sickness	none	..	none	a	..	..	..	a	none	..	SI	none
Maternity	none	..	none	a	..	..	a	..	none	a	SI	none
Unemployment	SI	none	none	none	..	none	none	none	none	none	SI	none
Family allowances	none	none	none	none	..	..	none	SI	none	none	none	none

Sources: ILO (2011d) and el-Laithy (2011).
Notes: Two dots (..) indicate that data are not available or are not separately reported.
SI refers to social insurance; OI refers to other insurance arrangement; and a refers to employer liability.

Figure 28. **Female labour participation in the ESCWA region and other developing countries, 2009**
(Percentage of female population aged 15 years and over)



Source: World Bank (2011).

Bahrain has only recently introduced unemployment insurance; and Egypt which has the only long-standing system of unemployment insurance only covers the insiders, namely about 30 to 40 per cent of the labour force in government and formal economy with long enough contributions to qualify. Compared to democratic societies with more lax labour legislation, independent labour unions in ESCWA member countries can play an important role in protecting unfair treatment of labour. An important missing link in the context of ESCWA member countries is the lack of independent trade unions, as well as independent associations of employers. Most labour unions in the region, where they exist, are highly centralized institutions and subordinated to the State.

The implication on labour markets is that given the highly centralized labour unions, labour market segmentation is exacerbated, hence not benefiting the majority of the labour force who fall beyond the remit of this legislation. Furthermore, in the absence of an adequate social security system that can safeguard the livelihood of the unemployed, employers will be averse to making redundant old workers, even under lax labour legislation.

Table 14 also sheds light on the lack of adequate statutory maternity leave arrangements. In all the countries for which information is available, with the exception of Egypt, maternity leave insurance is either non-existent or, where it exists, the burden is on the employer. This is an unfair treatment of child-bearing women in that it considerably restricts their employability by putting a high cost on the employer. As figure 28 clearly shows, female labour force participation in the non-GCC ESCWA member countries is the lowest, compared to other developing countries at any level of development. The situation is even worse in GCC countries, given that most female workers in these countries are Asian migrant workers for whom maternity is a non-issue.

The lack of proper social insurance arrangements for maternity leave can also go a long way towards explaining the extremely high rates of unemployment among women in the ESCWA region. Restrictive family laws in many ESCWA member countries, as in many other MENA countries, are among other important reasons for low female participation rates.[78] Such low levels of female employment in the ESCWA region, apart from damaging the social standing and independence of women, can be an important factor in undermining the efficiency and competitiveness of the economies in the ESCWA region.[79]

Social welfare needs to be managed more equitably such that distorting subsidies on food and fuel do not cut into funds that may be made available for spending on social welfare. To illustrate this point, according to ESCWA (2010b), food and fuel subsidies in Egypt in 2007 amounted to 8.5 per cent of GDP, which compares with 2.3 per cent of public expenditure spent on health. In the Syrian Arab Republic, food subsidies alone amounted to 2.3 per cent of GDP, compared to only 2.1 per cent public spending on health. Fuel subsidies in 2007 in the Syrian Arab Republic amounted to 10.3 per cent of GDP. These are major sums that over time, have been swallowing an increasing share of total government spending on social welfare. The use of subsidies is often justified by the argument that in the absence of other means-tested social assistance measures, such as family allowances, they make basic necessities affordable to the poor. However, a major part of subsidies are actually captured by the non-poor.

Over the past two decades, most ESCWA member countries have set up numerous safety net programmes to deal with economic hardship befalling the poor as a result of structural adjustment programmes or other economic shocks. These programmes are poorly funded and show little coordination in terms of their activities and the rest of the social welfare system. The main problem with this type of programme is that they are based on a one-dimensional view of poverty, which perceives the “poor” as a homogeneous mass in need of charitable assistance. This approach will never be effective in addressing the root causes of poverty and will constantly be overrun by other funding demands, which will be always beyond what is available. Income support programmes are best integrated into the national social policy framework, with links to active labour market policies.

CHAPTER IV.

Overall Policy Recommendations

IV. Overall Policy Recommendations

A. Structural and Macroeconomic Policy Recommendations

The macroeconomic policies of Arab countries have been dramatically impacted in 2011 by the social unrests, the surge in commodity prices and the debt crisis in developed countries. These events took place while the region had not yet fully recovered from the financial and economic crisis of 2008. In October 2011, the international think tank Geopolicity estimated that the economic cost of the Arab unrests itself could amount to more than US$55 billion for the ESCWA region, with Egypt, Libya and the Syrian Arab Republic paying the highest price. Economic diversification, competition, regional integration and deepening of financial markets, linked to a comprehensive social agenda, are only some of the essential policy directions that the region needs to embark upon immediately. In the very short term, the ESCWA region must improve economic growth in order to enhance job creation.

B. External Engines of Growth

Intra-ESCWA exports of non-oil goods are around 30 per cent below their potential. An upcoming study shows that regional trading agreements have not contributed to a deeper international integration of Arab countries.[80] It appears also that eliminating a number of impediments to intraregional trade, including transport constraints and inefficiency of customs clearance, could improve intra-ESCWA exports by up to 10 per cent. In the medium term, closer intraregional integration will require the following: (a) reinforcing the current free trade area and adopting, as an objective, the creation of an Arab customs union in 2020; (b) reducing transactions costs; and (c) reducing transport cost by creating an intra-Arab trade and transport corridor, with the necessary logistics and/or shipping lines serving the region. An integrated approach that takes into account the consequences for the environment, the level of poverty and inequalities should be developed.

An element often mentioned to explain the poor regional and international integration of the Arab region is the lack of competitiveness. From this point of view, it will be crucial for the ESCWA region to implement a regional policy for research, development and innovation in order to improve the competitiveness of Arab countries and promote opportunities for diversification. Economic diversification and the specialization in high value-added sectors must be the focus of R and D policy. This sector is characterized by high entry cost and increasing return of scale and therefore, needs integration at the regional level. In the medium and long terms, creating pan-Arab research institutions that involve the scientific community from both within the region and among the diaspora will ensure the necessary synergies aimed at producing knowledge products and subsequently, at diversifying Arab economies.

Another element that could contribute to reducing current economic and social discontent is to ensure a better integrated labour market in the ESCWA region. Workers' remittances accounted for an average of 3-5 per cent of GDP for 2001-

Economic diversification, competition, regional integration and deepening of financial markets, linked to a comprehensive social agenda, are only some of the essential policy directions that the region needs to embark upon immediately

Table 15. Government responses to the food crisis and recent uprisings: launched or planned economic reforms and budget balance

	Macroeconomic responses			Labour market and social transfers			Budget balance
Country	Reduction of import tariffs	Increase of food or energy subsidies	Reduction of taxes	Increase of public sector salaries	Increase of targeted transfers to the poor	Increase of other social transfers	2010 *(percentage of GDP)*
Bahrain							-7.8
Egypt	x	x		x	x		-8.1
Jordan	x	x		x	x	x	-5.4
Kuwait		x		x			17.4
Lebanon	x	x		x			-7.2
Oman				x			6.2
Saudi Arabia	x	x		x			7.7
Syrian Arab Republic	x		x	x			-4.8
Yemen		x			x	x	-4

Source: Adapted from Breisinger (2011).

2010 in the ESCWA region. These funds are usually used to bolster household consumption cycles, but could also be channelled to foster the creation of SMEs and create jobs. Monitoring the migration and remittance trends is crucial given that it provides policymakers with an important tool for formulating appropriate decisions. However, the availability of sound data on migrants and remittances, including capturing data on irregular movements of migrants and remittances, remains an important impediment for policy formation.

On the side of domestic demand, an internal market of nearly 260 million people certainly represents a significant potential source of economic growth and job creation

Better governance and accountability through improved representation and participation of the broader population could lead to better economic performance in the medium term. To support this effort, it would be valuable to the region to put in place an effective and efficient regional economic governance platform that could assist ESCWA member countries in adapting their legislation and control mechanisms. At the regional level, it would also be valuable to improve the quality of the governance of the regional integration process.

C. Domestic Engines of Growth

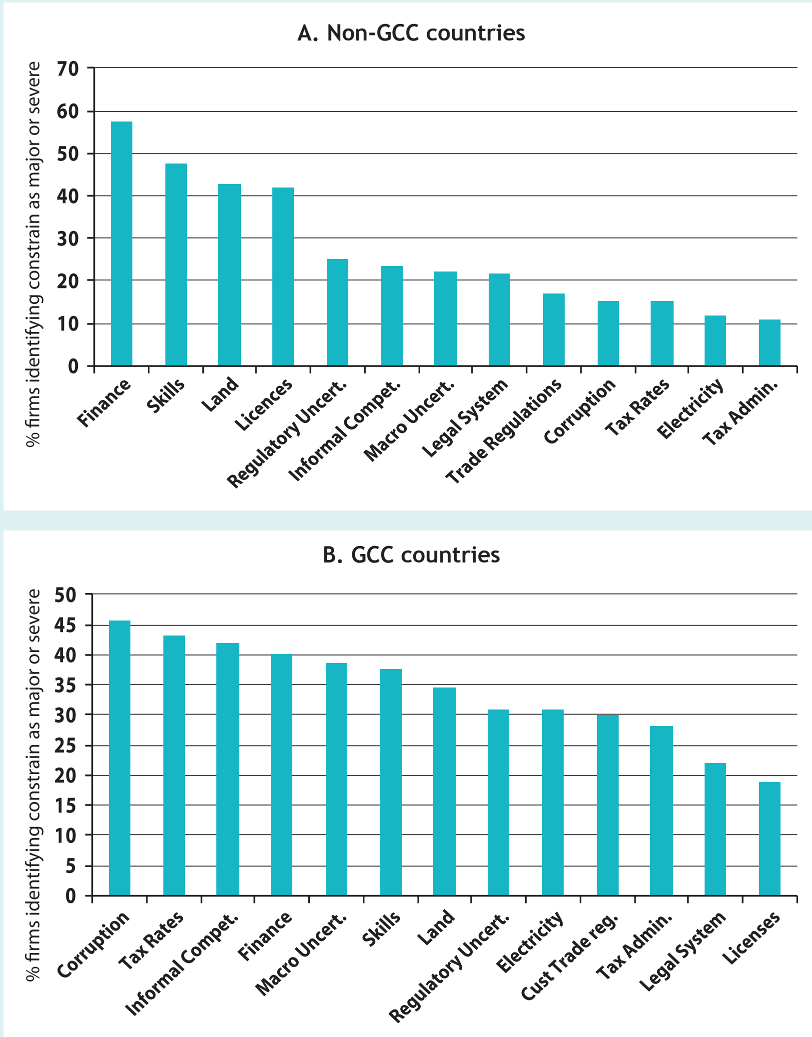
On the side of domestic demand, an internal market of nearly 260 million people certainly represents a significant potential source of economic growth and job creation. Unfortunately, the intensity of job creation through trade and economic growth remains low. The elasticity of employment to GDP is around 0.5 in the best case scenario.[81] Reforms of the labour markets are certainly necessary and could have powerful effects on job creation in the short term. It is doubtful that the usual explanation in terms of mismatch between labour demand and supply is enough to explain the current level of unemployment in ESCWA member countries. A comprehensive reform of the labour market that articulates regulatory and social security system reforms is required in order to reduce its segmentation, with an effective enforcement of labour regulation and a cooperation of stakeholders rather than a statutory regulation. Another option would be to implement a social VAT or unemployment insurance mechanisms, while reducing social security contributions and firing costs should be studied on a case-by-case basis.

A study for Tunisia, for example, shows that a social VAT of 3.5 per cent combined with a reduction of social contribution by 15 basis points could half the unemployment rate with no changes in social security benefits, and could generate additional growth of 1 per cent.[82]

Developing financial infrastructure and enhancing competition are crucial for a healthy access to finance by many economic actors, especially SMEs, and encourage long-term financing. At the regional level, the need to invest in infrastructure calls for creating an AAA-rated development bank that could transform short-term saving into long-term investment. The political unrest is forcing many governments in the region to increase fuel and food subsidies, public wages and cash transfers, and to reduce taxes. The increase in oil prices and the political stability in the GCC subregion make such raises in public spending affordable without the need to increase public debt. However, such increases in spending constitute a real challenge to MDEs, where fiscal spaces are limited and public deficits are covered by the accumulation of public debt. The total public debt in the ESCWA region increased by 2.5 per cent in 2010 and is projected to decline by 5.8 per cent in 2011. The increase in the GDP of GCC countries helped to dampen the effects of increased total public debt; the total public debt as a percentage of GDP declined from 39.5 per cent in 2009 to 34.4 per cent in 2010, and is projected to decline further to 26.2 per cent in 2011.

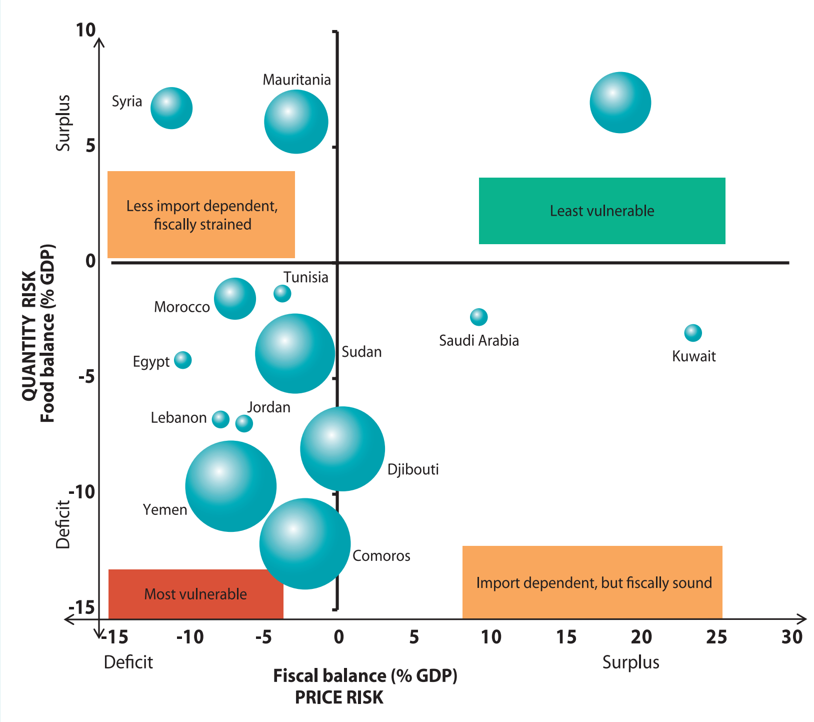
While from a political, social and humanitarian point of view, the wages,

Figure 29. Leading constraints to export-oriented firms in the ESCWA region



Source: Ianchovichina (2010).

Figure 30. Food security and social discontent in the Arab region



Source: Calculated by ESCWA, based on International Monetary Fund (2011) and World Bank (2011).

Note: The size of the bubble represents the Global Hunger Index (GHI), which combines three equally weighted indicators, namely (a) the proportion of the undernourished as a percentage of the population; (b) the prevalence of underweight children under the age of five; and (c) the mortality rate of children under the age of five.

food subsidies and other social spending increases that were undertaken in 2011 make sense economically, the long-lasting crowding-out effect on other growth enhancing spending, such as education, could exacerbate the problem of slow recovery and job creation in the ESCWA region. Labour force quality and the ability of the economy to adapt, among others, to competition and seize new opportunities of growth have been proven to depend strongly on the health, education and investment spending of the State. Universal access to good education is a precondition for improved quality and for equipping students with the skills needed for productive employment. This would also improve efficiency and equality. If there are financial or other resource constraints, the rationing of higher education should be based on ability of the students rather than on their background.

Given the weak correlation between fiscal deficits and inflation, ESCWA member countries are called upon to invest their fiscal space (albeit very limited in MDEs) in order to finance job creating and promote such transformative changes as infrastructure, health, education and innovation. They are also invited to adopt innovative financing, including public-private partnerships, to optimize the use of fiscal resources, keeping in mind long-term public debt sustainability. These rises in social expenses will be difficult to reverse in the short term given that they create rigidities that add to a shrinking fiscal space stemming from a depressed economic activity and level of confidence; and will limit the ability of Arab countries to weather the impact of further shocks and subsequently, increase the risks of new social and economic troubles.

This is the case of food security. Specifically, food insecurity impacts both the degree of discontent and poverty of the population and moreover, the sustainability and quality of economic growth over the long term. Consequently, restoring the social peace and supporting the economic recovery in the ESCWA region will require, on one hand, finding new approaches in a context of depressed economic activity and shrinking fiscal space and on the other hand, improving the quality and the strength of the regional cooperation among ESCWA member countries.

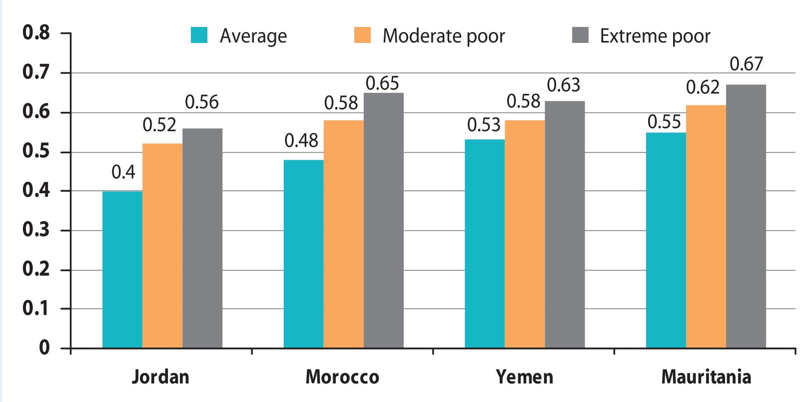
The ESCWA region, which is highly food insecure, faces two types of vulnerabilities, namely (a) a quantity risk, which is defined as the access to sufficient food products to cover the needs of the population; and (b) a price risk, which reflects the ability of national governments to compensate a surge in food prices. This latter risk depends on a few elements: the higher the share of food products in a country's household expenses and the level of hunger and poverty or unemployment; the more fragile the social peace, the higher the need to balance the negative impact of food price surge, which therefore requires a wider fiscal space.

The potential for uprisings and social contagion in the region, which has recently proved so dramatic in various Arab countries, originates partly from food security problems. The size of the potential damages that are linked to high quantity and prices risks is illustrated by the large part of the population spending more than 50 per cent of their household income on food products; the sometimes critical level of hunger recorded in some Arab countries; and the share of the population living under the poverty line, which is above 20 per cent in Egypt, Iraq and Palestine; and above 40 per cent in Comoros, Djibouti, Mauritania and Yemen.

In this regard, it is worth noting that if the potential arable land was used to its maximum, total cereal production could amount to 116.4 million tons (MT). The cereal consumption in 2005 was 81.3 MT. Consequently, rather than importing 39.5 MT, the ESCWA region could be a net exporter of around 10-35 MT.[83]

Furthermore, policies for food security need to be designed for the Arab region as a whole, with a view to promoting, among others, efficiency stemming from spill-over effects and endowment complementarities. To date, limited efforts have been made to promote regional cooperation in

Figure 31. Food share in consumption by income level



Source: Calculated by ESCWA, based on International Monetary Fund (2011) and World Bank (2011).

agriculture and food security. However, various options exist in the short term, including as follows: (a) establishing regional food stocks in order to mitigate the vulnerability to external shocks; (b) establishing a guarantee regional fund for investments in the agricultural sector; (c) creating a regional fund to hedge against high food prices and to finance short-term food relief.

Moreover, the medium term, ESCWA member countries and Arab countries could focus on the following: (a) promoting a multilateral research agenda and a regional agricultural research and development fund; (b) establishing a regional food security monitoring and early warning system; and (c) improving and implementing the existing regional trade agreements.[84]

D. A Green Economy Agenda

Given its wide scope, a green economy agenda in the Arab region would have to be based on prioritized actions in key sectors and focus on youth, women

Table 16. **National poverty ratios in selected Arab countries** *(Percentage of population)*

Country	Poverty headcount ratio at national poverty line	Year
Algeria	5.6	2006
Comoros	37	2004
Djibouti	42.2	2002
Egypt	21.6	2009
Iraq	22.9	2009
Jordan	12	2008
Lebanon	8	2005
Mauritania	46.7	2004
Morocco	9	2007
Palestine	21.9	2009
Syrian Arab Republic	12.3	2007
Tunisia	3.8	2005
Yemen	34.8	2005

Source: World Bank (2011): Poverty headcount ration at national poverty line (in per cent of population) http://data.worldbank.org/indicator/SI.POV.NAHC.

Regional integration permits green economic initiatives to be brought to scale while simultaneously fostering greater knowledge sharing

and vulnerable groups in order to speed up and maximize the potential positive impact. In particular, transition into a green economy in the Arab region, should prioritize the strengthening of the role of the private sector and civil society through partnerships; accelerating regional integration; promoting national education, vocational training and R and D systems to suit emerging green job requirements; supporting the transfer and localization of appropriate technology; and facilitating access to new financial mechanisms. As a prerequisite, green economy principles need to be mainstreamed into national development plans and regional policies, and must be supported by legislative and financial instruments. Equally important for the transition to a green economy is a reformed institutional framework at all levels in order to improve harmony between sectoral strategies and increase the involvement of local authorities.

Many opportunities offered by the green economy will require large investments and new and innovative financing mechanisms in the ESCWA region. Benefiting from international existing funds, such as the Green Education Foundation (GEF), or scouting such specific regional alternatives as the Arab Environment Fund are both valid alternatives for securing necessary funds for an effective transition to a green economy. In either case, the complexity of the transition suggests the realization of a concerted involvement of governments, researchers, the private sector and civil society aimed at supporting important initiatives, particularly given that the establishment of green economic zones allow green SMEs to flourish and survive.

Moreover, the transition towards a green economy requires the benefits of a regionally integrated industrial base. Regional integration permits green economic initiatives to be brought to scale while simultaneously fostering greater knowledge sharing. A significant driver of the economic integration of ESCWA member countries is the expansion of interregional and intraregional trade that boosts growth rates, allows a higher degree of inter-ESCWA specialization, and improves the allocation and distribution of resources in the region.[85] The move towards the Greater Arab Free Trade Area (GAFTA) can start with subregional settings: GCC countries are already making significant progress in that regard, but the process is slower in the Maghreb, despite evidence that intraregional trade could be multiplied tenfold, which would result in an increase of 33 per cent in subregional exports and boost growth rates by 2 to 3 percentage points.[86]

The green economy within the agenda of Rio+20

In marking the twentieth anniversary of the United Nations Conference on Environment and Development, the United Nations Conference on Sustainable Development (Rio+20) will be held in Rio de Janeiro in June 2012.

Rio+20 will focus on two main thematic areas, namely (a) a green economy in the context of sustainable development and poverty eradication; and (b) the institutional framework for sustainable development. The Conference presents a timely opportunity for the Arab region to redefine itself and to move quickly towards sustainable development that focuses on social and environmental issues. ESCWA, in close collaboration with UNEP and the League of Arab States, was mandated to lead the preparatory process for Rio+20 in the Arab region. ESCWA has played a key role in gathering different groups to discuss the preparation for Rio+20, including the green growth issue in the Arab region. More than 15 initiatives and activities were convened during 2010 and 2011. In October 2011, ESCWA, the League of Arab States and UNEP organised the Arab Regional Preparatory Meeting for official representatives from Arab governments, the civil society and other international organizations, presenting the outcome of the many consultative meetings and discussions that were held. This resulted in a report that was submitted to ensure that the concerns of the Arab region would be on the agenda of Rio+20.

These meetings have revealed some scepticism in the Arab region on the transition towards a green economy. This uncertainty is exacerbated when the transition appears to be backed primarily by the developed countries of the international community. Some Arab stakeholders argue that the costs of such a transition, particularly during the current global crisis, could delay any economic growth anticipated and negatively affect initiatives aimed at alleviating poverty. Others claim that the green economy is a way through which rich countries can enforce environmental standards and impose green trade barriers and/or tariffs on exports from developing countries, while others still feel that such a transition would require government subsidies for green investment and technologies that are unattainable for the less developed countries with significant prior commitments to honour. While these are reasonable concerns that need to be addressed when discussing a transition to a green economy, it is equally important to view the green transition as an opportunity rather than merely as a challenge for Arab countries.

E. Social Policy Conclusions

A number of valuable official reports with sound policy advice regarding social policy in the ESCWA region already exist. However, the pace of reform in the past has been slow and many partial reforms have remained ineffectual. This has often been attributed to such factors as bad "governance", "corruption" or other similar notions. Looking at social policy regimes as systemic phenomena that are intricately linked to political economy of countries with deep historic roots could prove more fruitful in understanding the inability of the old autocratic regimes to change the system.

The autocratic corporatist social welfare regimes in the ESCWA region and in the wider Arab region have had their own logic in terms of preserving the power of authoritarian States. The Arab uprisings has opened a new window of opportunity to re-examine social policy in the region, with a view to understanding the possibilities and constraints in building a new "social contract" under more democratic conditions that can combine the twin objectives of development and equity. Such a new social contract can only emerge as a result of the social dialogue between different interest groups, including civil society organizations, in the process of transition to democracy and beyond in the countries concerned. The brief conclusions set forth below are drawn with a view of highlighting some of the issues that can be usefully addressed in such a social dialogue.

In order to strike a balance between the supply and demand for educated labour, closer links need to be established between the education system and the labour market, particularly vocational training and job placement, and other active labour market policies need to receive much higher priority

1. Educational systems

The educational systems in the region do not deliver both in terms of quality and of facilitating social mobility. This owes to the fact that, during the past two decades, the middle classes and richer sections of the population have opted out of the public education system by resorting to private tutoring or private education, thereby allowing the public educational systems to be run down under budgetary cuts. Good quality public education with universal access is necessary to address the dual issues of quality and social mobility.

Contrary to what is sometimes suggested, the population in the ESCWA region is not overeducated. All indicators of the depth of education show that the region has a gap in education relative to comparator countries in other parts of the world. This means that more resources need to be allocated to the educational system. In order to strike a balance between the supply and demand for educated labour, closer links need to be established between the education system and the labour market, particularly vocational training and job placement, and other active labour market policies need to receive much higher priority.

There is great opportunity for regional cooperation in the field of education across ESCWA member countries. This is particularly facilitated through a common language across the region. Setting up a regional fund for scholarships and pursuing active policies in the fields of student and teacher exchange across the region can produce enormous synergies. Scientific collaboration has had a long and fruitful history within the region, and can be revived in the age of telecommunication and under more democratic regimes.

2. Health and social security

In non-GCC ESCWA member countries, the health systems are fragmented and access to health care is highly unevenly distributed. There are also issues related to primary health care and sanitation, particularly in LDCs. The out-of-pocket spending on health care in the region is higher than comparator countries, and the low share of public spending on health relative to other countries at similar per-capita income levels indicates the low priority given to the public health-care sector.

While GCC countries have centralized health insurance systems with universal access granted to their national populations, migrant workers lack access to these systems. This remains an important issue to be addressed. It is within the reach of the middle-income, non-GCC ESCWA member countries to follow similar policies of centralized public health insurance with universal access, perhaps more similar to the system in Brazil than that of oil-rich countries. However, LDCs in the ESCWA region do not have the necessary resources and need external assistance. Although this is another area of potential cooperation across the region, it also represents an aspect that needs sustained international aid and support.

The social security system is very limited in the ESCWA region, both in relation to access and with regard to the coverage of the different branches. Deficiencies are particularly noticeable in the areas of maternity leave and unemployment insurance. Statutory social insurance in both these branches is possible and essential. Unemployment insurance and maternity leave coverage are important preconditions for a well-functioning and flexible labour market.

General consumer subsidies on food and fuel, which greatly exceed budgets for health or education, are a considerable drain on government budgets and are inefficient and wasteful. The abolition of subsidies and their replacement with family allowances could better target the poor, particularly given that a large part of the subsidies currently benefit the non-poor, and could release additional funds for other social policies. This will have to be one of the important areas of social dialogue in a democratic context. On this issue however, it may be the middle classes that will require more convincing than the poor.

Family allowances will also help to end the plethora of relatively ineffective and uncoordinated safety nets in existence. Family allowances for low-income families will be particularly effective if they are linked to active labour market policies aimed at lifting low-income households out of poverty.

The links between social insurance and the labour markets are of the utmost importance. While an adequate system of social insurance is necessary for well-functioning labour markets, such a system alone will not be sufficient. Specifically, another essential component is the creation of independent trade unions as well as independent associations of employers. Without independent trade unions, market outcomes will, as in the prevailing situation, be imposed by autocratic governments from above with undesirable consequences in terms of economic efficiency, rather than being the result of negotiated settlements between market participants.

A properly functioning and universalistic social security system in a democratic context will also be important for social cohesion and solidarity. The fragmented and inadequately funded social insurance systems in the past has led to NGOs and faith-based charities assuming that role, which has arguably played some part in the alarming rise of social conflict along ethnic and religious lines.

While an adequate system of social insurance is necessary for well-functioning labour markets, such a system alone will not be sufficient

Endnotes

1. ILO (2011c).
2. UNDP (2010).
3. IFC-IDB survey was based on the findings of McKinsey and Company (2011).
4. Individual country data are drawn from UNDP (2011).
5. ESCWA (2011e) and Salehi-Isfahani (2010).
6. Femise (2009).
7. Ibid.
8. The ESCWA region comprises the following two subregions: (a) countries of the Gulf Cooperation Council (GCC), namely Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and United Arab Emirates; and (b) non-GCC countries and territories that are defined as more diversified economies (MDEs), namely Egypt, Iraq, Jordan, Lebanon, Palestine, the Sudan, Syrian Arab Republic and Yemen. Within the latter category, the Sudan and Yemen are further defined as least developed countries (LDCs).
9. DESA. World Economic Situation and Prospects, 2012.
10. ILO (2010a).
11. OPEC (2011).
12. In this context Brent crude and the OPEC reference basket traded on average at premiums of more than US$11 and US$16, respectively, over West Texas Intermediate (WTI) crude during the first nine months of 2011.
13. Projections for WTI and Brent are US$85 and US$100 per barrel, respectively.
14. According to the definition by OECD, capital account refers to capital transfers and acquisition/disposal of non-produced, non-financial assets; whereas financial account refers to direct investment, portfolio investment, other investment and reserve assets. For this reason, this Survey focuses mainly on the analysis of the financial account of the balance of payment.
15. This decreased by 43 per cent according to the balance of payments that were made available by the Central Bank of Egypt.
16. According to the balance of payments that were made available by the Central Bank of Lebanon.
17. Central Bank of Egypt.
18. In this context, Iraq has been excluded from the MDE cluster because it has amassed a decrease in current account deficit of US$6 billion, which would otherwise distort the true picture of the current account trend of MDEs.
19. According to the balances of payment of the respective countries.
20. The Kuwait dinar is pegged to a currency basket predominated by the dollar, while the Syrian pound is pegged to the special drawing right.
21. ILO (2011b). Owing to limited availability and consistency in unemployment data and estimation, ILO figures are used. According to ILO classification, the Middle East encompasses Bahrain, Iraq, Jordan, Kuwait, Lebanon, Oman, Palestine, Qatar, Saudi Arabia, Syrian Arab Republic, United Arab Emirates and Yemen (in addition to Iran); while Egypt and the Sudan are part of North Africa.
22. Jordan (2011).
23. Al Ahram (2011).
24. Emirates 24/7 (2011).
25. ILO (2011c).
26. UNDP (2010).
27. ESCWA (2011c).
28. UNEP (2011).
29. UNEP (2010).
30. According to data from AQUASTAT of the Food and Agriculture Organization (FAO).
31. Abdel Gelil (2010).
32. Energy Directorate at the Council of Arab Ministers for Electricity (March 2011). The Guideline of Arab Countries' Potentials to Raise the Efficient Production and Consumption of Energy. League of Arab States.
33. Energy Directorate at the Council of Arab Ministers for Electricity (November 2010). Arab Strategy for Developing Renewable Energy Utilization 2010-2030. League of Arab States.
34. ESCWA (2011f).
35. Ibid.
36. Ibid.
37. Abdel Gelil (2010).
38. OECD (2011).
39. Ibid.
40. Siam (2009).
41. FAO (2006).
42. Self-sufficiency ratios express the magnitude of production in relation to use.
43. ESCWA calculations are based on FAOSTAT data, which are available from http://faostat.fao.org/default.aspx.
44. FAO (2011).
45. Data and information on the Sudan do not include South Sudan.
46. FAO (2011).
47. IFAD (2009); Fathi and Feiler (2011); Nasredin (2011); and Verduijn (2011).
48. GWEC (2008).
49. ESTLA (2008).
50. ILO (2011e).
51. Marshall (1950).
52. Karshenas and Moghadam (2006).
53. Waterbury (1983) called these social transfers political "giveaways".
54. The Economist (2011). The article was based on the work of researchers at the Peterson Institute for International Economics.

55. ESCWA and League of Arab States (2010).
56. Barro and Lee (2010).
57. UNESCO (2009).
58. ESCWA and League of Arab States (2010).
59. World Bank (2010).
60. Ibid.
61. ESCWA and League of Arab States (2010).
62. World Bank Survey on Educational Attainment for aged 15-19 in Egypt from World Bank, Database on Educational Attainment and Enrollment around the world.
63. UNESCO (2011).
64. Assaad (2010); Salehi-Esfahani (2010); and Salehi-Esfahani, Tunali and Assaad (2009).
65. See, for example, Berthélemy, Pissarides and Varoudakis (1999); Salehi-Esfahani (2010); Salehi-Esfahani, Tunali and Assaad (2009); and Makdisi, Fattah and Limam (2006).
66. Chaaban (2010).
67. According to Assaad (2010), an individual's chance of going to university rises from 9 per cent for the lowest quintile to 80 per cent for the highest quintiles. The inequality of access also operates at the preceding stage, namely the selection between the general and the technical secondary stage. Social background, including parental education and their ability to invest in private tutoring, have a significant effect on access to the first track, which the main access to university, whereas those in technical secondary rarely make it to university. Since the pre-university system is unable to prepare children from poorer households to university admission, public expenditure on tertiary education is almost exclusively benefiting better-off segments of the population.
68. Tunisia appears to be an exception in that it has a range of "efficient targeting mechanisms" that have helped the poor to access the higher education system.
69. Makhoul and el-Barbir (2006).
70. Individual country data are drawn from UNDP (2011).
71. ESCWA (2011e) and Salehi-Isfahani (2010).
72. ESCWA and League of Arab States (2010).
73. Femise (2009).
74. World Bank (2011).
75. ESCWA and League of Arab States (2010).
76. Femise (2009).
77. Other factors contributing to the existence of highly segmented labour markets in the region include labour recruitment through informal channels (mostly along family connections) by micro and small enterprises, which account for a considerable share of total employment in many ESCWA member countries. See ESCWA (2011b).
78. Karshenas and Moghadam (2006).
79. Karshenas (2001a).
80. ESCWA (2012).
81. ESCWA (2011b).
82. Bchir (2011).
83. ESCWA (2010b).
84. Regional trade liberalization can provide incentives for investment and development where there is potential for agricultural development. The Greater Arab Free Trade Area (GAFTA), which was agreed upon by Arab countries in 1997 and went into force in January 1998, abolished tariff barriers for agricultural products among its member countries by 2005, and contributed to create a common Arab market. To date, this policy has been comparatively ineffectual.
85. ESCWA (2009).
86. ECA (2007).

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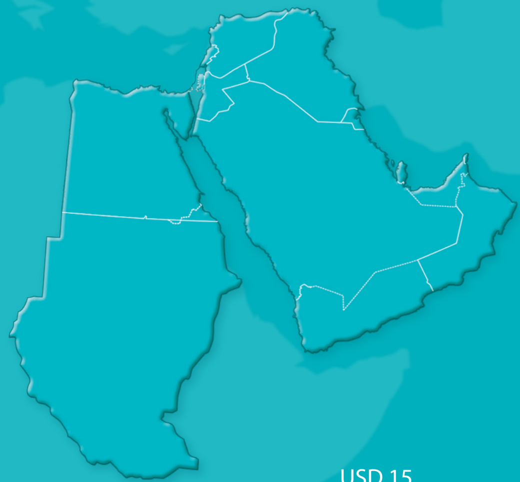
In a very highly volatile and changing scene in the aftermath of the Arab uprising, understanding the present in view of the recent past and projecting the near future is almost an impossible task. The ground rules of the Arab economies that prevailed in the past decades have all been put to the test, and a dramatic review of the political economy of the previous social contract is out for questioning and even outright rejection by the masses who roamed the streets of cities since the beginning of 2010.

This survey is mainly a technical view of the major factors and variables affecting Arab economies, with an attempt to bridge the huge gap between the social and the economic by dedicating a chapter to social policy, with focus on major recent trends in health, education, and social protection in member countries. It provides data and attempts to understand and explain the dynamics of regional, subregional and country social and economic trends. The survey aims to provide interested readers, governments, and the general public with a snapshot of the current socio-economic situation and the outlook for 2012.



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