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MID-TERM REVIEW AND APPRAISAL OF PROGRESS IN
THE IMPLEMENTATION OF THE INTERNATIONAL
DEVELOPMENT STRATEGY FOR THE THIRD UNITED
NATIONS DEVELOPMENT DECADE IN THE ECWA REGION

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PART ONE. AN OVERVIEW

INTRODUCTION

The International Development Strategy (IDS) - Background and Primary Objectives

The United Nations Charter calls for substantial acceleration of economic development in the developing countries so as to emancipate millions of their people from poverty and malnourishment and to offer them an opportunity for at least a minimum standard of living consistent with human dignity. To help bring about international awareness and action, the First, Second and Third United Nations Development Decades were launched in 1961, 1971, and 1981, respectively.

The First United Nations Development Decade, during which the developing countries achieved an average annual growth rate of about 6 percent, was a success in itself in that it reaffirmed and institutionalized the objective of poverty elimination via multilateral initiatives and co-operation between the developed and the developing countries. However, given the large number of poverty-stricken countries and the wide gap between the economic conditions of rich and poor nations there was a lot left to be desired.

The IDS for the Second United Nations Development Decade aimed at intensifying efforts to accelerate further development in the developing countries and reduce the disparities between them and the developed countries. It called for the following targets for developing countries: average annual growth rate of 6 percent in gross domestic product (GDP); growth rates of export and import volumes of 7 percent each; gross saving share in GDP of 20 percent by the end of 1970s; and growth rates in agricultural production and manufacturing output of 4 percent and 8 percent respectively. However, lack of substantial progress by many of the developing countries was still in much evidence.

While there were many positive developments for the developing countries as a whole during the 1970s, there was a great disparity in achievements among the various groups, especially between the two extreme cases of oil-exporting countries and the least developed ones. These developments included an annual real rate of growth approximating the IDS target for the Second United Nations Development Decade, an increase in manufacturing output somewhat higher than envisaged, and a ratio of investment to GDP considerably exceeding the IDS objective. At the same level, some shortcomings were noted in the growth of agricultural output and that of export. The IDS targets for the 1970s with respect to the net flow of resources and Official Development Assistance (ODA) from the developed to developing economies were not achieved, through some developed countries succeeded in achieving, and even surpassing, them. Some of the developed countries also softened the terms of ODA, especially to the

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least developed nations. Additionally, the flow of resources as a percentage share of Gross national product (GNP) from the oil-exporting to the less fortunate developing countries was much higher than the IDS expectations.

In spite of those positive developments, many disturbing circumstances and conditions, emerging from the system of international economic relations based on inequities and imbalances, clouded the horizon for the development of developing countries. The problems were aggravated by the developments following the collapse of the Bretton Woods international monetary system and the ensuing sharp fluctuations of exchange rates among the world's major currencies, the sharp oil increases of 1973/74 and 1979, unusually high interest rates, accelerating rates of inflation and by intensified protectionist measures imposed against the industrial products of the developing countries. These and other factors led to the deterioration of the terms of trade of the non-oil developing countries and also to rapidly growing balance of payments deficits and sharply rising foreign debts. The whole world experienced a severe economic crisis, which was particularly devastating to developing countries owing to the vulnerability of their economies to external forces. The international community, recognizing the impasse in which most of the developing countries were in, set more challenging targets for the decade of the 1980's which were predicated on an improvement in international economic relations and a growing commitment of the developed countries to the development of the poorer nations.

The new IDS, prepared for the Third United Nations Development Decade, called for intensified action by the international community for the creation of an environment that is fully supportive of the national and collective efforts of the developing countries, particularly of the least developed nations, and for reducing the disparities between developing and developed countries. Towards that end, the new IDS envisaged even higher objectives than those called for during the Second United Nations Development Decade. The new objectives encompass an average GDP annual growth rate for the developing countries as a whole of 7 percent (implying a 4.5 percent per capita growth rate); growth rates of exports and imports at 7.5 percent and 8 percent, respectively; gross investment and saving ratios of 28 and 24 per cent of GDP, respectively, by the end of the decade; and growth rates in agricultural production and manufacturing output of at least 4 and 9 per cent, respectively. Regarding official development assistance to developing countries the target is to achieve the level of 0.7 per cent of the GNP of the developed countries by 1985 and 1 per cent as soon as possible thereafter.

The above objectives were considered attainable when the new IDS was launched in 1981. However, due to the low levels of domestic saving ratios and inadequate supply of foreign exchange, the achievement of the IDS goals were heavily conditional upon favourable developments in global

relations between the developed North and developing South and world economic recovery. Global negotiations, however, have not produced so far positive tangible results and, therefore, the targets of the IDS have become unrealistically high unless an immediate breakthrough in the international dialogue is obtained, followed by massive inflow of real resources and financial and technical support to the developing countries of the world.

This report examines economic and social developments during the first part of the 1980s and reviews and appraises the progress in the implementation of the International Development Strategy for the Third United Nations Development Decade in the ECWA region.

CHAPTER I. EXTERNAL ECONOMIC ENVIRONMENT AND THE ECWA REGION

A. Inflation and Recession in the World Economy:
Implications for Developing Countries

Immediately prior to launching the new IDS, signs of a recession appeared in developed market economies. Initially this recession was considered to be a normal cyclical disturbance, but it turned out to be one of the most severe and deepest recessions in contemporary economic history. It is believed that the anti-inflationary measures undertaken by some major industrialized countries since 1979 caused contraction in aggregate demand and consequently in world production and trade. The recession spread itself to the rest of the world, engulfing all the developed and the developing countries. Among the negative developments, unemployment rates shot upwards, economies stagnated, balance of payments problems accentuated, foreign debts accumulated and the standard-of-living gap between the developed and developing countries widened. This recession continued until the end of 1982 in the United States and up to the third quarter of 1983 in Western Europe.

An examination of the major factors responsible for the recession will shed light on the extent of the damage inflicted upon the developing countries and the least developed among them in particular.

During the 1970s, a number of factors were simultaneously leading many developed countries towards economic stagnation coupled with high levels of inflation (stagflation). Such factors included growing structural unemployment, changes in the age-sex composition of the work-force, relatively rapid labor force growth and more frequent use of monopoly powers of labor unions and large corporations. Thus by the late 1970s many developed countries were suffering from stagflation.

The higher prices of oil demanded by OPEC to maintain the purchasing power of their oil revenues in the face of high inflation world-wide, contributed to the increases in inflation rates in the oil-importing developed countries. Higher inflation rates in the developed countries, in turn, seemed to justify yet another increase in oil prices by OPEC. Given the already high inflation rates - many developed countries, the sharp increase in oil prices in 1979 intensified inflationary pressures and eventually brought about the severe measures undertaken by the developed countries that resulted - the 1979/80-1982/83 world recession and the current oil glut in the world markets.

Developments in the United States economy profoundly affected developing countries, including those of the ECWA region directly and indirectly via their impact on Europe. With the Post Second World War

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record United States inflation rate of over 13 percent in 1979, the American monetary authorities implemented severe contractionary measures. Nominal interest rates soared with the prime rate of interest reaching a record of 21.5 percent in 1980. Such a drastic measure was a major factor in contracting the United States economy and plunging the United States, Europe and the developing countries into the 1979-1982 recession.

Higher interest rates had different implications on the financial positions of 'rich' and 'poor' countries of the ECWA region, as explained in detail below. Furthermore, high interest rates led to a reduction in the volumes of investment and through the multiplier-effect to even greater reductions in economic growth **in the world**.

In addition, high interest rates compounded the problems facing the indebted developing countries in servicing their \$750 billion large foreign debts. It should be noted that the outset of recent recessionary trends in the world economy (1979-1982/3), the \$ 397 billion foreign debt of non-oil developing countries appeared to be within their debt servicing capacity. As the recession deepened, however, new loans were extended on an increasingly short-term basis and interest rates charges sharply increased while the export earnings of developing countries fell considerably. The debt service ratio (principal and interest charges of debt/total value of the export of goods and services) in 1983 reached 117 percent in Brazil, 126 percent in Mexico and 153 percent in Argentina. High interest rates in the United States forced European countries to have their interest rates relatively higher than would otherwise have been the case, in order to prevent a further deterioration of their respective currencies. Roughly speaking, each additional percentage point in Eurodollar rates increased the indebted developing countries' interest payments by \$3½ billion a year.

The impact of high interest rates in the world markets affected the Gulf members of the ECWA region differently from the non-Gulf members. The Gulf oil exporting countries, particularly Saudi Arabia, Kuwait and the United Arab Emirates had accumulated large international liquid reserves and thus benefitted from higher returns on their deposits in the various international banks. On the other hand, countries like Egypt, Syrian Arab Republic, Jordan and the two Yemens experienced a further deterioration in their financial positions due to their growing foreign debt burden and rising interest charges. By 1981, for example, the foreign debt ratio to GDP had already reached the alarming levels of 14.4 percent, 38.5 percent, 38.6 percent, 46.9 percent and 106.6 percent for the Syrian Arab Republic, Yemen, Jordan, Egypt and Democratic Yemen, respectively ^{1/}. The continuous rise in foreign debt and foreign debt servicing burdens of the above-mentioned countries of the ECWA region have constrained their economic growth and development during the first four years of the 1980s.

^{1/} Council of Arab Economic Unity (CAEU), Report of the Secretary-General (Jordan, Dec. 1983) p. 52.

The restrictive monetary measures conducted by the United States monetary authorities succeeded in contracting the United States economy and bringing about the desired reduction in the United States inflation rate, and hence nominal interest rates were then allowed to decline. However, the tremendous increase in the United States budget deficit from the range of \$30-\$50 billion a year during the years prior to 1980 to the current \$180-\$220 billion deficit range has discouraged the United States monetary authorities from pursuing a more expansionary policy for the fear of re-igniting inflationary pressures.

The consequence of the significant decline in the United States inflation rate from above 13 percent in 1979 to below 4 percent in 1983, with a more modest decline in nominal interest rates, resulted in high real interest rates. Thus, while long-term nominal interest rates fell from 14.2 percent in 1981 to 12.8 percent in the second half of 1982, real interest rates rose from 4.4 percent to 7.0 percent during the same period 1/.

The comparatively high real rate of interest in the United States was the major 2/ contributor to the considerable strengthening of the United States dollar in early 1980s. Since an estimated 55 percent to 60 percent of world trade, which accounts for 20 percent of the income of developing countries 3/ is invoiced in dollars and approximately 80 percent of all international bank loans are denominated in dollars, the significant rise in the dollar value has had numerous world-wide implications. Thus the strong United States dollars has had a significant impact on oil-importing countries, oil-exporting countries, terms of trade of developing countries, balance of trade of the United States and on foreign exchange markets.

1/ United Nations Department of International Economic and Social Affairs, based on Economic Report of the President (Wash. D.C., United States Government Printing Office, 1983). Meanwhile, corresponding real interest rates were 5.9 percent in the United Kingdom, 5.7 percent in Japan and France, and considerably lower, 3.3 percent in the Federal Republic of Germany.

2/ With higher interest rates the opportunity cost of holding gold increased and hence the demand for United States dollars tended to increase during times of upheavals and political instability. Also the United States dollar's strength was enhanced by positive developments in the United States business environment and growing confidence in the United States economy since late 1982.

3/ Economic Impact, Number forty-four. (U.S. Washington, D.C. 1983/4) p.15.

The higher value of the United States dollar has negatively affected both developed and developing oil-importing countries because they are obliged to pay for their imported oil in dollars. Hence, oil-importing countries could not enjoy the full benefits of the decline in oil prices.

The oil-exporting countries, of the ECWA region on the other hand tended to benefit from a strong dollar in which their oil revenues accrue. However, such benefits were partially negated to countries that import heavily from the United States. The Gulf countries, while importing only \$780 million worth of U.S. merchandise in 1973, spent \$12.8 billion on imports of goods from this source in 1982.

Due to the world recession the price of primary materials, which represent the major portion of developing countries' exports, fell by 15.6 percent in 1981 and by an additional 16.1 percent in 1982. This, combined with higher value of the dollar, caused the deterioration of the developing countries' terms of trade to their lowest level since the early 1950s.

The prices of primary commodities have started a rebound, albeit a weak one so far, since the last quarter of 1982 ^{1/}. However, the dollar value continued its upward trend through 1983 and thus prevented a significant recovery in developing countries' terms of trade.

Also, an over-valued dollar has led to an increase in United States imports and a decline in its exports, thus causing balance of trade difficulties. The current account of the United States turned from a \$5 billion surplus in 1981 to an estimated \$40 billion deficit record for 1983 ^{2/}, and is forecasted to double to an appalling \$80 billion in 1984. The number of American workers who owed their jobs to United States exports of merchandise fell from 6.2 million in 1980 to 5 million in 1982 mainly because of the drop in the export volume ^{3/}. Such conditions are intolerable and could not be allowed to continue. They hurt the United States producers and lead to an increase in protectionist measures by that country and subsequently in other developed countries, at the expense of developing countries which have already suffered from barriers to their major exports including textiles, leather products and petrochemicals.

^{1/} United Nations Economic Commission for Europe, Economic Bulletin of Europe Vol. 35, 1983, p. 1.4.

^{2/} Ibid.

^{3/} Economic Impact, Number forty-four, 1983/4 (Washington D.C. 1983), p.6

The combined effects of high interest rates, strong United States dollar, deterioration in terms of trade, widening balance of trade deficits, unstable foreign exchange markets, rapidly accumulating foreign debts and growing burdens of debt servicing contributed to the general stagnation in the economies of the developing and least developed countries and in an actual decline in per capital GNP in numerous countries during the first part of the 1980s. Bearing in mind the substantial differences in the economic performance of the various groups of developing countries^{1/}, recent UNCTAD estimates indicate that by the end of 1984 per capita income of developing countries taken as a whole could be 5 percent lower than at the beginning of the decade, which is the very antithesis of the objectives of the IDS.

Austere measures were undertaken by many developing countries which substantially reduced expenditures on numerous social programs, particularly in the fields of education and public health. Such actions will make it more difficult to attain the IDS goals of increasing the trained and qualified personnel in developing countries, and reducing the infant mortality rate to less than 120 per 1000 live births. Furthermore, such austere measures have contributed to the economic contraction in most developing countries.

B. Oil Revenues of the ECWA Region: Causes and Effects of their Decline

The ECWA region's production and export of oil have been particularly hurt by developments in the world economy during the early years of this decade. The 1979-1983 world recession, energy conservation measures in the industrialized countries in particular and the substantial increase in other sources of energy, reduced the world's demand for oil. The oil consumption of the developed countries fell from 40.8 million barrels per day in 1979 to only 33.8 million barrels per day in 1982. Simultaneously, the oil production by non-OPEC members such as Mexico, Britain and Norway increased considerably during the same period. Hence, faced by the 'oil glut' that began in 1980, the ECWA countries cut their total oil production from approximately 19 million barrels per day in 1979 to about 9.7 million barrels per day in 1983, as shown in the following table:

Oil Production in the ECWA Region and the World
1979-1983
(in Thousand barrels per day)

Country	1979	1980	1981	1982	1983
United Arab Emirates	1829	1710	1602	1229	1,119.9
Bahrain	51	48	46	45	45.0
Saudi Arabia	9533	9900	9808	6697	5,063.6
Syrian Arab Republic	166	158	166	175	170.0
Iraq	3700	2646	897	987	954.8
Qatar	508	472	415	330	300.4
Kuwait	2497	1658	1130	833	1,675.5
Egypt	497	554	578	667	600.0
Oman	297	282	317	322	376.6
ECWA Total	19076	17428	14959	11285	9,705.8
World Output	63185	59740	55886	54545	54,135.6*
ECWA as % of World Output	30.2	29.2	26.8	20.7	17.9

Source: Compiled by ECWA from national and international sources.

^{1/} Developing countries of South East Asia grew at an average annual rate of about 6% during 1979-1982/3.

* ECWA estimate

The share of the ECWA region as a whole in the world output of oil declined from 30.2 percent in 1979 to only 17.9 percent in 1983. The total oil exports of Saudi Arabia, Iraq, Kuwait and United Arab Emirates ~~fell from 16.8 million barrels per day~~ in 1979 to 7.2 million barrels per day in 1983 1/. Furthermore, many of the OPEC countries, pressed by increasing needs for development and defence expenditures, offered substantial price discounts and ignored OPEC production quotas in an attempt to raise additional revenues. The major oil-producing countries of the ECWA region, Saudi Arabia, Iraq 2/ and Kuwait, had to bear the brunt of the burden of maintaining the official OPEC price by reducing their own output well below their allotted ceilings of March 1982 agreement. Nevertheless, the oil glut condition in the world oil market and the declining shares of OPEC and members of ECWA in world oil exports continued unabated. It thus became apparent that only a price and production agreement acceptable to all members of OPEC and to major non-OPEC members such as Mexico and the United Kingdom, could avoid the disastrous consequences of an oil price warfare. Such an agreement was achieved after the protracted London negotiations among OPEC oil Ministers in March 1983. The price of a barrel of oil was reduced from \$34 to \$29: a 14.7 percent price cut. Also, while the overall ceiling of 17.5 million b/d for OPEC was left unchanged, the Saudi Arabian quota was reduced to accommodate increases in the quotas of Iran (from 1.2 to 2.4 million b/d), Libya (from 0.8 to 1.1 million b/d) and Venezuela (from 1.5 to 1.7 million b/d). Thus the oil exports of Saudi Arabia which had fallen from 9.8 million b/d in 1981 to 6.3 million b/d in 1982 fell further to only 4.4 million b/d in 1983.

The sharp decline in oil prices, despite the earlier mentioned counter-effect of the rising value of the United States dollar, has had its expected impact on oil-importing countries and on ECWA members. The oil-importing developing and developed countries benefitted from the oil price reduction, and have enjoyed a favourable effect on their respective balance of payments. It is also believed that the oil price cut has contributed to the reduction in inflation rates, particularly in the industrialized countries of the world.

1/ See table (2) in Energy Chapter

2/ Iraq's oil exports were, however, primarily affected by the closure of Iraq's oil outlets through Syria and the Gulf due to political and military reasons.

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It is, however, clear that not all reductions in international oil market prices were passed to the ultimate oil consumers and industrial enterprises in the developed market economies, since a great share of the oil price charged in those economies represent rising taxes on oil imports. Thus while OPEC reduced its oil prices in 1983, the United States, for example, raised its excise tax on gasoline by an additional 5¢ a gallon. Hence, such a policy by the governments in the developed market economies prevented oil prices paid by consumers from falling in a corresponding proportion to the decline in oil prices charged by oil-exporting countries, and thus allowed their treasuries to benefit from reductions in the international market price of oil. In the light of those policies, however, one may conclude that a great deal of the oil price reductions amounted to a transfer from the budgets of oil-exporting countries directly to the budgets of the developed market economies. The ECWA region, however, faced with a sharp oil price reduction coupled with decreasing export volume, experienced the disturbing effects of declining revenues and the consequent curtailment in expenditures.

The downward pressure in oil prices has resulted in a noticeable decline in oil exploration activity and search for new energy sources. Even some of the existing oil production facilities may become unprofitable if prices are pushed down further. There is also the danger, as pointed out by the OECD's International Energy Agency that a period of stagnant or declining oil prices might lull the developed market economies into over-consumption, which could before the end of the decade see the re-emergence of oil shortages similar to the oil crisis of the 1970s.

The oil revenues of the ECWA region which reached a peak of \$176.0 billion in 1980 fell to \$ 168.6, \$119.4 and \$86 billion dollars respectively in the following three years. Thus the ECWA region's oil revenues in 1983 were only 51 percent of what was received in 1980. With small, though growing, non-oil sectors in most of the oil economies of ECWA, the oil revenues have provided the major source of funds for development. The oil revenues accrue directly to the governments of the oil countries, making the rate of government expenditures the major determinant of economic activity. Thus the deterioration in the balance of payments and the sharp decline in oil revenues during the first four years period of the 1980s, have forced ECWA countries to re-orient the level and composition of government expenditures. More cautious budgetary policies are, therefore, being followed in order to limit waste and inefficiency. Subsidies were lifted off some items to decrease the pressures on the national budgets and to allow the proper functioning of the market price mechanism in a number of ECWA countries.

The effects of the decline in oil revenues and the associated slowdown in the development efforts is not likely to be confined to the

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oil-exporting countries of the region, but would also encompass the non-oil and least developed countries as well. Most of the latter economies depend, in large measure, on economic assistance from the oil countries of the ECWA region for financing their development endeavours. The non-oil economies also have strong linkages with the oil economies and a decline in the level of activity in the latter transmits itself to the former through a decline in their exports and remittances of their workers. Thus the world events that contributed to the decline in the oil revenues of the oil-exporting countries of ECWA profoundly affects the region as a whole.

With the decline in oil revenues and the continuous rise in imports of goods and services, the current account surplus of the oil economies in 1981, despite being substantial, was considerably smaller than the previous year. Past surpluses were used to finance capital outflows and supply world financial markets with liquidity. Also, Saudi Arabia, Kuwait and the United Arab Emirates participated in long-term and less liquid investment, such as corporate equities, bonds and direct foreign investment in business enterprises in Western Europe and the United States. With declines in oil revenue and reductions in international reserve liquidity, growth in foreign investment by members of ECWA, if any, is expected to be constrained in the near future.

The ECWA region's oil revenues during the rest of the Third United Nations Development Decade will depend on the world economic recovery in general and in the developed countries in particular, the extent of the development and use of other sources of energy and on the oil output of non-ECWA oil-producing countries, and individual ECWA country production policies and capacities.

The urgent need of the developing and least developed countries, particularly those stricken by natural disasters like in Africa^{1/} and the two Yemens, for substantially large official international assistance has been strongly advocated by economists, politicians and other experts. The Brandt Commission in March 1983 argued for 'a real increase' in IDA funds; the Buenos Aires platform made a plea for 'substantial increase' in real terms for IDA lending; the New Delhi Commonwealth Conference called for "substantial additional resources" for IDA and a recent United States panel on foreign aid urged "significant increases in the real level of assistance". In spite of the above pleas, the 33 donor countries agreed to reduce funds for the International Development Association (IDA) from 12 billion dollars to only 9 billion dollars over the next 3 years. The IDA had made it clear that it needed 16 billion dollars to function properly. Consequently, the IDA soft loans to many least developed countries will have to be curtailed. Furthermore, the International Monetary Fund recently approved measures that reduce the amount of assistance needy countries can obtain. There seems to be an erosion of the commitment of

^{1/} Africa, where most countries south of the Sahara are considered least developed, continued to suffer from economic deterioration and declining per capita income. It is estimated that nearly 150 million Africans could face hunger and malnourishment during 1984.

the developed countries to a multilateral solution to the economic development problems of the Third World. Such developments are frustrating many developing countries and causing some to call for various radical solutions to their problems.

Leaders of the developed countries of North America, Western Europe and Japan will meet again in June 1984 in London for their annual summit. It is hoped that they, as well as the leaders of the developed Eastern block countries, fulfill their responsibilities towards the developing countries of the world.

The responsibilities of the developed countries of the world in assisting the developing nations rest on both security and economic grounds. Without immediate and significant assistance from developed to developing countries, the latter's economic problems could lead to both economic and political instability from which developed countries cannot be insulated.

On economic grounds, without substantial assistance, many of the developing countries, may be forced to default on loans from developed countries' banks, despite the austerity measures already adopted by developing countries. Such defaults would adversely affect the lending banks themselves and would put severe strains on the economies of the developed countries as well. Also with significant financial assistance the economies of the developed countries could develop and grow. Once recovery is enjoyed by developing countries they would increase their demand for exports and hence contribute to the strengthening of the recovery in the developed countries.

Concessional assistance by the ECWA countries members of OPEC during 1980, 1981 and 1982 totalled 23.7 billion dollars, of which Saudi Arabia contributed slightly over 16 billion dollars and Kuwait about 3.6 billion dollars. However, due to the world recession and the adverse impact of oil glut on the ECWA region's oil revenues, the flow of concessional assistance from the oil-exporting countries of ECWA have declined significantly during the early 1980s. Thus the total concessional assistance provided by these countries which had exceeded 9 billion dollars in 1980 fell to 8 billion dollars in 1981 and to 6.5 billion dollars in 1982. Furthermore, while Saudi Arabia, Kuwait, Qatar and the United Arab Emirates have for several years by far exceeded the declared IDS concessional aid ultimate target of 1 percent of GNP, their bright record is becoming less and less impressive. Saudi Arabia, for example, which had donated 8.39 percent of its GNP in concessioanl assistance in 1978 and slightly over 5 percent in 1980, donated only 2.82 percent of its GNP in 1982 1/. The decline in

1/ OECD, Statistical Annex Development Cooperation, 1983 Review.

concessional assistance by ECWA's oil-exporting countries has come at a time when the need for such assistance by the recipient developing countries has been rising and more compelling. It is not expected that the concessional assistance by ECWA's oil-exporting countries will increase significantly again until the world recovery contributes to substantially higher oil revenues. Hence it becomes imperative that the developed countries, especially those already on the economic recovery path, increase their concessional assistance to the developing countries of the world which are still suffering from the devastating world recession that began in late 1979.

During the first four years of the 1980s, ECWA countries were affected like other developing countries by the negative developments in the international economic conditions. Since the ECWA countries, particularly the Gulf states, are considered among the most 'open' economies compared to other developing countries of the various regions of the world, their vulnerability to world developments is great. When world trade was expanding, the ECWA region had the highest average annual export growth in the world during the 1973-1980 period. Yet when the dollar value of aggregate world exports declined by 1.6 percent in 1981 and another 6.5 percent in 1982 the ECWA region's corresponding declines were 2.6 percent and 28 percent respectively.

The ECWA region is a lucrative market for a large variety of world goods. Many ECWA countries import large amounts of both necessary and luxury consumer goods. On the other hand, ECWA's exports are not diversified to any significant extent. Oil comprises 84 percent of total exports, followed by primary products and raw material while manufactured products represent only a small portion of their exports. Thus to reduce their vulnerability to world economic developments, efforts are being made to diversify exports. However, world economic conditions and increasing protective barriers have hindered the export diversification efforts in the ECWA region.

Some of the Gulf countries have used a portion of their oil revenues to diversify, modernize, and industrialize their economies. The establishment of a petrochemical industry is one of the major accomplishments of industrialization in the Gulf. The Gulf countries invested heavily on the physical construction of the industry as well as on the importation of machinery equipment and technical services from the developed countries. Now that several lines of the petrochemical industry in the Gulf have been established and developed they are encountering various obstacles and barriers imposed on them by developed countries. Protectionist measures by developed countries have so far prevented the ECWA petrochemical products from meaningfully entering the developed countries' markets. In addition, the international marketing ability of the developed countries gives them a competitive edge over the ECWA countries in exporting their petrochemical products to the various developing countries of the world.

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For the petrochemical industry in ECWA to develop, and for further major industrialization developments in Western Asia, protectionist barriers by developed countries should be removed. Furthermore, ECWA countries should intensify their negotiations with other developing countries in order to export to them petrochemical, as well as other, products.

The Gulf area of the ECWA region employs workers from least developed, developing, and developed countries. It employs hundreds of thousands of workers from other parts of the region particularly from Egypt, Jordan, Syrian Arab Republic, Lebanon and Palestinians as well as from other developing countries from outside the region such as South Korea, Pakistan, India and the Philippines. Employed also, though in relatively fewer numbers but at higher-paying jobs, are European and American professionals working in the banking, infrastructure, oil and construction sectors.

Substantial amounts of money were paid for the services of expatriate labour. In 1982 such payments ranged from \$0.32 billion in Bahrain to \$4.2 billion in Saudi Arabia. With the exception of Oman where workers' remittances rose from \$0.36 billion in 1980 to \$0.73 billion in 1982, payments made by Saudi Arabia, Kuwait and Bahrain - the other countries for which comparable data were available - do not appear to have been significantly higher in 1982 than at the outset of the decade. This implies that some plateau has been reached in the total number of workers coming from outside the Gulf area of ECWA, unlike the case during the oil revenue boom of the 1970s when the number of expatriate workers in the Gulf area was continuously rising.

If oil revenues of the Gulf area of the ECWA region do not pick up and development expenditures continue to be constrained, an important source of foreign exchange earnings of many countries, particularly Egypt, Jordan, Lebanon, Democratic Yemen and Yemen will be seriously affected. In addition, the difficulties of return migration and settlement will aggravate domestic employment problems in numerous countries.

C. Recovery and Need for Global Negotiation.

There are encouraging signs of recovery in some developed economies, particularly in the United States where the unemployment rate declined from a peak of 10.8 percent in December 1982 to only 8.2 percent a year later. However, the prospects for the world economy are unclear and the immediate outlook for the developing countries is bleak. In spite of the recent improvement in their terms of trade and an expected decline in interest rates and the value of the United States dollar, developing

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countries would not be able to simultaneously reduce their foreign debts and accelerate economic development and growth at levels targetted by the IDS, without massive financial support from the developed countries and a major correction of the imbalances in international economic relations via positive global negotiations.

In 1974 the Sixth Special Session of the Group of 77 adopted the Declaration and Programme of Action for the Establishment of a New International Economic Order. Unfortunately, ten years later the situation, instead of improving, has deteriorated. The need for an immediate dialogue between North and South and Global Negotiations to improve the economic conditions of the developing countries and correct the growing imbalances in the international economic relations is obvious to all.

The ECWA region, as an important source of foreign exchange to a significant number of developing countries (in the form of expatriate remittances and/or concessional aid) and as a notable market for the exports of developed countries, has the potential to play a significant role in global negotiations. The ECWA countries have stressed the need for an early start of meaningful global negotiations. This call has been reiterated at a number of meetings held during the 1980-1983 period, the most important of which was the Seventh Non-Aligned Movement Summit Meeting held in New Delhi in March, 1983. However, since negotiations between the developed and developing countries have been stalled and strained by the seemingly indifferent attitude of the developed countries, ECWA countries have intensified their efforts to strengthen their relations and cooperation with other developing countries. The recently solidified bonds between OAPEC - which ECWA oil-exporting countries are members - and the Latin American Energy Organization (OLADE) represent an example of ECWA's desire to strengthen the South's position and re-activate the North/South dialogue.

CHAPTER II. AGGREGATE PERFORMANCE

A. Output Structure and Growth

On the eve of the Third United Nations Development Decade, i.e., in 1980, the total GDP of the countries in Western Asia was estimated at about \$ 268.3 billion 1/. This represents about 68.1 percent of the GNP of a single developed country, such as Italy, or 41.2 percent of that of France or 32.8 percent of the GNP of Germany, F.R., in the same year 2/. Furthermore, 56.7 percent of total GDP in Western Asia represented value added of crude oil production in the region, which in turn supplied the world with 27.9 percent of its oil based energy in the same year.

Great disparity exists among ECWA member countries regarding areas, population size and level of output. Regarding the structure of output, the weight of oil production, the degree of diversification of the economy and the level of development could serve as criteria for subregional classification of groups of countries in the region 3/.

1/ Excluding Egypt in order to avoid double counting at the global level, since Egypt is also a member of the Economic Commission for Africa (ECA). Including Egypt the amount will be \$ 294.1 billion.

2/ For data on developed economies, see IBRD's World Development Report, 1982, Arabic version, page 115.

3/ Basically, a distinction can be made between the oil countries (Bahrain, Iraq, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates); the non-oil countries (Egypt, Jordan, Lebanon and Syrian Arab Republic); and the least developed countries (Democratic Yemen and Yemen). For the purpose of analysis in this chapter, however, a modified classification has been used which considers the diversification of the economies as a major criterion and takes into account recent developments resulting in the emergence of the Gulf Co-operation Council (GCC), which comprises all oil countries of the region except Iraq. Accordingly, the modified classification distinguishes between GCC member countries, countries with diversified economies (including Iraq) and the least developed countries. Egypt is basically treated as a special category, if not otherwise mentioned.

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In 1980, the economies of the GCC member countries had a lion's share of total GDP of member countries in Western Asia, amounting to about 71 percent. Including Iraq, the share of the oil economies would rise to 91 percent. The value added in the mining sector of these countries (almost exclusively crude oil production) accounted for about 62.8 percent of GDP in GCC countries and for approximately 62.4 percent in all oil-producing countries of the region. Hence, crude oil production is the major determinant of both the level and growth of total output in Western Asia, see table 1.

Saudi Arabia, the largest oil producer and exporter in the region, produced 43.2 percent of the total GDP of Western Asia, followed by Iraq with 20 percent, U.A.E with 11 percent and Kuwait with 10.3 percent. The value added in the mining sector (mainly crude oil and gas production) of Saudi Arabia alone amounted to 26.7 percent of total GDP in Western Asia, while the output of Iraq, the United Arab Emirates and Kuwait represented 12.2 percent, 7.1 percent and 7 percent respectively. Each 2 percent increase (or decrease) in total crude oil production of these four countries resulted in over 1 percent increase (or decrease) in the total GDP of Western Asia. Furthermore, for an additional 1 percent growth rate of GDP in Western Asia approximately 4 percent rise in the crude oil production of Saudi Arabia alone was required.

The absolute contrast is observed in the case of the least developed countries of the region. Democratic Yemen and Yemen together accounted for only 1.3 percent of the GDP of Western Asia in 1980. This very low level is more striking when compared to the combined population size in those two countries, as depicted in Table 2 below.

Shares of groups of countries in GDP and population
in Western Asia 1980

	Shares in GDP	Shares in population
GCC countries	71.0	29.4
Diversified economies	27.7	52.9
Least developed countries	1.3	17.7
Total Western Asia	100	100

Source: ECWA, based on national sources.

Table I.

Shares of the mining and other sectors
in Global GDP of Western Asia
by group of countries
1980

Groups of countries	Percentage share in total GDP		Total (percentage share of groups of countries to total GDP)
	mining ^{a/}	other sectors	
1) GCC economies	44.6	26.4	71.0
-(there of: Saudi Arabia)	(26.7)	(16.5)	(43.2)
2) Iraq	12.2	7.8	20.0
Sub total oil economies	56.8	34.2	91.0
3) Other diversified economies	...	7.7 ^{b/}	7.7
4) Least developed countries	0.0	1.3	1.3
Total Western Asia	56.8	43.2 ^{b/}	100

Source: ECWA, based on national sources .

a/ mainly oil and natural gas

b/ including the mining sector, which was difficult to separate in some cases.

The total GDP of ECWA member states, estimated at 1980 constant prices, declined continuously from 1980 to 1983. Negative growth rates are estimated at -6.7 percent in 1981 and -3.6 percent in 1982. Preliminary estimates indicate a further decline in 1983 (-5.9 percent). Excluding Egypt the negative growth rates rise to -8.1 percent, -4 percent and -7.1 percent respectively, that is an annual average of -6.4 percent for the period 1981-1983, see Table 3. At current prices, the total GDP of ECWA member states experienced a growth of 8.9 percent in 1981 (or 8.3 percent when Egypt is excluded). This was followed by a negative growth of -1.6 percent in 1982 and an alarming negative growth rate of -15.7 percent in 1983. Excluding Egypt, the negative growth rates register -1.8 percent and 18.3 percent for 1982 and 1983, respectively.

It is worth noting that developments in the world demand for oil and changes in oil prices are the major determinant of the overall trend in GDP growth of the oil-producing countries and consequently of the region as a whole. Bearing in mind the subsequent developments in the terms of trade of the oil exporting countries ^{1/}, it could be stated that the annual changes of GDP in real terms reflecting purchasing power (i.e., GDP at constant prices adjusted for the effect of the terms of trade) are more in line with the trends of GDP at current than at constant prices for the period under review in Western Asia.

In 1981, the average oil price increase of about 15.7 percent ^{2/} seems to have fairly compensated for the -5.5 percent negative growth of the value added in the mining sector (mainly crude oil production) of the GCC countries. Such a price increase in Iraq of about 20 percent, however, has only partially replaced the 80.4 percent decrease in this sector, which was unable to further export its crude oil due to the war with Iran and to the Syrian Arab Republic closing its border for trade and transit from and to Iraq.

^{1/} The terms of trade of the oil exporting countries improved by 11.1 percent in 1981, but subsequently deteriorated in 1982 and 1983 at an estimate rate of 1.3 percent and 14.5 percent, respectively. (IMF World Economic Outlook, 1983, p. 177).

^{2/} The above estimates are based on national sources. The IMF World Economic Outlook, 1983 (p. 177) has estimated the average oil price increase of 1981 at 10.1 percent.

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Table 3.

GDP Growth rates in Countries of Western Asia
1980-1983

Groups of countries	At current prices			At constant prices			annual average
	1981	1982	1983	1981	1982	1983	
1) GCC countries	21.0	-2.9	-23.4	1.3	-5.2	-9.5	-4.6
2) Iraq	-40.6	2.3	-2.3	-46.9	0.4	-0.2	-18.9
Subtotal oil economies	7.5	-2.3	-20.7	-9.3	-4.5	-8.2	-7.4
Other diversified economies	17.6	1.7	7.3	3.3	-0.4	1.4	1.4
Least developed economies	7.2	11.5	5.9	4.3	6.6	3.6	4.8
Total Western Asia	8.3	-1.8	-18.3	-8.1	-4.0	-7.1	-6.4

Source: ECWA, based on national and international sources.

In 1982, the average export price of oil seems to have slightly improved, but the oil glut led to a decline of -14.7 percent of the value added in mining of the GCC member countries measured in constant prices of 1980. As a result, this value added at current prices declined only by -11.5 percent. Saudi Arabia acted as the major determinant for this trend registering a negative growth rate of -11 percent at constant and -6.3 percent at current prices in the value added of the mining sector, while in Kuwait the decline was -34.6 percent in this sector at both current and constant prices, which implies the maintaining of the price level of the previous year. In Qatar and the United Arab Emirates, the average prices seem to have fallen indicating the sector's negative growth of -22.6 percent and -17.1 percent, respectively, at constant prices, compared to the -24.5 percent and -19.1 percent at current prices.

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In 1983, absolute declines of both quanta and prices of oil contributed to the deterioration of the value added of the mining sector in the GCC countries. The negative growth is estimated at -22.8 percent at constant and -47.4 percent in current prices.

Total oil production in the region was reduced from 17.4 million barrels a day in 1980 to about 9.7 million in 1983 due to the world recession, energy conservation and alternative sources of energy coupled with strong competition of non-OPEC oil producers. The share of ECWA member countries in total world supply of oil declined from 27.9 percent in 1980 to 17.9 percent in 1983. Oil revenues declined from \$ 176.6 billion in 1980 to only \$ 84 billion in 1983, implying a decrease of 52.2 percent.

These developments effected considerable changes in the structure of GDP at the regional level and in the shares of individual and/or groups of countries in the region, see Table 4 below.

Table 4.

Shares of the mining and other sectors in total GDP of Western Asia by groups of countries 1980-1983

Groups of countries	Percentage share in total GDP				Total (percentage share of groups of countries to total GDP)	
	mining		other sectors		1980	1983
	1980	1983	1980	1983		
1) GCC economies -(there of: Saudi Arabia)	44.6 (26.7)	28.8 (17.6)	26.4 (16.5)	44.3 (27.4)	71.0 (43.2)	73.1 (45.0)
2) Iraq	12.2	2.4	7.8	11.2	20.0	13.6
Subtotal: Oil economies	56.8	31.3	34.2	55.4	91.0	86.7
3) Other diversified Economies	...	...	7.7 ^{a/}	11.4 ^{a/}	7.7	11.4
4) Least developed economies	0.0	0.0	1.3 ^{a/}	1.9 ^{a/}	1.3	1.9
Total Western Asia	56.8	31.8	43.2 ^{a/}	68.2	100	100

Source: ECWA, based on national and international sources.

^{a/} including the mining sector, which was difficult to separate in some cases.

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The production and export of crude oil have not only generated growth in the oil-producing countries themselves, but have also enhanced growth and development in the non-oil and least developed countries of the region, through grants, loans and workers' remittances. However, their magnitude has remained a function of world demand for oil, which was adversely affected by economic recession during the last few years. Therefore, growth in this sector is not an indigenous developmental phenomenon but is subject to level and direction of the economic activity elsewhere in the world. As such, it is advisable to exclude from the review and appraisal of the IDS crude oil production, which is more or less represented by the value added in the mining sector, see table 5. The monitoring of the IDS could meaningfully concentrate on the non-mining sectors of the oil-producing countries (GCC countries and Iraq) as well as on the entire GDP of the non-oil and least developed countries.

Table 5.

Growth rates in mining and non-mining GDP
in oil-producing countries of ECWA,
1980-1983
(at constant prices of 1980)

		Mining VA	Non-Mining VA	Total GDP
GCC countries	average	-14.6	8.7	-4.6
	1981	- 5.5	12.7	1.3
	1982	-14.7	8.2	-5.2
	1983	-22.8	5.4	-9.5
Iraq	average	42.0	2.0	-18.9
	1981	-80.4	5.5	-46.9
	1982	- 0.3	0.5	0.4
	1983	- 0.2	-0.1	-0.2
Total oil produc- ing economies	average	-19.0	7.2	-7.4
	1981	-21.6	11.1	-9.3
	1982	-13.9	6.5	-4.5
	1983	-21.4	4.3	-8.2

Source: ECWA, based on national and international sources.

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Non-mining GDP of the oil-producing countries experienced relatively high growth rates in 1981 and 1982, estimated at current prices at 18.3 percent and 10 percent, respectively. Preliminary estimates for 1983 indicate a further growth of 8.4 percent. At constant prices, however, these growth rates are estimated at 11.1 percent, 6.5 percent and 4.3 percent, respectively, for the three-year period. Although the growth rates of the total non-mining sectors of GDP in the oil-producing countries has followed a declining trend, the average growth rate of the three years under review was about 7.2 percent per annum, which is higher than the specified target of IDS for the Third Decade. This rate incorporates the changes in the non-mining sectors of Iraq, which has shown a growth rate of 5.5 percent in 1981, a small growth in 1982 (0.5 percent) and a negative growth rate in 1983 (-0.1 percent). On the other hand, two-digit growth rates were witnessed in the total non-mining sectors of many oil-producing countries in 1981 and 1982, while ~~none~~ has reached the limit of 7 percent in 1983, indicating the significant role of government expenditures in generating income in all non-oil sectors of the oil-producing countries. The high growth rates achieved, however, are even higher than those envisaged for the non-oil sector in the Five-Year Plans of many oil-producing countries.

Saudi Arabia's plan objective for the non-oil sector was 6.2 percent annually. Actual estimates indicate an annual average growth rate of 8.5 percent for the period under review, incorporating growth rates of 10.9 percent, 8.1 percent and 6.7 percent for the years 1981-83, respectively. The envisaged annual rate of growth for the non-oil sector in the United Arab Emirates was 9.6 percent. The estimated annual average growth rate achieved in the period under review was 13.3 percent, incorporating individual growth rates of 24.4 percent, 9.5 percent and 6.8 percent in the individual years, respectively. Oman planned annual growth rate of 13.1 percent. The actual annual rate achieved was 13.4 percent for the non-mining sector and 6.2 percent for the mining sector. Countries with diversified economies in Western Asia experienced a sharp decline in their total GDP at constant prices by -32.8 percent in 1981. This was due to the sharp cut in the oil production of Iraq. Excluding Iraq, the rate of growth stands at 3.3 percent, still a low rate which is not far from the population growth rate in these countries. The sluggish development continued to worsen in 1982, with a negative growth rate of -0.4 percent. Preliminary estimates for 1983 indicate an insignificant growth rate of 1.4 percent. The situation in Lebanon is largely responsible for this trend as a result of the Israeli invasion and occupation combined with a lengthy period of civil strife. Lebanon experienced growth rates estimated at -18 percent, -35.6 percent in 1981

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and 1982, respectively. A short period of recovery seems to have reflected some improvement in 1983, but this did not last long.

Jordan has also experienced a sluggish growth in the three-year period under review. Annual average growth rate is estimated at 2.3 percent, in real terms compared to 11 percent envisaged in the Five Year Plan of Jordan. The individual growth rates were 3.2 percent and 4.4 percent, in 1981 and 1982, respectively. Preliminary estimates for 1983 indicate a stagnation. Hence, growth in the three years under review has hardly coped with population increase. Per capita GDP data at constant prices of 1980 show a slight, but persistent decrease.

The Syrian Arab Republic seems to have a relatively better performance among the countries with diversified economies. The 10.2 percent GDP growth rate experienced in 1981 was obviously an extension of the trend in the 1970s. In 1982, however, restrictive measures were taken regarding rationalization of imports and government expenditures as well as other measures to combat inflation and deterioration of exchange rate. These measures, coupled with a decline in agricultural output, led to a relatively lower growth rate in 1982. Apparently, the continuation of such policy had severe effect on growth in 1983. It seems that restrictions were extended even to imports of raw materials and semi-manufactured goods, leading to a decline of the overall growth rate to only 1.7 percent in 1983, implying a 1.1 percent growth rate of the industry and absolute decrease of value added in trade and transport. However, the average rate of growth in GDP for the three years under review was about 6.2 percent, i.e. below the IDS objectives and much lower than the objectives of the Syrian Five Year Plan (7.7 percent annually). GDP per capita increased from \$1516.0 in 1980 to \$ 1672.4 in 1982, and declined to \$ 1645.2 in 1983

The performance of the least developed subregion was below the IDS targets, with growth rates of 4.3 percent, 6.6 percent and 3.6 percent during the three years under review. This was, however, due to the poor performance in Yemen, with only 1.8 percent, 5.4 percent and 1.7 percent respectively, from 1981 to 1983, averaging only 3 percent. Yemen is facing great balance of payments difficulties connected with budgetary and monetary problems and the drain on foreign exchange reserves. Obviously, the annual rate of growth envisaged in the Five Year Plan of Yemen (7 percent) does not appear realistic.

Democrativ Yemén's accomplishment were impressive with rates of growth exceeding the IDS objectives. Growth rates of two digit figures were experienced in almost all years under review, averaging 11.5 percent inspite of the flood disaster of 1982. The acutal annual average growth rate exceeded even the high objective of the Five Year Plan, which is 10.3 percent, annually.

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This economy, though small, is apparently a robust one. This is because of efficient management of resources, especially the optimum use of remittances from migrant Yemeni workers in the Gulf.

GDP Per Capita

Per capita GDP in the ECWA region was estimated at about \$ 3314.3 in 1980. However excluding Egypt with its large population and moderate size of output, per capita GDP in Western Asia would be estimated at \$ 5515.4 in the same year, see table 6.

Table 6.

GDP and per capita GDP In ECWA Subregions, 1980

Regions	GDP (\$ billion)	Mid Year population (million)	Per capita GDP (\$)
GCC countries	190.4	13.2	14,405.0
diversified economies	74.4	26.4	2,815.2
LDCs	3.5	9.0	384.6
(Total Western Asia)	(268.3)	(48.6)	(5,515.4)
Egypt		40.1	643.0
Total ECWA members	294.1	88.7	3,314.3

Source: ECWA, based on national sources.

Given the relatively smaller size of population in the GCC member countries, per capita GDP in those countries is, with its two digits thousand dollars^{1/}, the highest in the region and in the world ^{2/}.

^{1/} except Oman with \$ 5,754.7 due to relatively higher population and lower level of oil production.

^{2/} For data on developed countries, see tables of the IBRD World Development Report, 1982, Arabic, p. 111.

Some of those countries are actually the highest in terms of per capita GDP, such as Qatar with US \$ 32,521.4; U.A.E US \$ 28,403.9; and Kuwait US \$ 20,046.7 per capita GDP. The average per capita GDP of the GCC member countries was estimated at \$ 14,405 in 1980, higher than per capita GDP of, for example, the United States (\$ 11, 360) and of Germany, F.R (\$ 13,590) in the same year.

The diversified economies of Western Asia, including Iraq, had an average per capita GDP of \$ 2,815.2 in 1980, i.e. about 19.5 percent of the average per capita GDP of the GCC countries and even lower than the average of Western Asia (51 percent thereof). Those countries, however, had still an acceptable level of per capita GDP ranging from US \$ 1,490 in Jordan to US \$ 4,114 in Iraq. In between were the Syrian Arab Republic, a producer of a small quantity of oil, with US \$ 1,516 and Lebanon with about US \$ 1,740. Egypt, although an oil producer, had a per capita GDP of US \$ 643. This lower level was due to its large size of population of over 40 millions.

The lowest per capita GDP level was experienced by the region's two least developed countries with US \$ 384.6 in the subregion. Lower level of output and relatively larger population were responsible for this level of per capita GDP, which is about 2.7 percent of the average of the GCC countries, 1.3 percent of the U.A.E, and about 7 percent of the average of Western Asia.

The outcomes of the "Oil glut", coupled with Iraq's inability to export oil according to its OPEC share, and of the development efforts in the region are reflected in a dramatic decrease in the average per capita GDP and in negative growth rate of -10.1 percent in the 1980-83 period, see table 7.

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Table 7.

Per capita GDP in the ECWA region, 1980-1983
(at constant 1980 prices in U.S dollars)

	1980	1981	1982	1983	average rate of change (percent)
1. GCC countries	14,405	13,654	12,098	10,237	-10.8
2. Diversified economies	2,815	1,832	1,776	1,729	-15.0
-(Thereof Iraq)	(4,114)	(2,115)	(2,053)	(1,985)	-21.6
3. Least developed economies	385	391	406	411	+ 2.2
4. Average Western Asia	5,515	4,869	4,489	4,001	-10.1
5. Egypt	643	675	662	675	+ 1.6
6. Average ECWA members	3,314	2,992	2,790	2,539	- 8.5

Source: ECWA, based on national and international Sources, including the the Unified Arab Economic Report in the case of Iraq.

The individual ECWA member countries which experienced positive annual average growth rates during the period under review are Democratic Yemen (9 percent), Egypt (1.6 percent), Oman (a GCC member, 3.9 percent), Syrian Arab Republic (2.8 percent) and Yemen (a negligible rate). Except Democratic Yemen, however, none of them realized the IDS targets. The other category with negative annual average growth rates are Bahrain (-2.6 percent), Iraq (-21.6 percent), Jordan (-2.6 percent), Kuwait (-18 percent), Lebanon (-18.5 percent) Qatar (-14.8 percent), Saudi Arabia (-10 percent) and the United Arab Emirates (-13.9 percent).

B. Diversification

The share of manufacturing in Western Asia was about 5.9 percent of its total GDP in 1980, which reflects the high share of oil production. Excluding the mining sector, the share of manufacturing would more than double, reaching about 13.7 percent.

The GCC countries seem to have made notable efforts towards the diversification of their economies in the previous decade. The share of

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the manufacturing industries in the non-mining sectors of GDP reached an average of 14.1 percent in 1980. A significant portion of the output in this sector, however, is generated by oil refining, which is actually a part of the "oil sector". Including Iraq (12.3 percent) the average of the major oil producing countries fell to 13.7 percent in 1980. The highest share among those countries was experienced by Bahrain (21.3 percent) followed by Kuwait (19.5 percent) and the United Arab Emirates (14.1 percent). On the other hand, the lowest share was recorded in Oman (5.8 percent or only 2.2 of Oman's total GDP).

Due to considerable attention given to building the physical infrastructure, the share of the value added in the construction sector to non-mining GDP is remarkably high in GCC countries, with an average of 24.7 percent. Including Iraq (18.4 percent) the average of the major oil-producing countries would be somewhat lower (23.2 percent).

C. Manufacturing

In the GCC countries, the decline of crude oil and natural gas output adversely affected the increase in the share of the manufacturing value added in total GDP. Its average share in the non-mining sectors of these countries taken as a group has almost remained constant, see table 8.

Table 8.

Share of manufacturing in total GDP
and in Non-mining Value
added in the oil countries
1980-1983
(in percent)

Country	<u>Share in total GDP</u>				<u>Share in non-mining VA</u>			
	1980	1981	1982	1983	1980	1981	1982	1983
Bahrain	14.7	14.5	11.5	12.3	21.3	20.0	15.0	15.2
Kuwait	6.2	5.9	7.9	9.2	19.5	15.1	15.2	16.0
Oman	2.1	2.0	2.4	2.7	5.8	5.4	5.6	5.9
Qatar	3.5	4.9	5.8	7.3	10.4	13.5	12.3	12.2
Saudi Arabia	5.1	5.0	4.3	7.3	13.3	14.7	11.4	12.0
U.A.Emirates	5.0	8.4	10.6	13.0	14.1	20.2	20.9	21.0
Average GCC countries	5.3	5.7	5.7	8.4	14.1	15.5	13.4	13.9

Source: ECWA, based on national and international sources.

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The share of manufacturing in the total GDP of the diversified economies averaged 7.5 percent in 1980. This share has increased to 11.8 percent in 1983, due to the decline in the oil production in Iraq. Among this group, the Syrian Arab Republic had the highest share of manufacturing in total GDP, reaching 17.4 percent in 1980 and 18.9 percent in 1983.

The contribution of the construction sector to GDP in this group of countries was, however, lower than that of the GCC countries in 1980 amounting to 9.8 percent in Jordan, 6.9 percent in the Syrian Arab Republic and only 3.2 percent in Lebanon, which experienced internal hostilities since mid 1970s.

The average share of manufacturing in the least developed countries was only 8.1 percent in 1980, with around 10 percent in Democratic Yemen and 7.6 in Yemen. This share was however, still higher than that of Oman, a GCC member country.

The contribution of the construction sector to the GDP of the LDCs of the region was 9.3 percent which is higher than that of other diversified economies in the region. This indicates the great efforts these countries are making to build their physical infrastructures, which are nevertheless still deficient.

During the period under review, manufacturing has witnessed a development which was, on the average and at the regional level, below the IDS objectives. Overall growth in this sector in Western Asia was promising in 1981, with a growth rate of 8.7 percent. This was followed by declining growth rates of 6.2 percent and 5.4 percent in 1982 and 1983 respectively.

The average of the period was 6.7 percent, which is far below the IDS target of 9 percent annually, see table 9.

Table 9.

Growth rates of Manufacturing Value added for the period 1980-1983

	at 1980 constant prices			
	1981	1982	1983	annual average
GCC countries	18.2	7.4	8.1	11.1
Diversified economies	-8.3	2.9	-1.1	-2.3
Least developed economies	1.9	17.7	8.2	9.1
Average Western Asia	8.7	6.2	5.4	6.7
Egypt	9.2	-1.8	2.0	3.0
Average ECWA members	8.7	4.8	4.9	6.1

Source: ECWA, based on national and international sources.

It is clear that the GCC countries, as a group exceeded the IDS targets during the 1980-1983 period. Individually, some of them realized average annual growth rates of two-digits, such as Oman, Qatar and the United Arab Emirates, whereas Saudi Arabia achieved an acceptable average of 8.6 percent, and others experienced stagnation or even a decline (Bahrain and Kuwait, respectively). Within the group of diversified economies, Iraq and Lebanon witnessed a considerable negative growth rate. The rest of the group had a slow growth. The LDCs, as a group, realized the IDS target.

However, the actual annual average rate of growth achieved at the regional level does not express the real potential of the region. The objectives of the IDS for 9 percent annual growth rate would have been achieved easily in the ECWA region, under normal circumstances. The Iraq-Iran war affected a negative growth rates of -20.5 percent in the value added of manufacturing in Iraq in 1981 which was followed by a slight improvement in 1982. A further decline of 4.7 percent is estimated for 1983, due to import restrictions, even on intermediate consumption goods. The civil war in Lebanon, coupled with the Israeli invasion and occupation, resulted in a negative growth rate of -18.6 percent in 1981 and -32.7 percent in 1982. Preliminary estimates for 1983 indicate a further decline of -7.3 percent. These factors, coupled with foreign exchange problems in other non-oil developing countries made the rate of change of the diversified economies appear negative, with -8.3 percent in 1981, and, after a slight improvement of 2.9 percent in 1982, there was a further negative growth of -1.1 percent in 1983. However the annual average rate of growth in the manufacturing of the Syrian Arab Republic was only 4.4 percent for the 1981-1983 period compared to 15.3 percent envisaged for industry in the Five Year Plan of the country. The annual average growth rate in Jordan was only negligible, implying a positive growth in 1981, then a decline in the following two years. The Jordan Five Year Plan, in contrast, had envisaged an annual average growth rate of 18 percent for industry.

The least developed countries seemed to have experienced significant development in their manufacturing sectors. Their annual average rate of growth in 1980-1983 period was, with some fluctuation in different years, about 9.1 percent, i.e. slightly above the IDS targets of 9 percent. However, the small weight of the manufacturing in those countries have little effect at the regional level.

The performance of the GCC countries in the area of industrialization remains impressive. In 1981, a significant growth rate of 18.2 percent was achieved. Yet the marketing difficulties, particularly with respect to petrochemical products, caused by restrictive practises of developed and developing countries, prevented the continuation of such a trend. Nevertheless, a growth

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rate of 7.4 percent was achieved in 1982 and preliminary estimates indicate a further growth rate of 8.1 percent in 1983. The average of the period under review is estimated at 11.1 percent, fairly above the IDS target of 9 percent annually.

Additionally, it is a very important fact that about 71.4 percent of the manufacturing output in Western Asia (excluding Egypt) is by now concentrated in the GCC countries. Even if Egypt is included, this share will be over 60 percent.

D. Agriculture

On the eve of the United Nations Third Development Decade, agricultural output was still low in western Asia. Its 3.2 percent share in total GDP of the region in 1980 reflects the severe dependency on food imports. Excluding the value added in mining, this share would become only 7.3 percent.

Basically, most of the territories of the GCC members comprise deserts and arid zones. This explains why the average share of agricultural value added in GDP in these countries has not yet exceeded 1.0 percent in 1980. Oman, with relatively more fertile areas, has the highest share of agriculture in GDP (1.9 percent), followed by Saudi Arabia (1.2 percent), which is making remarkable efforts to develop this sector. Excluding fisheries and some livestock husbandry in the rest of the GCC countries, the share of agriculture in GDP is almost negligible. Nevertheless, compared to the size of agricultural output of the whole region of Western Asia, the GCC member countries had a significant role. Their share was about 22.1 percent in 1980 with Saudi Arabia having 71.1 percent of the agricultural output of the GCC members, followed by United Arab Emirates with 11.9 percent and Oman with 5.6 percent.

Countries with diversified economies, forming the "fertile crescent", have a higher share of agricultural value added in GDP, averaging 7.7 percent in 1980. This share has increased to 13.2 percent in 1983, due to the decline in oil production in Iraq in 1981 and thereafter. The highest share was experienced by the Syrian Arab Republic (20 percent) in 1980, while Lebanon and Jordan had 7.9 percent and 6.5 percent, respectively.

The average share of agriculture to GDP in the least developed countries amounted to 25 percent in 1980 reflecting the subsistence character of their production. This share was 28.3 percent and 11.7 percent in Yemen and Democratic Yemen, respectively.

In the course of developments during the period 1980-1983 in the region, the share of agriculture in total GDP of the region developed as depicted in the following table.

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Table 10.

Share of Agriculture in GDP , 1980-1983

	1980	1981	1982	1983
GCC countries	1.0	1.0	1.1	1.5
diversified economies	7.7	12.6	13.5	13.2
least developed economies	25.0	24.0	25.8	18.0
total Western Asia	3.1	3.5	3.9	4.7
Egypt	18.9	18.8	18.8	18.2
total ECWA members	4.5	4.9	5.3	6.3

Source: ECWA, based on national and international resources.

Agriculture has grown significantly in Western Asia during the 1980-1983 period. In real terms, the annual average growth rate achieved was 5 percent, considerably higher than the IDS targeted rate of 4 percent. Including Egypt, however, the annual average rate of growth would be only 2.8 percent for ECWA member countries, due to the decline of agricultural output in this country during the reviewed period and due to the weight of Egypt's agricultural sector, see table 11.

Table 11.

Real growth rates of Agriculture in ECWA region
1980-1983

	1981	1982	1983	average 81-83
GCC countries	6.9	5.5	4.4	5.6
diversified economies	14.3	-3.0	7.8	6.1
least developed countries	3.1	-0.1	-15.5	-4.5
Total Western Asia	11.5	-0.9	4.8	5.0
Egypt	-3.5	-0.7	0.2	-1.4
Total ECWA members	6.0	-0.9	3.3	2.8

Source: ECWA, based on national and international resources

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The 5 percent annual average growth rate of Western Asia would have been higher, were it not for the natural disasters in the least developed countries and the circumstances in Lebanon which adversely affected agricultural growth at the regional level.

The 5 percent annual growth rate of agriculture in Western Asia, coupled with the decline of crude oil production, affected the increase of the share of agricultural output in the total GDP of Western Asia from 3.1 percent in 1980 to 4.7 percent in 1983.

The GCC member countries, which contributed 22.1 percent in the agricultural output of Western Asia in 1980 increased their contribution to 22.7 percent in 1983. The annual average growth rate in this sub-region is estimated at 5.6 percent in real terms in 1980-1983, i.e. higher than the average of Western Asia. All GCC member countries achieved or exceeded the IDS target in this field. The United Arab Emirates for example, with its annual average growth rate of 11.6 percent, exceeded its planned target of 10.3 percent; whereas Oman with its significant average growth rate of 7.7 percent failed to realize its ambitious target of 15.6 percent. Saudi Arabia, with its annual average growth rate of 4.2 percent exceeded its humble objective of 3.4 percent annually.

In the diversified economies an annual average agricultural growth rate of 6.1 percent in the 1980-1983 period was realized. This is quite a considerable achievement at the subregional level. The major factor behind this development was the substantial increase in the agricultural output of Iraq. Iraq's agricultural output had stagnated in the 1970s, although large fertile areas existed in this country, presumably due to abundance of oil wealth. The implementation of important irrigation and reclamation projects, coupled with a recent pricing policy giving incentives to agricultural production, the growth which has taken place was remarkable, a 13.6 percent growth rate in the annual average. Through these developments the share of Iraq in the agricultural output of Western Asia increased from 29.7 percent in 1980 to 37.6 percent in 1983. In contrast, the value added in agriculture in Lebanon has fallen dramatically by -24 percent in 1981 and a further -44 percent in 1982. Some insignificant relief was noticed in 1983. Also Jordan experienced a sluggish development in the agricultural sector. The estimated average annual growth rate realized was around 1.3 percent, far below the IDS target of 4 percent, and much lower than the growth envisaged in the Five Year Plan of 15.6 percent annually, which apparently looks unrealistic. Also the Syrian Arab Republic, which envisaged a 7.8 percent annual growth rate of agriculture in its Five Year Development Plan and had experienced a significant growth in the 1970s, could not achieve more than annual average growth rate of 1.6 percent during this period. The Syrian Arab Republic seems to face difficulties in further making use of its large investment in this sector. Nevertheless, output still constitutes 28.3 percent of total agricultural output in Western Asia.

Agriculture in the least developed countries, which has contributed 10.2 percent to the total agricultural output of Western Asia in 1980, experienced a deterioration estimated at -4.5 percent as annual average during the period 1980-1983. As a result, the share of this subregion in the agricultural output of Western Asia declined and became only 7.2 percent in 1983. Also the share of agriculture in the total output of the subregion declined from 25.0 percent to 18.0 percent during the same period. The major reasons for this negative trend are the external migration of Yemeni workers depriving the cultivated land of the required manpower and the two recent disasters, floods in Democratic Yemen and earthquake in Yemen, in addition to the draught in 1983.

F. Gross Investment

The share of gross investment in total GDP in Western Asia was at an acceptable level of 22.3 percent in 1980. Including Egypt with its high share of 29.3 percent (already exceeded the IDS target for 1990), the share of ECWA members was somewhat higher, i.e. about 22.9 percent. Considering the fact that this share was related to total GDP including oil, it could be regarded also acceptable. The main reason seem to be the limited absorptive capacity of most GCC member countries, in spite of their relative wealth. The share of gross investment in GDP of the GCC member countries was 21.4 percent in 1980, i.e. below the regional average. Some GCC countries, however, had a much higher share, such as Bahrain, which was persuing intelligent diversification and development policies. Since Bahrain enjoyed a relatively developed manpower, it was able to accomodate many regional jointed ventures. The gross investment share in GDP in Bahrain has reached a level of 44.6 percent, already in 1980, much higher than the IDS objective envisaged for the end of the decade. Another GCC member country which achieved a high share of gross investments in GDP was the United Arab Emirates, with 28.4 percent in 1980, also higher than the IDS objectives for 1990. The large industrial projects in Jabal Ali, Dubai Emirate, involve substantial investments. Saudi Arabia was making substantial efforts to invest its relatively huge resources and have reached a share of 20.7 percent in 1980. Oman also was attempting to rapidly develop its economy. Although it was a late comer as an oil country, it was able to invest 23.7 percent of its total GDP in 1980. Kuwait and Qatar seemed to have prefered investing abroad. They have absorbed 13.2 percent and 17.5 percent, respectively in 1980.

Gross investment's share in GDP in Western Asia experienced a considerable increase from 22.3 percent in 1980 to 29 percent in 1982. Including Egypt whose investment ratio declined from 29.3 percent to 25.4 percent and which witnessed an increased resource gap ratio from -7 percent to -20.9 percent in the same period, the trend of the overall investment ratio for ECWA members as a whole would be an increase from 22.9 percent in 1980 to 23.1 in 1981 and 28.6 in 1982, see table 12.

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Table 12.

Gross investment ratios in ECWA countries
1980-1982

	1980	1981	1982
GCC countries	21.4	22.2	25.3
diversified economies	23.9	39.2	41.8
least developed countries	45.1	45.2	45.9
Total Western Asia	22.3	25.8	29.0
Egypt	29.3	31.2	25.4
Total ECWA members	22.9	26.2	28.6

Source: ECWA, based on national and international sources.

However, this positive trend, which at the first glance gives the impression of being in line with the IDS objective of 28 percent in 1990, is hiding the fact that it is not only the result of higher development efforts, but also that of a declining GDP, due to decrease in demand for oil in the period of world recession. The former cause could have had more effect in 1981, when oil price increase compensated for the quantity decrease, but the latter had higher effect in 1982.

Iraq's share of investment in GDP^{1/} increased sharply from 21.9 percent to 48.2 percent in 1981 and to 55.4 percent in 1982. It is remarkable that in 1982, Iraq invested heavily to complete its on-going projects, while its GDP was declining. Its reserves thus and under the war conditions were exhausted. This trend affected the considerable increase of this share in the group of diversified economies, whereas this share, for example has fallen in Syria from 27.2 percent to 22.8 percent in the same period. In Jordan, the investment ratio increased from 40.5 percent in 1980 to 48.7 percent in 1981, but declined to 46.3 percent in 1982. The problem in Jordan seems to be not in the area of investment ratio which is far higher than the IDS objectives, but in the area of its dissaving, the ratio of which increased from -8.9 percent in 1980 to -10.7 in 1982. The Syrian Arab Republic seems to have the same problem with its investment ratio considerably exceeding moderate saving ratio which declined from 12 percent in 1980 to only 6.3 percent in 1981. While its resources gap increased from -15.2 percent to -16.6 percent, respectively. These developments led to severe restrictive measures in order to improve the situation with some positive signs in 1982. Saving ratio was increased again to 13 percent, resources gap squeezed to only -9.8 percent, implying an absolute contraction in imports and a strong

^{1/} Data on investment and other variables of Iraq see United Arab Economic Report, 1983, p. 208. .../

control of government expenditures, and the investment ratio was kept at the same level. Those measures, however, are unlikely to improve growth prospects, at least in the short-run.

Investment ratio of the least developed countries are high (45.1-45.9 percent). This is due to the small size of their GDP and the considerable remittances and aid which are covering the investment and dissaving. Hence, the resource gap is tremendously high (69.2-71 percent).

F. Domestic Saving

The ratio of domestic saving to GDP in Western Asia as a whole was 54.9 percent in 1980, much higher than the investment ratio of 22.3 percent indicating an overall surplus of 32.6 percent of the region's GDP. This, however, implies a high saving ratio in the large oil producing countries, resources gap and even dissaving in the rest of the region.

The domestic saving ratio in the GCC countries was substantial, reaching about 57.6 percent of their GDP in 1980. After investing 21.4 percent of the GDP, resources surplus was 36.2 percent in 1980. That is about \$ 68.9 billion which was used for aid, foreign investments and for increasing their financial reserves. The highest saving ratio was 71.8 percent, realized in United Arab Emirates. Only 28.2 percent of GDP was consumed in this country in 1980. Qatar's and Kuwait's domestic saving ratios were among the highest in the GCC countries with 64.7 percent and 59 percent of GDP, respectively. These two countries are among those GCC countries, which have the lowest investment share in GDP, their saving therefore, seems to be used more for external investments. In 1982, for example, the income of Kuwait from external investment exceeded that of oil.

Iraq, as a major oil producing country in the region, invested 21.9 percent of its GDP in 1980, that is about 30 percent of its saving, thus realized a considerable surplus, contrary of the rest of the diversified economies and the least developed countries, which usually have a negative resources balance and in most cases, dissaving. In 1980, Jordan, Lebanon and the Syrian Arab Republic, taken as a non-oil with diversified economies, had large resources gap estimated at 25.1 percent of their total GDP. Thus, their gross investment ratio, estimated at 29 percent of their total GDP, was financed by external loans and grants as well as by net factor incomes and other transfers from the rest of the world. Only the Syrian Arab Republic had a positive domestic saving ratio of 12 percent in 1980, i.e. about 44 percent of its investment ratio, whereas Jordan, Lebanon and the two Yemens experienced considerable dissaving.

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The saving ratio at the level of Western Asia declined from 54.9 percent in 1980 to 45.1 percent in 1982. With the investment ratio increasing from 22.3 percent to 29 percent in the same period, the two ratios were coming closer and the resources' surplus share in GDP declining from 32.6 percent to only 16.1 percent in 1982.

Selected ratios in Western Asia

	1980	1981	1982
Saving ratio	54.9	52.4	45.1
Investment ratio	22.3	25.8	29.0
resource surplus	32.6	26.6	16.1

The saving ratio, which experienced a continuous decline at the regional level, gives a different image when considered at the level of subregions, table 13.

Table 13.

Development in saving ratio in groups of countries in Western Asia
1980-1982

	1980	1981	1982
GCC countries	57.6	60.2	52.8
Diversified economies	52.1	25.7	19.8
Least developed countries	-24.1	-24.6	-25.1
Total Western Asia	54.9	52.4	45.1
Egypt	22.3	12.3	4.5
Total ECWA member countries	52.0	48.6	41.2

Source : ECWA, based on national sources.

The GCC members experienced an increase in the saving ratio in 1981 from 57.1 percent in the previous year to 60.2 percent. This is due to the oil price increase, inspite of decrease in oil output. In 1981 the investment ratio increased as well as the resource surplus ratio. In 1982, however, the investment ratio kept its increase, where as the saving ratio declined and thus the resource balance was considerably reduced.

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Selected ratios for countries of
GCC

	1980	1981	1982
Saving ratio	57.6	60.2	52.8
Investment ratio	21.4	22.2	25.3
Resource surplus	36.2	38.0	27.5

The countries with diversified economies experienced similar trend, but the situation was worsening so that a resource gap emerged in 1981 and increased in 1982.

Selected indicators for the diversified
economies in Western Asia

	1980	1981	1982
Saving ratio	52.1	25.7	19.8
Investment ratio	23.9	39.2	41.8
Resources balance	28.2	-13.5	-22.0

The major reason for this development was the case of Iraq, with its oil production dropping and oil prices decreasing in a time of war and a continuous policy of implementing large investments. The investment ratio exceeded the saving ratio in 1981 and created a resource gap of 2.3 percent. This trend was even stronger in 1982 when the share of resource balance in GDP showed a negative sign with a considerable percentage (-22.9), thus leading to the use of reserves.

Jordan's dissaving ratio increased from -8.9 percent in 1980 to -14.5 percent in 1981 and improved again to -10.7 in 1982, whereas the situation in Lebanon worsened so that the dissaving reached the level of 45.8 percent of GDP in 1982.

The least developed countries' dissaving ratio increased as well. The two Yemens, and to some extent also Jordan and Lebanon, live on financial flows from abroad. They are consuming much more than their own total GDP. The resources gap of the two Yemens was estimated at 69.2 percent in 1980. Taking into account their very high investment ratio of 45.1 percent, their domestic dissaving ratio amounted to -24.1 percent in 1980. Democratic Yemen has relatively higher dissaving and resources gap. A major role in financing all investments and a significant part of consumption is played by the remittances of Yemenis working abroad, mainly in the Gulf countries and especially in Saudi Arabia.

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The dissaving of the least developed countries continued to grow in relative and absolute terms. In spite of the GDP growth the dissaving ratio increased from -24.1 percent in 1980, to -24.6 percent in 1981 and to -25.1 percent in 1982. While the gross investment ratio increased from 45.1 percent in 1980 to 46.9 percent in 1982, the resources gap widened from -69.2 percent to 71 percent. This trend looks sharper in the case of Democratic Yemen, where the resources gap reached the level of -94.1 percent of GDP in 1982. Perhaps the high share of investment in GDP is promising on the longer run, but the reliance of the two least developed countries of the region on temporary resources does not permit the continuation of such a trend in dissaving. More control on consumption, public and private would become inevitable.

PART TWO. SECTORAL PERFORMANCE

CHAPTER I. AGRICULTURE AND RURAL DEVELOPMENT

A. Agriculture

Introduction

Agriculture received much emphasis in the International Development Strategy (IDS) adopted for the Third Development Decade (DD3); however, only one quantitative target was specified for the sector namely, an average annual increase of at least 4 per cent in the agricultural production of the developing countries ^{1/}. The other targets are of a descriptive nature. In this brief review an attempt is made to assess agricultural performance in the ECWA region in line of the objective set out in the IDS. The main emphasis is on the first three years of the Decade. This period is relatively short, particularly in a sector like agriculture that is subject to severe fluctuations. Trends are therefore usually shown covering the period 1967-1982 as well as 1981-1983.

The role of agriculture in the economy varies from one group of ECWA countries to another. In the oil-exporting countries, which have a limited agricultural base, agricultural development aims at promoting economic diversification, the development of national resources and augmenting the production of food. In the non-oil economies, agricultural development is geared to act as the prime source for export earnings, food, employment, the development of agricultural raw material-based food-processing and textile industries.

1. Production Performance

Aggregate Production

Total gross agricultural production in the ECWA region during 1981-1983 registered an annual average increase of 1.9 per cent, compared to 3 per cent in the period 1967-1982; a disappointing performance when set against the IDS target of 4 per cent (Table 1). During the same period average per capita food production actually fell by 0.6 per cent annually, reflecting faster population growth relative to agricultural output. Saudi Arabia was the major exception recording a 7.9 per cent annual average increase during the period 1981-1983.

^{1/} General Assembly resolution 35/56, paras. 28 and 81.

Table 1. Index numbers and annual change of total agricultural production (gross) in the ECWA countries, selected years

(1974/76 = 100)

Country	1975	1979	1980	1981	1982	1983 <u>a/</u>	Annual percentage change	
							1967-1982 <u>b/</u>	1980-1983 <u>b/</u>
Democratic Yemen	102	99	101	98	95	96	2.2	- 1.8
Egypt	100	110	113	114	113	115	2.1	0.4
Iraq	94	128	128	132	137	141	2.4	3.3
Jordan	83	103	141	131	141	142	0.7	1.0
Lebanon	94	105	131	110	128	122	0.8	- 0.6
Saudi Arabia	105	135	136	141	166	188	7.0	12.0
Syrian Arab Republic	96	110	152	151	156	161	6.7	2.1
Yemen	108	101	102	99	97	97	1.1	- 1.7
ECWA (including Egypt)	99	112	123	123	126	130	3.0	1.9
ECWA (excluding Egypt)	99	115	132	131	138	143	3.8	3.0

Source: FAO, Interlinked Computer System (ICS) printouts of production index numbers, November 1983 (unpublished).

a/ Preliminary.

b/ Exponential growth rates.

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Saudi Arabia has achieved impressive rates of growth in agricultural production, gross output increasing by 12 per cent annually during the period 1980-1983, or almost three times higher than the IDS target of 4 per cent. Improvements in the agricultural sector of Saudi Arabia could be attributed to the increasing use of modern production methods, machinery, improved inputs (seed and fertilizer), attractive prices and improved marketing facilities, subsidies and credit facilities offered to farmers.

Weather conditions continued to be a determining influence in countries where rain-fed agriculture is predominant, resulting in large year to year fluctuations in output. Following a bumper crop in 1980, agriculture production in the Syrian Arab Republic experienced a setback in 1981 and 1982, resulting in an average yearly growth of only 2.1 per cent over the three year period 1980-1983, compared to a 6.7 per cent increase during 1967-1982.

Agricultural output in Iraq increased by 3.3 per cent due to higher output of cereals as well as vegetables. Prices of vegetables were left to be determined by demand and supply forces and farmers appear to have responded positively to higher prices.

Gross agricultural production in Jordan and Egypt increased annually by 1 and 0.4 per cent, respectively. Apart from commercial farming in the irrigated Jordan Valley, where due to the use of modern technology, off-season vegetables gained some increases, the course of agricultural production in Jordan was largely determined by climatic factors. Drought reduced production of cereals in Jordan in both 1981 and 1982; and below average increases were also registered for other food and non-food crops in Jordan.

During the last three years, agricultural production in Lebanon, and Democratic Yemen declined by 0.6, 1.7 and 1.8 per cent respectively. In recent years Lebanon has made considerable progress with the use of greenhouses that have allowed increased production of vegetables. Likewise, some progress has been made in the poultry industry that was heavily damaged during the war. For several years, the Lebanon's winter grains production has declined. Higher prices received for cash crops, particularly vegetables and fruits have intensified competition for limited arable land.

The adverse climatical factors affecting the agricultural sector were especially pronounced in the two Yemens. The chain of unusually heavy rains, which started in 1981 in Democratic Yemen, continued till May 1983

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damaging several temporary bunds erected after the 1982 devastating floods which rendered more than 2000 hectare of fertile land incultivable even in 1983 ^{1/}. The food situation in the two Yemens was also not encouraging. Per capita food production in Yemen and Democratic Yemen fell by 4 and 4.3 per cent respectively. The capacity of agricultural exports to finance the mounting bill of food imports remained extremely low. Agricultural export earnings actually declined by 36 per cent in Democratic Yemen and by 71 per cent in Yemen, which have continued to depend on concessional food aid, receiving 13,000 tons of grains and 2,500 tons of other food items valued at US\$ 3.7 million between 1981 and 1982.

Crop Subsector

Crop production in the region increased marginally by 0.1 per cent during 1981-1983 (Table 2). Cereal production declined by 3 per cent annually. However, the setback in the output of cereals was almost offset by greater production of fruits and vegetables as well as sugar crops. Output of non-food crops declined by 2 per cent annually during 1981-1983 mainly due to 3.1 per cent decline in seed cotton production (Table 2).

Wheat production at the regional level declined marginally by 0.9 per cent, mainly due to reduced area cultivated during the period 1981-1983. The decline in area was somewhat offset by improvements in productivity (2.5 per cent). The decline in wheat production was shared by all major wheat-producing member countries, save Saudi Arabia where the upward trend continued with output reaching 600,000 tons in 1983, compared to 400,000 tons produced in 1982. Much of this increase was attributed to new technology and to the increased use of modern inputs, such as fertilizers, as well as production incentives.

The region's output of coarse grains also declined by 6.3 per cent during the review period. Output of barley fell by 8.9 per cent, maize by 4.1 per cent, millet and sorghum by 4 and 8 per cent respectively. Except for wheat and maize where some productivity gains were made, all other cereals suffered from lower yields.

Attractive prices and improved marketing facilities, progress in the development of greenhouses, subsidies and credit facilities contributed to the high growth in vegetable production in the region. During 1981-1983, on average, the region produced 15.5 million tons of vegetables annually. Fruit production also rose by 2.3 per cent annually. However, some production setbacks occurred for olives, pulses and potatoes in the region during the same period.

^{1/} FAO/WFP emergency food assistance for 50,000 people affected by the December 1982 earthquake in Yemen was operational till August 1983. FAO also provided emergency seed and fertilizer worth US\$ 25,000.

Table 2. Production (gross) of food and non-food crops in the ECWA region

(Thousand metric tons; percentages)

Item	1974/76	1979	1980	1981	1982	1983 <u>a/</u>	Annual percentage changes	
							1980-83	1980-83 <u>b/</u>
Index of total food crops	100	113	124	124	128	132	3.5	2.2
Cereals	13963	13758	15818	15199	13459	14859	- 0.1	- 3.0
Pulses	705	560	674	594	565	572	- 1.3	- 5.3
Vegetables	11639	13337	14466	15047	15566	15804	4.2	3.0
Potatoes	1074	1601	1892	1916	1766	1885	2.3	- 1.4
Fruits	5000	6027	6025	6026	6314	6402	1.7	2.3
Sugar	641	739	737	742	823	827	3.4	4.6
Olives	297	235	532	258	593	289	5.4	- 9.5
Index of total non-food	100	110	116	112	110	109	- 0.7	- 2.0
Crops								
Cotton	1579	1657	1762	1706	1662	1602	- 1.3	- 3.1
Tobacco	36	37	42	39	41	42	2.3	0.5
Index of total crop production	100	109	121	118	119	121	1.9	0.1

Source: FAO, ICS printouts of production index numbers, November 1983 (unpublished).

a/ Preliminary

b/ Exponential growth rates

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Livestock subsector

The livestock subsector performed very well in the early 1980s, registering an annual average growth rate of 5 per cent (Table 3). Much of this growth can be attributed to governmental financial support for new poultry and dairy enterprises. Despite this impressive performance, livestock production still falls short of meeting local demand. Also, in many countries of the ECWA region the development of this subsector is based on imported feed.

Table 3. Livestock production in the ECWA region, selected years

(Thousand tons; percentage)

Commodity	1974/76	1979	1980	1981	1982	1983 _{a/}	Annual percentage changes	
							1980-83	1980-83 _{b/}
Whole fresh milk	3997	4657	4861	5238	5465	5639	5.1	5.0
Indigenous red meat _{c/}	531	616	623	648	677	702	3.5	4.1
Indigenous poultry meat	214	278	314	348	397	424	11.4	10.9
Eggs	172	262	292	305	319	342	6.4	5.3
Index of livestock production	100	120	126	133	140	146	5.1	5.0

Source: FAO, ICS printouts of agricultural production, November 1983 (unpublished).

a/ preliminary

b/ Exponential growth rate

c/ Excluding offals

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Despite the growing importance of the livestock sector, it continues to receive relatively less attention from Governments and regional bodies than it should. Although it contributes 30 to 40 per cent of agricultural GDP in a number of countries, and notwithstanding the rapid expansion of demand for livestock products and rise in imports, the allocation of resources to the subsector has not generally been adequate for its modernization. An example of a successful development scheme in an arid zone and one which involves both stratification and integration with crop agriculture was applied in the Syrian Arab Republic. The scheme tried to tackle a problem which, to varying degrees, is common to other countries in the region, namely, how to integrate the nomadic or semi-nomadic pastoralists into the existing economic system and how to protect their basic resource, the rangeland, from degeneration and destruction by overgrazing or by cultivation. In general, the programme put into effect has met with success, although many of the results took much longer to achieve than originally planned. The programme is noteworthy for (a) the way in which it has attempted to integrate change into the traditional culture, rather than forcefully attempting to settle the nomads; and for (b) the efforts to optimize the output of the range by integrating its production with cereal and forage crop use and water development 1/.

The poor performance in agricultural production in the region during the period reviewed was, as already noted, to a great extent the result of the vagaries of weather in the years 1981 and 1982. However, structural difficulties and inadequate policy action could also be instruments in keeping the output below expectation in many countries of the region, making it necessary to reconsider seriously whether government policies are adequate to achieve the targets of the Third Development Decade in the remaining years of the 1980s. In what follows an attempt is made to consider some of the major long-term policy issues.

2. Policy issues

Irrigated agriculture

Irrigated agriculture accounts for 30 per cent of the total harvested area in the region. In Bahrain, Egypt, Kuwait, Oman, Qatar and the United Arab Emirates, virtually all crops are produced under irrigation. In all countries of the region, irrigation provides significant opportunity for increasing the area under cultivation. In Iraq and the Syrian Arab Republic, this would consist initially of reclamation of previously irrigated lands

1/ For more details see: Draz, O., "The development of the arid and semi-arid rangelands of the Near East. Modernization of traditional systems based on experience in Syria", World Animal Review (in press).

that are now saline.

Several irrigation projects in Iraq and Egypt are suffering from salinization due to improper drainage. Other countries such as Jordan, Lebanon, Oman, Saudi Arabia and the two Yemens are affected by depletion of ground water.

Except in Egypt, cropping intensities on irrigated lands are extremely low, due to either the seasonal availability of water (as in the Arabian Peninsula) or conditions of water logging and salinity of the soil.

The low intensity of land use is also the result of growing cereals followed by fallow varying from one to three years. Insufficient water control and inadequate water management combined with insufficient drainage have led to a progressive loss of cultivable land through increased salinity and water logging. The impact of these negative factors is reflected in declining productivity in most major grains except wheat and maize.

Rain-fed agriculture

The importance of rain-fed agriculture may be judged from the total area under cultivation in the region amounting to about 20 million hectares of which about 14 million hectares are rain-fed, or 70 per cent of the total.

The potential productivity of rain-fed agriculture has been seriously underestimated. This, together with the fact that progress in rain-fed agriculture is dependent upon a series of complex measures to be undertaken by governments, has until recently led to its neglect in many countries of the region.

Irrigated areas have received a proportionately larger share of investment, technology and infrastructural facilities than rain-fed areas. Rain-fed areas with predominantly small subsistence farmers tend to be less productive. To obtain a similar response in output from rain-fed areas, much more research, extension work, and provision of infrastructure on the part of the government agencies are called for. With the over-riding goal of increasing food output, investment flows are directed to irrigated agriculture as assured water is a prerequisite for the new technology in agriculture to have its impact on production. However, in view of the size of the dry farming subsector, the imbalance in investment requires to be corrected. Furthermore, the rate of growth of agricultural production cannot be sustained without the effective utilization of dryland areas.

So far, research efforts in the field of rain-fed agriculture have, in general, not received adequate support and the attention it deserves in

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national research programmes. However, with the establishment of the International Centre for Agricultural Research on Dry Areas (ICARDA) and the Arab Centre for the Studies of Arid Zones and Dry Lands (ACSAD), more focus has been placed on the research needs of marginal arid areas. Attention has been centered on improving varieties and agronomic practices under monocropping with some work on the use of leguminous crops to eliminate the fallow period. In the selection of varieties, special emphasis has been placed on cereals. On the other hand, grain legumes and other crops like watermelons have received less attention. In general, the selection of varieties which could give a minimum of improved yields with low levels of inputs and research on mixed cropping have been neglected.

High quality seeds of improved varieties are usually the essential part of improved packages of production means. Suitable varieties are lacking for adoption by small farmers in low rainfall areas. Concerted efforts are required to develop varieties suitable to the conditions of arid areas.

Due to the limited use of modern techniques as well as the effect of low and erratic rainfall, yields are not only low but show high annual fluctuations. Production under rain-fed agriculture can be increased mainly by raising yields through a sound selection and application of physical inputs together with increased intensity of cropping in the relatively high rainfall areas (of more than 400 mm). The introduction of legumes in the rotation has a high potential in the region.

Constraints such as the fragmentation and small size of holdings, lack of credit and marketing facilities, inadequate infrastructure and inappropriate pricing policies and unfavourable input/output price relationships must be eliminated in order to ensure the application of improved practices and to ensure a rise in productivity.

In view of the above, and the fact that rain-fed agriculture accounts for most of the land under crops and for most of the population engaged in agriculture, a concentrated effort is called for.

Mechanization and labour shortages

Many countries in the region, due to migration of labour to urban and oil-rich countries, are facing labour shortages in peak seasons resulting in sharp increases in production costs. The acute shortage and high cost of agricultural labour is further aggravated by the utilization of more labour-intensive methods of production. This trend is tending to alter

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the relative factor prices in agriculture; the opportunity cost of labour can no longer be regarded as low in these economies. This situation is leading to a faster pace of mechanization. However, the effect of mechanization on breaking the bottlenecks in production needs to be carefully weighted against its employment effects.

Institutions, incentives and price policies

Many studies and wide experience indicate that the incentives to agricultural producers in the region are generally inadequate. Constraints on production arising from weak systems of price incentives have been compounded by inadequate infrastructures. Marketing, farm credit and research and extension have been major weak points.

Marketing

Agricultural marketing has been receiving some attention in the region in recent years. A number of public and/or private institutions have been set up to undertake the tasks of distribution of food, inputs and exports. In some countries, warehousing and storage facilities have been expanded and improved, and so have the transport and communication network. A marketing improvement project established in Cairo in 1978 and then transferred to Oman in 1980, has been designed at the regional level so as to assist in the exchange of marketing and pricing information; in strengthening training in all aspects and at all levels of marketing so as to improve the performance of the managerial marketing tasks; enhance the efficient utilization of marketing technologies; reduce post harvest losses and raise the overall capabilities of marketing specialists in the region. Recent studies on marketing training stress the fact that there is an acute shortage of trained manpower in agricultural and food marketing in the different countries of the region. In Iraq, for instance, it is projected that the public sector marketing system will require personnel at different levels of training exceeding two thousand and three hundred individuals in 1985 1/.

Credit

The agricultural credit institutions in most countries of the region are still unable to meet in full the credit needs of the agricultural sector. Although institutional credit has doubled or tripled in the last decade or so, it still has a relatively low share in the national credit supply in comparison with share of agriculture in GDP.

1/ H. Trupke: Manpower and training requirements for the agricultural and food marketing in Iraq, UNDP/FAO Report REM 503/1/81, p.54.

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Institutional agricultural credit agencies in the non-oil exporting countries are still unable to meet the credit needs of the small farmer, tenants, sharecroppers and small fishermen. This reflects their low repayment capacity and high risk of default. The repayment capacity could be increased if supervised credit is provided and linked to marketing as is done in Egypt, Iraq, the Syrian Arab Republic and Democratic Yemen.

Agricultural research

Agricultural research can be regarded as a link between the 'basic' resources with which a country is naturally endowed (land, labour and water) and the use of inputs such as improved seeds, fertilizers and pesticides. Scarcities of any of the basic resources will generate pressure to develop technologies which economize on their use. Agricultural research also has an important role in promoting and encouraging the substitution of inputs and economizing on their use.

Accelerated research and pilot operations are needed to elaborate and test suitable technological packages for introduction on new investment projects. A strategy of intensifying agricultural production will require a shift in research emphasis towards higher productivity; greater intensification; improved farming systems; development of drought resistant and crop varieties which can be mechanically harvested as well as research designed to optimize the efficiency of applying existing irrigation technology. Nevertheless, the strengthening of agricultural research can achieve little in the absence of other essential supporting services to farmers including input supplies, marketing facilities and extension to communicate the improved technology. Inadequacies in these areas are apparent in most countries of the region. The impact of existing technology on farm output could be dramatic when an attractive production package is actively extended to the farmer.

Extension

In the allocation of planned investment to agriculture, the share going to research and extension has been relatively negligible in most countries of the region. There are indications that there has been a positive correlation between extension and increases in agricultural production. This has been the case whenever extension services involved packages of methods and techniques of sufficient relevance to the problems the small farmers face, and which were successfully communicated to them. Extension could help small farmers in reducing both the pre- and post-harvest losses and waste, the rates of which are extremely high in many countries of the region. Extension services are, however, beset with a host of problems. Extensionists are few in number, the facilities and

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resources under their disposal are inadequate and their training leaves much to be desired. It is thus imperative that more efforts are exerted to improve the quality of extension services in the region.

Agricultural extension services are in general inadequate for the task which needs to be carried out. Increasing the number of extension personnel alone will not be enough. Technology relevant to the particular areas has to be developed and extended to the farmers. Even when technology is proven, farmers cannot take advantage of it unless the required inputs are made available. This means that the supply and distribution of inputs have to be organized at the critical times when they are required. Also, the price relationship between input and output must be such as to induce farmers to accept the recommended application.

Incentives and price policies

Since the possibilities for horizontal expansion are limited, the acceleration of agricultural production in the region depends predominantly on vertical expansion. This entails radical changes in traditional farming methods and intensification of inputs. However, technological diffusion requires a stronger system of farmer incentives.

Among the incentive measures, a crucial role is played by price policies both in respect of outputs and inputs. Such policies not only influence producer incentives but also resource allocation and the level of farm income. In the oil-exporting countries, a level of producer prices higher than world market prices can be established with subsidies on consumer prices. Higher producer prices in these countries could in fact be a means of spreading oil revenue among the lower income groups. Such a policy obviously is not feasible in the non-oil exporting countries where the possibility of transforming income from the rest of the economy to the agricultural sector is limited. In these countries, there is a conflict of policy between cheap food for the urban consumer and remunerative prices to the producer. In many countries, producer prices are kept at a lower level than international prices, as governments have been particularly sensitive to the level of urban cost of living. Artificially low consumer prices, however, cannot in the long run be beneficial to consumers if they reduce domestic supply capability.

The allocative role of price policy to meet production objectives has also been a secondary consideration. Often, in using price policy for enhancing the production of particular commodities, the price relationships with other crops in the rotation are neglected. The farmer, however, compares the total return from crop rotation as a whole and not from an individual crop in the rotation. Price policy for individual crops therefore may not result in an allocation of resources conducive to the

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achievement of the production goals. Moreover, the producer price must bear a favourable relationship between prices paid by the farmer for the various agricultural requisites and the price received by him.

Subsidization of inputs is another policy instrument to encourage the adoption of modern practices. Subsidies on fertilizers became more pronounced in the region. Some of the oil-exporting countries have been subsidizing the main production inputs (seeds, fertilizers, insecticides and animal feed) up to fifty per cent of their costs. While producer prices will equally benefit all farmers, input subsidies benefit only those producers who use them.

Input subsidization, however, is not a complete substitute for price guarantees. Both are needed as complementary policy instruments. Even when the farmer has become familiar with improved inputs, their use level depends on whether the cost of using them is covered by producer prices, leaving him a margin of profit. On the other hand, the more the cost of the inputs is reduced by subsidies, the lower will be the required producer price.

In formulating a price policy for cereals, the needs of the livestock sector have to be given due attention if livestock production is to grow at a faster rate. The increasing trend towards intensive feeding methods calls for a price policy for feed grains. Measures aimed at reducing feed grain prices by adopting high-yielding varieties of cereals more widely and allowing livestock prices to rise in response to market forces would be necessary if sufficient incentive is to be provided for livestock production. Improved marketing can play an important role in securing higher returns to the producer by reducing the wide margin between producer and consumer prices.

Agricultural Investment

The governments of the countries of the ECWA region now recognize more than ever before the need to further increase investment in agriculture. This is partly due to the fact that productivity in agriculture in most of these countries has declined recently; domestic and even regional food supplies are far below demand; and they are hence increasing their dependence on supply sources outside the region; migration from the countryside is increasing and is adding to the difficulties of urban unemployment and the pressure on the limited food supplies and services in urban centres. In some countries, the situation is exacerbated due to the fact that agricultural exports are the major source of the much-needed foreign currency to purchase inputs, capital goods and to repay and service mounting debts.

An indication of the past trends and levels of agricultural investment may be obtained from the planned and actual expenditures on agriculture under national development plans.

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For 10 countries comparisons are possible between current and previous plans. In each of them except Iraq, the latest plan indicates a substantial increase in planned annual expenditure on agriculture. However, there is a rise only in agriculture's share of total planned development expenditures in Yemen, Egypt, Jordan and Saudi Arabia. In the remaining countries the share either remained about the same or declined, with particularly large falls in Iraq, Syrian Arab Republic and Democratic Yemen.

Such figures are only a rough measure of the degree of priority given by governments to the agricultural sector. A sharp rise in planned development expenditure on agriculture may sometimes merely reflect the implementation of a large scale project such as an irrigation scheme. Similarly, a fall may follow the completion of a project of this kind.

Actual outlays have often fallen short of planned levels by wide margins. Out of 8 ECWA countries for which comparisons can be made, actual expenditures on agriculture exceeded planned in only three countries namely Egypt, Jordan and Democratic Yemen.

Absorptive Capacity

It seems likely that in the past the main constraint on agricultural investment in the region has not been inadequate resources as much as limited absorptive capacity.

This has taken the form not only of a shortage of well-prepared investment projects but also inadequate administrative, management and infrastructure capacity for the execution and maintenance of projects.

The major bottleneck to increasing agricultural production in the region is the deficiency of trained personnel, particularly in the field of project identification, preparation, appraisal and evaluation. Regional and subregional co-operation in training of personnel in project analysis is a pressing need. Regional and national institutions need to be strengthened for this purpose. No less important is the training of personnel in charge of execution of agricultural development projects. The capacity to absorb the flow of investment funds depends crucially on the above two types of training.

Regional Cooperation

Given the complementarity in resource endowments (financial, natural resources and otherwise) among the countries of the region, and of the close cultural and other ties between them, high hopes have been attached

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to the possibilities of regional cooperation for many purposes, including agricultural investments in the region.

Except for the establishment of the OPEC bilateral and multilateral financing institutions, the record of regional cooperation for agricultural investment has so far proved less than expected, especially in relation to the high hopes originally entertained. However, there still appear to be good prospects in such areas as investment in storage for sub-regional food security stocks, and in regional projects for the production of agricultural machinery equipment and pesticides.

Agricultural trade

Food and agricultural production in the region has not kept pace with increasing demand. The slow growth of food and agricultural production coupled with high demand generated by high rates of growth of both population and per capita incomes have further widened the deficit in agricultural trade in 1981, the first year of the decade. The deficit in food and agricultural trade widened from \$ 11.7 billion in 1980 to \$ 13.9 billion in 1981, or by 19 per cent. This was largely due to a higher increase in the value of total agricultural imports, which registered 14.4 per cent growth in 1981, against a decrease of 11.5 per cent in exports.

In 1981, total regional agricultural export earnings amounted to \$ 1.7 billion but were \$ 0.2 billion or 10.5 per cent lower than in 1980. Apart from Oman, Saudi Arabia and Egypt where their export earnings increased by 17.7 per cent, 11.5 per cent and 7.1 per cent respectively, in the rest of the region considerable declines in export earnings were registered. The main single fact behind the deteriorating agricultural export situation has been the steep decline in the prices of most agricultural products since the third quarter of 1980.

Agricultural exports financed only 11 per cent of the total cost of agricultural imports in 1981, compared to 14 per cent in 1980. In the oil-exporting countries, agricultural exports covered 4.2 per cent of agricultural imports while in non-oil exporting countries the ratio was 21.6 per cent. In 1981 over 99 per cent of the value of agricultural imports in Yemen, 96 per cent in Democratic Yemen and between 65-78 per cent in the Syrian Arab Republic, Lebanon, Jordan and Egypt were financed by non-agricultural sources. This situation greatly added to the balance of payments difficulties of the poorer countries with low import capacity.

Food security and self-sufficiency

Several countries in the region, notably Egypt, continued to depend on concessional food (Table 4). Between 1979 and 1981 the self-sufficiency

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ratio in the ECWA region fell from 51 per cent to 46 per cent for cereals, from 32 per cent to 24 per cent for sugar, from 8 per cent to 7 per cent for vegetable oil, from 44 per cent to 36 per cent for poultry meat and from 82 per cent to 74 per cent for eggs. The gap was filled by imports. The regions imports of cereals rose from 13.6 million tons in 1979 to 17.6 million tons in 1981, greatly adding to the balance of payments difficulties of the poorer member countries.

Table 4. International food aid for the ECWA countries, 1981 and 1982

(Tons; thousand US dollars)

Country	1981			1982		
	Wheat	Other food	Total value	Wheat	Other food	Total value
Democratic Yemen	-	-	-	-	550	-
Egypt	1656860	12800	317723	1900000	13646	349600
Jordan	22442	2625	8538	5500	-	466
Lebanon	-	5698	6194	20000	2140	6481
Syrian Arab Republic	-	1600	2380	-	-	-
Yemen	-	-	-	13000	2500	3704
Total ECWA	1679302	22723	334835	1938500	18836	360251

Source: FAO, Food Aid Bulletins, January 1982 and 1983.

In the context of the above, food security is becoming an increasingly urgent issue in the region. The emphasis has been broadened to include the need not only for adequate reserve stock but also for greater self-sufficiency in order to reduce reliance on uncertain world markets. The role of agriculture in such areas as employment and export earnings is receiving

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renewed attention even in those oil-exporting countries with agricultural potential with a view to meeting the situation when oil will no longer provide the main source of export earnings.

Many countries now aim at greater self-reliance in food, reinforced by the uncertain long-term prospects of food supplies. The magnitude of the disparity between production and demand for all basic commodities will compound further unless well-conceived programmes and projects, backed with appropriate policy measures are carried out to reduce the vulnerability of production and to put agriculture on a sound growth path.

The gap between food production and consumption is posing a serious threat to the food security of the region. In order to remedy this problem the ECWA countries in cooperation with international agencies have taken steps for the identification, design and development of strategies, planning systems, and institutions to improve the implementation of their development programmes, in the area of food security.

In this connexion the national and regional level action programmes have been reinforced by vigorous international efforts in the form of series of food conferences and follow-up action by FAO, WFP, WFC, ECWA etc. Specifically, the strategy for Joint Arab Economic Action adopted at the Amman Summit Meeting in 1980, and the unanimous adoption of the Five-Point Plan of Action on Food Security by the Committee on World Food Security, which was endorsed by FAO Council during its 77th session in Rome are the forerunners to the current efforts.

Food security now focuses on three pivotal elements: food production, supply stability and access by the needy. Buffer stock reserves for wheat in many ECWA countries now account for more than 25 per cent of annual consumption which is a positive achievement.

Conclusion

The growth of agricultural production in the region was to some extent affected by vagaries of weather. The disappointing course of production during the period reviewed also reflected past inadequate attention to agriculture and inadequate policies within the agricultural sector. If the basis had been laid earlier for a faster sustained increase in production, the level of production in an average year would have been higher and the effect of the fluctuations caused by the weather less severe. Exceptionally rapid increases in agricultural production are needed in the remaining years of the decade in order to meet the development target of at least 4 per cent average annual increase in production and to speedily reestablish a minimum degree of regional food security.

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Despite the fact that it is too early to judge the effect of policies on the performance of agriculture as many agricultural policy measures, especially in the institutional field, take some years to bear fruit, still more efforts need to be exerted in order that agricultural production may keep pace with the increasing demand for food and other agricultural products in the region.

Public allocations for agricultural investments have been increasing, but the increases in production have fallen short of the rise in the demand. Closing or narrowing the gap calls for the reconsideration of the factors that have inhibited or hindered growth in agricultural production. These factors include the fiscal and pricing policies that have been pursued by a number of governments in the region.

Policies and instruments that reward increases in production and create a conducive climate for investment in agriculture are urgently needed. Another set of instruments in which action may be needed and that are of vital importance to agricultural production relate to improvements and expansion of physical infrastructure, the devising of efficient systems of distribution of inputs to producers and the establishment of an efficient marketing distribution systems for agricultural products. Public intervention is further required in the provision of credit on soft terms to small farmers who, because of their weak financial position in many countries of the region, depend mostly on informal credit systems that are costly and that serve a few of their requirements. Small farmers have immense difficulties to finance improvements or introduce innovations in their operations. The market mechanism and lending institutions have so far been ineffective in supplying the required medium or long-term credit at reasonable rates.

If the recent rapid decline in the region's self-sufficiency in food is to be slowed down and its food security made less precarious, there is an urgent need for improved strategies for agricultural investment. These strategies involve two separate but closely related components. First, there is a need to mobilize larger resources (both domestic and international) for investment in the region's agriculture. Second, it is necessary to make more effective use of these investment resources by means of improvements in investment patterns and in absorptive capacities.

Countries in the region are generally not very cost-efficient producers of food. Countries with large financial resources but poorly endowed with non-oil natural resources are developing agricultural projects for producing more food when there are other countries with the potential to produce food much more economically. In this situation, a degree of regional self-sufficiency is a better and more feasible economic goal than the pursuit of a higher degree of self-sufficiency at the national level.

B. Rural Development

In this section, major issues in rural development in the ECWA region are discussed in the context of goals and objectives of the International Development Strategy (IDS) for the Third United Nations Development Decade and progress over 1980-1983 reviewed and assessed and ways for improved performance outlined.

1. Growth with Equity^{1/}

The attainment of equity with growth requires the implementation of policy measures to improve income distribution and employment in favour of the rural poor, such as: (i) increased access to resources, including land and water, either through land tenure reform and/or land settlement; (ii) commitment of larger share of public expenditures to increasing food production, human resource development and welfare in the rural sector- especially in the areas of education, training, health services, housing and communications, etc.; and (iii) appropriate agricultural policies in favour of small farmers and landless workers to improve the nutrition situation and increase employment opportunities.

The realised expanding opportunities resulting from growth should make it possible for the income and the access to services of the rural poor to grow faster than those of other socio-economic groups. If this fails to materialise, then obviously, poverty will increase. The IDS requires countries to implement, on a priority basis, the World Conference on Agrarian Reform and Rural Development (WCARRD) Programme of Action, which calls upon the countries not only to increase resources for rural development but also to ensure that the share of total resources allocated to the rural sector is commensurate with the requirements of rural growth and poverty alleviation and is appropriate to the size of the rural population.

Estimation of resource flows for rural development is extremely difficult, as few countries keep records of rural-urban breakdown of expenditures on social sectors and on development of physical infrastructure. Over the period 1978-1982 the average allocation per capita of agricultural population in constant dollars varied from less than \$20 (lowest category) in Egypt, which has the largest population, to more than \$51 (highest category) in Jordan and the Syrian Arab Republic. The average for the Near East countries as a whole is \$77.9 while for the rest of developing countries it is \$43.3.

Within the agricultural sector, the main concern should be increased allocation of resources to the traditional subsistence areas where most of

^{1/} General Assembly Resolution /35/56, paras. 8,20,21,28,42,49 and 81-83

the rural population live and work. It has been observed that there is imbalanced allocation between the traditional old settled areas and the modern commercial/irrigated schemes settlements. The area of the latter and its population are relatively small. Available data show that their share in planned public expenditure in technology, infrastructure and technically qualified staff per unit of land are proportionally much higher than in the traditional old settled areas which constitute the main social base of the rural system. Examples of these modern capital intensive schemes are the Euphrates project areas in the Syrian Arab Republic and newly reclaimed areas in Egypt.

Equity considerations have been given importance in the national development strategies of some member countries. In Egypt, the present Five-Year Development Plan (1982/83 - 1986/87) gives greater emphasis to agricultural and rural development and proposes specific programmes to generate employment opportunities for 2.1 million persons, distribution of land to landless agricultural labourers, and the construction of 650,000 houses on a self-help basis in rural areas, mostly for the rural poor. Similarly, Iraq the Syrian Arab Republic and Democratic Yemen give high priority to the alleviation of rural poverty through agrarian reform and rural development. Yemen emphasized in its Five-Year Plan (1976/77 - 1980/81) special support for small farmers and for the creation of equitable and stable land tenure relations. The second Five-Year Plan (1981/82 - 1985/86) again focuses on high rates of overall growth and strengthening of traditional local organizations for people's participation, as a base for rural development strategy. Jordan's 1981-1985 Five-Year Development Plan notes the widening disparities in social services between rural and urban areas, and the absence of an appropriate distribution of economic gains among income groups and regions.

However, although most ECWA countries have specified national goals and targets in qualitative form, very few national plans have actually established quantitative targets. The quantified targets set by some countries have mainly been those concerned with increasing agricultural production and public utilities and services, such as credit, roads, communication and electricity. Although some have also set time-bound targets in the social service sectors, such as enrolment in primary schools, population to be served with medical facilities, provisions of potable water supply or villages to be electrified, little has been done to set time-based quantitative targets in rural areas, particularly in terms of illiteracy, infant mortality, nutrition and minimum income.

In recent years there has been a marked shift in programmes designed to benefit the small farmers, nomads and landless workers and small-scale artisanal fishermen, backed by institutional service support. Many countries have recognized the potential in terms of increased production, employment and income of this large sector of the rural poor, who appear to have been

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by-passed in earlier development plans. While much attention is being paid to the institutional requirements for small producer participation in development programmes, this has to be backed by technical and production programmes suited to the requirements and resources of these producers.

Livestock contributes significantly to the life of small farmers, pastoralists and nomads in the ECWA region through increasing their income and improving the employment and nutrition situation. Recent years have witnessed the emergence of policies and programmes aimed specifically at benefiting the small producers. These include programmes for small animal production suited to their limited resource endowments; increasing the availability of drought animals; upgrading of local strains; improved animal health; improved institutions and services such as marketing, credit, input supply and extension for small producers; improving the life of nomads and pastoralists; and the integration of livestock development at higher levels of productivity with crop production. A number of countries have introduced programmes to strengthen sheep and goat production in the small holder sector. These include programmes for research, breeding and extension particularly in Iraq, Jordan, Syrian Arab Republic, Saudi Arabia and Democratic Yemen.

The entire area of small-scale fisheries is marked by a lack of data. What is well-known, however, is that communities of fishermen are among the poorest segments of the population, being often families who have been pushed off the land, with low incomes and seasonality of employment, and relatively neglected from the point of view of social services such as health and education. Fisheries development policies in general have tended to concentrate on growth through modernized, capital-intensive methods, leaving the small-scale fisheries sector largely under-developed, or in competition with the modern sector. The 1980s have witnessed a new concern with the traditional artisanal fisheries sector, both because of its growth potential, and because of the new concern with rural poverty alleviation. This focus on small-scale fisheries development is premised on the realization that such fisheries contribute more than 60 per cent of the fish catch for human consumption in the developing world. In the ECWA region, measures for the development artisanal fisheries included the construction of cold storages and ice plants and anchorages and fish landing facilities for small fishing craft in the Gulf countries. Egypt is placing a significant emphasis on expansion of pond culture in the context of integrated rural development.

It is generally agreed that although a rising level of national income should be able to provide the overall additional resources needed to eliminate poverty, growth in national income without redistributive policies in the past has often been associated with a worsening of income distribution. Thus it is important to focus on the ways in which growth

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processes can be shaped to the benefit of disadvantaged groups. Moreover, in the particular context of rural poverty, it is important to examine ways in which the benefits of growth of the agricultural sector can play a major role in poverty alleviation. Agricultural growth is clearly crucial since the bulk of rural people depend for their livelihood on agriculture. This makes it desirable that rural sector and, in particular, agricultural development strategies, combine growth with redistribution of income and employment creation.

2. People's Participation:^{1/}

The IDS and the WCARRD Programme of Action require that policy measures aimed at achieving equity to be complemented by increased people's participation in development activities at grassroot level involving the reshaping of rural institutions, decentralization of government services and greater participation by the rural poor in development planning, programme implementation and evaluation.

In most developing countries in which high incidence of rural poverty is strongly associated with inequities in land tenure systems and prevalence of landlessness, access to land provides the basis for realignment of political and economic power creating opportunities for improved incomes for the rural poor. Speedy and effective implementation of land reform calls for active participation of the intended beneficiaries; reshaping of delivery and receiving systems of inputs and services to the requirements of the agrarian reform beneficiaries and other small producers; decentralization of institution of government and administration, making them more responsive to the diverse needs at the grassroots levels; and creation of conditions for strengthening of the group power of the disadvantaged in economic and political institutions of the country for reforms to succeed and be sustained.

Although there has been a marked progress in its conceptualization in development plans, its translation into operational terms has been slow. WCARRD conceived people's participation for changing political and economic power in three inter-related areas, namely: people's organization, institutional decentralization of government decision-making and participation in agrarian reform. For enhancing people's organization, a primary recommendation of WCARRD is removal of all barriers to the free association and enforcement of related ILO Conventions. Progress has been very limited as of March 1983, only 11 developing countries (none from ECWA region) have ratified Convention 141.

An emerging trend in the 1980s has been the formation of homogenous

^{1/} paras. 8,42 and 51, op.cit.

groupings of the rural poor and their strengthening by especially established credit institutions. Agricultural cooperatives continue to be regarded by many countries as the primary vehicle for promoting people's participation in rural areas. Country reports and in-depth studies show a growing awareness of the inadequacies of conventional cooperatives in serving small farmers and other rural poor because of the influence of rich farmers and traders. However, few conscious efforts towards orienting cooperatives to service small farmers have been reported. During 1980-82 self-help grouping of the rural poor were initiated in Egypt and Yemen.

The effectiveness of rural people's organization as a mechanism for participation depends on the extent of administrative decentralization of government functions, decision-making and allocation of resources to local level. In 1979, Egypt established local government units with responsibilities for planning and implementing rural development projects and supplementary funds were made available for this purpose; at the regional level coordinating committees were instituted with representatives of the nation building departments headed by the governor of the province, with authority delegated for planning and executing rural development projects.

A marked trend is the growing attention to the participatory approach to agricultural extension and the increasing importance that is being attached to training programmes for farmers' leaders. The experience of some ECWA countries proved the effectiveness of this new approach in reaching large numbers of small farmers through their own grouping.

3. Access to Land and Changes in Land Tenure^{1/}

On the whole, there has been little progress since 1980 in policies for improving access of the rural poor to land in the ECWA region. In spite of the large scale movement of population from agriculture to urban sectors and to other countries, particularly the oil exporters in the region, agricultural land is becoming scarce and land-man ratios are deteriorating in most of the ECWA countries. Arable land (including permanent crops) per capita of agricultural population in the ECWA region has declined from 0.53 hectare in 1970 to 0.46 hectare in 1980 or by 12 per cent. Declines in arable land per capita of agricultural population have occurred in all countries of the ECWA region except Lebanon, Saudi Arabia and Democratic Yemen.

^{1/} Op.cit, paras 81-82

Some countries have undertaken land reforms in specific districts, such as the East Ghor Canal area in Jordan (1962), local and the large land development schemes in Wadi Jizan, Al-Hassa and Harrad in Saudi Arabia. In addition to these programmes, Egypt, Iraq and the Syrian Arab Republic have carried out large settlement schemes to create new communities free of the defects existing in the old settled areas.

Despite the reforms undertaken, landlessness and tenancy is still a growing concern. One of the reasons is that agrarian reforms offered only a partial solution by concentrating on the tenants to the general exclusion of landless workers. For instance, the Egyptian land reforms were able to benefit 9 per cent of agricultural households who were tenants.

It is in the context of increasing land scarcity and landlessness that effective implementation of agrarian reform measures coupled with measures to increase land productivity of small holders and commitment of resources for meeting the employment needs of the landless and marginal farmers assume added importance in the 1980s.

4. Access to Inputs, Markets and Agricultural Services^{1/}

Countries with unequal access to land, in which the existing rural institutions tend to serve the larger farmers, need to either reorient the management of existing institutions to serve the needs of the small farmer and/or establish institutions exclusively for serving the small farmers. This has been found possible in areas in which public land settlement schemes and agrarian reform cooperatives serve small farmers in a variety of group arrangements. In other areas outside those covered by public settlements and agrarian reform beneficiaries, programmes for improvement of delivery and receiving systems from small farmers involve several problems and their success depends upon solutions to such issues.

Small farmers, including rural women, as the main suppliers of food crops, need appropriate technology suited to their needs. However, the available technological improvements have seldom been developed taking account of the climatic and natural resources' restrictions, the capability limitations, the labour availability and management skills which are typical of the small farmer. This has been a major concern in countries such as Egypt and Jordan. There are several experiences of how the small farmer can reach outstanding productivity when research and extension are duly linked, when they involve small farmer participation, both in the identification and programming of work. Egypt provides a good example of this integrated approach in its land reform and settlement areas.

^{1/} op.cit., paras. 81,82 and 84.

Institutional changes in credit, marketing and pricing policies to meet the needs of the rural poor have been recognized on a wider scale. The lessons learned from country experiences have been that increased provision of institutional credit should be matched by effective arrangements to ensure increased access to credit by small farmers and the landless; small farmers could be better served if collateral requirements are reasonably relaxed; lending should be production-oriented; and finally, interest rate subsidies are far less important than easy access, quick transaction and timely delivery of credit.

The small farmer needs credit and marketing efficiency as much as he needs the land or his labour so that adequate levels of productivity may be achieved. This has been one of the most crucial aspects in many countries where credit has not been adequately linked to land reform programmes or, in some instances, where credit and marketing programmes have not been adequately administered or coordinated at local level. Egypt is taking steps to ensure more efficient credit system which may benefit the small farmer, combine credit and marketing structures and organizations and in general create an awareness among beneficiaries and public officials of the need to improve administration and management as a pre-condition for successful operations and efforts are being initiated, coinciding with the WCARRD follow-up mission's recommendations during 1981-82, in Yemen.

A significant development in extension and training in the 1970s and in the early 1980's is a new emphasis on agricultural extension as an important element of rural development. Some ECWA countries, such as the two Yemens have adopted policies for strengthening agricultural extension services to cover all farmers. Also, training and motivating of public officials to improve efficiency of agricultural services has been recognised as a must.

The greatest challenge for delivery systems is to harmonize and coordinate all the agricultural services and input supplies in such a way that they get to the small farmer at the right time and place and at a reasonable cost. An important factor is the need for horizontal and vertical linkages in programme services. For example, dairy and poultry schemes for the poor require linkages with veterinary services, supply of feed, extension, education (horizontal) besides procurement, processing and marketing services (vertical).

The proliferation of agencies at the national level has a tendency to carry specialization down the line. As a consequence, there are problems of coordination between different agencies at the national, provincial, district and field levels, and also of incorporation of the farmer into delivery systems. This is being attempted through the Farm Service Centers in Egypt and Jordan.

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5. Price Policy for the Rural Poor^{1/}

The effects of agricultural policies on the rural poor are complex because the rural poor are both seller and buyers of agricultural products. The complexity is also due to the fact that the rural poor are not a homogeneous group with reference to the extent of their sales and purchases in the market. There is evidence that small farmers' production responds positively to increases in product prices.

The nature of response of sales to prices cannot be expected to be uniform. What is important, however, is that there is a welfare gain accruing from higher prices to small producers. But landless households face welfare losses as they are forced to cut down their consumption at higher prices unless they share in the resultant employment gains. It is in this context that employment effects of price rises for the poor are important. Results of studies from a number of countries show that lower administered agricultural prices had adverse effects on employment. Over-valued exchange rate and restrictions on exports, which kept agricultural price low, resulted in a reduction of aggregate agricultural employment. Current evidence from some countries suggest the probability of a positive association between agricultural prices and agricultural wages.

Most subsidy payments and subsidised credits go the larger and wealthier farmers, while the effect of lower prices is felt by all farmers who sell any part of their output. The traditional small farmer not only does not benefit from subsidies on improved technology but also pays indirectly taxes out of which the subsidies are funded. Other beneficiaries of policies that lower agricultural prices and subsidised inputs are middle and upper income urban classes, and not necessarily the urban poor. Countries which have achieved an egalitarian rural society and have in addition developed institutions at the rural community level which promote investments within agriculture and in rural areas find it possible to use the instruments of price for reducing urban-rural gap and for promoting investments within the rural areas. In such countries, the price effects on different groups within the rural community itself are not likely to be conflicting. In countries with large proportions of landless labour who have nothing to sell and with small producers who have only very little to sell, there has been a need to ensure that while price policies provide incentives to growth and employment, higher food prices do not erode the real incomes of the poorer rural segments of the population. It is to be admitted that in these situations there is a conflict in the short-run between price policies for agricultural growth and the objective of alleviation of rural

^{1/} op.cit , para 81.

poverty. But choices in favour of low procurement prices for food agrains, trade policies which result in reduced domestic food prices, and purchase and investment policies of commodity boards resulting in lower prices for the producers and use of surplus for purposes other than rural development need to be reviewed, in the light of their short-term and long-term effects not only on agricultural growth, but also on employment and incomes of the poor within the rural sector.

In Jordan, it is considered that commodity price policy is biased towards the urban population through the consumer food price programmes and towards the larger landholders. In Iraq, price policy has failed to provide necessary incentives to the farmers. Generally, there has been a clear tilt in the ECWA region towards protecting consumer interests, even where urban incomes are rising proportionately more than rural incomes.

6. Development of Non-Farm Rural Employment^{1/}

Improvements in access to inputs, markets and services facilitate larger absorption of family labour on small holdings. But in many countries landless labourers and artisans form a significant proportion of the rural labour force. Urban based industrialization is found to provide little relief to them. There is a general recognition in developing countries that the employment and income needs of these labourers could be met by expanding non-farm rural activities.

Most developing countries have incorporated rural industries in their development plans and have attempted to assist rural small-scale industries. In Egypt and Iraq, for instance the agrarian reform cooperatives promote small scale agro-industries in agrarian reform areas. However, the assumption that the income generated by rural industries creates the demand for their products is only partially true. Since nearly three quarters of the marginal increase in the consumption of the rural poor is largely devoted to foodgrains and other foods, a large part of increase in demand for the products of rural industries has to come from urban areas or from the export market. The same applies to agro-industries such as canned and preserved fruits and vegetables. Such products have to compete in quality food markets which are largely dominated by imported products from developed countries. The quality required for such a competition is not easy to reach.

7. Rural Poverty and its Alleviation^{2/}

Absolute poverty is defined as the deprivation of the basic needs of life and the inability of the individual or household to obtain the

1/ op.cit, paras 43,44 and 81.

2/ op.cit, paras 28,43,46,48 and 81.

minimum amount of goods and services needed to rise above the poverty threshold. This concept is therefore different from the concept of relative poverty which measures relative deprivation and which can therefore exist in any society - rich or poor. The level of absolute poverty is measured as the percentage of population below poverty threshold.

An estimate of the incidence of absolute rural poverty is available for six ECWA countries with the reference year of observation varying from 1975 to 1981 - but most of them being only a one point estimate. The estimates are taken from the World Bank data sheets and from in-depth studies on rural poverty alleviation and pilot studies on socio-economic indicators conducted during 1981-1983.^{1/} Changes in rural poverty are assessed by using three major indicators at the national level, namely, undernutrition (food inadequacy), ill-health and illiteracy.

These six countries are grouped for the purpose of analysis according to the estimated percentage of rural population below absolute poverty as follows: high poverty - more than 50 per cent (none); medium poverty - 20-50 per cent (Egypt, Iraq, Syrian Arab Republic, Yemen, and Democratic Yemen; and low poverty - less than 20 per cent (Jordan).

During the past decade of four ECWA countries were able to meet 95 per cent or less of average per capita calorie requirements. In 1978-1980, however, the situation improved with only two countries the two Yemens continuing to suffer from high undernutrition with an estimated 27 per cent of their population being undernourished. The countries which have sharply increased food adequacy for their population during the period 1978-1980 as compared to the entire decade of 1970-1980, are Egypt, Iraq and Saudi Arabia.

During the period 1970-1980 nine ECWA countries had crude death rates over 10 per thousand; five countries (Egypt, Oman, Saudi Arabia, Syrian Arab Republic and Democratic Yemen) had infant mortality rates above 100 per thousand, while in (Yemen) it was above 200 per thousand. It is of interest to note here that the industrial market economies (OECD Members) achieved an infant mortality rate of 30 per thousand, 23 years ago in 1960. However, there has been a marked progress in reducing infant mortality

^{1/} Rural poverty studies were undertaken on Egypt and Democratic Yemen by ECWA/FAO and Syrian Arab Republic by FAO. Pilot studies on socio-economic indicators were carried out by FAO in Egypt, Jordan, Syrian Arab Republic and Yemen.

(by 2.7 percent) in Iraq and 2.9 percent United Arab Emirates during 1978-1981.

Data on illiteracy are more limited in terms of countries and years covered. Further, the information exist only of the national level and there is no breakdown by rural and urban areas or male and female. Data on adult illiteracy are available for 8 ECWA countries, with reference to one or two years following within the period 1975-1981. Illiteracy rates were highest in Saudi Arabia (83 percent), followed by Yemen (79 percent), Democratic Yemen (60 percent), Egypt (56 percent), Kuwait, the Syrian Arab Republic and United Arab Emirates (about 40 percent) and Jordan (30 percent). Among the countries which have made rapid progress in reducing illiteracy are Iraq, the Syrian Arab Republic and Democtratic Yemen.

CHAPTER II. INDUSTRY

A. Manufacturing

1. Role of the Manufacturing sector in the Economies of the Region

The targets of the International Development Strategy for the Third United Nations Development Decade pertaining to industry are expressed mainly in terms of manufacturing. The Strategy, in line with the Lima Declaration, calls for an expansion of manufacturing output at an average annual rate of a percent so as to lay the basis for developing countries to produce 25 percent of world output of manufacturing by the year 2000.

Despite the rapid growth of the industrial sector (manufacturing and mining and quarrying) in the ECWA region during the 1970s and early 1980s, it continues to play only a limited role, as measured by its contribution to GDP and exports. The share of industry in the region's GDP was estimated at only 9.3 percent in 1983. This share rises to 9.8 percent with the inclusion of Egypt.

The share of industry in GDP, however, was relatively higher among the diversified economies of ECWA, averaging around 11.8 percent. In the Gulf co-operation council member countries, this ratio averaged approximately 8.4 percent, while in the least developed member countries it averaged 8.7 percent in 1983.

In general, while the industrial sector in most countries of the region grew at a more or less constant rate, some oil countries, particularly Saudi Arabia witnessed accelerated rates of growth since the mid 1970s.

The share of industry in GDP of Western Asia including electricity and water declined from about 9 percent during the First United Nations Development Decade (1961-1970) to 5.9 percent in 1980, but then rose to 9.3 percent of GDP in 1983. The decline and then the rise of the share of manufacturing industry in GDP is primarily attributed to changes in the share of mining and quarrying in GDP. This share (mainly crude oil) dropped from 57 percent of GDP in 1980 to 31.8 percent in 1983. In fact, the share of MVA in GDP (excluding mining and quarrying) has fluctuated within the narrow range of 13.6 and 14.3 during 1970-1983 as shown in table 1.

Table 1. Relative Importance of Manufacturing^{a/} in the Western Asia
(percentages)

Year	Share of MVA in GDP	Share of MVA in GDP (Excluding Mining and Quarrying)
1960	8.6	12.3
1970	9.3	14.3
1980	5.9	13.7
1983	9.3	13.6

Source: ECWA, based on national and international sources.

^{a/} At current prices.

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The decline in the relative importance of mining and quarrying in GDP is basically due to the sharp fall in oil production, since 1981 and prices in early 1983. The growth of the manufacturing sector in the ECWA region, which averaged 6.7 percent per annum in real terms during 1980-1983, has not achieved that targetted by the IDS for the Third United Nations Development Decade. Furthermore, this rate fell short of the one achieved during the Second United Nations Development Decade as shown in table 2. When Egypt is included in the ECWA ECWA region this rate falls further to about 6.1 percent.

Table 2. Average Annual Growth Rate of MVA and GDP in the ECWA region at 1970 prices

(Percentages)

Period	GDP	MVA
1960-70	7.1	7.2
1970-79	9.6	10.0
1960-79	8.2	8.5
1980-83 ^{a/}	-6.4	6.7

Source: ECWA, based on national and international sources.

a/ at constant 1980 prices.

The development of the manufacturing sector has widely varied among the countries of the ECWA region. When ECWA countries are grouped into oil and non-oil countries, greater imbalances in the structure of the manufacturing sector emerge, particularly in the former. In the oil countries of the Gulf, the share of chemicals, petroleum, rubber and plastic products alone comprise approximately two thirds of their total MVA. Such a structure of the manufacturing sector is in contrast with the IDS objective which envisages a balanced industrial development in developing countries.

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In the relatively diversified economies of the region, there is a disproportionate concentration on consumer and light industries, which also is in contrast with the IDS call for a balanced heavy/light and capital/consumer structure for manufacturing.

In spite of the differences among the manufacturing sectors in the various groups of countries in the region, they have a number of common characteristics: very high starting costs: low productivity and heavy dependence on imports of raw materials, machinery and equipment as well as foreign professional and technical services. Such characteristics make many industries in the region vulnerable to changes in external factors. Furthermore, supply rigidities, in terms of quality and specification rather than quantity limit their ability to compete in international markets.

Adding to the difficulties facing many industries in the region are the inadequate attention to research and development within the industrial organizations; the weak link between the existing research centers and production units; and the stiff competition from developed, as well as some developing countries that are far ahead of most ECWA countries in manufacturing efficiency and marketing ability.

2. Developments in Selected Industries

The oil countries made considerable efforts and achieved progress in establishing and developing their petrochemical industries particularly in Iraq, Kuwait, Qatar, Saudi Arabia and the United Arab Emirates. However, increased protectionist attitudes of many developed, as well as developing countries, have adversely affected the regions' exports of petrochemical products during 1980-1983.

Clothing and Textile industry is also a major one in the ECWA region, particularly in Egypt and the Syrian Arab Republic. While Egypt dominates in the cotton textile products, Syria has a lead in silk material production. However, cotton production and the textile industry in the region have suffered during the past few years due to policies that called for reducing cotton production in favour of more food products, as well as from competition from synthetic products.

Construction materials, such as stones, sand, iron, glass and wood are available in the ECWA region, but their production, except for sand and local stones, has remained considerably below domestic demand, thus entailing substantial imports, particularly in the oil countries which have witnessed a massive development drive following the adjustment in oil prices in 1973/74.

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The manufacturing of machinery and equipment in the ECWA region is still at an embryonic stage, mostly concerned with assembling of products as well as the production of some components. Such activities have been taking place particularly in Egypt, Iraq and the Syrian Arab Republic. However, due to the very limited scope of production of machinery and equipment in the region, member countries have been allocating large sums of funds for such imports. Imports of machinery and equipment by the oil countries accounted for 36 percent of their total imports in the early 1980s.

There are clear indications that most ECWA countries are paying increasing attention to the inadequate local technological expertise and the under-developed equipment and machinery industry. Efforts are being made to correct such deficiencies so as to strengthen their industrial base and enable them to compete effectively with foreign producers.

For the ECWA region to be able to achieve during the rest of the decade some of the numerous industrialization objectives specified in the IDS, its member countries would need to develop an integrated and balanced industrial sector, which is efficient and competitive and capable of entering external markets, develop and utilize advanced industrial technology and associated man-power skills; and, promote integrated regional cooperation in this field. The attainment of these objectives would necessitate a more effective use of natural resources, promoting the setting up of agro based and export-oriented industries as well as import-substituting activities within a regional context.

B. Mining and Quarrying*

During the last few years, most ECWA member countries have been involved in efforts aimed at making efficient exploitation of their available mineral resources and large scale exploration for new mineral deposits. This position has, in practice, been basically translated into more allocations for the mining sector in the national development plans and closer co-operation with other countries. Although the contribution of the mining and quarrying sector to GDP in most member states is still very limited, significant progress has been achieved in various fields of mineral resources development in several countries of the ECWA region.

Considerable increases in phosphate production in the region during the past several years have placed some member countries among the main phosphate producers in the world. Progress has also been achieved in potash and sulphur production. Some new mining activities have been recently undertaken including gold mining and copper production. On the other hand, the increasing demand for raw materials in construction work has resulted in large scale exploitation of sand, gravel, building stones and raw materials for the cement and brick making industries.

However, the areas and extent of progress vary from one country to another reflecting mainly the disparities among member countries in mineral resources endowment, availability of capital and technological capabilities.

In Democratic Yemen, a number of geological surveys and technical studies have been undertaken during the last few years. Some metallic mineral occurrences such as copper, titanium have been located. But the most important mining activities in this country are still confined to salt production and extraction of certain construction raw materials.

In Egypt, a total of £E 51 million is envisaged under the 1979-1989 investment budget for activities in the field of geological studies and mineral exploration. The main activities carried out recently by the Egyptian Geological Survey and Mining Authority have consisted of geological maps including geological maps of the basement rocks of Egypt, geochemical prospection and airborne magnetic and radiometric surveys. The most important industrial minerals recently discovered and evaluated include Abu Tratur phosphate deposit in the Western Desert, Hamrawein phosphate deposit, Kalabsha kaolin deposit in south-east of Aswan, gypsum deposits at Al-Omaiyed and Charbaniat west of Alexandria, and limestone at Beni

* Excluding oil & gas.

Khalid area in upper Egypt. In addition, the Egyptian Geological Survey and Mining Authority has been involved in exploring and assessing raw materials for cement, building and ornamental stones and in undertaking various laboratory tests in the field of dressing and extraction.

It should be noted that, in addition to oil, natural gas and bulk construction raw materials, at least 16 other minerals have been produced in Egypt during the last few years contributing to about 3 percent of the GDP. Reserves of iron ore in Egypt (Aswan and Al-Bahriya areas) have been estimated at 154 million tons. Production of iron from Bahriya, used for the Helwan iron and steel factory, is currently between one and 1.5 million tons per year.

On the other hand, new developments in phosphate production and fertilizer industries are expected to raise production of phosphates in Egypt to 9 million tons per year by 1986. Several other minerals have been the subject of detailed studies including uranium reserves which have been estimated at 128,000 tons.

Iraq still ranks first in native sulphur production in the ECWA region. The major sulphur source in this country is the Mishraq Frasch mine which produced 450,000 tons in 1980. Through the period 1981-1985 the annual production is planned to reach 900,000 tons.

In 1982, Iraq has emerged as one of the five major producers of phosphate in the Middle East. Phosphate reserves in Iraq have been estimated at 1,760 million tons. In 1981, the Akashat phosphate mine was inaugurated and production was expected to start at a level of 3.4 million tons. In fact, this phosphate mine is part of a large project which includes a chemical complex and various facilities.

Several construction raw materials are produced in Iraq. In recent years, remarkable progress has been achieved in the development of construction raw materials. Production of marble and mosaic increased considerably. In 1982, the capacity of lime factories reportedly reached 260,000 tons per year. Attention has also been paid to the development of gypsum, clay, sand, gravel and several other construction raw materials. Basic geology and mineral exploration programmes have also been carried out during the last few years.

In Jordan, additional sets of geological maps were published during the last few years. They consist of geological maps at 1:50,000 scale covering about 10,000 sq km, geological maps at 1:25,000 scale covering an area of about 20,000 sq km, and geological maps at 1:10,000 scale covering an area of 750 sq km.

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Mineral exploration, prospection and evaluation studies have continued. Detailed evaluation studies have covered phosphates, clays, glass sand, feldspar, oil shale, tripoli, marble, cement raw materials, building stones and aggregates. In the Second National Development Plan (1981-1985), provision was made for qualitative geological and mineral surveys at 1:5,000 scale covering the entire Jordanian territory.

Prospects for copper development appear to be promising. During the 1980-1983/84 period copper deposits have been located in several areas in Wadi Araba. Copper deposits in Jordan have been the subject of an extensive feasibility study to evaluate the various metallurgical routes for recovering copper from the known deposits. Other studies on various mineral deposits including radioactive materials have been carried out in Jordan. At present, however, efforts are mostly oriented towards the development of industrial minerals. Jordan is mining and producing phosphates, potash and salts, gypsum, kaolin, marble, travertine, foundry sand, dolomite, aggregates and building stones. Several other minerals are still not exploited, but plans have been drawn up for their development in the near future.

Important discoveries of phosphate deposits have been made in 1983. The distribution of phosphates reserves in Jordan is depicted in the following table:

Reserves of phosphate in million tons
as of 1st January 1983

Area	Proven	Indicated	Inferred	Total
Russaifa	69.6	4.7	-	74.3
Wadi Abiad	59.6	22.8	66.0	148.4
El-Hasa	119.7	5.2	8.0	132.9
Shadiya	790.0	246.0	150.0	1186.0
Total	<u>1038.9</u>	<u>278.7</u>	<u>224.0</u>	<u>1541.6</u>

In Oman, efforts culminated in operating, in January 1983, the Sohar copper projects combining a mine-contractor-smelter-refinery operation. The Omani Mining Company is expected to produce 16,000 tons of refined copper per year. At present, production is confined to 6,700 tons.

Several other metallic minerals have been recently located in Oman and various technical studies are being carried out to assess their reserves and ore grade. A variety of construction raw materials are produced in Oman to meet the increasing local demand.

In the other member countries of the region, mineral potential is limited to a number of construction raw materials of which sand, gravel, gypsum, clay, and dolomite are the most significant. In some areas salt rock deposits are also available. Some research has been undertaken in Qatar on the possibilities of exploiting asbestos deposits and iron ore discovered in Halhoul area.

In Saudi Arabia, sizeable programmes of mineral exploration have been implemented during the past few years and a considerable number of activities are currently being carried out at even larger scales in many parts of the country. In fact, the diversification of the economy has become one of the most important objectives of the successive national development plans.

Progress achieved by Saudi Arabia in its search for metallic and industrial minerals is promising for the potential of felsic plutonic rocks. There has also been significant progress in the completion of resource-oriented lithostratigraphic maps of the Arabian Shield.

With respect to metallic minerals development work is underway on the Wadi Sawawin iron ore, the Azabirah bauxite, and the Baid Al-Jimala tungsten deposits. There has also been renewed interest in developing deposits at Jabal Idsas, 220 Km south west of Riyadh, where magnetite was discovered in 1956. Modern mining methods were introduced in 1983 at Mahd Al-Dahab 400 km north-east of Jeddah, which is the location of a group of ancient gold workings abandoned for many years. The mine was in operation until 1954 and then closed down as exploitable deposits seemed to be exhausted. Recent exploration has led to the opening of a new gold mine in Mahd Al-Dahab. Development work was expected to commence late in 1983 to bring the new Mahd Al-Dahab gold mine to production. It is believed that the reserves at the mine are sufficient to produce 100,000 OZ/yr of gold for 10 years. Development work of the mine is also expected to produce silver, copper and zinc as by products.

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In 1979, actual production of phosphate amounted to 2,845,488 tons. Production was raised to 3,906,824 tons in 1980. In 1981 production was estimated at 4,244,000 tons. Production of phosphates from Shadiya area is expected to start by 1987 with an annual capacity of 3,000,000 tons. The production of Shadiya phosphate deposits is expected to reach 4 million tons in 1990 and 10 million tons by the year 2000.

Phosphate is a key raw material for Jordan and it plays an important role in the economy of the country. In 1982, Jordan's phosphate exports represented around 9.56 per cent of the world phosphate exports. This country has, therefore, become the world's third largest exporter of phosphate.

Asia is the largest market for Jordanian phosphate. In 1983 export of Jordanian phosphate to Asia totalled 1.285 million tons. India was the single largest Asian buyer of phosphate from Jordan, accounting for 798,000 tons in 1982 followed by Japan with purchases amounting to 230,000 tons and followed by Pakistan, Indonesia, Taiwan, Turkey, Malaysia, China, Bangladesh and Sirilanka. Eastern Europe imported about 1,500,000 tons in 1982. Other buyers included Italy, Greece, France and Australia.

It is worth noting that about 99 per cent Jordan's phosphate production is exported. This leaves only about 112,000 tons for local use in the production of phosphoric acid.

Early in 1982, the first phase of the potash project went into operation. The Arab Potash Company turns out 1.2 million metric tons of potash per year. Production capacity in the first year is 240,000 metric tons which will be increased to the rate of 1.2 million tons by 1985.

Agreements have been concluded between the Arab Potash Company and a number of foreign agents for the sale of its potash production destined primarily to asia and the pacific followed by the Americas, Europe and Africa.

The Arab Potash Company has plans to produce potassium sulphate fertilizer to serve the local needs as well as the nearby countries having excess chloride in their soils. About 12,000 tons per year of table salt is produced, at present. Unrefined salt is also produced in Al-Zarqa area. The present production is estimated at 30,000 tons per year. On the other hand, the Arab Potash Company is planning to utilize about 7 million metric tons of NaCl from the main salt-pan each year for the table salt application.

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Due to increasing demand for construction and industrial mineral raw materials in Saudi Arabia, special attention has been given to the country's potential in this field. The main industrial minerals investigated are limestone for use in the production of cement and as a metallurgical flux, gypsum for use in the manufacture of cement and plaster of paris, aggregates, pozzolam, asbestos, kaolin for use in the ceramics industry, clays, glass sand, dolomite and raw materials for the manufacture of rock wool as well as evaporites and phosphates potential. At present, several basic mineral industries operate within the private sector in Saudi Arabia involved in the production of aggregate and gravel, natural stone, red bricks and ceramic clay, cement, glass sand, magnesite, gypsum and basalt.

The Saudi Industrial Development Fund has played a significant role in promoting investments in the mineral sector. The Fund allocated 24 per cent of its total investments during 1974/75-1980/81 building materials and a further 25 per cent to the cement industry. In addition, about 11.5 per cent of the Fund's investments has financed ventures in metal products.

Seven model quarries and two stone dressing plants are in operation for promoting ornamental stones. These quarries are designed to demonstrate the most modern extraction techniques. Granite and anorthosite of various colours are produced and it is expected that development of five additional sites will extend the range of granite varieties to also include quarrying in andesite and gneiss. In 1983, production at the Jeddah pilot stone dressing and test plant reached approximately 450 m³ of raw blocks and 12,000 m² of polished slabs. A second stone dressing plant was also built to increase capacity. Saudi Arabia has also initiated work on investigating the radioactive minerals' potential in the country.

In the Syrian Arab Republic, low grade phosphate rock is currently the only hard industrial mineral exploited for the export market. However, expansion of phosphate industry in Syria is not only linked to exports but is also aimed at providing domestic deliveries of phosphate for the new fertilizer facility at Homs. Syria is also producing salt, natural asphalt and substantial proportions of construction raw materials. In addition, iron ore reserves and other metallic minerals have been evaluated and technical studies on mineral resources development have been carried out.

In the United Arab Emirates, mapping surveys have been finalized and several technical studies have been carried out. Small amounts of iron, copper, manganese and talc and other minerals have been located. In addition significant progress has been achieved in promoting the development of several construction raw materials.

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Geological studies have been carried out in Yemen with the objective of assessing the mineral potential of the country. Among the main metallic minerals so far studied in this country are copper and nickel deposits. However, mineral production in Yemen is still limited to salt and some construction materials.

CHAPTER III. INTERNATIONAL TRADE AND PAYMENTS

Introduction

At the onset of the nineteen eighties, the world economy was suffering from a severe recession in the developed countries, which was accompanied by high inflation rates and a dramatic rise in unemployment levels. The associated slackening in world demand and increased protectionism had severe repercussions for the trade of the developing countries by reducing demand for their exports and exerting a downward pressure on prices of primary commodities 1/. Consequently, the volume of trade of developing countries contracted and their export revenues collapsed. Exports of crude oil suffered most, not only because of depressed world demand since 1980, but also on account of measures to conserve and exploit alternative sources of energy in the major oil-exporting countries.

Despite the guidelines and objectives spelled out in the International Development Strategy (IDS) for the Third United Nations Development Decade 2/ urging the international community to extend to developing countries "special and preferential treatment" in order to "improve market access for (their) products" and to exert "vigorous efforts to resist protectionism" and promote "equitable participation in international trade", indications are to the contrary. The recent efforts undertaken through international fora to stimulate world trade have had only limited impact on the trade of developing countries.

For instance, the recently (early 1982) concluded Tokyo Round of multilateral negotiations provided for a reduction of tariff and non-tariff barriers on agricultural trade as one of the negotiating objectives. However, little progress was accomplished in this respect. Furthermore, agreement remains to be reached on the crucial issue of establishing a system of safeguards to govern the temporary restriction of imports to protect domestic industry. 3/

1/ Average export prices of primary commodities for developing countries, excluding fuels, (valued in current US dollars), fell by 16 per cent in 1981 and by 18 per cent in 1982. UNCTAD, "World Commodity Trade: Review and Outlook" (TD/B/C.1/236) 4 May 1983.

2/ (General Assembly resolution 35/56, para. 22) International Development Strategy for the Third United Nations Development Decade.

3/ IMF, World Economic Review 1982.

In recent years, restrictions on exports of textiles and clothing, originating in developing countries, have become tighter 1/ under the guise of measures allegedly aimed at establishing "orderly marketing arrangements". In December 1981, the Multi-Fibre Arrangement (MFA), covering trade in these products, was extended for the third time since its inception in 1974 until July 1986. The MFA, however, failed to balance the interests of developing and developed countries with respect to market access. To the former group, the MFA restrictions are considered to be the most important barrier to growth in their exports. In effect, MFA III remains biased in favour of the industrialized countries as it has legitimized restrictions to protect their markets against developing countries' low-cost exports while leaving their intra-exports unrestricted and subject to normal rules of the General Agreement on Tariffs and Trade (GATT).

Notwithstanding extensive efforts exerted within the framework of UNCTAD, no agreement could be reached between cotton exporters and importers. In an effort to protect and promote the interests of cotton producers a number of developing countries, including Egypt and the Syrian Arab Republic signed in June 1983 an agreement establishing the International Cotton Producers Association (ICPA) 2/.

Against a sluggish world demand for crude oil and dwindling oil revenues, members of the Organization of Petroleum Exporting Countries (OPEC) met in London, early in 1983, and decided to reduce the price of the "reference" crude oil, Arabian Light, from \$ 37 per barrel to \$ 34, effective March 1983. To support this price level, they re-established an overall production ceiling with fixed quotas for each OPEC member with Saudi Arabia assuming the role of a "swing" producer, adjusting its output to meet market requirements.

With petrochemicals and refined products emerging as important export products, trade negotiations have been recently launched (December 1983) between the Gulf Co-operation Council (GCC) countries and the European Economic Community (EEC) concerning the reduction of discriminatory practices (tariff and non-tariff barriers) facing these products in the market of the latter. These negotiations are of particular importance in view of the current overcapacity in European chemical industry and, therefore, the adverse implications of increased protectionism against low-cost products of developing countries including those originating in the GCC countries.

1/ It is worth noting that textiles and clothing comprise 12 per cent of non-oil exports of the developing countries.

2/ See: The Economist Intelligence Unit, Quarterly Economic Review: Jordan and Syria, Supplement, 1983.

Against the background of developments outlined above, the performance of world trade during the first three years of the eighties, was disappointing for virtually all groups of countries (Table 1). World exports in dollar terms declined successively, by 1.3 per cent in 1981, 6.1 per cent in 1982 and 6.4 per cent during the first half of 1983, compared to the first half of 1982. Imports followed a similar trend and fell by 1 per cent, 5.4 per cent and 5.9 per cent, respectively. The developed market economies' trade performance was only slightly different.

The deterioration in the value of exports of developing countries accelerated from 1.2 per cent in 1981 to a striking 11.6 per cent in 1982 and 11.1 per cent during the first half of 1983. Their imports, however, continued to grow by 11.2 per cent in 1981 before dropping by 4.8 per cent in 1982 and 3.7 per cent during the first half of 1983.

In relative terms, the OPEC countries' trade has been hard hit. The growth of their imports in 1981 by 17.7 per cent was followed by increments of 2.5 per cent in 1982 and 1.7 per cent during the first half of 1983. Their exports, moreover, experienced a more severe setback, declining by 7.4 per cent in 1981, 20.4 per cent in 1982 and 22.2 per cent during the first half of 1983. The value of OPEC's crude oil exports fell by 29 per cent between 1980 and 1982 and is estimated to drop by another 28 per cent in 1983 in view of the recent cut in prices (March 1983) and the continued depressed level of production. Between 1980 and 1983 production declined by 3.7 per cent and consequently real exports of crude were halved. However, projections for 1984 point to a slight recovery in the value of crude oil exports 1/.

A. Overall Trade Performance

1. Export and import trends

Attaining the average annual rate of growth of 7 per cent in the gross domestic product for developing countries as a whole during the Third Development Decade and in the early part of the Decade implies 2/, inter alia, "an acceleration in the tempo of production", "a rapid expansion and diversification of trade", "an annual rate of expansion in exports and imports of goods and services of not less than 7.5 per cent and 8 per cent, respectively", and "an improvement in the terms of trade". Indications are that, for the region as a whole, the targets for imports were exceeded

1/ Middle East Economic Survey, (5 September 1983).

2/ General Assembly resolution 35/56, paras. 20 and 22.

Table 1. Average annual variation in aggregate dollar value of imports and exports, selected years (in per cent)

	Imports (c.i.f.)			Exports (f.o.b.)				
	1973-79 a/	1979-80	1980-81	1981-82	1973-79 a/	1979-80	1980-81	1981-82
World	21.5	21.5	-1.0	-5.4	21.5	21.4	-1.3	-6.1
Developed market economies	18.5	20.0	-5.0	-6.2	17.4	17.7	-1.9	-5.2
Developing market economies of which:	23.5	29.4	11.2	-4.8	25.0	32.5	-1.2	-11.6
OPEC	30.5	28.9	17.7	2.5	31.0	39.4	-7.4	-20.4
ECWA Region:	39.0	25.0	12.3	...	37.0	50.6	-3.0	-28.0
Oil economies	43.0	24.0	13.4	...	38.0	51.1	-3.0	-28.7
Non-oil economies	28.0	29.2	7.4	-5.7	22.0	31.4	0.0	3.0
ECWA Region Non-Fuel Exports	.....	.....	.....	.....	(24.0)	(23.0)	(15.4)	(...)
Oil economies	.....	.....	.....	.....	(35.0)	(26.8)	(21.4)	(...)
Non-oil economies	.....	.....	.....	.....	(14.3)	(16.6)	(4.4)	(-0.3)
<u>For reference:</u>								
(1) Gulf Co-operation Council b/	44.0	23.6	14.5	11.3	36.0	57.0	6.2	-30.3
(2) Least developed countries c/	42.0	39.9	-17.7	9.9	26.0	66.8	-10.5	40.6

Source: ECWA, based on national and international sources

a/ Average annual compound rates of growth computed on the basis of terminal years.

b/ Covers Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates.

c/ Covers the two Yemens.

by significant margins in the period reviewed ^{1/}. Regarding exports, however, the picture looks exceedingly dismal, with the growth rate for the region not only falling short of the IDS target but declining moderately in 1981 and then dramatically in 1982 and the first half of 1983. This was the result of an association of much reduced volume of exports since 1981 with prices only starting to fall in early 1983.

Thus, after having increased sharply up to 1980, exports of ECWA region experienced a severe setback in the subsequent two years, notably in 1982. In 1980, the region's exports grew to a peak level and expanded by over 50 per cent, to reach \$ 193 billion a result of both the sharp rise in crude oil prices in 1979 and 1980 and increased volume of oil exported. Exports then declined slightly by less than 3 per cent in 1981 after which they collapsed by over 28 per cent to \$ 135 billion in 1982, largely due to the sharply reduced world demand for crude oil. While modest growth rates were recorded, in 1981, by some of the large oil exporters of the region, notably Saudi Arabia and the United Arab Emirates, and high growth rates by Bahrain, Oman, Jordan and Yemen, steep declines were recorded in the exports of Iraq (down by 60 per cent) and Kuwait (down by over 20 per cent).

The exports performance of Iraq could be explained in terms of lower volume of crude oil exports. Two of the country's three main oil export outlets have been rendered inoperative. The first, located in the south, was damaged in the early days of the war with Iran. The second, located on the Mediterranean in the Syrian Arab Republic and Lebanon, was closed in April 1982. Exports from the single Iraqi outlet left were largely limited to the capacity of the pipeline through Turkey. Thus, excluding Iraq, the region's exports recorded a growth of 6 per cent in 1981 to decline by 30 per cent in 1982, with all ECWA countries being affected, except Democratic Yemen and Jordan, though in varying degrees. The most severe cases were the fall by over one-third in exports of Saudi Arabia and Kuwait; the latter's exports having also dropped by over 20 per cent in 1981.

Excluding fuels, exports followed a different path as of 1981 when a growth of 15.4 per cent was registered, compared to about 23 per cent in 1980. Excluding Iraq, for which comparable data were not available for the period 1980-1982, non-fuel exports from the region showed a rise of 25.3 per cent and 17.4 per cent in 1980 and 1981, respectively, before losing momentum in 1982 and growing by only 6.7 per cent.

^{1/} Import volume for West Asia increased by 19.3 per cent in 1981 and 14.5 per cent in 1982. It is projected to rise by 6.8 per cent in 1983 and to decline by 0.5 per cent in 1984. (See: UNCTAD, Trade and Development Report, 1983 (Part I); where West Asia is defined to include in addition to the ECWA countries, Iran, Cyprus and Turkey).

The region's aggregate imports, however, having risen by 25 per cent to over \$ 73 billion in 1980, it decelerated to 12.3 per cent in 1981. Excluding Iraq, for which comparable data were not available for the period 1980-1982, the region's imports grew by 24.7 per cent in 1980 and by 13 per cent in 1981 before slowing down to about 8 per cent to reach over \$ 80 billion in 1982. It is worth noting that, for the first time in many years, imports of the non-oil economies, as a group, dropped by 5.7 per cent in 1982, after a modest rise by 7.4 per cent in 1981. The slowdown in 1981 was most pronounced in the two Yemens, where imports fell by 23 per cent in Democratic Yemen and by 13 per cent in Yemen. In 1982, the position of the Syrian Arab Republic was mainly responsible for the deceleration in this group's imports with its imports shrinking by one-fifth below their 1981 level.

Preliminary statistics, comparing the first half of 1983 to the corresponding period in 1982, depict a continued decline in the region's 1/ exports by 18 per cent; while, total imports grew by over 9 per cent.

The above developments have been reflected in the share of the ECWA region in world trade. Thus, while in 1973 the ECWA region accounted for 3.7 per cent of world exports, its share in 1980 grew to 9.7 per cent and fell to 7.3 per cent in 1982. During the first half of 1983, the region accounted for 6.8 per cent of world exports. Its imports, on the other hand, grew steadily from 1.5 per cent of the world total in 1973 to 5.2 per cent in 1982 and 6.4 per cent during the first half of 1983.

2. Terms of trade

The quantum of exports for West Asia 2/ fell by 12.6 per cent in 1981 and by 14.5 per cent in 1982 3/. Forecasts for 1983 indicate a further decline of 15.6 per cent, but a moderate growth of 1.7 per

1/ Refers to the "Asian Middle East" excluding Cyprus, Iran and Turkey (which corresponds to the ECWA region); as in United Nations, Monthly Bulletin of Statistics (November 1983).

2/ Op.cit., UNCTAD, Trade and Development Report, 1983 (Part I).

3/ Crude oil production in the ECWA region declined between 1980 and 1982 by 39 per cent. Provisional data for 1983 show a further decline by 13 per cent. See: Petroleum Economist: The International Energy Journal (Petroleum Press Bureau Ltd.); March 1984.

cent for 1984. In contrast, the terms of trade for the region, as a whole, improved by 12.4 per cent in 1981 and 0.8 per cent in 1982. This could be partly attributed to lower import prices 1/.

The region's terms of trade, however, are projected to deteriorate by 3.7 per cent in 1983, and remain virtually unchanged in 1984 2/. Hence, meeting the IDS objective of an "improvement in the terms of trade of developing countries" seems unlikely before a sustained world economic recovery is confirmed. This, according to a recently published report by the International Monetary Fund (IMF), is to be expected not earlier than the first part of 1984 and particularly in the countries members of the Organization for Economic Cooperation and Development (OECD), notably the United States and Japan 3/. And in the event, some time has to elapse before the spill-over effects crystallize and for their impact to be felt on the developing countries' trade.

The improvement in the region's terms of trade offset the deterioration in export volume in 1981, resulting in a virtual stagnation in the purchasing power of its exports. In 1982, this was further accentuated by the extremely modest improvement (0.8 per cent) in the terms of trade while the volume of exports continued declining, causing the purchasing power of exports to fall by 13.8 per cent. The purchasing power of exports of Western Asia is projected to decline further by 18.8 per cent in 1983 before slightly improving by 1.4 per cent in 1984 4/.

At the individual country level, the fall in the quantum of exports since 1980, was a common denominator to all the ECWA countries: oil-exporters and non-oil economies alike 5/. The sole exception being Saudi Arabia, whose quantum index first rose by 4.8 per cent, before falling mildly in 1981 by 1.9 per cent and drastically in 1982 by 35.3 per cent, in line with a 34 per cent drop in crude oil production. The

1/ The United Nations export price index of manufactured goods for the developed market economies declined by 5 per cent in 1981 and by 3 per cent in 1982.

2/ Op.cit., UNCTAD, Trade and Development Report, 1983 (Part I).

3/ "IMF Survey" (January 23, 1984).

4/ UNCTAD, The Current World Economic Crisis (UNCTAD/TDR /3 (Part I) 7 September 1983.

5/ Based on: UNCTAD, Handbook of International Trade and Development Statistics, 1983.

fall in the quantum of exports was most pronounced in Iraq, where the index dropped by 23 per cent in 1980 before declining by 67 per cent in 1981, largely a result of reduced oil production. This was reflected in a deterioration in Iraq's purchasing power of exports by 58.6 per cent, notwithstanding a 21.5 per cent improvement in its terms of trade for that year. Both, Kuwait and to a lesser extent, the United Arab Emirates experienced a decline in the purchasing power of their exports commencing in 1981. Jordan, in contrast, managed to maintain a steady growth in the quantum of its exports during the first three years of the decade. The growth in its index by 25 per cent in 1980 and 17 per cent in 1981 led to an improvement in the purchasing power of its exports by 20 per cent and 10 per cent, respectively. In 1982, despite the growth of less than 3 per cent in its quantum index, caused by difficulties in marketing of phosphates 1/, the purchasing power of its exports improved by another 10 per cent.

3. Trade balances and export/import ratios

The outcome of the poor performance of the external sector could be easily detected in the region's dwindling trade surplus during the first three years of the decade. After multiplying by more than six-fold between 1973 and 1979 and expanding by about 72 per cent to reach a peak level close to \$ 120 billion in 1980, the region's trade surplus diminished by about 12 per cent in 1981. Excluding Iraq, for which comparable data were not available for the period 1980-1982, the region's trade surplus continued expanding in 1981, though by less than 2 per cent to reach over \$ 102 billion, before collapsing by more than half to an estimated \$ 44 billion in 1982.

The oil-economies in the region, notably the countries of the Gulf Co-operation Council, have been largely responsible for the region's trade surplus. The trade surplus of Saudi Arabia alone, which represents over 80 per cent of the region's aggregate surplus, was more than halved in 1982. Preliminary figures for the first half of 1983 reveal a deficit for the first time in years. The overall trade deficit in the non-oil economies, which in 1979 had widened by seven-fold relative to its 1973 size, deteriorated considerably in 1980 and 1981, reaching

1/ World production of phosphates rose to a record level in 1980 and prices recovered noticeably until 1982 when both world consumption and demand declined sharply leading to strong competition among suppliers, and a decline in market prices by 8.6 per cent. This naturally affected Jordan, the second largest exporter among the developing countries (See UNCTAD, World Commodity Trade: Review and Outlook, (TD/B/C.1/236), May 1983.

\$ 10.4 billion in the latter year. However, in 1982, this deficit narrowed down to \$ 9.4 billion reflecting a somewhat curtailed level of imports.

Another significant indicator of trade performance during the first three years of the eighties is the region's export/import ratio. Depressed export earnings and less than proportionate reduction in imports are reflected in the region's weakened overall export to import ratio which fell from 2.6 in 1980 to 2.3 in 1981. Excluding Iraq, for which comparable data were not available for the period reviewed, this ratio fell from 2.5 to 1.6 between 1980 and 1982. The magnitude of the fall in the export/import ratio was more pronounced in the Gulf Co-operation Council member states, whose combined ratio declined from 3.1 to 1.8 between 1980 and 1982, reflecting notably the drop in Saudi Arabia's ratio from 3.6 to 2. In contrast, the non-oil economies export/import ratio has been almost stationary between 1979 and 1982, at about 0.3, having been 0.4 in 1973.

B. Commodity Structure of Trade

1. Imports

The structural pattern of imports of the ECWA region has undergone two significant changes during the past ten years. The first was the progressive growth in the share of machinery and transport equipment in total imports, from 30 per cent in 1973 and 37 per cent in 1980, and further to 42 per cent in 1982. The second was the gradual decline in the share of imports of food items from over 21 per cent in 1973 to 14 per cent in 1980 and 12 per cent in 1982 (Table 2).

The increased share of machinery and transport equipment could be largely attributed to the region's efforts to speed up the pace of development through increased imports of capital goods. For example, in Bahrain, spending on machinery and equipment increased substantially as a result of concessions by the government to waive import duties on such goods in order to encourage the establishment of new industries. In the Syrian Arab Republic, imports of machinery and capital equipment had also expanded considerably prior to the recent completion of a number of development projects after which they fell almost to half their 1981 level. In Iraq, a construction boom of infrastructural projects partly in preparation for the Non-Aligned Conference, which was scheduled for September 1982, pushed imports of machinery and capital equipment to unprecedented levels. In Jordan, the purchase of civilian aircrafts in 1981 raised imports of machinery and capital equipment significantly.

The declining share of food items in total imports could be related partly to better harvests in recent years and to expanded production, such as wheat in Saudi Arabia. Exogenous factors mainly

.../

Table 2. ECWA Region: Commodity Structure of Trade, 1973 and 1979-1982
(Percentage shares by major product categories)

	SITC Section			
	1973	1979	1980	1981
<u>Total Imports (c.i.f.)</u>				
Food items	21.4	13.6	14.3	13.6
Agricultural raw materials	2.9	1.3	1.4	1.1
Ores and metals	6.7	7.9	6.6	6.8
Fuels	5.4	7.5	8.6	8.9
Chemicals	6.2	4.8	4.8	4.4
Machinery and transport equipment	29.2	36.7	36.4	38.0
Other manufactures	26.4	27.7	27.4	27.1
Total	100.0	100.0	100.0	100.0
<u>Total Exports (f.o.b.)</u>				
Food items	1.6	0.6	0.4	0.5
Agricultural raw materials	1.3	0.2	0.2	0.1
Ores and metals	0.3	0.6	0.5	0.5
Fuels	93.6	96.5	97.2	96.6
Chemicals	0.7	0.4	0.3	0.3
Machinery and transport equipment	0.7	0.7	0.7	1.0
Other manufactures	1.7	0.9	0.8	1.0
Total	100.0	100.0	100.0	100.0
<u>Non-Fuel Exports</u>				
Food items	26.3	16.2	14.9	14.0
Agricultural raw materials	20.1	7.3	5.2	3.6
Ores and metals	5.2	18.9	16.1	14.5
Chemicals	10.4	9.1	12.0	9.4
Machinery and transport equipment	10.2	21.4	25.0	23.4
Other manufactures	26.6	26.5	26.4	28.5
Total	100.0	100.0	100.0	100.0

Source: ECWA, based on national and international sources.

the decline in international prices of primary and agricultural products, including foodstuffs, since 1980 also contributed to reducing the aggregate dollar value of these imports, causing them to drop in 1982 by 5 per cent, compared to 1981.

Notwithstanding the overall decline in absolute terms, the volume of food items imported into some ECWA countries continued to expand. For instance, in Saudi Arabia a boom in imports of foodstuffs took place as a result of the spread of supermarkets and fast food outlets, in response to changing consumption patterns of Saudis and influx of foreign labour with diversified eating habits. In Qatar, imports of foodstuffs and live animals remained substantial despite the rise in domestic production which was not sufficient to satisfy local needs. In the Syrian Arab Republic, increased imports of raw and refined sugar led to a rise in total imports of foodstuffs in 1981.

2. Exports

(a) Fuels (crude oil, refined products and gas)

Exports of the ECWA region are heavily weighted by oil, a concentration which deepened after 1973 before it started tapering off during the early eighties. Thus, the share of fuels (SITC 3) in the region's aggregate dollar value of exports rose from 93 per cent to over 97 per cent by 1980, and then declined to 95 per cent in 1982. This reflected mainly the decline in the share of crude oil in total exports to 84 per cent (the lowest level attained during the last ten years) from over 89 per cent in 1980 and 87 per cent in 1973. This phenomenon occurred in all the oil-exporting countries in the region, though in varying degrees. A case in point is Kuwait where the share of crude oil in total exports diminished from 94 per cent in 1973 to 74 per cent in 1979. The sharpest decline, however, occurred in 1982 when its share dropped to less than 44 per cent from 64 per cent in 1981. ^{1/}

The reduced significance of crude oil has highlighted the growing relative importance of refined products and gas in total exports. Exports of refined products and gas grew by 55 per cent in 1980; however, they fell slightly in the following two years, whereas crude oil exports dropped by more than one-third. As a result, their share grew by 3 percentage points to over 11 per cent in 1982. By and large, this

^{1/} The decline in the relative importance of crude oil in Kuwait's exports must be viewed not only against the slackening world demand for crude oil and the country's own energy conservation policy, but also partly as a result of the development and growth of new export lines such as refined products and petrochemicals.

was the result of a substantial growth in quantities exported. This trend is expected to continue as a result of increased refining capacity and higher operating load factors following the establishment of new refineries or extensions of existing ones being brought on stream. In percentage of total exports, petroleum products almost doubled from over 4 per cent in 1973 to average 6 per cent during 1979-1981 and up to 8 per cent in 1982. Gas emerged as a significant export in the late seventies, with its share in the total growing from almost nil in 1973 to over 3 per cent in 1982.

At the country level, Kuwait has emerged since the late seventies as the fourth leading exporter of petroleum products among the developing countries followed by Bahrain ^{1/}. These two countries were almost equally responsible for over 50 per cent of the region's refined oil exports. They were closely followed by Saudi Arabia, and, at a distance, by Democratic Yemen and the Syrian Arab Republic. While petroleum products constituted an insignificant portion of Kuwait's exports in 1973, they came to account for around 17 per cent in 1979. Thereafter, their share expanded to reach over 33 per cent in 1982, partly a result of a 38 per cent growth in volume.

Refined products have always dominated Bahrain's exports. Their share in the total went up from 80 per cent in 1973 to 89 per cent in 1980 and 1981 before falling to 83 per cent in 1982. This was largely caused by a reduction in production level of Abu Sa'afa refinery and an overall lower refinery throughput. Preliminary information on early 1983, indicates some difficulties in marketing, as a result of a decline in the price margin between imported crude and exported products. Higher production costs have tended to weaken Bahrain's competitiveness vis-à-vis other suppliers.

The value of Saudi Arabia's exports of petroleum products has been quite substantial. Having grown rapidly until 1980, their value, however, declined by about 19 per cent over the next two years and their share reduced from 3.4 per cent to 2.8 per cent in 1982. Preliminary information covering the first half of 1983 reveals a continuation of the trend. To counter these developments, Saudi Arabia's Petroleum and Minerals Organization (Petromin) has taken measures to boost exports of refined products, through improving on its marketing research techniques. In addition, marketing of the products from three recently built export-oriented refineries, expected to commence by mid-1984, will further boost Saudi Arabia's refined oil exports.

^{1/} In 1980, Kuwait was responsible for over 8 per cent of the developing countries' exports of petroleum products (almost 4 per cent of the World's); while Bahrain and Saudi Arabia accounted for 7.2 per cent and 6.6 per cent, respectively.

In the Syrian Arab Republic, exports of petroleum products have been quickly replacing raw cotton as the second leading export item. These exports, which barely accounted for 3 per cent of the total in 1979, jumped five-fold to reach over 15 per cent in 1980; by 1982 they accounted for over 23 per cent of total exports. The Baniyas refinery which recently came on stream, together with an increased utilization of the Homs refinery raised the level of production and, hence, exports. This situation, however, might not last for long with the projected increase in domestic consumption of oil products.

Iraq's exports of refined products (mainly surplus fuel oil and some naphtha) have been small in relative terms. The volume of exports is reported to have expanded subsequent to the recent commissioning (February 1983) of the new refinery in North Iraq (Baiji).

Gas has emerged as a significant export item in the region only during the late seventies, with Saudi Arabia responsible for over 60 per cent of total gas exported 1/; the balance being mainly accounted for by the United Arab Emirates and Kuwait. The value of Saudi Arabia's gas exports expanded until 1981 when reduced production led to an 8 per cent decline in 1982. Nevertheless, the share of gas in total exports gradually increased from 1.7 per cent in 1979 to 3.3 per cent in 1982. Similarly, Kuwait's gas exports registered growth in both absolute and relative terms until 1980, when production cutbacks caused exports to fall and their share in the total to drop from 3.3 per cent in 1980 to 2.8 per cent in 1981. In 1982, the volume of gas exported from Kuwait dropped by 38 per cent causing a 30 per cent fall in value terms. By contrast, the United Arab Emirates' gas exports continued a growth which started in 1979 and became more pronounced during the last quarter of 1981 following the completion of Al-Roways gas plant and its coming on stream. Consequently, the share of gas increased from 1 per cent in 1979 to represent almost 6 per cent of total exports in 1981 and over 8 per cent in 1982. With plans to expand gas production and exports, their share is likely to rise further.

(b) Non-fuel exports

The region's non-fuel exports have generally remained of limited significance, in relative terms, consisting largely of primary and agricultural commodities (cotton and phosphates), and, to a lesser extent, domestic semi-manufactured and manufactured products in some instances.

1/ Saudi Arabia is the second leading gas exporter among the developing countries, as it accounts for one-fourth of their gas exports and almost 8 per cent of the world's. (UNCTAD, Handbook of International Trade and Development Statistics, 1983).

This has not basically changed during the past decade, despite efforts aimed at export diversification. The share of non-fuel exports doubled 1/ between 1980 and 1982 to account for a bit over 5 per cent; having represented 7 per cent in 1973. Notwithstanding this, the limited diversification experienced in a number of countries is linked to petroleum, i.e. oil-derivatives such as fertilizers and petrochemicals; and a few other indigenous semi-manufactured and manufactured products such as aluminium, steel pipes and shapes, textiles and cotton fabrics, articles of plastic, wood and non-metal manufactures. The apparent replacement of primary agricultural commodities (food and agricultural raw materials) as the leading non-fuel exports by the product group comprising manufactured goods, excluding chemicals, should be viewed against the fact that re-exports constitute a large proportion of non-fuel exports in a number of countries (notably in Kuwait, Bahrain, Qatar and the United Arab Emirates), and to that extent cannot be taken as an indication of export diversification.

Exports of food items, which comprised over one-fourth of total non-fuel exports in 1973, gradually dropped to less than half this share in 1982. At the same time, exports of agricultural raw materials (mainly cotton) lost considerable ground, having accounted for one-fifth of exports in 1973, their share averaged less than 4 per cent during the early eighties. The only category among exports of primary goods which exhibited growth during the past decade was ores and metals 2/. While its share in the total tripled between 1973 and 1980 to over 16 per cent, it gradually declined thereafter to less than 14 per cent in 1982.

The share of manufactured goods 3/, other than machinery and transport equipment, which in 1973 shared top position with food items (more than one-fourth of non-fuel exports), maintained this level until 1980 and rose sharply in 1982 to become the leading export category with a 35 per cent of total. In contrast, chemicals (mainly fertilizers) maintained its relative importance at around 10 to 12 per cent between 1973 and the early eighties.

1/ Reflecting the decline in the relative importance of fuels as well as growth in traditional exports and new product lines.

2/ Covers crude phosphates from Jordan and the Syrian Arab Republic, aluminium from Bahrain and Kuwait, and steel shapes and structures from Qatar, the United Arab Emirates and Jordan.

3/ Indigenous exports in this category fall mainly under woven textiles and cotton fabrics; in addition to non-metal manufactures such as plastics, plywood, ceramics and asbestos, glass and leather articles; and products of assembly plants.

The growing share of non-fuel items in Kuwait's exports, which rose from 7 per cent in 1980 to over 12 per cent in 1981 and 20 per cent in 1982, reflected largely the expanding re-export trade^{1/}. Kuwait's indigenous exports cover some semi-manufactured and manufactured goods, mainly fertilizers and petrochemicals, non-metal products (e.g. rubber and plastic articles), followed in order of importance by aluminium and steel shapes, shaped wood and cork. Excluding fertilizers and petrochemical products, these exports did not represent more than 2 per cent of total exports (i.e. two-thirds of indigenous non-fuel exports); while fertilizers and petrochemicals (mainly urea, sulphur and ammonia) and some varnishes and detergents accounted for most of the balance. In 1981, exports of urea were slashed by half their previous level as a result of reduced production, which caused exports of chemicals, as a group, to shrink and their relative importance in the total to diminish. Preliminary information on 1982 indicate a reversal of this trend with exports of fertilizers surpassing their 1980 level.

A similar situation can be observed in Bahrain, with re-exports constituting a large portion of its non-fuel exports and the balance almost entirely accounted for by exports of aluminium from Bahrain's large smelter (ALBA) ^{2/}. As a result of a greatly expanded output from the smelter in response to growing demand for aluminium in Japan and other Arab and Asian countries, and after two years of limited growth, exports have sharply risen in 1982 and their share in the total virtually doubled to over 6 per cent compared to its 1980 level.

Qatar's non-fuel exports, excluding re-exports, consist almost entirely of fertilizers (urea and ammonia), petrochemical products - the exports of which began in 1981, and steel shapes. The share of non-fuel exports in the total fluctuated somewhat between 1973 and 1982, but maintained an upward trend rising from 2 per cent to over 7 per cent. In real terms, these exports grew considerably due mainly to increased production of steel in 1979 and 1980, and fertilizers ^{3/} and petrochemical products in 1981. This raised the volume of these exports to a record level and their value by 10 per cent in 1980 and 1981. However, the recession and the slump in the developed countries' demand for these products in 1982 pulled the value of Qatar's non-fuel exports back to its 1980 level. The contribution to exports of fertilizers and steel, which was almost equal in 1980, dropped slightly in 1981 and almost regained their 1980 positions at 2.8 per cent and 2.4 per cent, respectively, in 1982. Exports of petrochemicals, which began in 1981, grew to account for 1.7 per cent of total exports in 1982.

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- ^{1/} For example, in 1981, the latest year for which detailed trade data were available, re-exports comprised three-fourths of non-fuel exports (almost one-tenth of total exports), leaving a meager 3 per cent for domestic exports.
- ^{2/} This places Bahrain as the fourth leading aluminium exporter in the developing world. (In 1980, Bahrain was responsible for almost 10 per cent of aluminium exported by the developing countries).
- ^{3/} In 1980, Qatar was the second largest exporter of fertilizers among the developing countries, accounting for almost 15 per cent of their total.

Non-fuel exports in Saudi Arabia, representing slightly more than 1 per cent of the total, are also dominated by re-exports. The most significant among its indigenous exports being fertilizers (mainly, urea). These have been slowly gaining ground, though their share in total exports did not exceed 0.1 per cent during the early eighties. Significant export earnings, however, will be generated when seven major petrochemical plants, currently under construction, become fully operational by the late eighties. These plants are expected to produce 5 per cent of the world's ethylene (a basic input for plastics). Meanwhile, 1984 is the target year for placing some of the products of these plants into world markets. Towards this end, the Gulf Cooperation Council (GCC) has recently initiated trade negotiations with the EEC in order to eliminate discriminatory non-tariff and tariff barriers on petrochemical products originating in GCC member states 1/.

In the Syrian Arab Republic, the value of non-fuel exports grew by 15 per cent in 1982 after having virtually stagnated in the preceding two years, raising their share in total exports from 21 per cent in 1980 and 1981 to over 25 per cent in 1982. With Syria's leading traditional primary exports 2/ losing ground, the growth in non-fuel exports could be largely attributed to manufactured goods, mainly cotton textiles, woven fabrics and clothing articles. The combined share of these products almost doubled from less than 4 per cent in 1980 to over 7 per cent in 1982. By contrast, the share of raw cotton in total exports fell from over 8 per cent to less than 6 per cent, over the same period, despite a rise in production levels 3/, mainly due to falling prices. Furthermore, and with the exception of barley whose share in total exports grew due to better harvest, from 0.2 per cent in 1980 to 4.3 per cent in 1982, the combined share of the other leading primary commodities (fruits and vegetables, tobacco and phosphates) in total exports fell by around one percentage point to less than 4 per cent in 1982.

During the first three years of the eighties, the importance of phosphates, Jordan's leading export item, dropped significantly, from over 39 per cent in 1980 to less than 31 per cent in 1982. Exports of vegetables and fruits experienced limited growth despite the good harvest, with their share standing at 17 per cent of the total. The shift in the direction of reduced concentration on traditional primary commodities

1/ Middle East Economic Survey (26 December, 1983).

2/ These cover raw cotton, barley and other cereals, fruits and vegetables, tobacco and phosphates.

3/ In order to encourage production of raw cotton, which had considerably fallen in recent years, the government raised procurement prices by 44 per cent in 1982 and by another 20 per cent in 1983.

was accompanied by expanding exports of a number of semi-manufactured and manufactured goods, whose combined share in total exports increased from 25 per cent to 39 per cent between 1980 and 1982. For instance, the share of iron and steel manufacturers in total exports grew from 1.3 per cent to almost 5 per cent; while the share of pharmaceuticals doubled to 5 per cent. Exports of articles of bedding and furniture, asbestos and ceramics, plastics and clothing grew in absolute terms and their shares in total exports almost doubled to 4 per cent in each case. Fertilizers emerged as a significant export item in 1982 with a share of about 3 per cent. In addition, exports of manufactured goods included wood manufactures, soaps and detergents, paints and varnishes, paper and pulp, leather and glass articles. The growth in relative terms witnessed in exports of the leading manufactures was accompanied by a growth in real and absolute terms, with their combined value almost doubling between 1980 and 1982 to account for over half of the increment recorded in total exports in that year.

In addition to agricultural products (mainly citrus fruits, apples, grapes and vegetables), Lebanon's exports have included a wide spectrum of manufactures, viz. building materials, cement, aluminium, fabricated metal products, ceramics, porcelain, glass products, leather goods and footwear, woven textiles and fabrics, and fertilizers. Together, manufactured goods accounted for over 70 per cent of total exports in 1973, the latest year for which detailed trade data were available. However, as a result of the perpetuation of political instability in the country since 1975, the output of its manufacturing sector has substantially deteriorated due, *inter alia*, to the physical damage inflicted upon a number of industrial establishments, while others operated way below capacity (due to factory closures, reduction in number of working hours, shortages in power and supply of raw materials, forced reduction in production lines, etc..). The difficulties in transportation to the Gulf area, the reduced demand by the important Iraqi market for Lebanese industrial goods and, pursuant to the Israeli invasion in 1982, the banning of certain goods which were suspected of originating in Israel, were additional factors which adversely affected the volume of exports from Lebanon. Despite all this, Lebanon's potential for export diversification in manufactures remains significant and its full exploitation should not pose problems once the situation returns to normal.

C. Direction of Trade

1. Overall distribution and trade with developed market economies

The limitations inherent in the region's external sector, stemming basically from its narrow production base, do not make for rapid structural change in the short-run. Coupled with the limited capacity for absorbing the output of major natural resources (oil, phosphates and cotton), it

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accounts for the region's extreme external dependence and vulnerability. This is particularly the case with the developed market-economies which consume a very significant share of the region's traditional primary products and supply it with most of its needs for capital and other manufactured goods.

The developed market-economies [i.e., EEC, Japan, United States and the European Free Trade Association (EFTA)] have supplied a growing share (between 60 to 70 per cent) of the region's aggregate imports, and absorbed, albeit in a diminishing trend, between 65 and 56 per cent of its exports between 1973 and 1982. The region's trade with the developed market-economies during this period has been dominated, on the exports side by oil (representing an average of over 95 per cent) and, on the imports side, by manufactured goods (accounting for over three-fourths) with food imports constituting over one-tenth of the total. In 1982, for example, the region relied on these markets for procuring over 85 per cent of its imports of manufactured goods and 60 per cent of its needs of foodstuffs; and for absorbing over 70 per cent of its oil exports.

Notwithstanding the above, some significant shifts in the distribution of the region's exports among the developed market-economies themselves have occurred in recent years (Table 3). Thus, after having accounted for 15 per cent and 18 per cent of the region's exports in 1973 and 1979, respectively, Japan emerged as the single largest market for the region's exports, consuming over 23 per cent (mainly oil) in 1982, a share almost equivalent to that of the EEC countries combined. This shift took place at the expense of a progressively declining share of the EEC, as a group, in total exports which shrank from 44 per cent in 1973 to 33 per cent in 1979 and continued its downward path to stand at about 24 per cent in 1982. At the same time, the share of the United States, which accounted for 4 per cent of exports in 1973 and 11 per cent in 1979, declined to reach 6 per cent in 1982.

In 1982, each of the EEC, Japan and the developing regions 1/ accounted for about one-fourth of the ECWA region's exports. Among other things, this reflects the growing importance of developing countries as consumers of the region's products, with their share considerably boosted since 1973, from 16 per cent to 24 per cent in 1982. More specifically, the share of developing countries in Asia grew over the same period from 15 per cent to over 40 per cent of Bahrain's exports and to 25 per cent in the case of Kuwait. At the same time, the share of Latin America in Iraq's exports increased from one-tenth to one-third.

1/ Developing regions are defined to cover developing countries in Asia, excluding ECWA, in addition to Africa, America and the Oceania.

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Table 3. ECWA Region: Direction of Trade, selected Years.
(Percentage shares)

	<u>Exports (f.o.b)</u>				<u>Imports (c.i.f.)</u>			
	<u>1973</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1973</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
<u>ECWA Region</u>	4.32	4.53	4.11	5.40	10.44	8.90	9.63	9.92
<u>Other Developing Countries</u>	15.75	17.81	17.85	18.85	12.72	10.11	10.64	9.76
<u>Asia</u>	8.11	11.44	11.54	13.23	9.00	8.07	7.89	7.97
<u>America</u>	6.09	4.67	4.72	3.96	2.08	1.20	1.35	1.01
<u>Africa</u>	1.53	1.65	1.53	1.63	1.63	0.82	1.38	0.78
<u>EEC</u>	44.25	33.18	32.11	30.11	30.70	37.12	35.14	34.44
<u>Japan</u>	14.71	18.20	19.73	20.12	11.27	14.38	15.60	16.19
<u>U.S.A.</u>	3.52	10.77	9.98	9.78	12.30	12.86	12.92	13.31
<u>EFTA</u>	2.15	2.44	3.33	2.63	3.88	4.70	4.45	4.40
<u>CMEA (European)</u>	0.78	1.09	0.90	0.78	6.66	3.15	2.86	3.29
<u>China(Mainland)</u>	0.32	0.09	0.17	0.04	2.18	1.18	1.14	0.97
<u>Rest of the World</u>	14.19	11.89	11.82	12.29	9.85	7.60	7.62	7.72
<u>For reference:</u>								
<u>League of Arab States</u> ^{a/}	5.26	5.43	4.87	6.48	11.48	9.42	10.77	10.50
								7.06

Source: ECWA, based on data compiled from international sources.

^{a/} Covers the ECWA member Countries and Arab States in North Africa.

Definition of markets:

European Economic Community (EEC): Belgium, Denmark, France, West Germany, Ireland, Italy, Luxembourg, Netherlands, and United Kingdom.

European Free Trade Association (EFTA): Austria, Faeroe Islands, Finland, Iceland, Norway, Portugal, Sweden and Switzerland.

European members of the Council for Mutual Economic Assistance (European CMEA): Bulgaria, Czechoslovakia, German Democratic Republic, Hungary, Poland, Romania and the Union of Soviet Socialist Republics (U.S.S.R.).

While the destination of exports from the oil economies closely reflected those of the region as a whole, the non-oil economies' export distribution varied considerably. The EEC constituted an equally important outlet for the non-oil economies' exports as the regional market, which in 1982 absorbed one-third of total exports. Moreover, the growth in exports to both markets followed a similar trend since 1973 when each accounted, more or less, for one-fifth of the non-oil economies' exports. However, for Lebanon, Jordan, and, to a lesser extent, Yemen, the regional market by far constituted the main outlet absorbing 74 per cent, 64 per cent and 37 per cent, respectively, in 1982. For Jordan, the developing countries in Asia followed the regional market, in order of relative importance, and consumed over 14 per cent of its exports in 1982. Fuel exports from the Syrian Arab Republic and Democratic Yemen tilted the balance in favour of the EEC, whose share in their respective exports in 1982 averaged 53 per cent and 48 per cent. However, European members of the Council for Mutual Economic Assistance (CMEA) ranked as the second market for Syria's leading exports (oil and cotton), with its share amounting to 17 per cent, compared to one-tenth of the total for the regional market. It should be noted that these three markets (i.e. the EEC, European CMEA and the ECWA region) have maintained the top positions as export outlets for the Syrian Arab Republic since 1973, although at the time their respective shares were closer, representing 25 per cent, 23 per cent and 20 per cent, of the total.

On the imports side, no significant shifts were observed in the overall distribution of imports by origin. During the last ten years, the EEC continued to be the main supplier of merchandise to the region with its share, growing from 31 per cent in 1973 to 37 per cent in 1979, after which it fluctuated somewhat to stand at 36 per cent in 1982. The EEC was followed by Japan and the United States whose shares remained relatively stable at 16 per cent and 13 per cent, respectively, of total imports during the first three years of the current decade. In this connexion, it is worth recalling that in 1973 the United States was the single largest source of goods for the region, followed closely by Japan. As of 1979, however, Japan surpassed it with the surge in imports of Japanese cars. For example, in Saudi Arabia alone, four and a half times as many cars were imported from Japan than from the United States in recent years.

Among the oil economies, divergences at the country level were most evident in the case of Bahrain, which has always relied heavily on the region for its imports, mainly of crude oil from Saudi Arabia. In 1982, the region supplied Bahrain with 64 per cent of its imports, while the EEC ranked second, with 16 per cent. For Iraq, European CMEA followed the EEC and Japan, in order of importance, constituting a more significant source of goods than the USA, although its share in total imports has been greatly reduced from about 21 per cent in 1973 to 8 per cent in 1982.

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With respect to the imports of the non-oil economies, the EEC topped the list of suppliers in 1982, with a 37 per cent share, and was followed by the ECWA region with 14 per cent. Developing countries in Asia and the United States shared the same position and supplied about 7 per cent of the group's aggregate imports; while China emerged as an equally important supplier as Japan accounting for 6 per cent of the total. For the Syrian Arab Republic, however, European CMEA constituted an important source of goods second only to the EEC, supplying in 1982 over 10 per cent of its imports.

2. Trade with developing countries

The IDS attaches great importance to the issue of economic co-operation among developing countries and, in the context of trade, states that, "Developing countries will promote and expand trade among themselves..." ^{1/}. Within this perspective, and aware of the importance to their economies of reducing their heavy dependence on the developed market-economies, the ECWA member countries have attempted to expand and diversify their trade through, inter alia, locating alternative markets, including their own, and securing more favourable preferential access arrangements.

(a) Intraregional trade

The region constitutes an important market for the agricultural and industrial products of the non-oil economies and for the re-exports of the oil economies which also supply crude oil for some of the refineries where domestic crude oil is insufficient or non-existent.

Notwithstanding more than three decades of efforts to promote intraregional trade, its share in the total has remained meager and way below expectations. In absolute terms, the dollar value of intraregional export trade has risen substantially and steadily, expanding from about \$ 0.8 billion in 1973 to almost \$ 10 billion in 1981. In 1982, however, it reverted back to its 1979 level of less than \$ 6 billion mainly due to a fall in exports of fuels which were responsible for over half of the drop. In relative terms, however, the share of intraregional exports in total exports has only marginally improved, remaining between 4.3 per cent to 5.4 per cent between 1973 and 1982. The corresponding share in imports fell to less than 7 per cent in 1982, after having been relatively stable during 1973-1981 at around 10 per cent.

The divergence in intraregional trade patterns between the oil and the non-oil economies is pronounced for both exports and imports, disclosing

^{1/} General Assembly resolution 35/36, para. 67.

the common features characterizing each group's external sector and its inherent commodity concentration. On the average and during 1973-1982, 70 per cent of intraregional imports and 80 per cent of exports were accounted for by the oil economies. Nevertheless, the share of intraregional imports in total imports of this group contracted from 12 per cent in 1973 to 6 per cent in 1982. The corresponding share in exports rose slightly from 3.5 per cent to 4.4 per cent. At the country level, the region occupies a central position in Bahrain's trade; for example, in 1982 it accounted for 64 per cent of its imports and 24 per cent of exports. This could be largely explained by its heavy reliance on Saudi Arabia to supplement its own scarce supplies with crude oil for the refinery, and on neighbouring countries to absorb most of its re-exports. Oman's growing dependence on its neighbouring countries as a cheaper source of goods (mostly re-exports of these countries) is reflected in the significant share of the region in its total imports, which were stepped up from 10 per cent in 1973 to 22 per cent in 1982.

The relative importance of the region in the trade of the non-oil economies could also be immediately perceived from its substantial and generally growing share in their combined exports and imports. In 1973, 7 per cent of the non-oil economies' combined imports originated in the region. This share grew to 17 per cent in 1981, but dropped to 14 per cent in 1982. Similarly, after having almost doubled, to about two-fifths of the non-oil economies' exports between 1973 and 1981, the share of the region fell to 33 per cent in 1982. If oil exports were excluded, the share of intraregional exports in total exports would double, considering that oil which constitutes a significant portion of total exports of the Syrian Arab Republic and Democratic Yemen is largely consumed outside the region. In 1982, one-fourth of Jordan's imports and 64 per cent of its exports were marketed in the region. For Lebanon, the region is more important as an outlet for its goods (74 per cent of which were absorbed within the region) than it is as a source for them (6 per cent of its imports originated in the region). Democratic Yemen depends largely on the region for its supply of crude oil for the refinery and so does Jordan and Lebanon; while, Yemen relies on its neighbouring countries for the supply of its staple commodities and manufactured goods.

Structure of intraregional trade

While intraregional exports of fuels did not represent more than 2 to 3 per cent of the region's combined fuel exports, they constituted the dominant share in intraregional exports, having expanded from 40 per cent in 1973 to 60 per cent in 1980, before slightly declining to 58 per cent in 1982. A similar picture emerges with respect to intraregional imports where over 80 per cent of the region's fuel needs in 1982 were satisfied

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from within. These were mainly directed to Bahrain and Democratic Yemen to satisfy their refineries' needs.

The bulk of the region's non-fuel exports is being increasingly carried out inside the region as evidenced by its share which grew from 36 per cent to 59 per cent between 1973 and 1982. Both, the oil and non-oil economies contributed to this growth, with the former accounting for an average of 70 per cent of the value of intraregional non-fuel exports during 1980-1982, compared to 55 per cent during the seventies. However, the region remains relatively more important as an outlet for the non-oil economies exports than it is for the oil economies. Thus, excluding fuels, the share of the region in the non-oil economies' exports more than doubled between 1973 and 1982, from 29 per cent to 68 per cent. The corresponding share in the oil economies' exports grew from 44 per cent to 55 per cent over the same period. In 1982, the region's relative importance as a market for the individual ECWA countries was more pronounced in the case of Oman and Lebanon, where it consumed 78 per cent of the non-fuel exports of each; while it absorbed over 60 per cent of those of Kuwait, Qatar, Jordan and the Syrian Arab Republic and more than half in the case of the United Arab Emirates and Saudi Arabia.

More specifically, intraregional non-fuel exports were dominated by machinery and other manufactured goods, comprising over 60 per cent of the total, and mainly re-export items. Among the indigenous exports, food items (representing one-fifth of the total), chemicals, and ores and metals are worth mentioning. The region constitutes the most important and growing market for its foodstuff exports. This is reflected by its having absorbed 85 per cent of such exports in 1982, as compared to 46 per cent in 1973. The corresponding share for chemicals (mainly fertilizers) grew from 12 per cent to 43 per cent, over the same period of time. In 1982, around 20 per cent of the region's exports of agricultural raw materials and 25 per cent of its exports of ores and metals (mainly phosphates) were consumed within.

By contrast, the importance of the region as a source of non-fuel imports for its member countries is quite limited, both with respect to size and coverage. It has significantly diminished between 1973 and 1982, with the share in total imports falling from 7 per cent to 3 per cent, revealing the intensification of the region's already heavy dependence on the outside world to meet its needs for intermediate and capital goods as well as food. However, for the non-oil economies, the region constitutes a relatively more important source of non-fuel imports than it is for the oil economies (5 per cent as opposed to 3 per cent, in 1982).

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(b) Trade with other developing countries 1/

The region's efforts to expand trade with other developing countries were successful through 1981, at which time the value of mutual trade had considerably expanded compared to 1973. Imports grew from \$ 1.1 billion to \$ 9.3 billion; while exports grew from \$ 3 billion to \$ 34.5 billion. However, affected by world economic recession, the region's trade with developing countries experienced in 1982 a setback with imports and exports standing at \$ 7.3 billion and \$ 27.8 billion, respectively. The absolute growth witnessed between 1973 and 1981 hardly affected the share of trade with other developing countries in total trade, particularly in the case of imports and non-fuel exports 2/. In effect, the share of other developing regions in the imports of the ECWA region decreased from 13 per cent in 1973 to average 10 per cent throughout the period ending in 1981, before falling again to 8 per cent in 1982. While developing countries received 24 per cent of the region's non-fuel exports in 1973, their combined share fluctuated thereafter to reach 12 per cent in 1981 and to rise marginally to 13 per cent in 1982.

By contrast, the share of other developing regions in the aggregate value of the region's exports went up from 16 per cent to 24 per cent between 1973 and 1982, having averaged 19 per cent until 1981. This could largely be attributed to increased oil exports, the share of which in the aggregate value of ECWA's exports to other developing regions grew between 1973 and 1982 from 89 per cent to 98 per cent.

Thus, the share of other developing regions grew in the case of exports originating in the oil economies and in Yemen; notably in the case of Iraq (from 16 to 52 per cent), Bahrain (from 40 to 44 per cent), Saudi Arabia (from 16 to 25 per cent), and Kuwait (from 18 to 30 per cent). Their share in imports diminished for all countries with the exception of Saudi Arabia, where it was approximately maintained at 10 per cent in the period 1973-1982. Excluding mineral fuels, the share of other developing regions increased only in the case of exports from Saudi Arabia (from 12 to 32 per cent) and Qatar (from 2 to 19 per cent).

1/ Covers the developing countries in Asia excluding the ECWA region, Africa, America and the Oceania. For more details see, ECWA: Trade of the ECWA countries with other developing countries and regions: A review: and its statistical Annex (1983).

2/ Non-fuel exports grew from about \$ 300 million in 1973 to \$ 900 million in 1981 and declined to less than \$ 600 million in 1982.

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During the period 1973-1982, the bulk of trade between the ECWA region and the other developing regions was carried out between the oil economies (mainly, Saudi Arabia and, to a much lesser extent, Iraq and Kuwait) and developing countries in Asia (mainly Turkey, Singapore, Korea and Hong Kong). In Latin America, Brazil was also a significant consumer of the ECWA region's exports. Until recently, India was an important source of goods for the region and Iran a significant outlet for its non-fuel exports. In 1982, Saudi Arabia alone accounted for 54 per cent of the region's imports from the other developing regions, 70 per cent of total exports and 50 per cent of non-fuel exports to them. At the same time, the developing countries in Asia (mainly those in South and South-East Asia, in addition to Turkey) were responsible for supplying 81 per cent of the ECWA region's imports from other developing regions, while absorbing 68 per cent of its total exports and 61 per cent of its non-fuel exports.

Structure of trade with the other developing countries

The structure of imports from the other developing countries has been dominated by food items and manufactured goods other than machinery, each accounting for around 40 per cent of total imports in 1982. Measured in relative terms, the importance of the other developing countries as a source of imports for the ECWA region has diminished during the recent past. Thus, after having supplied the region in 1973 with 34 per cent of its needs of foodstuffs and 45 per cent of its agricultural raw materials, the share of other developing countries gradually diminished to reach in 1982 over one-fourth of imports of each category. During the same period, their share in the region's imports of manufactured goods other than machinery, has remained virtually unchanged, averaging 12 per cent.

Exports to other developing countries were heavily weighted by oil, the share of which in the total steadily grew from 89 per cent to 98 per cent between 1973 and 1982. This was associated with an expansion in the already significant share of developing regions in ECWA's fuel exports from 15 per cent in 1973 to 19 per cent in 1981 and up to over 24 per cent in 1982, highlighting the growing importance of developing countries as alternative markets for oil and products.

Excluding fuels and disregarding exports of machinery and transport equipment which are largely re-exports, some of the region's indigenous exports, and notably chemicals (fertilizers) and phosphates, have come to occupy a significant position in the region's exports to the other developing countries. Hence, in 1982, chemicals (mainly fertilizers) accounted for 30 per cent of the region's non-fuel exports to this group; while ores and metals (phosphates) were responsible for 17 per cent of the total. The developing countries' share in these products has, however, fluctuated sharply during the past ten years. Thus,

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after having absorbed 50 per cent of the region's exports of chemicals in 1973, their share dropped to 17 per cent in 1981 before regaining its 1973 position in 1982. Their share in the region's exports of ores and metals went up from 17 per cent in 1973 to 25 per cent in 1979, and diminished thereafter to average 15 per cent during 1980-1982. Meanwhile, exports of food items lost ground, and their share in the region's non-fuel exports to other developing countries fell from 17 per cent in 1973 to less than 6 per cent in 1982. This was accompanied by a diminished share of the developing countries in the ECWA region's exports of food items which simultaneously dropped from 16 per cent to 5 per cent, in favour of the growing share of the regional market.

3. Trade with the socialist countries of Eastern Europe 1/

To assist developing countries in locating new and alternative markets for their goods and to improve their production and export potential, the socialist countries of Eastern Europe are urged, within the framework of the IDS, to "...continue to adopt and implement appropriate measures in order to increase their trade with developing countries..." 2/

The volume of trade exchanged between the ECWA countries and the socialist countries of Eastern Europe has expanded considerably during the last decade, largely as a result of a network of bilateral trade and payments agreements and economic co-operation arrangements. However, in relative terms, the share of the socialist countries of Eastern Europe in total trade of the ECWA region, contrary to expectations and efforts remained unimpressive and close to being negligible during the seventies and the early eighties. This share did not exceed 1 per cent in the case of exports, 2 per cent of non-fuel exports and 3 per cent of the region's imports. The region's exports to European CMEA (mainly to the Union of Soviet Socialist Republics and Romania) consisted predominantly of crude oil which, on average, accounted for 90 per cent of the total, mainly originating in Iraq and, to a much lesser extent, the Syrian Arab Republic.

In general, political considerations played a leading role in establishing closer economic relations between the two groups of countries. Consequently, achievements appear to have been more tangible between the socialist countries of Eastern Europe and the ECWA socialist economies

1/ For more details see: ECWA, Trade and economic relations between the countries of Western Asia and the socialist countries of Eastern Europe: Trends and prospects and its Statistical Appendix (May 1983).

2/ General Assembly resolution 35/56, para 66.

than with the remaining ECWA countries. This was evidenced by the fact that, around 88 per cent of the region's exports to and 50 per cent of its imports from European CMEA were accounted for by two countries, namely, Iraq and the Syrian Arab Republic. European CMEA absorbed over one-tenth of these two countries' combined exports and supplied an equivalent share of their imports. More specifically, over one-tenth of Iraq's crude oil and one-third of the Syrian Arab Republic's non-oil exports (mainly cotton and phosphate) went in the direction of European CMEA.

The region's imports from this group continued to be dominated by manufactured goods (mainly machinery and equipment), comprising around 45 per cent of the total. These were followed, in relative importance, by imports of food items (more than one-fifth of the total) and by iron and steel, for construction and development projects, accounting for 13 per cent of the total.

To the ECWA region, the socialist countries of Eastern Europe constitute an important trading partner with respect to agricultural raw materials. This market consumed over one-fourth of total regional exports and supplied over 15 per cent of its imports of this product category. However, the European CMEA remains a marginal supplier of manufactured goods to the region and consumer of its crude oil, accounting for less than 2 per cent in each case. European CMEA countries, however, have emerged as important outlets for phosphate exports from Jordan and the Syrian Arab Republic (absorbing around 35 per cent and 59 per cent, respectively). Also, over two-fifths of Syria's exports of manufactured goods and of its cotton exports were destined to European CMEA countries in 1982.

A number of inhibiting factors were responsible for this modest performance of trade including differences in economic systems, inherent deficiencies of the external sector in the ECWA region with its narrow production base and limited range of exportable commodities, rigidities in the centrally-planned economies, cumbersome procedures and time-consuming formalities, inadequate dissemination of information, transportation and communications bottle-necks, difficulties in settlement of payments and absence of direct currency linkages.

With the objective of promoting mutual trade and, more importantly, balancing it, and with a view to overcoming the numerous problems hampering the smooth flow of trade between the two groups of countries, a number of mixed intergovernmental commissions were formed. These commissions, were entrusted with monitoring and follow-up of bilateral agreements to iron out existing difficulties, and recommending ways and means of implementing appropriate measures for the expansion and diversification of mutual trade.

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D. International Payments and Reserves

1. Balance of payments developments

The analysis of balance of payments flows for some of the ECWA countries continues to be handicapped by the inadequacy of information arising from interruptions in published statistical series, lack of comparability over time and between countries due to changes/differences in nomenclatures and insufficient detail in presentation. Notwithstanding these difficulties, a generally comparable picture covering recent changes in major balance of payments flows for 10 member countries 1/ could be constructed.

The single most important influence on the overall balance of payments position of the ECWA region comes from the oil sector. Developments in the international economy and the state of world trade in general also play an important role. For both, demand for oil and world trade, the trend weakened considerably since the start of the current decade 2/ with adverse effects on the external accounts of the countries of the region.

The direct and determining role of developments affecting the oil sector on the balance of payments of the oil economies derives from the overwhelming importance of crude oil and derivatives as generators of foreign exchange and sources of government current revenues. This role is accentuated by the policy generally followed in the oil-producing countries of adjusting governmental outlays - which are the main determinants of the level of economic activity - to current income and avoiding drawing down on international reserves and/or drawing on stocks of external financial assets. This latter aspect, coupled with the strong dependence of the rest of the region on the oil economies for a substantial portion of its foreign exchange requirements - through aid, trade and provision of services, particularly labour - renders the situation of the non-oil economies also highly sensitive to the performance of the oil sector.

1/ Iraq and Lebanon could not be covered for lack of data.

2/ The aggregate volume of oil produced in the region is estimated to have dropped by about 15 per cent in 1981, a further 28 per cent in 1982 and 13 per cent in 1983. Crude oil prices, however, were generally maintained in the face of strong downward pressures, though effective export prices began to decline after the first quarter of 1981 until March 1983 when the reference or benchmark price of OPEC's crude oil was lowered from \$ 34 a barrel to \$ 29, or by about 15 per cent. At the same time, the dollar value of aggregate world exports, which rose by 21.5 per cent in 1980, declined by 1.3 per cent in 1981 and 6.1 per cent in 1982.

Oil economies

The combined trade surplus of the six oil economies for which data were available 1/ declined slightly in 1981 to about \$ 105 billion. The impact of the decline in their oil output by 6.3 per cent was mitigated by a slowing down in imports, which grew by 14.5 per cent compared with 24 per cent a year before. While imports grew even slower in 1982 (by 11.3 per cent), the drop in the volume of their oil production by about 32 per cent cut down the trade surplus to \$ 49 billion in that year and brought about a further shift toward budgetary restraint.

Being predominantly importers of services, the oil economies used significant, though varying, portions of their trade surpluses to finance the purchase of services from abroad, including other ECWA countries. These consisted largely of outlays in connexion with services provided by foreign oil companies, contractors and consulting firms; invisibles (shipping and travel); and, diplomatic representation and other governmental expenditures abroad. For instance, payments by Saudi Arabia for direct investment income in the oil sector alone was \$ 6.5 billion in 1982, while payments on account of shipping and related services increased from \$ 5 billion to \$ 7.5 billion between 1980 and 1982. Government expenditures abroad and payments made to foreign consulting firms absorbed another \$ 13.6 billion in the case of Saudi Arabia in 1981 and \$ 542 million in Kuwait in 1982. Substantial amounts have also gone to pay for the services of expatriate labour. In 1982, such payments ranged from \$ 0.32 billion in Bahrain to \$ 4.2 billion in Saudi Arabia. With the exception of Oman, where workers' remittances rose from \$ 0.36 billion in 1980 to \$ 0.73 billion in 1982, payments made by Saudi Arabia, Kuwait and Bahrain - the other countries for which data were available - do not appear to have been significantly higher in 1982 than at the outset of the decade.

The larger oil-producers have also come to be among the leading aid donors in the world. Available information, however, indicates that the high level of official transfers attained in 1980 was not maintained in 1982 with the sharp declines in the trade balances and increased pressure on reserves. This is illustrated by the fall 2/ in concessional assistance extended by the ECWA countries members of OPEC from \$ 8.26 billion in 1980 to \$ 6.54 billion in 1982.

In a number of oil economies, investment income on foreign assets has emerged in recent years as an important supplementary source of foreign exchange. In the case of Saudi Arabia, earnings on foreign investments

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

2/ See: OECD, Development Cooperation: 1983 Review (Paris, 1983).

by the Saudi Arabian Monetary Agency (SAMA) increased from \$ 7.3 billion in 1980 to \$ 11.6 billion in 1982, being equivalent to about 15 per cent of the value of commodity exports. For Kuwait, the yield on foreign assets held by the government, financial institutions and private investors rose from \$ 5.4 billion in 1980 to \$ 8.3 billion in 1981 before dropping sharply to \$ 6.6 billion in 1982 1/, averaging more than two-fifths of the value of commodity exports in the three-year period.

The significantly reduced surplus on current account transactions 2/ was largely used to finance capital outflows, both public and private 3/. Additions to official reserves, appear to have only absorbed a modest portion of the current account surplus except in the case of Bahrain and Oman which continued building up their reserves from initially low levels. While continuing to finance sizable short-term capital outflows, in some cases, notably Saudi Arabia and the United Arab Emirates, there has been an increasing move in the direction of longer-term and less liquid investments such as bonds, corporate equities and direct investment in business enterprises. For instance, payments on portfolio investments, mostly public sector bonds, by Saudi Arabia amounted to about \$ 23 billion in 1980 and \$ 26 billion in 1981.

Non-oil economies

The central feature of the balance of payments of the four non-oil economies for which data were available 4/ remains the persistent and generally widening trade deficit, which is further accentuated by a negative services (excluding workers' remittances) account.

The trade deficit, which increased sharply in 1981 in each of Democratic Yemen, Jordan and the Syrian Arab Republic, remained virtually the same in 1982 in the first two countries but fell drastically in the Syrian Arab Republic 5/ (from \$ 2.6 million to \$ 1.7 million). In Yemen, the deficit fluctuated and stood at \$ 1.92 billion in 1982.

1/ The second half of 1982 witnessed the collapse of the unofficial stock market (Souk Al-Manakh) in Kuwait.

2/ While the reduction in the surplus was general, it was extremely sharp in the case of Saudi Arabia where it is estimated to have dropped from \$ 45.1 billion in 1981 to \$ 1.3 billion in 1982.

3/ The disproportionately large entry for net errors and omissions is believed to reflect mainly private capital outflows. This is explicitly indicated in the case of the United Arab Emirates.

4/ Democratic Yemen, Jordan, Syrian Arab Republic and Yemen.

5/ This resulted from a decline of \$ 178 million in exports and the curtailment of imports by \$ 1105 million.

The magnitude of the deficit arising from transactions in services has been largest in Jordan and the Syrian Arab Republic, though both countries' earnings in this respect have been substantial stemming in the first instance from tourism, transportation 1/ and passenger services and investment income, and largely from tourism in the second.

The ability of the non-oil economies to finance only a limited portion of their imports of goods and services through the export of their own goods and services is illustrated by the fact that during the period 1980-1982 such exports covered, on average, about 50 per cent of imports in each of Jordan and the Syrian Arab Republic and 2 per cent in Yemen; the corresponding percentage for the two years 1980-1981 in Democratic Yemen being 16 per cent. The discrepancy has been met from transfers (private and public transfers and workers' remittances) and capital inflows, resulting generally in an overall balance of payments surplus 2/ a situation which could be expected to be maintained in the next few years.

Workers' remittances represent an income earned from rendering services sought by the labour importing country. Hence, they are less subject to non-economic influences. The same, however, cannot be said of the bulk of capital inflows i.e. official grants and aid where non-economic considerations can be decisive which renders them highly volatile and unstable.

Remittances (gross) by Yemeni workers averaged \$ 1087 million in 1980-1982; and \$ 964 million and \$ 491 million in the case of Jordan and the Syrian Arab Republic, respectively, over the same period. In Democratic Yemen, the yearly average for the period 1980-1981 was \$ 365 million. These figures compare very favourably with export proceeds, being 116 times greater in the case of Yemen, about 6.8 and 1.4 times as much in Democratic Yemen and Jordan, respectively, and close to one-fourth in the case of the Syrian Arab Republic. It is also worth noting that the level of these remittances has not behaved in the same manner in all countries. These remittances rose sharply in Jordan to \$ 1034 million in 1981, from \$ 776 million in 1980, and moderately to \$ 1083 million in 1982. In marked contrast, a steep decline was recorded in the remittances of Syrian workers which fell from \$ 758 million in 1980 to \$ 574 million in 1981 and then to \$ 140 million in 1982 3/.

1/ Jordan's earnings from transport were boosted by the increased services rendered to the Iraqi economy; high interest rates contributed to increased investment income.

2/ The balance of payments of the non-oil economies has been under pressure in the recent period resulting in depletion of reserves.

3/ In the case of Yemen, the sharp decline observed in 1981 was partially made up in 1982 when remittances amounted to \$ 1117 million, compared to \$ 1230 million in 1980.

In absolute terms, official grants mainly from other Arab countries in the Gulf, make an even greater contribution towards offsetting the deficit on goods and services in each of the Syrian Arab Republic and Jordan averaging in the period 1980-1982 \$ 1595 million, in the first instance, and \$ 1208 million, in the second. Official aid is also significant in Yemen, where an increase was reported in both 1981 and 1982 in contrast to Jordan where these flows declined in both years and the Syrian Arab Republic where the sharp increase in 1981 was not maintained and the volume of aid received in 1982 reverted to somewhat below the 1980 level.

2. International reserves

The recent pressure on the balance of payments of the non-oil economies, particularly felt in 1982, has led to the curtailment of imports and to drawing upon reserves.

Available information 1/ shows that the combined reserves of the ECWA member countries reached \$ 47.9 billion in 1981, rising by \$ 10.7 billion, or 28.6 per cent, from their level a year earlier. The overall reserve position of the region - which deteriorated slightly in 1982 - has largely been a function of changes in the reserves holdings of the oil economies, notably Saudi Arabia, though significant inter-country differences can be observed. Thus, Saudi Arabia alone accounted for about four-fifths of the \$ 11.1 billion increment recorded in the oil economies' reserves in 1981; while a \$ 2.7 billion drop in its reserves in 1982 was matched by an increase of \$ 1.8 billion in those of Kuwait.

In contrast, the aggregate reserves of the non-oil economies declined from \$ 5.2 billion in 1980 to \$ 4.7 billion in 1981. Four of the five countries resorted to drawing on reserves to meet their international payments obligations; the extent of this varying from \$ 47 million in Jordan to \$ 321 million in Yemen. The apparent recovery in 1982 reflected the sharp increase reported in Lebanon's 2/ reserves in the amount of \$ 1092 million, as the remaining countries experienced significant depletions of reserves, except Democratic Yemen where a further small improvement was recorded.

1/ Excluding Iraq for which recent data were not available.

2/ This development cannot be explained in terms of a favourable shift in the trade balance as both exports and imports are estimated to have declined between 1981 and 1982 by roughly similar magnitudes (\$ 92 million and \$ 109 million, respectively). A possible explanation may lie in increased transfers and/or unspent foreign aid. Lebanon is reported to have received \$ 370 million in 1981 and \$ 112 million in 1982 as concessionary aid from other Arab countries, and \$ 667 million from OECD countries during the same interval.

Partial data for 1983 show a sharp rise in Saudi Arabia's reserves and a decline in those of Kuwait during the first half of the year. In the case of the non-oil economies, the deterioration in the reserve position of Lebanon 1/ and Yemen is worth noting.

The adequacy of reserves in terms of import requirements, as may be gauged from the region's overall reserves to imports ratio 2/, improved from the equivalent of 6.8 months of imports in 1980 to 7.7 months in 1981 to decline subsequently to 7.1 months in 1982. The improvement, however, is more apparent than real, given the deceleration in the rate of growth of imports in the first two years of the decade and the sharp rise in reserves in 1981 - itself partly a reflection of slower imports.

This was particularly true of the non-oil economies where the overall reserves/imports ratio stood at the equivalent of 4.4 months of imports in 1982, having declined earlier from an average of 6.9 months in 1978-1979. Both, total imports and reserves of the group were virtually the same in 1982 as two years before.

At the country level, the reserves/imports ratio of the Syrian Arab Republic, already very depressed, reached the extremely low level of less than one month imports equivalent. Similarly, for Yemen the rapid decline in the ratio continued, reaching the equivalent of 3 months of imports at the importation rate of 1982. The relatively high reserves/imports ratio in Lebanon and its apparent impressive improvement in 1982 reflect the country's long-standing policy of maintaining a large volume of reserves as a cover against the currency, and the depressed level of imports resulting from the unstable economic and political situation.

1/ Reserves, however, remained significantly above their 1981 level.

2/ The reserves/imports ratio is a static measure of the adequacy of reserves in that it fails to reflect the potential to finance imports and other international obligations that could vary with a number of factors such as access to international financial markets and the kind of exchange rate system in effect.

CHAPTER IV. MONETARY AND FINANCIAL ISSUES

Introduction

The International Development Strategy for the Third United Nations Development Decade 1/ calls, inter alia, for an average annual growth rate of 7 per cent in the gross domestic product of the developing countries. This is to be accompanied by structural transformation of the economy and significant improvement in its productivity to increase the share of these countries in the world production of goods and services, to expand employment opportunities, to raise the level of income and consumption "achieving a more equitable distribution of income and benefits from development" 2/ and to improve social services. It also calls for a sustained reduction in the rate of inflation, and to intensify the efforts to "increase the responsiveness of the international monetary system to the needs and interests of the developing countries" 3/.

Such an acceleration in output requires that developing countries "fully mobilize their domestic financial resources" and "continue to bear the main responsibility for financing their development" 4/. To this end, gross domestic saving should be increased to reach about 24 per cent and gross investment to about 28 per cent of GDP by 1990. Direct private investments compatible with national priorities and legislation will be encouraged.

The need by developing countries to raise their investment, saving, consumption and imports, simultaneously, necessitates a greater flow of financial resources, in real terms to the developing countries, on terms and conditions better attuned to their development aims and economic circumstances. Official development assistance by developed countries is to reach and, whenever possible, surpass the target of 0.7 per cent of gross national product. Net flows of both concessional and non-concessional aid in real terms should be increased and the access of developing countries to private capital markets should be improved. Special attention should be given to the needs of the least developed

1/ The Strategy was adopted by the General Assembly on 5 Dec. 1980 at its 83rd plenary meeting (see A/Res/35/56, Annex).

2/ International Development Strategy for the Third United Nations Development Decade, para. 21.

3/ Ibid., para. 26.

4/ Ibid., paras. 23 and 96.

countries, where the flow of official development assistance should be doubled earliest possible, tripled by 1984 and quadrupled by 1990 at 1977 prices 1/. Finally, the Strategy calls for new and innovative means and forms of lending to accelerate the flow of financial resources to the developing countries 2/.

Though it is still premature to pass any judgement, actual performance so far leaves much of the goals and objectives of the International Development Strategy for the Third Development Decade unattainable, given the present economic situation of the developing countries. Even if their economic situation improves considerably in the second half of the eighties, it would still be difficult if not unlikely for the developing countries to approach the targets outlined above. It may be useful to recall that the objectives of the International Development Strategy for the Second Development Decade have remained largely unfulfilled. In fact, the position of developing countries has since deteriorated and the gap between the developed and developing countries has continued to widen. The present difficult international economic environment has particularly aggravated the special problems facing the least developed and other developing countries.

As noted above, the early years of the eighties did not bring with them good tidings not only to the ECWA region but to the world as a whole. They were accompanied by the worst and longest recession in the post-war period.

In the ECWA region, the plummeting of oil prices led to an erosion of the elusive huge financial surpluses which are disappearing as quickly as they were accumulated. More importantly, the soaring oil revenues of the seventies have left the oil-producing countries of the region more dependent on the oil sector against their proclaimed objective of diversifying the economic base and reducing its dependence on oil. The impressive growth in GDP of the oil-exporting countries was mainly attributed to the oil sector. Not only this, but the growth of the other sectors especially construction and services was greatly enhanced by the oil sector itself. Public expenditures grew at unprecedented rates reducing the share of the private sector.

Given such a background, the effect of a substantial reduction in oil revenues multiplied and affected all aspects of the economy. Oil revenues in the oil economies which contribute to about 90 per cent of total revenues declined from \$ 176.0 billion in 1980 to \$ 168.6 billion

1/ For more details see paras. 98-110 and para. 115 of IDS.

2/ Ibid., para. 101.

in 1981 and to \$ 119.4 billion in 1982. The oil-exporting countries, with the exception of Bahrain and Oman, had negative growth rates in their GDP in 1982. The dramatic drop in oil revenues led to a sharp reduction in total revenues, whereby Kuwait's revenues fell by about 36 per cent in 1982. In 1983, it is estimated that Qatar, Saudi Arabia and UAE have suffered from a reduction in their revenues in the range of 33 - 36 per cent. Two-thirds of the gain in real oil export earnings that had taken place from 1978 to 1980 had been reversed. The size of the decline in revenues necessitated urgent and immediate adjustment policies and accordingly the oil-exporting countries undertook a major reassessment of their fiscal and development programmes with a significant shift towards budgetary restraint. The pace of growth of government expenditures in the oil economies slowed down considerably in 1982 and estimates indicate that they fell in 1983 to \$ 137.6 billion from a level of \$ 146.6 billion in 1982. Development expenditures took the major brunt of the slash in outlays while current expenditures, comprising mainly defense, salaries, subsidies and services, proved to be more difficult to curtail. Despite their adjustment policies, most of the oil-exporting countries had budgetary deficits that had to be financed from the reserves and surpluses of the "rich" years 1/. Developments in the monetary policy followed a parallel line of action which restrained the growth of money supply though less markedly.

The oil-exporting countries not only suffered from the adverse consequences of the oil glut but also from the continued Iraq-Iran conflict which spread the feeling of insecurity and tension all over the Gulf region leaving its economies under constant threat and absorbing a considerable portion of its resources for defence purposes.

The non-oil countries of the region had to cope with the effects of world recession, the falling remittances from workers in, and a decline in financial aid from, the oil-exporting countries. This resulted in the Syrian Arab Republic and Jordan adopting restrictive fiscal policies. Jordan's success in overcoming these problems has been remarkable. It curtailed expenditures' growth while increased domestic revenues at higher rates, thus reducing the budgetary deficit and achieving progress in approaching its target of covering all current expenditures from domestic revenues. In the Syrian Arab Republic, following rapid expansionary fiscal policies in 1980 coupled with monetary growth which had led to strong inflationary pressures, the government adopted corrective measures since. However, budgetary deficit seems to have widened again in 1982. Both countries are relying more on increasing their borrowing from domestic sources to cover the budgetary deficit and reducing the importance of foreign financing.

1/ Bahrain, Iraq, Oman, Qatar and UAE are estimated to have budgetary deficits in 1983 whereas budgetary surplus in Kuwait sharply declined from KD 1973.1 million in 1981 to KD 92.5 million in 1983 and in Saudi Arabia from SR 111.5 billion to SR 2.5 billion during the same period.

As for Lebanon, the continuing strife and upheaval in the country and the severity of it over the past two years have engulfed the country with severe recession for the first time since the beginning of the incidents in 1975. The severe damage to the industrial and agricultural sectors and loss of export outlets; the depreciation in the value of the Lebanese Pound, especially vis-a-vis the dollar; the widening gap between budgetary revenues and expenditures resulting in large budgetary deficits; the high rate of inflation which is accentuated by the increasing reliance on domestic borrowing; the fall in remittances, and in prospects of aid; and, the continuing uncertainty over the future leave Lebanon in a very difficult economic situation.

The two least developed countries of the region, i.e., Yemen and Democratic Yemen, had a setback in 1982 when the first was hit by an earthquake and the second by floods leaving the two countries in greater need for foreign aid and absorbing a large part of their resources for reconstruction. Although the two countries succeeded in mobilizing more domestic resources by considerably increasing tax revenues, higher increases in expenditures absorbed the gains. As a result, government budget deficit in both countries markedly increased amounting to 27 per cent of GDP in Yemen and to 43 per cent in Democratic Yemen in 1981. It is estimated that this deficit in Democratic Yemen has risen more sharply reaching 68 per cent of GDP in 1982.

The money supply ^{1/} in the non-oil economies increased at very high rates in 1980. In 1981, the rate of growth generally decelerated but shot up again in 1982 due, most probably, to the increased financing of public debt by the banking sector.

There is a striking contrast in the ratio of domestic saving to GDP between the oil and non-oil economies of Western Asia. The economies of oil-producing countries are characterized by high domestic saving income ratio that exceeds by far the target of the IDS. Although this ratio declined in 1981 and 1982 relative to 1980 it, nevertheless, amounted to 56 per cent in Saudi Arabia and UAE, 43 per cent in Bahrain, Oman and Qatar; while its decline was quite sharp in Kuwait which registered the lowest ratio in this group of 29.5 per cent as against 59 per cent in 1980 and 49 per cent in 1981.

On the other hand, the non-oil economies have had persistent negative saving/GDP ratio with the exception of the Syrian Arab Republic where it was 13 per cent in 1982 as compared to 6 per cent in 1981 and 12 per cent in 1980. In Jordan the ratio was about -11 per cent which is an improvement over the level recorded at the end of the seventies. Lebanon's saving ratio has further deteriorated from about -11 per cent in

^{1/} Money Supply in its broader definition as Money plus Quasi Money.

1980 to -17.5 per cent in 1981 and to almost -46 per cent in 1982. Democratic Yemen and Yemen have very high ratios of dis-saving. The ratio was -36.6 per cent in Democratic Yemen and -21.7 per cent in Yemen in 1982. It goes without saying that it is quite difficult for the non-oil countries of the region in general and the least developed among them in particular to approach the target 24 per cent of GDP by 1990, as specified in the IDS. Vigorous efforts are needed to mobilize domestic resources.

A. Fiscal Developments

The Oil Economies

The oil economies of the region pursued rapid expansionary fiscal policies following the increase in oil prices in 1979-80. The appearance of the oil glut in mid-1981 and the adoption of production cuts, resulted in a drop in government revenues of most countries in 1982. In Bahrain and Saudi Arabia the marginal increases in revenues recorded in 1982 also dropped in 1983. As the oil market weakened further, the benchmark price for OPEC's crude fell from \$ 34 per barrel to \$ 29, in March 1983, or by about 15 per cent. The reduction in the volume of oil production and the decline in prices resulted in a severe drop in government revenues in 1983, amounting - in some cases - to about one-third of total revenues. Despite lower rates of growth in government expenditures, budgetary deficits were inevitable. These deficits were financed from surpluses of previous years, by drawing from General Reserve Funds, as in Kuwait and Oman; and by the extension of loans and credit facilities in Iraq and Oman. Accordingly, the common theme characterizing fiscal policy in the oil economies has been budgetary restraint. Given the fact that government outlays are the main determinants of the level of economic activity in these countries, the adverse effect of such a curtailment on economic activity was evident in 1983 and is expected to be greatly felt in 1984 as well. In order to mitigate the impact of lower expenditures, efforts are underway to increase the involvement of the private sector in economic activities. While the above depicts the general trend in the oil-producing countries as a whole, the situation has varied among them.

Bahrain witnessed in 1980 and 1981 a remarkable expansion in its budgetary appropriation which grew at 25 and 20 per cent respectively. Development expenditures grew at a higher pace averaging about 24 per cent while current expenditures averaged 21 per cent during the same period. In spite of the expansion in spending, there were budgetary surpluses amounting to an average of 9.5 per cent of GDP in 1980 and 1981. The levelling off of revenues and continuing rise in expenditures in 1982 resulted in diminishing the budgetary surplus, and the surplus in the balance of payments fell to BD 64.8 million from BD 304 million in 1981. The original 1983 budget which had assumed a rise in revenues, was revised

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in May 1983 to decelerate the growth rate of expenditures from 27 per cent to 13 per cent. Capital expenditure was also reduced from BD 325.5 million to BD 259.7 million.

On the revenue side, the price of oil was raised twice in 1983 - as part of the general Gulf Cooperation Council policy to reduce petrol subsidies - which had totalled BD 17 million in 1982, and to reduce domestic consumption. Customs duties on imported cars were raised from 10 per cent to 20 per cent and that on alcoholic beverages from 70 to 100 per cent. Moreover, the government was considering the issue of development bonds by the end of 1983 for raising revenues. The government issued development bonds for the last time in 1978. Preparations are also being made for the setting up of a local stock exchange market in 1984 aimed at promoting private sector investment. It is initially limited to serving the local market, but it is hoped to eventually become a Gulf-wide financial facility.

Reflecting the decline in revenues, the 1982-85 development programme was extended into 1987, and under the two-year 1984-85 balanced budget expenditures are allowed to increase by only 4 per cent in 1984 and 6 per cent in 1985.

Similar to other oil economies, Iraq relies heavily on oil exports for its revenues. Taxes on income and consumption remain a relatively small contributor to total government revenues. Thus, with the outbreak of war with Iran in September 1980 and the subsequent cuts in Iraq's oil export outlets, government revenues fell sharply in 1981. The mounting expenses of the war and the decline in revenues resulted in budgetary deficits which have led to withdrawal from reserves and increase in public debt. Iraq was capable of overcoming the financial constraints, at least up till the end of 1983, through oil sales arrangements with some of the Gulf States, long-term loans and aid from these countries, and the extension of credit facilities from its principal suppliers. Iraq also obtained two short-term loans from the Arab Monetary Fund in 1983 for \$ 84.8 million and \$ 90 million, and was engaged, through the Rafidain Bank, in raising \$ 500 million from the international capital market. Iraq had also concluded an agreement for a \$ 500 million loan from the IMF, the first since the outbreak of war with Iran.

The 1983 and 1984 budgets give priority to defence, war-related schemes and social welfare. Restrictions were imposed in 1983 on the amounts of foreign exchange that immigrant workers could send home, as almost \$ 4000 million was estimated to be leaving the country annually as remittances.

In Kuwait the reduction of government revenues in 1981 and 1982 was around 23 per cent and 35 per cent, respectively. Lower oil revenues led to a decline in the contribution of the oil sector to GDP from about

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two-thirds at the end of the seventies to a little more than one-half in 1982 and its contribution to total revenues fell from over 80 per cent to about 60 per cent. The economy, however, was cushioned by a sharp rise in investment income which is not included in the budget, thus placing it in a better position relative to other Gulf economies. Budget surpluses, excluding investment income, fell drastically from about 29 per cent of GDP in 1981 to less than 4 per cent in 1982. In 1982/83, the government adopted a more restrictive fiscal policy stand, allowing expenditures to grow by just 4 per cent compared to 18 per cent in the preceding year. This policy was slightly relaxed in 1983/84 with the increase in expenditures projected at 8 per cent, from KD 3113.4 million to KD 3376.3 million. If the allocation of KD 303.7 million for the Reserve Fund for Future Generations and KD 30 million increase in the capital of the Kuwait Fund for Arab Economic Development are included total outlays amount to about KD 3710. According to budgetary estimates, revenues would again follow a downward trend, going from KD 3206 million down to KD 3037 million, leaving a deficit of KD 673 million to be met from the State General Reserve Fund. A quarter of total expenditure goes to the Ministry of Electricity and Water, reflecting the need for a reappraisal of the policy of heavily subsidizing public utilities.

The collapse of the unofficial stock market, Souk al-Manakh, in August 1982 was the second shock to the Kuwaiti economy, and its after-effects were felt in 1983. Although the economy could withstand it, thus, proving its strength - the government was forced to take action in support of the official exchange market, giving the government majority shareholding in more than half of the companies listed in the market. This amounted to a reversal of the policy of giving the private sector a bigger role. This also forced the government to liquidate some foreign assets in order to pay for the acquired shares, thus reducing its investment income.

Oman continued to follow an expansionary fiscal policy, notwithstanding the decline in revenue by about 7 per cent in 1982. Expenditure soared by 27 per cent in 1981, by 16 per cent in 1982 and by 14 per cent in 1983, but are projected to grow at a lower pace in 1984 - by about 7 per cent. Defence absorbs around 40 per cent of current expenditures. The budgetary deficit of 1982, which amounted to OR 189 million, was met partly from preceding year's surplus and partly from the General Reserve Fund, which was established in 1980 with a provision to receive 15 per cent of oil revenues and budgetary surpluses, if any. The 1983 deficit forecasted at OR 233 million was expected to be met partly by a \$ 300 million international loan. Spending on the five-year plan has kept its targets and by mid-1983 55 per cent of total allocations were spent.

Qatar's fiscal policy, in general, has been conservative, keeping the growth of expenditures moving in line with the growth of revenues. Consequently, government expenditures were slashed by 14.4 per cent in

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1982 as revenues dropped. It is projected that revenues fell further in 1983, leaving the budget with a deficit of almost CR 5460 million to be covered by dipping into previous years' surpluses. The 1983/84 budget calls for maximum curtailment of current expenditure and of expenditure on secondary projects to achieve an overall 31 per cent cut in spending.

Saudi Arabia, the leading oil-exporter of the region, had a remarkable increase in its revenues in 1981 to SR 348.1 billion from SR 211.2 billion, for the preceding year or by 65 per cent. The ratio of total revenues to GDP went up from 55 per cent in 1980 to 70 per cent in each of 1981 and 1982. Revenues levelled off in 1983 to SR 368 billion, representing an increase of less than 6 per cent, but in 1983 they fell by 33 per cent to SR 246.3 billion and are projected to fall further to SR 223 billion in 1984. Government expenditures went up by about 26 per cent in 1981 to SR 236.6 billion and again by 20 per cent in 1982 peaking at SR 284.6 billion, about 54.2 per cent of GDP. However, in 1983 government revenues fell by about 14 per cent to SR 243.8 billion and are projected to fall by another 17 per cent in 1984. Since actual spending fell short of the estimates in 1983, the decrease in expenditure in 1984 relative to actual spending is estimated at 7 per cent. As a result of these developments, budgetary surplus fell from SR 111.6 billion in 1981 to just SR 2.5 billion in 1983 while the 1984 budget has forecasted a deficit of SR 33 billion.

Government net domestic spending is a major factor in stimulating demand, influencing the investment activity of the private sector and domestic liquidity and having an equally important impact on national income, in addition to the government's direct contribution to non-oil GDP. In 1983, it fell to 10.4 per cent of GDP and is expected to fall to 9.8 per cent of GDP as current revenues, about 7.2 per cent of government revenues, and virtually all export earnings. Accordingly, economic activity is expected to pass through a period of stagnation. The present policy is to consolidate and increase efficiency in the utilization of the installed capital stock and to encourage the private sector to play a more important role to stimulate growth.

The riyal was subject to a series of gradual devaluations in 1983. Its parity vis-a-vis the dollar went down from \$ 1 = 3.45 to 3.47 to 3.48 and then to 3.50. In January 1984, it fell further to \$ 1 = 3.51. The strength of the dollar in comparison to other currencies has been the main cause for the devaluations.

The United Arab Emirates federal budget showed considerable increases in revenues in 1980 and 1981; almost doubled in 1980 and went up again by 30 per cent in 1981 to Dh 22592 million. From there, revenues started their downward trend to stand at Dh 19959.5 million and Dh 12900 million in 1982 and 1983, a reduction of around 32 and 35 per cent, respectively. Expenditures followed a more or less similar trend rising by 78 per cent in 1980 to Dh 15067 million, by 35 per cent

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in 1981 to Dh 20366 million, by 9 per cent in 1982 to Dh 22259.5 million only to fall by 17 per cent, to Dh 18406 million, in 1983. Budgetary deficit more than doubled from an estimated Dh 2300 million in 1982 to Dh 5506 million in 1983. Project outlays were expected to bear the brunt of the slash in expenditure, whereas current expenditures were estimated to increase by 4.3 per cent.

In 1982, the current account surplus of the OPEC oil-exporting countries as a whole, was significantly reduced. It fell in 1982 to the equivalent of about \$ 4 billion from \$ 59 billion in 1981. However, preliminary data indicates that the current account shifted into a deficit of \$ 7 billion in the first quarter of 1983 and to \$ 17 billion in the first six months of 1983, reflecting a decline in the volume of exports as well as lower prices. The most remarkable swing was in the current account of Saudi Arabia.

International reserves of the oil-exporting countries of the region increased in 1981 by \$ 11.1 billion to \$ 43.2 billion. In 1982, these fell slightly to reach \$ 42,528.8 million.

The oil economies, in general, had modest increases in their rates of inflation in 1981 and 1982. The fall in import prices and government expenditures which reduced demand pressures resulted in lower price increases. In 1982 the cost of living index rose highest in Iraq and the UAE by 22 per cent and 12.4 per cent, respectively, followed by Kuwait with 7.8 per cent increase and Bahrain 7 per cent. The lowest rates were of Qatar and Saudi Arabia, the former having a 4.3 per cent increase while the latter did not register any price increase.

Non-Oil Economies

Developments in the non-oil economies, namely, Jordan, Lebanon and the Syrian Arab Republic have brought about three main common characteristics: (1) The importance of Arab grants and loans on their budgetary stance especially in Jordan and the Syrian Arab Republic where grants cover a large part of the budgetary deficit; (2) the rising level of public debt and its increasing reliance on domestic sources of finance; and, (3) unabated inflation especially in Lebanon and the Syrian Arab Republic where it was in the vicinity of 20 per cent and 18 per cent, respectively, in 1982. The non-oil economies are highly susceptible to developments in the oil-exporting countries due to their strong dependence on aid, trade and provision of services. As a result, their economic performance has been directly affected by the rise and fall in oil revenues. Furthermore, the decrease in government expenditures of the oil economies, implies a reduction in the demand for expatriate labour, thus creating a problem for almost all the non-oil economies.

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Jordan's economy has been characterized by its heavy reliance on external aid. The bulk of Jordan's aid and loans come from Arab oil-exporting countries. Coupled with remittances of Jordanians abroad, such a reliance enabled Jordan to achieve higher growth rates, enjoy a consumption rate which exceeded GDP and at the same time raise investment outlays to more than 40 per cent of GDP. It has, on the other hand, made the country vulnerable to the uncertainties in the level of aid. Government revenues from domestic sources accounted for only 55.5 per cent of total revenues in 1982; a slight improvement over the figure of 44.6 per cent for 1980.

Total Government revenues in 1981 increased by 18 per cent while expenditures grew by 14.9 per cent, thus reducing budgetary deficit from 5.6 per cent of GDP in 1980 to 4 per cent in 1981. However, this development was reversed in 1982 when the budgetary deficit increased by 52.4 per cent or 5.6 per cent of GDP. Despite successes in raising domestic revenues by 16.2 per cent total revenues including external receipts increased by just 8 per cent mainly due to a decline in revenues from external sources. Grants were estimated at JD 260 million but only JD 218.1 million was received. Remittances increased to JD 360 million in 1982 from JD 345 million in the preceding year. On the other hand, expenditures were estimated to have increased by 11.6 per cent as against actual increase in current expenditures of 16.2 per cent and capital expenditures of only 4.4 per cent, reducing its share in total expenditure from 40.3 per cent in 1980 to 37 per cent in 1982.

About 35 per cent of total budgetary deficit was financed domestically through the issue of treasury bills and government bonds. Public debt is estimated to have risen by 20 per cent in 1982, as against an increase of 12 per cent in 1981, reaching \$ 1419.2 million.

The 1983 budget estimated expenditures at JD 775.2 million, an increase of 7.3 per cent over the 1982 figures. Revenues were projected to increase by 17.6 per cent to JD 762 million, with domestic revenues amounting to JD 424 million. Duties on vehicles were raised from 10 to 20 per cent and on alcoholic beverages from 50 to 60 per cent. Current expenditures were put at JD 471.4 million, an increase of only 3.5 per cent. The increase is mainly due to interest payments on foreign loans. The JD 13.4 million deficit was partly financed from a loan of \$ 225 million raised on the Euromarket.

The 1984 budget is an austerity budget, with expenditures slightly declining from JD 775.2 million to JD 770.2 million. Defence and social services constituted priority areas under current expenditures.

Despite severe hardship facing Lebanon, its economy showed considerable resilience up till 1982. The Israeli invasion in 1982 and the destruction it caused along with the ensuing incidents in 1983

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resulted in severe damages to the productive sectors of the economy. In 1980, GDP remained, in real terms, 40 per cent below the 1975 level.

The budget for the past three years has been characterized by rising deficits due to high rates of growth in expenditures reflecting the inflationary situation, increase in civil service salaries, and mounting defence expenditures. On the other hand, growth in government revenues was only minimal mainly due to government inability to collect taxes and to limited amount of foreign aid. Government budget for 1982 had put expenditures at LL 6.3 billion compared to LL 4.5 billion in 1981, amounting to 48.7 per cent of GDP as compared to an average of 31.8 per cent in 1980 and 1981. Revenues estimated at LL 3.5 billion, were expected to cover only 55 per cent of total expenditures. The deficit was financed by resorting to the Central Bank, issuing short-term treasury bills and receiving external assistance. The value of treasury bills amounted to LL 12,279 million in 1982 as compared to LL 4910 million in 1981, an increase of 150 per cent. Loans from the Central Bank reached LL 1782 million, against LL 1981 million at the end of 1981, but monthly fluctuations were very high. Public debt increased at a very high rate, rising from LL 7931 million to LL 15070 million between the beginning and the end of 1982. Of this total, 81.5 per cent was in the form of treasury bills, 11.6 per cent borrowing from the Central Bank and 6.9 per cent foreign loans. Interest payments on domestic public debt reached LL 1138 million during 1982 against LL 493 million in 1981. It should be noted, however, that public debt was only LL 2.8 billion in the beginning of 1980, but it is estimated to stand at LL 23 billion by 1984.

In 1983, government expenditures and revenues were budgeted at LL 8 billion and LL 5.7 billion, respectively, resulting in a deficit of LL 2.7 billion equivalent to more than one-third of the budget (33.8 per cent). The deficit is financed partly through the banking system and partly through foreign loans. Indications are that Lebanon witnessed, in 1983, its first balance of payments deficit since the fifties, estimated by the Central Bank at \$ 1 billion. The 1984 draft budget envisages a 32 per cent increase in expenditures to LL 10.575 billion and a widening deficit, forecasted at LL 3.5 billion. The three main priorities over the past three years remain defence (1,947 million), education (LL 1506 million) and public works (LL 1823 million).

The Syrian Arab Republic, after a substantial expansion in its budgetary outlays in 1980 coupled with monetary expansion leading to strong inflationary pressures and raising the fiscal deficit by 6 percentage points to 21 per cent 1/, adopted corrective measures since 1981 through

1/ Almost 54 per cent of the deficit was covered by grants but substantial recourse to the banking system was necessary.

more restrained fiscal and monetary policies. Among the measures undertaken were sharp increases in the prices of petroleum products, the introduction of new tax measures, curbing current expenditures and limiting capital expenditures to the completion of ongoing projects. As a result, the fiscal deficit in 1981 is estimated to have declined to 17 per cent of GDP 1/. More than 60 per cent of the deficit was covered by grants, 15 per cent by foreign loans and 17 per cent by borrowing from the banking system.

The 1982 budget was less restrictive allowing expenditures to grow by 23 per cent to SL 33.3 billion versus a forecasted increase in revenues of only 22 per cent to SL 20.2 billion, thus leaving an overall deficit of SL 13.1 billion, or a 25 per cent rise over the 1981 deficit of SL 10.48 billion. Severe constraints were put on current expenditures which were reduced from the actual 1981 level by 2.5 per cent to stand at SL 16,750 million, while capital expenditures had a substantial increase of 68.3% to SL 16,595. However, during the course of the year the budget had to be revised to allow an increase in current expenditures reaching SL 18,175 million 2/. Since actual capital expenditures amounted to 68 per cent of the budget, the deficit was expected to be less than the budget estimates by SL 3,958 million.

The 1983 budget estimates were 11.7 per cent more than the previous year reaching a total of SL 37,253 million. Given the high rate of inflation, the increase meant a reduction in real terms. Current expenditures were up by only 2.7 per cent over the revised 1982 figure, and capital expenditures went up by 12 per cent, amounting to almost 50 per cent of total expenditures. Defence absorbed 53.6 per cent of current expenditures against 58.4 per cent in 1982; while education, social and health services constituted about 18.4 per cent of total current expenditures.

Medium and long-term public debt stood at \$2336.6 million at the end of 1981. It is estimated to have risen to \$ 2.8 billion in 1982 and to \$ 3.0 billion in 1983. Short-term debt grew rapidly from an estimated figure of \$ 175 million at the end of 1979 to \$ 650 million at June 1982, while medium and long-term debt was reduced.

1/ Actual figures for budgetary expenditures are not published and the analysis is therefore, based on IMF estimates.

2/ This may be partly attributed to the decision that the practice of granting tax exemptions for certain public enterprises was discontinued as of February 1982. The government instead agreed to assume the debt of these enterprises which is a result of its subsidy policy. While the government expects to assume a total debt of SL 7.5 billion in this respect during the Fifth Five-Year Plan (1981-1985), an initial amount of SL 3 million was supposed to be transferred during the fiscal year 1982 in the form of Treasury Bonds. This was expected to be subscribed by the Central Bank and to be reimbursed on an annual basis during a period of 15 years with an interest rate of 1.21 per cent per year.

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The Least Developed Countries

The region's two least developed countries, Democratic Yemen and Yemen, had been making steady progress with high rates of growth up to the end of the seventies. In 1980 and 1981, the momentum in real growth continued, however, at relatively lower rates. In 1982, development efforts suffered significant setbacks when much of Democratic Yemen was devastated by severe floods and Yemen was hit by earthquakes causing extensive damage to infrastructures and agricultural production, leaving a large segment of their population in desperate need for shelter and food. As a result, their development plans had to be revised to account for new priorities and objectives and to modify anticipated growth rates. The catastrophies left the two countries in greater need for foreign aid, absorbing a larger part of their resources for reconstruction and moving their balance of payments into the red.

Democratic Yemen, in pursuing its goals of accelerating growth, was rapidly increasing its budgetary outlays especially since 1980. Government expenditures were increased by 27.4 per cent in 1980, 46.2 per cent in 1981, and were estimated to have increased by a further 38 per cent in 1982. The ratio of government expenditures to GDP is one of the highest in the region. It was 67.4 per cent of GDP in 1980, increased to 79.9 per cent in 1981 and reached 99 per cent of GDP in 1982. On the other hand, revenues increased by 60.6 per cent in 1980, 20.6 per cent in 1981, but were estimated to drop by 5.4 per cent in 1982. Private transfers from abroad helped finance the private sector's activities, especially construction and trade. These transfers rose from \$ 48.4 million in 1975 to an estimated \$ 448.2 million in 1982. Remittances allowed the level of consumption to exceed GDP at market prices. In 1982 consumption exceeded GDP by \$ 171.8 million or 25.4 per cent. Remittances constituted about 42 per cent of total private transfers, amounting to almost 20 per cent of GNP at factor cost. Although current expenditures increased from YD 96.7 million in 1980 to YD 164.4 million in 1982, their share of total government expenditures fell from 61.4 per cent to 51.7 per cent. The main items of current expenditures are defence, absorbing 40.4 per cent in 1982, followed by education 13.7 per cent and general administration 31.9 per cent. With the initiation of the second development plan, capital expenditures rose by 49.8 per cent in 1981 and by 68.6 per cent in 1982 to YD 153.8 million. The 1983 budget sets development expenditures at YD 329 million.

Budgetary deficits are covered by foreign aid, remittances from workers abroad, and through borrowing from the banking system. The net claims of the banking system on the government have doubled during the period 1977 to 1981 and were expected to triple in 1982, i.e. moving from a total of \$ 210.2 million in 1977 to \$ 437.9 and \$ 601.8 million in 1981 and 1982, respectively. Treasury bills alone reached the level of about \$ 432.1 million in 1980 1/.

1/ Democratic Yemen's Economic and Social Development, Country Presentation to a Donor's Review Meeting, Aden, June 1983.

In 1982, the balance of payments recorded its first deficit after five years of surpluses. The International Monetary Fund and the Arab Monetary Fund provided Democratic Yemen with loans to cover this deficit. Public debt increased from \$ 498.8 million in 1980 to \$ 639.8 million in 1981, or by 28.2 per cent. It is expected to have risen further to \$ 760.1 million in 1982, despite the considerable international assistance received after the floods.

Developments in Yemen have followed a similar pattern expanding budgetary expenditure. The ratio of government expenditures to GDP rose from 37.5 in 1979 to 57.9 in 1982. While the share of government revenues in GDP increased from 22.4 to 35.0 per cent during the same period, rapid growth in government expenditures resulted in budgetary deficit.

Government expenditures were YR 6835.3 million in 1981 compared to YR 5023.7 million in 1980. In 1982, expenditures rose by 24 per cent to YR 8474.2 million and were projected to increase by only 2.9 per cent in 1983 to YR 8720 million. The share of capital expenditures fluctuated between 38.1 per cent in 1980, 51.4 per cent in 1981 and 47 per cent in 1982, mainly due to increasing reliance on foreign aid. The bulk of current expenditures in 1982 has been absorbed by defence and security (YR 2302.2 million in 1982), followed by education (YR 879.2 million). The government's net position with the Central Bank fell from a surplus of YR 590 million at the end of fiscal 1978/79 to a deficit of YR 8520 million by end of 1982. Yemen received substantial aid and assistance mainly from Saudi Arabia, following the earthquakes to help it finance its essential needs and to cover part of the budgetary deficit.

Increasing government spending since the late seventies, resulting in budgetary deficits and accompanied by persistent balance of payments problems prompted major drawings from reserves. Reserves are estimated to have dropped by \$ 1000 million during 3 years ending April 1983. They fell from \$ 933.3 million at end of March 1982 to \$ 554.2 million by December 1982 and to \$ 492.5 million by end of March 1983. The levelling off of foreign aid and remittances and the low growth rate of 2.5 per cent in GDP in 1982, which was negative growth in real terms, compounded by deteriorations in balance of payments and the decline in reserves led to foreign exchange problems and a depreciation in the value of the riyal. In an effort to halt the depreciation of the riyal and the aggravating deficit in the balance of payments, the government announced a package of measures which include ending the Central Bank of Yemen's backing of the riyal in the local market, and tightening import licensing regulations and direct controls on the \$ 2000 million a year import bill. The development plan objectives will be revised to accommodate aid inflows of no more than \$ 400 million a year. The 1984 budget is an austerity budget calling for a decline in expenditures to reach a total of YR 8176 million compared to YR 8720 million in 1983. Capital spending is set at YR 2873 million compared to about YR 3984.7 million in 1982.

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Public debt showed a steady increase rising from \$ 472.6 in 1979 to \$ 876.4 in 1980 and \$ 1093.8 million in 1981. While debt servicing in fiscal year 1980/81 was estimated to have amounted to almost 4 per cent of GDP, it was four times total export earnings. Debt service payments including principal and interest were estimated at \$ 81 million in 1983 compared to \$ 71.4 million in 1982. By the end of the current Five-Year Plan, it is estimated to reach 10-15 per cent of GDP.

B. Monetary Developments

Monetary developments in the oil economies excluding Iraq during the last few years, have generally followed a pattern similar to developments in the fiscal sector, reflecting the predominance of government expenditures in determining the level of domestic liquidity. Thus, the rate of growth in money supply ($M2 = M1 + \text{Quasi Money}$) accelerated in all the oil-exporting countries in 1980 and 1981. It decelerated in 1982, with the exception of Saudi Arabia which maintained its rate of increase partly due to sustaining the level of budgetary expenditures during that year. The highest rates of growth in money supply in 1981 were registered in Qatar, Bahrain and Oman amounting to 41.6 per cent, 39.4 per cent and 39.2 per cent, respectively, while the lowest was that of UAE being 23.6 per cent. In 1982, Oman and Saudi Arabia witnessed the largest expansion in money supply of 25 per cent and 23.4 per cent, respectively. The lowest rates were recorded in UAE (6.6 per cent), Bahrain (6.9 per cent) and Kuwait (8.1 per cent).

The share of time and savings deposits in the money supply was predominant in the oil economies showing a rising trend during the period 1978 - 1982. The ratio of these deposits to total money supply during this period, rose from 44 per cent to 56.4 in Qatar, from 57.4 to 66.6 per cent in Bahrain and from 47.7 to 54.1 per cent in Oman. Time and saving deposits accounted for more than half of the total money supply in all the oil economies in 1982, with the exception of Saudi Arabia; its ratio being highest in Kuwait and the UAE where it was in 1982, 71.8 and 69.2 per cent respectively. This is not surprising since these countries enjoy high per capita incomes coupled with high interest rates prevailing in the early eighties reaching record levels. The exception of Saudi Arabia, could be attributed to the prohibited concept of "riba", or interest, under the "Sharia", resulting in preference for other forms of investments.

The share of currency in circulation in total money supply was declining in the oil economies over the past five years. In 1982, it constituted just 8.6 per cent of total money supply in Kuwait, being the lowest ratio in the region, and about 9.5 per cent in Bahrain and the UAE. Its share was higher in Oman and Saudi Arabia, amounting to 23.4 and 29.6 per cent of money supply, respectively. The share of

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demand deposits in total money supply during 1978-1982, fell sharply in Bahrain, Qatar and Saudi Arabia, but they still accounted in Saudi Arabia for the largest element of the money supply (44.8 per cent in 1982). In the UAE, the share of demand deposits declined slowly, whereas in Kuwait and Oman it fluctuated being 20 per cent in the former and 22.7 per cent in the latter in 1982.

In the non-oil economies, including the least developed, domestic liquidity was affected by budgetary outlays, but other factors played an equally influential role, the most important of which was public debt. Other factors include net domestic assets, net foreign assets, and the availability of credit to the private sector which are interlinked together. Money supply had grown rapidly in these countries in 1980 but in 1981 its growth decelerated only to pick up again in 1982. Lebanon was an exception, where money supply increased by 40.1 per cent in 1981, but in 1982 its rate of growth was reduced by half to stand at 20.2 per cent. In Jordan the increase in MS in 1982 was equivalent to the rate of 1981. The Syrian Arab Republic had the highest rate of expansion in money supply in 1980 of 35 per cent followed by Lebanon and Democratic Yemen which had an increase of about 32 per cent, while Yemen had the lowest rate of 21.5 per cent. In 1981, the lowest rates were those of the two Yemens, with Democratic Yemen having a rate of increase of 12.5 per cent and Yemen 8.6 per cent. In 1982, the highest rate of increase was that of Yemen (27.6 per cent) and the lowest was that of Democratic Yemen (17.8 per cent), while Lebanon's and the Syrian Arab Republic rate were in the range of 20 per cent.

Currency in circulation constituted the largest component in total money supply in the Syrian Arab Republic, Democratic Yemen and Yemen, standing at 52.4, 57.8 and 74.6 per cent, respectively. In contrast to the oil economies, time and saving deposits had understandably a modest share in total money supply, amounting to 14.2 per cent in Yemen, 21.2 per cent in Democratic Yemen and as low as 10.8 per cent in the Syrian Arab Republic. These rates were an improvement over the 1978 rates of 14.5, 9.4 and 8.3 per cent in the same countries, respectively. Among the non-oil economies the Syrian Arab Republic had the highest ratio of demand deposits to total money supply, amounting to 36.8 per cent in 1982. This could be attributed to the low per capita income of these countries especially of the two Yemens and to their high import ratios.

Contrary to the other non-oil economies, the composition of money supply in Lebanon appeared to be similar to that of the oil economies whereby time and saving deposits constituted the bulk of money supply, standing at 77.2 per cent in 1982, the highest ratio recorded in the whole region. The shares of currency in circulation and demand deposits were nearly equal amounting to 11.5 per cent and 11.3 per cent of the

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total, respectively. The high level of time and saving deposits may be attributed to the relative progress and health of the banking sector, the high interest rates and the lack of investment outlets under the prevailing circumstances.

Jordan's composition of money supply reflected a position falling between that of Lebanon and the Syrian Arab Republic whereby currency in circulation constituted 33.5 per cent, demand deposits 22.6 per cent, and time and savings deposits 43.9 per cent of total money supply in 1982.

C. Regional Financial Institutions and Lending Activities

The substantial financial surpluses which accumulated during the seventies were largely channelled to three main areas: 1) held as deposits with Western banks including purchases of foreign assets; 2) establishment of Arab banks and consortia; and, 3) extension of bilateral and multilateral aid to other developing countries. This section briefly examines developments in the last two areas.

Arab banks have succeeded in consolidating their position in the international financial market during the early eighties, following their impressive entry into this market in the seventies. The Arab banks' main initial concern was to gainfully deploy the financial surpluses of the region. However, as the money and capital markets in the region, in terms of number and size of financial institutions and their experience, were not ready to assume such a task, the bulk of these surpluses was deposited in Western banks which, inter alia, prompted Arab banks to engage in Euromarket operations.

During the period 1977 - mid-1983, Arab banks' share of total world lending increased from 2 per cent to 10 per cent. Total syndicated loans amounted to \$ 32 billion of which about 44 per cent was extended to Arab borrowers, 19 per cent to Western Europe, 15 per cent to Latin American and 13 per cent to Asian borrowers. The two leading Arab banks involved in the process were the Gulf International Bank (GIB) and the Arab Banking Corporation (ABC) with a total of \$ 4.1 billion and \$ 3.4 billion loans extended, respectively. The share of Arab banks outside the Gulf region declined from 70 per cent in 1977 to 25 per cent of total Arab banks lending in mid-1983, while that of the Bahrain-based off-shore banking units (OBUs) increased from 4 per cent to 30 per cent, and of Saudi Arabian banks increased from 2 per cent to 17.5 per cent 1/.

The volume of Arab syndicated lending went down in 1982 by 5.4 per cent due to the shortage of international liquidity and to increased

1/ For more details see: Mehran Nakhjavani, Arab Banks and the International Financial Markets, published by Middle East Petroleum and Economic Publications, Cyprus, Sept., 1983.

risks of default and re-scheduling of debts. During the first ten months of 1983, Arab Banks' syndicated lending continued to fall totalling \$ 5.9 billion, a 35 per cent drop over the same period in 1982. Arab borrowers absorbed 56 per cent of Arab banks' lending, Western Europe 22.5 per cent and Asian borrowers 16.4 per cent. Gulf International Bank and Arab Banking Corporation remained the leading Arab banks. Lending has shifted away from Latin America in terms of both volume and share, in favour of Western Europe. The share of Arab banks' operations in the international bond market remained insignificant amounting to about 2 per cent.

By mid-1983, there were 74 offshore banking units (OBUs) in Bahrain compared to 55 in 1980, 65 in 1981 and 72 in 1982 ^{1/}. The GIB and ABC continued to also operate as the two leading OBUs. Total assets of OBUs increased from \$ 50.7 billion in 1981 to \$ 59 billion in 1982, an increase of 16.4 per cent. In 1983, however, they registered an increase of 6.3 per cent reaching \$ 62.7 billion following a cyclical downturn until August 1983 when total assets dropped to a level of \$ 56.79 billion. The rise during the last quarter of 1983 is mainly due to a steady increase in deposits from Arab countries which constituted \$ 41.1 billion or 65.6 per cent of total liabilities. Loans to Arab countries amounted to \$ 29.4 billion or 47 per cent of total assets.

Short-term assets, i.e. with maturity of less than six months, accounted for more than three-quarters of total assets in 1982, compared to 22 per cent for assets with maturities of over 6 months.

The five main oil-exporting countries of the region, namely Iraq, Kuwait, Qatar, Saudi Arabia and UAE, appeared as the leading donors, providing in 1978 about 6 per cent of their combined GNP in aid to developing countries. Although the ratio of aid to GNP depicts a relative decline in subsequent years, it has by far surpassed the IDS target of 0.7 per cent and the ratio of 0.38 per cent registered for member countries of the Development Assistance Committee (DAC) of OECD in 1982. In absolute terms, the value of Arab aid peaked in 1980 at \$ 9137 million, but fell to \$ 6537 million in 1982 due to diminished oil revenues.

The bulk of concessional aid by the five member countries of ECWA has been bilateral and subject to non-economic considerations. Some recipient countries in the region received the largest share of bilateral

^{1/} Registration fees were raised effective 1984 by five-fold from BD 10,000 - 50,000 for institutions set up by Amiri Decree (GIB, ABC and the Arab Insurance Group), whereas ordinary OBUs have to pay annual charges of BD 2500 instead of BD 250 payable until the end of 1984.

aid as a result of the decisions of several Arab summits to provide the "confrontation states" i.e. Jordan and the Syrian Arab Republic with general support. The share of ECWA member countries and other Arab countries is, however, declining in favour of African and Asian countries. Budget and balance of payment support constitute a predominant part of bilateral aid.

Multilateral aid, channelled through Arab Funds and aid agencies, increased both in relative and absolute terms in 1982. This is a result of the increase in their financial resources whereby the capital of most Arab funds was remarkably increased in the last few years and their geographical coverage was extended to include other developing countries in Africa and Asia.

Moreover, project financing appeared to attract more aid, with transport and telecommunications projects and power projects having received more than half of total commitments. ECWA member countries received 21 per cent, other Arab countries about 30 per cent, Asian countries, 26 per cent, and African countries 20 per cent of total commitments. The most active institutions were the Kuwait Fund for Arab Economic Development followed by the Saudi Fund and the Islamic Development Bank.

The importance of Arab aid agencies stems not only from the development aid they extend to Arab and other developing countries but also in their ability to mobilize additional financial resources from foreign sources. Arab funds have been increasingly participating with other foreign and international organizations to co-finance development projects in developing countries.

Conclusions

While the substantial increases in revenues, which accrued to the oil-exporting countries of ECWA during the seventies, were viewed as a blessing their side effects in certain instances were perhaps unavoidable. For one thing, the upsurge increased the dependence of these countries on the oil sector. The abundance of financial resources made the need for financial planning and management a secondary priority area in resource mobilization and allocation. Consequently, budgetary expenditures rapidly increased without adequate scrutiny of the feasibility and/or utility considerations. In the absence of other complementary instruments of public policy, excessive reliance on government expenditures reflected itself inter alia, on the level of prices. Higher oil revenues did not create the need to use the tax system as an instrument of economic tax policy in raising government revenues, thus, leaving the GDP ratio among the lowest in the world. It has neither helped in resource allocation. However, the subsequent sharp decline in oil revenues have highlighted the need, especially for a reappraisal of fiscal policies in these countries aimed at achieving better resource mobilization and allocation commensurate with development objectives and needs.

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As for the non-oil countries of Western Asia, the substantial amounts of aid, from the oil-exporting countries, brought about remarkable increases in their budgetary outlays, both current and development, only to be contracted with the fall in the flow of aid. Although these countries do not face severe debt problems more emphasis should be put on better mobilization of domestic resources thus increasing the level of saving and investment commensurate with the objectives of the IDS.

Both oil and non-oil countries of Western Asia continue to maintain budgetary systems that do not adequately meet the requirements of efficient and effective economic management by the government. The use of budgetary techniques, based on economic and functional classification of government transactions or programme and performance budgeting along with their corresponding accounting and auditing systems, has not yet made a headway in most cases.

CHAPTER V. SCIENCE AND TECHNOLOGY

There are ample evidence that the countries of the ECWA region maintained, and in some cases increased, their emphasis on strengthening their scientific and technological capabilities. The development of scientific and technological infrastructure continued unabated during the early 1980s. This trend is well in line with the IDS objectives for the Third United Nations Development Decade, which emphasized the need for greater access and mastery of modern scientific and technological knowledge in the economic and social progress of developing countries. The performance of a number of ECWA member countries for which data were available in the area of science and technology is briefly reviewed in this chapter.

In Egypt, the Academy of Scientific Research and Technology has played a central policy making role in the development and transfer of technology. The gaps and weaknesses it has identified in the national scientific and technological system have led the Academy to recently establish the Science and Technology Policy Committee and create a centre within this institution to deal with the problems of technology transfer. The Academy has continued to be engaged in the formulation of science and technology policies which aim at **ensuring** strong linkages between national scientific and technological organizations and users of science and technology, including the production sectors. It has also been actively involved in the formulation of research projects directed towards problem solving activities and in the generation and promotion of basic research in various disciplines and the dissemination of scientific and technological information, as well as, the development of bilateral agreements between Egypt on the one hand, and developed countries and international organizations on the other. Policies laid down by the Academy are implemented through a variety of R & D activities in universities and sectoral research institutions in which about 25,000 scientists and technologists are at work. One may single out in particular the National Research Centre which is an autonomous body that conducts research in various fields, particularly in industry, agriculture and health. The total number of personnel in this institution is about 3,500 of which 2,300 are engaged in research. The areas covered in the work of the Centre include: (i) technology transfer for the development of local industries such as textiles, iron and steel, food processing and chemicals; (ii) agriculture and nutrition; (iii) health and environment; (iv) energy; and, (v) natural resources. Efforts have been made by the Centre during the first few years of 1980s to shift the work orientation from the purely academic type of research to that which satisfies the R & D needs of users be they industrial firms or ministries. It is worth noting that the

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Academy and the Centre do not work in isolation. Linkages between these and other sectoral research institutions and bodies have been established to facilitate the implementation of an integrated science and technology policy. Examples of such linkages include those established with the General Organization for Industrialization, the General Organization for Standards, the Organization for Foreign and Arab Investments, and the Organization for Rural Development.

In Jordan, The Royal Scientific Society which is a quasi-public institution undertakes scientific and technological research related the development needs of Jordan. During the last five years, its activities have expanded and its infrastructure strengthened with the establishment of an Industrial Chemistry Department, a Building Research Centre, an Electronic Services and Training Centre, a Computer Training College, and a Solar Energy Section. The Society's laboratory facilities were upgraded to enable it provide an array of scientific and technological services. As regards human resources development in science and technology during the period, Jordan has experienced a broadening of the specialized and trained manpower base in this field. A recent survey shows that the number of persons engaged in science and technology activities increased from about 1400 in 1976 to about 2800 in 1980. Out of the total number of persons working in the field of science and technology in 1980, 1200 were engaged in research and development as compared to 600 in 1976. This has been accompanied by an increase in expenditure on science and technology activities from about JD 15 million in 1976 to about JD 30 million in 1979, and on R & D from JD 2 million in 1976 to JD 7 million in 1979. On the other hand, the private sector witnessed an increase in the number of consultancy and engineering firms and an upgrading of the capabilities of industrial companies as shown by their increasing interest in developing laboratory facilities and specialized vocational training programmes.

In Kuwait, the Kuwait Institute for Scientific Research (KISR), which is the national science policy making-body, continued to conduct research aimed at meeting the requirements of local industries and contributing to their future development. It has also been active in keeping abreast of modern developments in scientific knowledge and providing the government, industry and technicians with scientific and technological documentation and information.

The Institute has covered a number of fields. In Environmental and Earth Sciences, the activities included the exploration and development of natural resources and environment protection. In the food industry, the Institute has been engaged in projects pertaining to Agro-production, Biotechnology, Mariculture and Fisheries and Food Technology. Many of

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these projects have started in 1981 and have shown fairly satisfactory results. In Engineering, the programme areas covered encompass the following areas:

(i) Energy Analysis, Planning and Conservation. The aim is to develop capabilities in the integrated analytical representation of energy systems with a view to identifying economic and engineering basis for energy-related decision-making. Energy Conservation research covers both building and industry. Industrial conservation is a new field of activity intended to complement research conducted in this area.

(ii) Solar Energy Applications. Such applications cover a broad area, from environmental control to desalination, using solar energy as the primary source of power. A joint project between the Institute and the Royal Scientific Society of Jordan (the Jordanian Solar house) is under implementation to test the solar heating system during winter. Other projects carried out during 1980-1982 deal with the assessment of solar cooling, radiative cooling, the performance of flat-plate collectors, computer model to estimate total radiation, heating a swimming pool with solar radiation, and the possibility of utilizing wind energy in Kuwait.

(iii) An Applied Electronics Programme. It is primarily concerned with microprocessor applications with regard to activities in the field of data acquisition system and information media.

(iv) Building Technology and Environmental Architecture. In this area, a project is underway to study local concrete technology with a view to improving quality control, upgrading curing techniques, evaluating new aggregates and chemical activities, and solving specific problems relating to precast elements and lightweight concrete. In Techno-economics, the Kuwait Institute for Scientific Research has been productively involved in the following areas: energy economics, sectoral economics, environmental economics, transfer and development of technology and techno-economic feasibility studies. The applied system research programme underway comprises the five areas of industrial and systems engineering, computer application, automatic control systems, network analysis and signal processing.

In Lebanon, the National Council for Scientific Research which is the national science policy-making body has continued to render advisory and executive functions. These included the formulation of a general outline of a national science policy which aims at the rational development of Lebanon's scientific potential, and the utilization of research results in co-ordinated manner to support developmental activities. It has also been involved in preparing and executing work programmes for the implementation of this policy, giving advice to the government on issues relating to science policy formulation and implementation, as well as, promoting and co-ordinating scientific research at the national level. Furthermore, the Council for Development and Reconstruction (CDR) is entrusted with the task of conducting research aimed at the reconstruction and development of the country. In addition to these two organizations,

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there exists a number of academic institutions and few sectoral research centers which provide part of the infrastructural support in the field of science and technology. It is worth noting that a substantial part of the applied research in the country is carried out in the agricultural field by the Agricultural Research Institute and other related public bodies such as the Animal Production Office and the Green Plan.

The activities of the National Council for Scientific Research stems from the need to solve practical problems, utilize Lebanon's natural resources and scientific manpower, and underline the positive role of science in rational development. The Council's activities encompass six main domains, namely, agriculture, oceanography and marine biology, medicine and public health, engineering and technology, pure science, and the environment. The relevant research work is mostly carried out in universities and is regulated by contracts entered into between the Council as one party and the researchers and their universities as another. On the other hand, the priority mode of technology transfer in Lebanon has continued to be generally characterized by licensing governments and joint ventures concluded between local individual firms and foreign manufacturing enterprises.

Qatar has made considerable progress in efforts to acquire appropriate technology. This has followed a policy which aims at diversifying the sources of national income and creating an economy which is not totally dependent on oil. The Industrial Development Technical Centre has played a vital role in formulating industrial development plans and supervising their implementation.

Policies governing technology transfer in Qatar have relied on the following main channels: (a) joint ventures; (b) licensing and know-how agreement; (c) turn-key projects; (d) technical assistance agreement; and, (e) embodied technology in machinery and materials. It is worth noting that the channel most commonly used is the formation of joint ventures between a local enterprise and one or more foreign partners and turn-key agreements. On the other hand, progress has been made in the application of recent technologies in undertaking various developmental activities. A joint research project is underway, in collaboration with Japan, to carry out test and evaluate a reverse osmosis process for the desalination of sea-water. In agriculture, efforts concentrated on the use and adaption of modern protected farms using capital intensive methods. In industry, the Qatar Steel Company (QASCO) may be cited which is a joint venture established with Japanese partnership.

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It is a modern integrated plant using the modern direct reduction technology and has been successful in its operations. The efficiency of the plant exceeded 100 percent in the first full year of operation (1976) and reached over 140 percent in 1982, mainly as a result of technical modifications.

In Saudi Arabia, the National Centre for Science and Technology, an independent body dealing with the transfer, development and application of science and technology, has been engaged in the formulation of a national science and technology policy and promotion and co-ordination of specific research activities in accordance with the requirements of economic and social development. It has continued to evaluate the acquisition of foreign technology, while at the same time develop the scientific and technological potential of the country. In discharging these responsibilities, the Centre has co-ordinated its activities with many government and private sector agencies including universities, the Ministry of Agriculture and Water, the Civil Service Bureau and the Electricity Corporations. The activities conducted by this Centre may be classified into two categories: those performed by the individual directorates and those performed under the auspices of international agreements. Within the first group, work progressed on establishing a national science and technology information system.

As regards internationally sponsored programmes, the Centre is engaged in the following four projects: (a) Identification of five major areas for solar research and development under a technical agreement with the United States; (b) Establishment of an office to develop plans for identifying major research elements along with the personnel and equipment needed to implement research programmes; (c) two projects in the field of single cell protein manufacture and agriculture are being implemented under a technical agreement with the Republic of China; and, (d) a joint project agreed with the Canadian National Research Council to specify the software, configuration and detail of the optomechanical part of the "seeing monitor" and to test critical components.

Subregional and regional co-operation in science and technology are increasingly being recognized in Western Asia as useful vehicles for promoting the development of science and technology and solving national problems which require regional solutions. Such co-operation has recently led to the pooling of the engineering expertise available in some Arab countries to form an autonomous engineering organizations based in Abu Dhabi to render engineering services for oil, petrochemical, gas and related industries. The technical services it supplies include techno-

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economic tasks, project formulation, market and optimization studies, sensitivity analysis, process adaptation and product development. The engineering services it renders encompass basic design and general layout, detailed engineering, process selection and acquisition, design of equipment, procurement and project management services. On the other hand, efforts at regional co-operation in this field resulted in the establishment of a number of joint industrial projects using local raw materials and drawing on national technological capabilities for their execution. Examples of these projects include: (i) the Gulf Aluminium Rolling Mill in Bahrain with the participation of Saudi Arabia, Iraq, Kuwait, Qatar, Oman and Bahrain. This project is planned to go into production in 1984; (ii) A Sheet Glass Manufacturing Plant which will be based in Iraq involving the participation of Saudi Arabia, Kuwait, Qatar, Bahrain and Iraq.

Despite the progress achieved in strengthening the scientific and technological base in the ECWA region, the member States are likely to face, with various degrees, problems and constraints in the development of their scientific and technological infrastructure as a vital prerequisite for their economic and social progress. The alleviation of obstacles could be attained through: (i) development of integrated national science and technology policies and integrating science and technology research activities with economic and social development plans and programmes; (ii) strengthening scientific and technological personnel and institutional infrastructures to provide supporting facilities, qualified manpower, and training staff; (iii) improvement of national research capabilities in the process of selection, transfer and adaptation of technology; and, (iv) effective co-ordination and co-operation between institutions and national centers engaged in science and technology activities and in research and development work, as well as, strengthening the links between these institutions and the production sectors.

CHAPTER VI. ENERGY

Recognizing that oil and gas are a depletable sources of energy and in agreement with the IDS call for the development and expansion of all energy resources, member countries of ECWA have undertaken efforts to develop and utilize other sources of energy.

Most countries in Western Asia remain committed to the utilization of nuclear energy in peaceful applications. Egypt and Iraq are the leading member countries of the commission to introduce nuclear energy plants for generating electricity. However, the Iraqi nuclear research center was damaged by an Israeli aggression in June 1981. The two countries have reached initial agreements during 1983-1984 to embark on feasibility studies for establishing nuclear electricity generating plants.

Solar energy appears to be the most promising renewable source of energy for the region: it is self-generating, clean, safe, and widely and generously distributed through out the region. Saudi Arabia, which receives an estimated equivalent of 10⁽¹⁴⁾ KWH of solar energy every day, is currently undertaking a major solar energy project.

Nevertheless, in the early 1980s, oil continues to be by far the largest source of energy output in the ECWA region.

A. Oil production and revenues

After reaching a peak in 1980, the oil revenues of the most oil exporting countries in the ECWA region declined during the succeeding three years. As shown in table (1), oil revenues fell from \$176.0 bn in 1980 to \$86.0 bn in 1983; a 51.1 percent decline.

Oil output in the region had reached 17.2 million b/d in 1980, representing 27.6 percent of total world output. In 1983, however, total oil output of the region amounted to only 9.7 million b/d, corresponding to 17.9 percent of the world's total. Thus, the 1980-1983 period witnessed a significant decline in oil output and revenues in the ECWA region as a whole. The magnitude of the decline in oil output differs from one country to another, but it is clear that the adverse impact of the weak oil market during the early years

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Table (1) : Oil Revenues of selected exporting countries
(Billion of US dollars 1980-1983)

	1980	1981	1982	1983
Egypt	2.8	2.8	2.7	2.3
Iraq	26.0	10.4	9.7	8.4
Kuwait	17.9	14.9	8.6	10.1
Oman	2.4	3.3	3.1	3.0
Qatar	5.4	5.3	4.0	2.9
Saudi Arabia	102.0	113.2	75.8	47.6
United Arab Emirates	19.5	18.7	15.5	11.7
Total	176.0	168.6	119.4	86.0

Source: ECWA, based on information compiled from national and international sources.

of the 1980s was borne by a few countries and manely by Saudi Arabia. While Saudi Arabia had produced an average of 9.9 million b/d in 1980, its output declined to 6.4 million b/d in 1982 and averaged only 5.1 million b/d during 1983. It should be noted, however, that during the early 1980s non-OPEC oil producing members of ECWA either maintained the levels of their oil production, such as the Syrian Arab Republic or significantly increased it, such as Egypt.

The significant decline in the output of the major oil producing countries of ECWA is reflected in their oil exports performance during 1979-1983 period, as shown in table (2). Where as the combined oil exports of major oil countries of the region totalled 16.8 million b/d in 1979, they fell by more than 57 per cent 7.2 million b/d in 1983. During the second half of 1983, however, the level of crude oil production was greater in ECWA oil producing countries members of OPEC. The degree and continuation of such a reversal is obviously a function of a number of factors such as the strength in world economic recovery;

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Table (2): Net Oil Exports of Major Oil Countries of the ECWA region
(Million barrels per day 1979-1983)

	1979	1980	1981	1982	1983
Iraq	3.3	2.4	0.7	0.7	0.9
Kuwait	2.5	1.6	1.1	0.9	0.8
Saudi Arabia	9.2	9.6	9.8	6.3	4.4
United Arab Emirates	1.8	1.7	1.5	1.3	1.1
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	16.8	15.3	13.1	9.2	7.2

Source: ECWA, based on information compiled from national and international sources.

competition from non-ECWA oil exporters and the extent of the utilization of other sources of energy.

Furthermore, the ECWA region's role in the world oil market is bound to remain dominant in the long run, due to the magnitude of its hydrocarbon resources. Of the free world's proven oil reserves of 585 billion barrels, ECWA countries account for approximately 56 percent. Out of OPEC's proven oil reserves of 462.9 billion barrels, ECWA members share is 327.1 billion barrels, or over 70 percent. Among the four countries with the largest proven oil reserves in OPEC, three are from the ECWA region namely Saudi Arabia, Kuwait and Iraq. Unlike some other oil-producing countries such as Nigeria and the United Kingdom, the absolute demand for oil consumption domestically in these countries will continue to be relatively small. This phenomenon coupled with the proven oil reserves is expected to strengthen the position of the ECWA region in the world oil market in the years to come.

B. Major developments at the national level

In Bahrain, oil supplied 77 percent of government revenues in 1982. Under an agreement with Saudi Arabia, the government of Bahrain has an equal share in the revenues from the offshore Abu Safah field, operated by Aramco, where production in 1980 was 121,860 b/d. Oil exports

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are channelled through the Sitra terminal, where Saudi crude is brought from the main land by two 12 inch submarine pipelines and processed in a major refinery with a capacity 250,000 b/d. In 1981, while the cost of crude oil imports from Saudi Arabia amounted to \$ 2.5 bn, refined product exports were valued at \$ 3.9 bn.

In 1981, net production of gas averaged 447 mn cu.ft./d, with non-associated gas 337 mn, of which 127 mn was reinjected or otherwise used in field operations, and the remainder used as refinery fuel, in power stations, and as fuel for the Alba aluminium smelter. In addition, the natural gas liquid (NGL) plant of Bangas, which became operational during the latter part of 1979, has the capacity to handle 110 mn cu. ft./d of gas for the production of LPG (115,000 t/y for export) and natural gasoline (125,000 t/y) largely processed in the local refinery.

In Egypt contrary to earlier expectations, government oil revenue was likely to decline during the fiscal year 1982/83 to under \$ 2 billion, down by about 25 percent from 1981/82 peak of \$ 2.7 billion. Aside from lower prices associated with the current oil glut in international markets, growth in domestic demand of some 15 percent a year is out pacing increase in production and reducing exports. Overall exports amounted to about 400,000 b/d out total production of some 700,000 b/d in fiscal year ending June 1983. Taking international final prices as a bench mark, it is estimated that subsidizing domestic oil prices costs the Egyptian government approximately \$ 2.7 billion annually.

Variations in Iraq's national income are a function of changes in the oil and agricultural sectors. It was estimated that in 1979 the oil sector accounted for 64.5 percent of GDP, agriculture for 8.0 percent and industry for 8.5 percent.

According to official data, proven oil reserves at the end of 1983 are now put at 59 bn barrels, which gives Iraq a more important role in the world's oil market in the years to come.

Estimated reserves of gas in Iraq, which is all associated gas, stood at 28,800 bn cu. ft. at end 1982. A sulphur recovery plant with the capacity to process 80 mn cu. ft./d of gas and extract 120,000 t/y of sulphur operates in Kirkuk. A 292 km pipeline of 16 inch diameter is designed to carry 48.5 mn cu. ft./d of cleaned dry gas from the plant to Taji, near Baghdad, with a parallel 8 inch line to carry 18,000 b/d of LPG and natural gasoline. There are major ~~schemes~~ schemes under development to utilize gas currently flared in the northern and southern fields. They include a 4.5 mn t/y plant at Khor-al-Zubair and facilities for LPG export. In 1983, Iraq signed a protocol with Turkey to build an

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LPG pipeline paralleling the 1000 km crude oil pipeline. The pipeline will have a capacity of 3 million tons a year and terminate at Yumurtalik, adjacent to the oil port. Some of the LPG output would be used in Turkey and the rest exported.

No oil has been discovered in Jordan, so far. However, the Kingdom possesses large shale deposits, mainly in the Lajjoun area. The Soviet Union has investigated the feasibility of building a 300 mw power station at Qatrana fired by shale, and a German (FRG) company studied the possibility of extracting oil from shale.

The Zarqa refinery in Jordan (60,000 b/d capacity) is supplied with Arabian crude by Tapline. Sales in 1980 amounted to 1.69 mn tons-- which roughly represent total energy consumption in the country, i.e. approximately 35,000 b/d.

The oil sector in Kuwait accounted for around 70 percent GDP (KD 7.4 billion) in 1980. In the 1982/83 budget, oil and gas revenues represented 92.5 percent of total revenues (KD 5.1 billion with oil reserves estimated at 64,230 mn barrels in 1982, Kuwait ranks second, behind Saudi Arabia, in terms of having the largest proved oil revenues in the ECWA region and among all OPEC members. Furthermore, associated gas reserves were estimated at 29,9 trillion cu. ft. in 1982.

Kuwait has long been interested in participating in energy projects overseas, and toward this aim the government set up in 1980 the Kuwait International Petroleum Investments Company and Kuwait Overseas Petroleum Exploration Company. These companies have acquired an interest in International Energy Development Corporation, Pacific Resources of Honolulu, Santa Fe International and Gulf Oil's refining interests in the Netherlands and Denmark as well as marketing outlets in Denmark and Sweden.

The state took over the Kuwait Oil Tankers Company in early 1980s and raised its capital to KD 200 mn to increase the fleet's capacity by one third reaching a total of 27 vessels by 1982, with the long term objective of transporting 50 percent of the oil exports of Kuwait. As a possible first step in a long-term strategy, KOTC has started shipping parcels of oil products together with crude oil in very large crude carriers (VLCC) to Europe (290,000 ton Al-Funtas hauled naphta and gas oil along with crude for KPC to Kuwait's newly acquired ex-Gulf refinery facilities at Rotterdam in October 1983).

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In Oman oil and gas accounted for 85.6 percent of government revenues in 1976-80, and 68 percent of GDP in 1980.

Proven oil reserves were estimated at 2,899 mn barrels in 1981, while gas reserves were estimated at 6.3 trillion cu. ft., of which 4.8 trillion are non-associated. A 50,000 b/d refinery has been constructed at Mina al-Fahal to meet local needs, including deliveries.

In Qatar oil and gas accounted for 90 percent of government revenues in 1981, where its contribution was put at \$ 4.72 bn.

The estimated proven reserves of oil at the end of 1982 were 3,425 mn barrels. However, estimated gas reserves at end of 1982 were put at 62 trillion cu. ft. According to government assessment, reserves of non-associated gas in the offshore Khuff zone total 140 trillion cu. ft. The integrated NGL plants, which came into operation in late 1980, has a capacity of 960 tons/day of propane, 1,200 tons of butane, 443 tons of natural gasoline, and 250 mn cu. ft./day of methane and 52 mn cu. ft. of ethane.

According to Saudi Arabian Monetary Agency, government revenues from oil have risen sharply in the 1970s and up to 1981. However, due to drastic changes in oil market conditions, the Saudi Arabian oil revenues were estimated to have fallen from a total of \$ 113.2 bn in 1981 to only \$ 47.6 bn in 1983.

In 1982, proven oil reserves in Saudi Arabia (excluding the Neutral Zone) were estimated at 162.4 bn barrels and gas reserves, which almost entirely consist of gas associated with oil, at 117 trillion cu.ft. Thus the dominance of Saudi Arabia in the world oil market is expected to grow further in the future.

In the Syrian Arab Republic oil reserves were estimated at 1.52 bn barrels in 1982. However, total recoverable gas reserves are put at 380 bn cu.ft., with facilities being installed for their use, including a 58,000 tons/year LPG plant.

In the United Arab Emirates, oil reserves of Abu Dhabi were estimated at 30.5 bn barrels and gas reserves at 19.26 trillion cu.ft., in 1982. However, considerable volume of non-associated gas were found offshore in the Khuff Zone below the Umm Shaif field and onshore in the Thamama formations of the Bab and Habshan fields.

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Meanwhile, the oil reserves in Dubai were put at 1.44 bn barrels and gas reserves at 4,320 bn cu. ft. A plant to produce 450,000 tons/year of LPG and 2 mn barrels of natural gasoline, delivering dry gas to an aluminium smelter, came on stream at Jebel Ali in 1980.

As for Sharjah reserves in the Mubarak field were estimated as 10 mn barrels in 1980. However, new oil discoveries offshore, 16 km east of Mubarak, are expected to raise production from present fields to 80,000 b/d. According to new international estimates, oil reserves in Sharjah were put at 404 mn barrels and gas reserves at 5 trillion cu. ft. in 1982, an increase of 2 trillion cu. ft. since 1981.

A natural gas pipeline grid linking Arab Gulf States of the ECWA region is likely to be build in the coming years, including a \$ 36 million project already underway in five of the United Arab Emirates. The next phase of the proposed network is likely to be a line from Qatar's supergiant offshore north field to Saudi Arabia and Kuwait. It could ease pressure on Kuwait and Saudi Arabia to produce crude oil in order to assure sufficient supplies of associated gas. Both countries have already experienced gas short falls due to low oil output.

CHAPTER VII. TRANSPORT, COMMUNICATIONS AND TOURISM

A. Shipping

Total gross registered tonnage and deadweight tonnage of the merchant fleets of the ECWA countries increased over the period from 1 July 1979 to 1 July 1982 by about 50 per cent each (Table 1), thus contributing to increase the share of these countries in the transportation of their foreign trade, as called upon by various UNCTAD resolutions and the International Development Strategy to ensure for developing countries equitable participation in the transport of their cargoes. As of 1 July 1982, the total gross registered tonnage of the merchant fleets flying flags of ECWA countries amounted to 9,416,288 GRT (15,878,353 DWT), reflecting an increase in the share of the region in world tonnage, compared to three years earlier, from 1.55 to 2.25 per cent for the gross registered tonnage, and from 1.54 to 2.29 per cent for the deadweight tonnage. Among the countries of the region, the largest fleets in 1982 were those of Saudi Arabia (4,301,789 GRT) followed by Kuwait (2,014,379 GRT) and Iraq (1,521,491 GRT); the smallest fleets were those of Yemen (3,091 GRT) and Oman (8,934 GRT).

Structural shifts were recorded in favour of bulk carriers which experienced a growth of 178 per cent by GRT and 224 per cent by DWT over the same period (Table 2). However, the share of ECWA bulk fleets in the world total of bulk carriers remained extremely low amounting roughly to 0.3 per cent for both gross registered and deadweight tonnages. The expansion achieved in the liquid bulk (oil tanker) fleets was not commensurate with the volume of oil shipments from the region.

Another noteworthy structural change in ECWA fleets was the rapid increase of the container tonnage from virtually nil in 1979 to some 127,436 GRT or 146,057 DWT in 1982. These belong mostly to the United Arab Shipping Company (UASC) ^{1/}, which is jointly owned by Bahrain, Kuwait, Qatar, Iraq, Saudi Arabia and the United Arab Emirates. In 1983, the UASC took delivery of four of the nine container ships ordered from South Korea in 1981 having an overall slot capacity of 1,846 Twenty-foot Equivalent Unit (TEU).

^{1/} A second major Arab joint venture shipping company, the Arab Maritime Transport Company stationed in Kuwait (AMPTC) incurred financial losses in 1983. The company, which was established by the Organization of Arab Petroleum Exporting Countries (OAPEC) had to lay idle two of its tankers.

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Table 1. Merchant Fleets of ECWA Countries by Flag of Registration and Types of Ships in GRT a/ and DWT, as of 1 July 1982

(DWT Figures are shown in Parentheses)

Flag of Registration	Total	Oil Tankers	Bulk Carriers b/	General Cargo c/	Container Ships	Others
Bahrain	20,281 (22,624)	1,736 (2,532)	- -	9,110 (15,166)	- -	9,435 (4,926)
Democratic Yemen	13,609 (13,881)	1,886 (3,185)	- -	3,207 (4,768)	- -	8,516 (5,928)
Egypt	635,801 (804,792)	105,880 (175,169)	22,605 (38,300)	409,362 (535,927)	- -	97,954 (55,396)
Iraq	1,521,491 (2,657,319)	1,140,953 (2,168,790)	- -	248,746 (367,359)	14,405 (15,763)	117,387 (105,407)
Jordan	20,903 (30,355)	- -	- -	20,727 (30,355)	- -	176 (-)
Kuwait	2,014,379 (3,251,218)	1,187,865 (2,171,711)	- -	408,949 (609,795)	55,721 (64,414)	361,844 (405,298)
Lebanon	368,101 (536,402)	1,325 (2,031)	15,910 (26,559)	287,373 (430,622)	1,946 (1,543)	61,547 (75,647)
Oman	8,934 (11,661)	- -	- -	3,156 (6,127)	- -	5,778 (5,534)
Qatar	233,873 (366,108)	73,217 (138,979)	- -	120,545 (184,922)	20,658 (24,302)	19,453 (17,905)
Saudi Arabia	4,301,789 (7,768,780)	2,892,932 (5,745,811)	311,621 (545,982)	676,431 (947,331)	34,706 (40,035)	386,099 (489,621)
Syrian Arab Republic	43,054 (61,942)	- -	- -	38,568 (56,992)	- -	4,486 (4,950)
UAE	230,982 (351,421)	72,845 (149,521)	17,059 (27,743)	107,217 (143,610)	- -	33,861 (30,547)
Yemen	3,091 (1,850)	- -	- -	1,260 (1,850)	- -	1,831 (-)
ECWA Countries Total	9,416,288 (15,878,353)	5,478,639 (10,557,729)	367,195 (638,584)	2,334,651 (3,334,824)	127,436 (146,057)	1,108,367 (1,201,159)
World Total	418,964,966 (693,460,988)	166,384,113 (324,547,668)	116,077,848 (206,000,999)	78,613,955 (113,978,040)	12,941,690 (13,181,486)	44,947,390 (35,752,795)
ECWA per cent of World	2.247 (2.289)	3.292 (3.253)	0.316 (0.309)	2.969 (2.925)	0.984 (1.108)	2.465 (3.359)

Source: Compiled by ECWA based on national and international sources.

a/ Ships of 100 GRT and over.b/ Bulk carriers of 6,000 GRT and over, including ore/bulk/oil carriers.c/ Including passenger/cargo ships.

(-) = nil or negligible.

Table 2. Development of Merchant Fleets of ECWA Region by Types of Ships
Between 1 July 1979 and 1 July 1982 in GRT and DWT
(DWT figures are shown in parentheses)

		Oil Tankers	Bulk Carriers	General Cargo	Container Ships	Others	Total
1 July 1979	GRT	3,758,956	132,014	1,837,592	-	580,403	6,308,965
	DWT	(7,089,036)	(196,848)	(2,604,452)	-	(541,919)	(10,432,255)
1 July 1982	GRT	5,478,639	367,195	2,334,651	127,436	1,108,367	9,416,288
	DWT	(10,557,729)	(638,584)	(3,334,824)	(146,057)	(1,201,159)	(15,878,353)
+ - % Change	GRT	45%	178%	27%	-	91%	49%
	DWT	49%	224%	28%	-	122%	52%

Source: Compiled by ECWA based on national and international sources.

Early in the eighties, phase I of the expansion scheme of the Suez Canal was completed thus enabling the Canal to accommodate 53 feet draught tankers and bulk carriers (150,000 DWT laden and 350,000 to 370,000 DWT in ballast). Phase II of the expansion scheme, however, is to be delayed because of the continuing depression in giant oil tanker traffic.

B. Ports and Related In-land Facilities

The intense efforts of the oil-producing countries of ECWA to overcome the ports' congestion crisis in the last decade have resulted in an overcapacity of the berthing facilities in the Gulf area. Hostilities between Iraq and Iran, however, have diverted traffic from Iraqi ports at Basra and Umm Qasr to other neighbouring ports and helped in partially alleviating their problem of overcapacity.

Sharp contrasts between port development schemes in the rich countries of the region and its least developed countries continued to prevail during the past few years. Saudi Arabia, for instance, had by the end of 1982, 124 mechanized berths in its 5 major ports (Jeddah, Dammam, Yanbu, Jubail and Gizan), or an increase of 23 berths over the situation at the end of 1980. On completion of the development programme at Jubail industrial port, total annual capacity will amount to about 7 million tons. By 1985 Yanbu and Jubail are expected to have a sizable export trade in petrochemical products.

At Mina Sulman in Bahrain, a major expansion programme began in 1982 to convert conventional berths to container facility, a trend increasingly visible in the Gulf. Umm Said port in Qatar is emerging gradually as an industrial/oil port; a new ship repair yard was opened there during 1982 which includes a floating dry-dock capable of handling vessels up to 8,400 DWT.

In the early 1980s, the East Mediterranean ports of Tartous and Latakia likewise underwent expansion schemes with target throughputs of 10 and 7 million tons per annum respectively. The closure of the borders between Iraq and the Syrian Arab Republic has cut off the transit traffic bound for Iraq through these ports.

Shipbuilding facilities in the ECWA region have increased rapidly during the first years of this decade. In addition to the Bahrain-based Arab Shipbuilding and Repair Yard (ASRY) and the Dubai huge dry-dock, a new 120,000 DWT floating dock is to be completed shortly in Kuwait. Plans are also well advanced for a yardway at Dammam in Saudi Arabia of a 61,000 DWT total capacity. Compared to this relatively large capacity,

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demand has been very limited due to the effects of exogenous factors, such as the world recession, on the tanker trade market and the increased risk insurance premiums for ships entering the Gulf. Dubai's dry-dock for instance, with an overall capacity of 1.8 million DWT, has remained non-operational until late in 1983. ASRY is in a comparatively better situation because of its experience and the extensive training programmes it has been undertaking. Although recording overall deficits, ASRY's revenues showed slight increases over the past few years and occupancy rates were satisfactory.

C. Air Transport

In spite of the gloomy picture facing the civil aviation industry at the beginning of this decade, the operating civil aviation fleets of the ECWA countries have expanded considerably since then. The overall size of the civil aviation passenger fleet of the ECWA region amounted to 191 aircrafts by the end of 1982. The most notable achievement in this respect was that of SAUDIA, the national airliner of Saudi Arabia, whose fleet increased from 50 aircrafts at the end of 1979 to 64 by end 1982, making it the first among the region's carriers, followed by EGYPTAIR. SAUDIA also maintains the largest domestic network connecting more than 23 cities in Saudi Arabia and, thus, contributing significantly to increasing the mobility of people and connecting the various centres of that vast country.

The difficulties encountered by the civil aviation business due to the increased fuel prices and hence operating expenses, have set in motion a trend that is affecting the composition of fleets in the region. Wide-bodied aircrafts are gradually replacing conventional ones for their fuel economy and low noise level. Five Airbus A300 aircrafts are currently operational in EGYPTAIR's fleet while sizable orders for the same type have been placed by Saudi Arabia (11), Kuwait (6) and Lebanon (5).

On the operational side, comparative statistics (Table 3) show that SAUDIA assumes a leading position in terms of traffic indicators such as scheduled passengers - kilometres, number of passengers travelled and ton - kilometres performed. While this is easily attributed to the fleet size, the high load factor achieved for passengers implies an accompanying operational effectiveness. The table reflects also the adverse impact of hostilities in Lebanon and the Gulf on the performances of both MEA and Iraqi Airways.

Commensurate with fleet expansion, airport construction has been boosted significantly. The oil-rich countries of the region have been building some of the biggest airports in the world, while other airports

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Table 3. Selected Operations Statistics of the Main Airlines in the ECWA Region in 1982 and Percentage Change over 1980 1/ (IATA members only)

Airline	Scheduled Passenger.Kms Performed in 1982 (mills)	Passengers Travelled		Tons. Kms. Performed		Tons. Kms Available		Load Factor (1982)	
		000's	%	(mills)	%	(mills)	%	Passenger %	Weight %
ALIA, Jordan	3287	1667	+ 82	427	+ 64	801	+ 52	95.4	53.3
EGYPTAIR, Egypt	3643	2433	+ 44	395	+ 42.6	702	+ 30	60.3	56.3
GULF AIR, Bahrain, Oman, Qatar and UAE	3381	2279	n.a.	414	n.a.	790	n.a.	56.5	52.4
IRAQI AIRWAYS, Iraq	1470	481	- 30	187	+ 8	388	- 7	59.3	48.2
KUWAIT AIRLINES, Kuwait	3596	1461	+ 51	456	+102	849	+ 47	65.7	53.6
MEA, Lebanon	967	571	- 36	118	- 34	255	- 21	50.2	46.0
SAUDIA, S. Arabia	12277	10060	+ 19	1478	+ 59	3047	+ 27	64.2	48.5
SYRIAN AIRLINES, Syria	947	466	+ 8	98	+ 8	195	- 3	55.7	50.4

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Source: International Air Transport Association (IATA), World Air Transport Statistics 1980 and 1982, published in June 1981 and 1983 respectively.

Remarks: 1/ Scheduled international and domestic services combined.

2/ The sum of the products obtained by multiplying the number of tons available for the carriage of revenue load (passengers, baggage, freight and mail) on each sector of a flight by the sector distance.

have been subject to major improvements and renovations. In Jeddah, for instance, King Abdul Aziz International Airport was opened in 1981 to accommodate an estimated traffic of 8 million passengers by 1985. It has three terminals including the pilgrimage terminal which receives the seasonal traffic of almost one million Moslems in less than two months every year. In November 1983, King Khalid International Airport was inaugurated in Riyadh, 35 kilometres north of the city. The airport which costs more than \$ 5 billion is expected to be able to receive 15.6 million passengers annually by the year 2000. In addition, there is an extensive network of domestic airports in more than 20 cities of the Kingdom. New air jets have also started operating in each of the United Arab Emirates (Abu Dhabi Airport), Jordan (Queen Alia International Airport) and in Iraq (Sadam International Airport).

D. Roads and Railways

As far as road transport is concerned, remarkable progress is discernable in most countries of the region, see Table 4. The number of vehicles increased considerably in each of these countries with a concomitant rise in the volume of domestic and international traffic averaging around 12 per cent per annum. Private and public transport were established and bilateral agreements were concluded among member states. In Iraq and Saudi Arabia, assembling factories for heavy trucks have been established resulting in a considerable increase in the number of such trucks thus facilitating the transport of goods within the region at lower costs.

With the completion of the 25 kilometres causeway between Saudi Arabia and Bahrain, one of the most ambitious projects ever undertaken in the Middle East, currently under construction, Bahrain will be connected by road to Saudi Arabia and other Gulf countries. The Dutch contracting consortium, which won the contract in July 1982, is expected to complete the project within four years by 1986. There will be four traffic lanes to allow a capacity of about 3000 vehicles an hour. A proposal to link Bahrain to Qatar by a causeway which has been considered in the past would now appear most unlikely with the recent constructions of the causeway between Bahrain and Saudi Arabia.

In Democratic Yemen, preparations are underway for the extension of the central road beyond Wadi Hadramout. The road, currently under construction, connecting Al Mukalla port to the Omani border, will be another important primary highway.

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Table 4

The Total Road Networks in the ECWA Region, 1982
(in Kilometres)

Country	Paved	Gravel	Track	Total
Bahrain <u>a/</u>	260	55	60	375
Democratic Yemen <u>a/</u>	1,551	330	5,700	7,581
Egypt <u>a/</u>	14,533	-	15,850	30,383
Iraq	23,595	1,670	-	25,265
Jordan	5,312	1,287	800	7,399
Kuwait	2,729		2,027	4,756
Lebanon <u>a/</u>	5,470	1,200	-	6,670
Oman <u>a/</u>	2,500	1,000	4,000	7,500
Qatar <u>a/</u>	1,320		2,500	3,820
Saudi Arabia	23,795	-	32,957	56,752
Syrian Arab Republic	16,892	1,952	1,000	19,844
UAE <u>a/</u>	2,090	330	500	2,920
Yemen	2,035	14,530	5,400	21,965
Total	102,082	22,354	70,794	195,230

Source: Based on the results of questionnaire addressed to governments.

a/ ECWA's estimates based on figures for previous years.

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In view of the considerable increase in international and national traffic, the Government of Iraq has decided to build an expressway with two carriageways of 3 lanes each, connecting the Kuwaiti border-Basrah-Baghdad-Jordan and Syrian borders with a total length of 1200 kilometres. Despite the war with Iran, the construction of the expressway is proceeding in many different sections. The Iraq-Iran war has provided additional momentum for road construction in Iraq with a view to creating alternative supply lines necessitated by the closure of the port of Basrah. The construction started in 1981 on two road schemes. The first serves cargo traffic from Aqaba (Jordan), as well as passenger travelling through Amman. The second on the Kuwaiti border and links up with Kuwaiti network in order to provide a by-pass for imports from the Gulf ports.

In Oman, the past few years witnessed remarkable progress in road construction. An ambitious programme of road construction was embarked upon to connect all parts of the Sultanate as an essential pre-requisite for development. Until the construction of the Nizwa-Thamarit road, the populated north and south of the Sultanate were not connected by any modern highway. Transport was either by sea, air or bumpy and often hazardous dirt roads. The Nizma-Thamarit road, 780 kilometres long and 12 metres wide, including two 3.5 metres lanes and two 2.25 metres asphalted shoulders, was designed to be the first modern north-south highway link.

In Saudi Arabia, the Government has been paying greater attention to the operational aspects of the road system in addition to its continuing construction and maintenance programmes. Systematic traffic counts, traffic surveys and driver interviews were held at various locations on the main road network. By mid-1980, major expressways were at various stages of design and construction with following routes: Dammam-Riyadh; Riyadh-Mecca; Mecca-Jeddah; Jeddah-Medina; Medina-Qasseni; Qasseni-Riyadh; Medina-Tabouk; and, Dammam-Saudi/Kuwaiti border. Some of these expressways are already completed, they are excellent with high geometric design standard.

In the Syrian Arab Republic, the highway between Damascus and Aleppo is one of the most important roads in the country. Its construction with high geometric design standards is progressing in various sections. On the Damascus - Malaula (60 kilometres) and Aleppo - Sarakeb (60 kilometres) roads, about 95 per cent of construction work has been completed. Between Ma'alula and Homs (110 kilometres) the work is proceeding and about 90 per cent has been recently completed. Construction work is continuing on another important highway linking Homs to the port of Tartous.

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The sharp and rapid increase of imports into the region in the seventies prompted member countries to develop their physical infrastructure networks particularly ports and related inland roads and railway systems. The need for railways to meet the increasing traffic, especially for certain types of commodities where long haulages are involved has been increasingly recognized in the region. Railways currently do exist in only 6 countries of the ECWA region namely: The Syrian Arab Republic, Jordan, Iraq, Lebanon, Egypt and Saudi Arabia. These networks show, however, varied stages of development. The northern countries of the region maintain a relatively reasonable level of rail infrastructure compared to the Arab peninsula and the Gulf area.

Railway networks in the region remain oriented towards national rather than regional objectives. Railway connection projects of regional significance are in certain cases hindered by political factors. The prominent example in this regard is the rail link from Deir Ez-Zor to Husaiba through Abu Kamal which would connect the Syrian and Iraqi railway networks and provide Iraq with an access to the East Mediterranean ports. Another example of interregional significance, which seems far from realization in the current state of the geopolitical map of the region, is the short railway link between Basra and Abadan that would connect the Iraqi and the Iranian networks.

The expansion programmes, started in the mid-seventies, of the standard gauge network in the Syrian Arab Republic continued in the eighties. After the completion of the 750 kilometres line from Lattakia to Qamishly, the Syrian railway started in 1981 commercial operations on the newly-built line from Homs to Tartous port. The Homs-Damascus standard gauge 208 kilometres line was likewise completed and utilized for freight transport early in 1983. The line will be ready for passenger transport shortly after the completion of certain stations and signalling systems. Currently under rehabilitation also is the Homs-Aleppo line, which is now scheduled for completion in 1985 instead of 1983 as scheduled earlier.

The Syrian port of Lattakia, on the other hand, is providing a good interregional link with Europe through a railway ferry link with the Greek port of VOLOS which started operations by the end of 1980. Transit traffic bound to Iraq through this link is expected to reach sizable levels once the borders between Syria and Iraq are opened again.

The revival of the narrow-gauge Hidjaz railway, which used to run prior to World War I from Damascus to the holy city of Medina through

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Jordan, into a modern standard gauge line is still in the pre-investment stage. Feasibility studies of the 1300 kilometres line were concluded but the project assumes varying degrees of priorities and financing possibilities within the national schemes of the participating countries namely: The Syrian Arab Republic, Jordan and Saudi Arabia.

In Iraq, implementation started in 1982 of the 273 kilometres line from Kirkuk to Haditha through Baji. The line will thus be connected at Haditha with the Baghdad-Hussaiba line which is also under construction. Railway lines emanating from Baghdad are to be connected through a loop line around the capital city. This loop line is planned to be connected to the Baghdad Metro urban network for which preliminary site works have already started in 1983. This project together with Cairo Metro for which construction started also in 1983 will be the first in the region. The first stage of Baghdad Metro is a 32 kilometres track laid down in two intersecting and almost perpendicular lines connecting major metropolitan areas and is scheduled for completion in 1987.

Construction is well underway on the only line in the Arabian peninsula between Dammam and Riyadh in Saudi Arabia. The 577 kilometres line will provide a short-cut single-track between Hofuf and Riyadh and a new double-track line along the old line between Hofuf and Dammam. The line will be of significance to container traffic imports through Dammam which will be carried directly to a container railway customs terminal at Riyadh that started operations in 1981.

On the other hand, members of the Gulf Co-operation Council are seriously considering the feasibility of a railway line connecting Iraq, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates. The line would meet with the Dammam-Riyadh line to constitute the nucleus for the railway network in the southern part of the ECWA region.

E. Regional Co-operation in Transport

During its 41st plenary meeting on 29 July 1983, the Economic and Social Council of the United Nations (ECOSOC) adopted a resolution on a Transport and Communications Decade for Asia and the Pacific (resolution 1983/69). The resolution emphasized the urgent need to upgrade the standards of transport and communications infrastructure in Asia and the Pacific region, underlined the critical role of all modes of transport as enabling elements in economic development, and stressed the importance of the improvement and growth of transport and communications infrastructure and operations for a global development involving all sectors of the economy.

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The resolution requested the Secretariat of the Economic and Social Commission for Asia and the Pacific (ESCAP) to prepare a comprehensive programme of action for the Decade (1985-1994). The fifth paragraph of the resolution "calls upon the Economic Commission for Western Asia to take appropriate action to collaborate with the Economic and Social Commission for Asia and the Pacific for the incorporation of the Western Asian region in the programme of action for the Decade".

In pursuance of the ECOSOC resolution, the ESCAP Secretariat has undertaken preparatory work on the formulation of a phased programme of action for the Decade. Among the preliminary activities which have taken place during the 1981-1983 period is an Ad Hoc Intergovernmental Group meeting which was held in Bangkok during 10 to 13 October 1983, and in which ECWA Secretariat has participated. The Ad Hoc Intergovernmental Group meeting adopted a set of objectives for the Decade and considered the framework, basic approaches and strategies to the formulation of a phased programme of action for the Decade. It also examined the special features for the preparation of national programmes and discussed an outline of possible regional programmes.

The meeting recommended that the implementation of the action programme of the Decade could be carried out through various national, international and intergovernmental agencies and organizations and emphasized that the ESCAP Secretariat would ensure overall interagency co-ordination of the activities relating to the Decade.

Furthermore, the meeting agreed to explore more opportunities with ECWA for concerted interregional development in the field of transport and communications.

The Ad Hoc intergovernmental group also decided to convene a second meeting of this kind in January 1984 to finalize the findings and outcome of the first meeting towards the development of a phased programme of action for the Decade.

Therefore, it is believed that the above activities have laid the foundation for a systematic and concerted efforts to promote regional and interregional cooperation in the field of transport during the rest of the 1980s and early 1990s.

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F. Tourism

Tourism aspects, although not explicitly stated in the International Development Strategy for the Third United Nations Development Decade found their expression in the Manila Declaration on World Tourism, adopted by the World Tourism Conference held at Manila, Philippines, from 27 September to 10 October 1980.

The Declaration, stressing the linkages between development of tourism and socio-economic development of nations world-wide, puts much emphasis on the direct effects of tourism on the social, cultural, educational and economic sectors of national societies and their international relations. In harmony with the priorities, institutions and traditions of each individual country, tourism movements are recognized as an aspect of the fulfilment of the human being, playing a major role within the range of human activities, particularly in economic and social development spheres.

The ECWA countries, which are all members of the World Tourism Organization in charge of following up the implementation of the Manila Declaration, are fully aware of the development potentialities of their respective tourism sectors during the Third United Nations Development Decade. They are trying, through specific actions and participation in the work of the World Tourism Organization, to implement various measures in the field of tourism, adopted by the world community. Their endeavour however is seriously hindered by the political and military prevailing situation.

In fact, the long and unfortunate past history as well as the present turmoil and the "alarming succession of crises" in the ECWA region is impeding international and intraregional tourism development and all ECWA countries are directly or indirectly affected by the general confused situation.

During the 1980-1983 period, the share of ECWA countries in world tourism did not increase at all. For the last three years, only about 2 per cent of the international tourism movement was attracted towards Western Asia and the region's share in international tourist receipts remained unchanged at about 3 per cent.

Since 1980, international tourism traffic and payments have been showing steady increases although at much lower rates than in the sixties and seventies. Among the world regions, only the Middle East, mostly covered by ECWA countries, has experienced a non-growth situation in tourism. Except for business and pilgrimage tourism to the region and some intraregional and domestic tourism flows, the ECWA region continues to show limited development with marked fluctuations.

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Countries of Western Asia endowed with historical and natural touristic resources and attractions unique in the world, could increase their share in international tourism and could promote intraregional and national tourism, thus benefitting from the contribution that the tourism sector may bring to global socio-economic development in the region.

CHAPTER VIII. WATER RESOURCES

The ECWA region contains large tracts of arid and semi-arid areas in some places with a rainfall of less than 20 millimeters per year. The importance of water as a vital resource for meeting human needs has been increasing throughout the region under the impact of rapid socio-economic development and the urgent need to develop, conserve and manage water resources efficiently has been well recognized.

During the early 1980, national water policies have been formulated in some countries of the region. Egypt, for instance, has been engaged in preparing a Master Water Plan. Many countries, aware of the importance of assessing their water resources have been making efforts to expand their networks and are showing interest in the use of advanced technology for assessment purposes.

The International Drinking Water Supply and Sanitation Decade (IDWSSD) coincides with the Third United Nations Development Decade. With the passage of a quarter of the Water Decade, most ECWA member States have made considerable progress in improving both their water supply and sanitary systems.

In view of general aridity, ground water takes a special significance in the region; but it is often saline or brackish which require costly desalination processes. Nevertheless, desalination projects are increasingly being developed, specially in some of the Gulf countries, namely Saudi Arabia and Bahrain where ground water supplies have been depleted more rapidly than oil reserves. The recent threat of the oil slick prompted the Gulf countries to protect their power and desalination plants with booms and filters and make preparations for clearing tar balls washed ashore on the beaches.

Considerable efforts have been made in many countries to improve the low efficiency in distribution and application of water in irrigation schemes.

Attention has also been given recently to increase the effective use of water by industries through recycling with due safeguards for the prevention of pollution as well as waste-water treatment and quality control. In various countries treated municipal sewage effluent is being used for irrigation of public parks and gardens; a scheme which is gaining wider popularity in the region.

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The International Development Strategy for the Third United Nations Development Decade calls for a transition from the present international dependence on hydrocarbons to one of increasing reliance on a renewable source - hydroelectric energy. Many countries in the ECWA region such as Egypt, Iraq and the Syrian Arab Republic have been formulating projects for producing hydropower, controlling floods and expanding irrigation along with integrated multi-purpose development of water resources. Experience in Egypt and recently in Iraq in such projects aimed at reducing flood losses serves as good examples of integrating flood management schemes into multi-purpose water development projects.

It should be noted, however, that scarcity of capital constitutes a major constraint in embarking on multi-purpose water development projects specially in the non-oil countries of the region such as the two Yemens. This problem is further compounded by the immigration of trained manpower to the petroleum-producing neighbouring countries which continue to suffer from a shortage of trained manpower at the professional and semi-professional levels.

At the national level, however, the situation and developments vary from one country to another.

The rapid desalination programme in Bahrain is continuing, however, at a lower pace. Most projects originally set for 1983/84 have been postponed until 1985/86 due to financial constraints. This has left the country with shortages of desalinated water and an over-reliance on a fast-depleting groundwater aquifer. However, the completion of the desalination projects underway is expected to somewhat ease the situation and meet the needs until the late 1980s.

The peak demands for water are still in the order of 40 million gallons a day (MGD). The only existing desalination plant is the 5 MGD Sitra-complex. At present, groundwater supplies 85 per cent of total demand and it is planned that by 1985, only 15 per cent of domestic water will have to be drawn from the aquifer for blending with desalinated water.

Steady progress has been made in the sewerage project which begun in 1977. The main feature of the project is the Tubli sewage treatment, the island's first. The entire system is expected to produce about 12 MGD of treated effluent when completed by 1990, to be used mainly in agriculture.

According to the latest statement of WHO, 68 per cent of the urban population and 23 per cent of rural population in Democratic Yemen are

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served by safe water supplies and only 50 per cent of the Aden city area is served by a water-borne sewerage system. There are no sewage treatment facilities. The present Five-Year Plan (1981-1985) gives high priority to the allocation of funds to water supply projects. Efforts are being made to improve the water supply of Aden, particularly to exploit additional ground-water resources within a distance of about 60 kms. The Greater Aden Water Supply Project is under construction. A total of 33 urban water supply projects are planned for the 1981-1985 period, at an estimated cost of YD 21 million; 27 of these projects are already under construction.

The Decade programme on water supply includes the following projects [Aden Water Supply (2 stages) with an estimated cost of \$ 38.2 million, Mukalla water supply, rural water supply, training including fellowships and on-the-job training, water supplies facilities and development in arid areas].

Many important water resources facilities were devastated by major floods in 1982. Two most important dams of the country were swept away, much of the road and bridge network destroyed, many of the country's wells, canals and pipelines were ruined and large irrigation areas devastated. The United Nations and various aid agencies have responded to the request from the Government and the relief and reconstruction is continuing. In addition, a thermal electric power station and a desalination plant are being built at Hiswah. The desalination works will have a capacity of 28,000 cubic meters a day. The Public Works Corporation is studying a project which will aim at providing 40 towns and villages with drinking water until 1995. Work is expected to be completed by 1987 and involves establishing a well field in Sayun with a capacity of up to 1 million cubic meter of water a year.

In Egypt, the Nile provides an abundant source of water. About 79 per cent of urban and 74 per cent of rural population are served by safe supplies. The strategy for drinking water and sanitary drainage up to the year 2000 concentrates on the prime objectives of the Decade which require overcoming the present deficit in the supply of water. Handling of sewage in a manner to cope with increases in population is also given high priority in the new Five-Year Plan (1981-1985). The first phase of a master water development plan covering the whole country was completed earlier under the auspices of the United Nations Development Programme (UNDP). Funding was approved for the second phase in 1982. There are also plans for the improvement of water management.

The implementation of the drinking water project for Cairo will involve many subprojects. The Alexandria drinking water plan also involves a number of subprojects. In parallel with urban supplies, Egypt has also

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been tackling under an IBRD funded project the water supply requirements in the most poorly served rural area of Beheria province. Most of the water in northern Beheria is taken from surface sources as ground water is too saline while southern Beheria derives most of its supply from boreholes. There is a project for rehabilitating 12 treatment plants and 106 boreholes in the area.

The new cities, such as the Tenth of Ramadan City, Sadat City and New Ameryah, are either under construction or at an advanced stage of planning. The cost of water supplies to these cities is expected to be in the order of E£ 45 million. A fourth city, New Damietta is at the early planning stage and four other new cities, which will be satellites to Cairo are at the pre-planning stage. They will all have water and sewerage systems.

According to the latest WHO/EMRO statement, 70 per cent of the urban and 5 per cent of the rural population are served by adequate sewerage systems. The Greater Cairo waste-water project is one of the most ambitious urban waste-water projects in the world. The project which is planned on the East Bank of the River Nile and the construction of which will shortly commence, will serve some six million people. The cost of the Cairo Master Plan estimated in 1981 stands at E£ 2.577 million with its first phase expected to be completed by 1986 at a cost of E£ 1.214 million. The entire urban population will be served by house-connected water supplies upon the completion of the project by the year 2000.

Nearly \$ 5 million has been spent on Aswan repairs in the high dam project, and the major repair work is expected to cost a total of \$ 100 million. The 12 turbine runners, circuit breakers and much of the control system are to be replaced.

There are feasibility studies on irrigation projects in Ismailia, Qattara and Shelkia involving irrigation of 8000 ha, 2000 ha and 4000 ha, respectively. Available information indicates that Egypt also has directed efforts towards increasing irrigated area by land reclamation. Improvement of old irrigation projects are underway and the Sinai water resources study is continuing. It is reported that Egypt will proceed with its long considered plan for developing hydroelectric energy at the Qattara Depression. Power will be generated when water from the Mediterranean Sea is channelled into the Depression. However, the main constraint on the implementation of the project has been the high cost of the construction of the conveyor canal from the Mediterranean to the Depression which is estimated at \$ 2 billion.

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In Iraq, the Government has come a long way in its aim of providing adequate water for all of its population by the year 1990. There are 270 large-scale water supply schemes operating throughout Iraq, excluding Greater Baghdad. A substantial part of a massive investment programme is devoted to drinking water system which will supply 950 million gallons a day, enough to meet the demands of a projected population of 5.5 million by the year 2000.

Over \$ 6000 million is being invested in an integrated water supply and sanitation development programme in Baghdad to meet the increasing water demand of a rapidly expanding population in the capital city. By the year 2000, a 9000 km long network of new water distribution pipelines should provide 500 litres per capita per day (l/c/d) of clean drinking water for the city's inhabitants.

Baghdad is fortunate in having no shortage of water supplies. The river Tigris which flows through the city has a mean discharge of 1,160 m³/s and a minimum flow of about 500 m³/s under the present partial regulations system. The Karkh Scheme which will provide water for the developing areas on the city's west bank is presently under construction as part of the phased development and is expected to be completed by 1984. Work on the \$ 1.109 million Karkh Scheme which will supply 200 million gallons a day to a total of 2 million people is underway. The required storage capacity is to be provided by 15 reservoirs.

Eventually, three large water treatment plants - Karkh, Rasafa and Saba Nissan - and two smaller plants - for Karma and Dowra will serve the capital with safe supplies.

Sewerage overhaul and expansion work has been given a priority in the city's infrastructural development. Dwellings for about one third of the population of Baghdad are now connected to the sewerage system and the construction work is continuing on the rest of the scheme, on completion of which there will be a total of 9.500 km of sewers, 228 pumping stations and two treatment plants serving a total of 4.3 million people. Several additional sewage treatment plants and expansion of the network is also underway.

In the other larger 17 cities, sewerage schemes are being planned or are under construction and it is expected that by 1990 these cities will be served by modern sewerage systems. As regards to agriculture and irrigation in Iraq, the main elements of the government development programmes have involved river water development. The Himrin dam was completed at the end of 1981 and the Hadithah dam in 1982. Construction of the Mosul dam commenced in February 1981 and work is continuing.

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Studies on the Bakhma dam are underway. The irrigation canals and drainage system of Abu Ghraib area is planned to be reconstructed, and construction of the Kirkuk irrigation project is also continuing. The government has plans to put a total of 2-8 million hectares under perennial irrigation eventually.

In Jordan, the government is rightly concerned with the conservation and recycling of water as the most scarce resource in the country. The East Ghor Project, which will convey water to Amman Water Basin and costing approximately JD 38 million (\$ 110 million), will be completed in 1984. It will pump around 45 MCM of water from the canal to Amman each year. This should make sufficient quantities of water available to Amman up to the year 2000. Around 87 per cent of the urban population in the country has piped water connections while only 26 per cent of the urban household has municipal sewerage connections.

The Maqarin Dam, which was expected to be built on the Yarmouk River, had to be postponed due to certain differences as it would have straddled the border between Jordan and the Syrian Arab Republic. As a consequence, Jordan had to completely revise its water development programme.

Water projects are now being given top priority in government spending. Plans have been drawn up for raising old dams, building new ones, reusing waste water in agriculture, improving water and sewerage, and for exploiting ground water. A totally remodelled water plan has now been finalized and a series of major contracts have been awarded in the early eighties. Already, work has started on Jordan Valley Authority's priority project to increase the heights of two dams in the northern region. The King Talal Dam, which lies on the Zarqa River and Wadi Arab Dam, is currently under construction. Together, these two schemes will increase the total storage capacity by around 34 MCM. The first project is expected to be completed in 1985.

As part of a wider irrigation project, a 4 MW hydropower plant will be installed at the dam site. The project will irrigate a further 8.200 hectares. The second dam will be completed in mid 1984. A JD 4.5 million contract to build an irrigation system in the wadi to irrigate 1.250 hectares is also underway.

Work on the treatment plant, which is part of the \$ 191 mn. water and sewerage scheme for Zarqa and Ruseifa, is continuing. A new sewerage treatment plant for Amman is also underway. Work has started on Phase One of the Majub and Southern Chores water resources project, and the JVA has

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awarded a consultancy contract for the Second Phase, which entails the building of a diversion weir in the wadi Majub to divert its waters for irrigating an estimated 4,100 ha in the southern part of Jordan Valley.

There is a feasibility study on using the Euphrates River in Iraq to supply water to Amman and north of the country. However, preliminary estimates are that this project may not take off until 1990.

The area of irrigable land in Jordan is expected to be increased by a further 180.000 dunums. There are plans for eight irrigation projects costing JD 275.6 mn (including the Maqarin Dam). A major extensive aquifer was recently discovered at Al-Mukhabeh area in the north. It has been reported that this aquifer may be containing large quantities of good quality water under high pressure, with an estimated production rate of 75 MCM a year.

Kuwait has relied on the sea for its fresh water supply since 1950. Around 70-80 per cent of the population has access to treated drinking water and it expects to provide piped water supply for the entire population by 1990. To meet the increasing water demand, estimated to reach a total of 220 MGD by 1985, the Ministry of Electricity and Water (MEW) has prepared plans to increase the total desalination plant capacity in the country. As part of the Doha East Project, 7 distillation units will have a total estimated capacity of 42 MGD. Under the Doha West Project the MEW has plans to construct distillation units with a total capacity of 96 MGD by the end of 1985. The first distillation unit which was scheduled to start operating in the summer of 1983 at a cost of KD 27 million, has been delayed. There are plans for periodic commissioning of additional units.

Studies are underway to construct an additional desalination plant with a capacity of 750,000 m³/d (165 MGD) to help meet the demand in 1990 (average 1.220 million m³/day - 268.4 MGD). The second stage of the main water distribution projects is already under construction and is expected to be completed by 1985. Once this stage is completed, the whole population of Kuwait will have direct access to fresh water supplies. Kuwait has also recently planned the 200 MGD Al-Zour water distribution complex, the construction of which is scheduled to start in early 1984. The complex will be supplied with desalinated water from the new Al-Zour desalination and power plant.

Another source of water in Kuwait is the treated waste-water effluent. At present, the existing treatment plants produce around 8.8 MGD. Though initially designed to treat 220 MGD they will be expanded to accommodate 330 MGD by 1985. Three other treatment plants have also been completed, with an expected total capacity of 10 MGD by 1985.

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In Lebanon, it was estimated prior to 1975 that about 98 per cent of the urban population (i.e., about 50 per cent of the total population) was served with drinking water through house connections and 85 per cent of the rural population had reasonable access to piped water. Almost 50 per cent of all the population of the country and practically 100 per cent of Beirut's population are served by a sewer system. However, the services have deteriorated during the past eight years as a result of the devastating hostilities all over the country. Many facilities have been damaged. Severe shortage of water has caused rationing in the city of Beirut and elsewhere. Due to unstable political situation in Lebanon, no new major water-related activities were undertaken since the mid-seventies. The problem of water supply and sewer system which is over-loaded is rendered more difficult by the lack of investment and maintenance over the last decade.

UNDP financed the preparation of studies on a "National Waste Water Management Plan" which were carried out in 1980-1981 with WHO as executing agency. These studies cover all of Lebanon except Beirut. The studies include a Master Plan for the collection and disposal of waste water and solid wastes, feasibility studies for four selected urban areas, execution of special studies to supplement the Master Plan, feasibility studies, as well as implementation of a training programme. The conclusions and recommendations presented included a programme of urgent works costing LL 396 million for waste water, LL 32.4 million for drainage and 164.9 million for solid waste at 1982 prices.

Considerable progress has been achieved during the early part of the 1980s in Oman in experimental projects investigating the possibilities of ground water recharge by employing recharge dams. The important Falaj systems have also received attention under a national project whereby the majority of these are repaired and kept in good working order. A number of other projects are also in progress, such as, spring development in Salalah, flood protection works, and the Wadi Al-Jizzi Integrated Agricultural Development Project. Plans for a permanent supply of water until the year 2005 have been developed following the preparation of an emergency programme in 1977. At present emphasis is on conservation of water.

There is a multi-stage flash type desalination plant under construction for the capital city of Muscat and by 1984 a balancing reservoir is expected to be used in blending the desalinated water with brackish well water.

Flood protection in four areas have been completed. A scheme to build holding dams to create reservoirs is being studied. This would be

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flood control structure which would also provide surface water for irrigation and ground water recharge.

In 1980 only 20.9 per cent of the population had access to any form of sewage disposal. A fast-expanding system of sewage treatment is the reuse of effluent for irrigation purposes.

In Qatar, almost 100 per cent of the population are served with potable water. The majority of the population of Doha is served with piped water, and work is continuing on expansion of both the water and sewerage distribution in the capital and in other towns. Studies indicate that the ground water aquifers are nearing depletion and facing sea water intrusion. The Doha City alone presently needs over 40 MGD. Therefore, plans are underway to install additional desalination plants to cope with rapid increases in demand for potable water. The Ministry of Electricity and Water was allocated almost 20 per cent of Government budget in 1983/84. Construction of four units of 4 MGD distillation plant at Ras Abu Fontas have recently been completed, bringing the total capacity to 48 MGD. A new plant similar to the Ras Abu Fontas station, with a capacity of 40 MGD is planned to be constructed at Wasil, 20 kms north of Doha. In some plants brackish ground water is blended with distilled water for domestic use. Wells are also being drilled at various locations, although these may require special permission.

Reuse of treated waste water in agriculture and in watering roadsides and public parks is continuing to be practiced and is receiving increased interest from the Ministry of Industry and Agriculture and the Doha Municipality.

In Saudi Arabia, considerable attention is being given to water development in the Five-Year Plan which runs until the end of 1985. By then, a total of 1.5 MCM a day would have been added to the existing desalination capacity. The Saline Water Conversion Corporation (SWCC) of Saudi Arabia will subsequently embark on the addition of additional capacity reaching 2.27 MCM per day by the year 2000. It should be noted, however, that a total of 2 billion gallons per day (7.5 MCM per day) of desalination capacity has been installed in the last two decades. At present, SWCC has 23 plants producing 1.84 MCM per day of desalinated water and 2.900 MW of electrical power under the dual-purpose plant policy. The Jubail-2 plant on the Gulf coast which will give Saudi Arabia the world's largest dual-purpose desalination plant producing about 950,000 m³/d of potable water and 1,295 MW of electricity is currently being commissioned. Mecca-Taif project, which will commence shortly, will add another plant with a capacity of producing 150,000 m³/d of water and 300 MW of power. Also, currently under construction is the 2,270 m³/d Al-Birk reverse-osmosis desalination plant.

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Considerable attention is also placed on the water distribution and sewerage systems of Riyadh and some of the main towns, i.e., Jeddah, Taif, Hail and others. A \$ 40 million scheme is underway in Jeddah to expand and improve the city's only existing sewage treatment plant so that the waste-waters can be reused for purposes other than drinking. Some cities and towns are served by limited sewerage systems. In others, sewerage systems are in the planning stage. All plans involve reuse of treated effluent for irrigation purposes.

No particular IDWSSD activities are being undertaken in Saudi Arabia, but the overall activities in water development have been enormous, and hundreds of potable water schemes have been constructed or expanded in order to provide nearly 100 per cent of the total population with safe water supplies and adequate sewage systems by the year 2000.

Since 1979 nine dams have been constructed in Asir and work is proceeding on a further 48. In 1982, the Kingdom's largest dam was inaugurated in the Narjran Valley with a storage capacity of 85 MCM.

A feasibility study is on hand for the construction of a 3,750 km pipeline to convey drinking water from Turkey through Iraq and Kuwait to the eastern coast of Saudi Arabia. The cost of this project has been put at \$ 5 billion.

Water is supplied almost equally from surface and ground water sources in the Syrian Arab Republic. One of the main goals and objectives of the fifth Five-Year Plan (1981-1985) is to raise the percentage of population benefitting from safe drinking water from 70 per cent in 1980 to 79 per cent of total population in 1985. The planning and preparation of final designs of sewage treatment plants for all towns by 1985 is also given high priority. The Damascus sewage treatment plant is planned to be completed by this time and will increase the capacity of the sewerage system which at present serves about 50 per cent of the city's population.

Damascus water supply project has been underway since 1975 and the first stage has been completed. The project is designed to increase, in stages, the present consumption rate from 170 liters per capita per day to 250 l/c/d by the year 2000. The total cost of the project is estimated to be about \$250 million and is to be funded by the IBRD, Arab Fund for Economic and Social Development and the Syrian Government. The second stage is well underway and is expected that by 1985 90 per cent of the city's population will have direct connections to the system. The remaining 10 per cent will be provided with a safe and reliable supply through public taps. The Aleppo water supply scheme is also under progress where water

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is to be pumped from Lake Assad and purified before it is piped to the city to provide an expanding population with adequate water for domestic uses.

The present Five-Year Plan calls for building of a total of 26 dams in different parts of the country, with an estimated overall capacity of 258.5 million cubic meters. The government plans are to complete the whole programme by 1985. The government also plans to build a small dam on the Euphrates and other dams on some rivers flowing into the Mediterranean.

The largest irrigation project is attached to the Euphrates Dam which was completed in 1978. At that time, it was expected that this project would eventually irrigate about 640,000 ha of land by the end of the century but technical difficulties have arisen. Other large schemes include projects in the Damascus region, along the Mediterranean coast and in the Orentes River Valley in Ghab region. Plans to develop the northeast include the building of a dam south of Hassakeh to increase the total irrigated area from 46,000 ha to 131,000 ha.

It has been reported that the Syrian Arab Republic also has a Master Plan for a trunkline irrigation canal and pumping station in western Meskene and that work is in progress. When completed, the canal will feed an irrigation system designed to bring 312,000 ha of fertile land under cultivation.

In the United Arab Emirates, water has been traditionally supplied from a central aquifer which once fed a sophisticated falaj system. However, the rapid increase in population and industrial demand has forced water to be drawn from the aquifer at three times the replenishment rate. Efforts to increase water supplies have centered on dams to capture what little rain water there is and on desalination.

Abu Dhabi Water and Electricity Department (WED) has plans for a detailed study of the Emirate's power and water requirements up to year 2000 and to decide the future configuration of the second phase of the Tawelah power and desalination station.

Water and power projects are affected by severe reduction in investments. A planned Dh 30 million (\$ 8.2 million) power and desalination scheme in Umm al Qaiwan has been approved by the Council of Ministers. The project involves installing two desalination units, each with a daily capacity of 18,000 cubic meters, and a steam power station comprising four 50-MW units.

Water supply of the country are still in a "critical" state. Existing underground water reserves are estimated at only 9,700 MCM, and water

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conservation measures are being undertaken. These include water storage by dam construction, increasing domestic use of desalinated water, and water saving by employing modern irrigation methods in agriculture. It is also envisaged to irrigate green urban areas and parks with recycled waste water.

A feasibility study for a new multi-million dollar sewage treatment plant, which will use a sophisticated automatic thermal system, has been completed for Dubai Municipal Council.

Abu Dhabi has one of the most extensive schemes for effluent reuse which started in 1976 and by 1981 reached a volume of 8 million cubic meters a year. This figure has been increasing and more than 70 million cubic meter will ultimately be available.

In Yemen, the government has embarked on the Second Five-Year Development Plan to provide urban and rural water supply for the country's 8.5 million population where only 17 per cent of it has reasonable access to safe drinking water at present. The Plan takes Water Decade targets very seriously and expects to achieve "Health for All by 2000". Expenditure under the Plan will be directed to integrated water supply projects, strengthening of rural water supply department and training and manpower development.

The sanitation picture leaves much to be desired, however, a major step towards reaching a solution to Sana'a's problem will be the start of work on the first stage of the capital's sewerage project. Sana'a water project which will provide water to all parts of the city is making progress. Work on the Hodeida Water Supply and Sewerage project is continuing. Al Hayma ground water basin is being developed and a number of wells are being drilled and equipped with pumps. A pipeline to Taiz is under construction to provide this town with fresh water supplies. In addition, a rural water supply project has been going on to bring adequate supplies to numerous villages in the country.

It should be mentioned, however, that Yemen is greatly dependent on foreign assistance in the form of loans and grants. Several projects and feasibility studies have been carried out and funded by UN agencies. In addition, the country receives assistance from numerous bilateral and multilateral agencies in executing many projects such as Tihama Resources study, Wadi Rima supervision irrigation, Tihama Development Authority, water resources planning and administration, and construction and maintenance of small dams.

CHAPTER IX. HUMAN SETTLEMENTS

In all countries of the ECWA region, population growth and urbanization continue to be among the most significant factors influencing the nature and extent of human settlements.

Population growth, in 1980, was highest in the Gulf oil-countries due largely to immigration. It was lowest in Democratic Yemen and Yemen where 2.2 percent and 1.9 percent growth has been respectively registered. In those Gulf countries which are "city-states", population growth varied from 8.8 percent in Qatar, to 6.9 percent in Kuwait, and 5.5 percent in Bahrain. In the United Arab Emirates, growth reached 13.9 percent. Population growth in other countries of the region was lower than that of the Gulf oil-countries but higher than that of the least developed countries in the region, see Table 1.

The countries of the region although not equally urbanized, have been experiencing dramatic urban growth patterns dominated by population movement towards capital cities and major urban centers. There are marked variations in the level and speed of urbanization from one country, or group of countries to another.

The most urbanized up-to-date countries are the Gulf States of Bahrain, Kuwait, Qatar and the United Arab Emirates with 80-90 percent of their total population in urban centres. These countries are witnessing the emergence of the "nation-city state" characterized by a heterogeneous population.

Another group of countries which have been experiencing steady urbanization for the last fifty years and carry demographic weight in the region comprise Lebanon with 75.9 percent urbanization followed by Iraq, Jordan, the Syrian Arab Republic and Egypt. Unlike the Gulf States, this group located in the northern tier of the region, comprises about 76 million inhabitants or about 79 percent of the entire population of the region. Its settlements are much older and many times bigger.

The third group includes the southern tier countries. It consists of Saudi Arabia, Democratic Yemen and Yemen. Saudi Arabia has been urbanizing especially at a high rate of almost 16.0 percent per annum. Democratic Yemen and Yemen are, at present, going through the early phase of urbanization, meaning a declining death rate and a continuing high birth rate accompanied by rural to urban migration with the inevitable result of spectacular population growth.

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Table 1. Demographic Indicators of The ECWA Region
1980

	Population (thousands) (1980)	Urban Population (percent) (1980)	Major Agglomeration as Percent of Total Urban (1980)	Growth Rate of popula- tion (Percent) (1980)	Growth of Urban Population (Percent) (1975-1980)
Bahrain	344	85.0	80.0	5.5	7.0
Democratic Yemen	1,855	36.9	67.0	2.2	---
Egypt	40,085	45.0	50.0	2.6	4.1
Iraq	13,025	65.0	47.0	3.3	5.2
Jordan (East Bank)	2,202	63.2	75.0	5.0	2.7
Kuwait	1,374	90.0	77.0	6.9	6.7
Lebanon	2,452	75.9	75.9	0.0	4.9
Oman	948	22.0	50.0	4.7	11.0
Qatar	243	86.1	100.0	8.8	8.7
Saudi Arabia	9,229	52.6	23.0	6.3	10.0
Syrian Arab Republic	8,979	48.4	53.0	3.5	4.4
United Arab Emirates	983	80.9	29.0	13.9	11.8
Yemen	5,225	11.0	25.0	1.9	8.1

Source: Compiled by ECWA from national and international sources 1980.

The urban growth rate in all countries of the region has been more rapid in large cities than in towns of average and small sizes. The absence of a deliberate national urban development policy has facilitated rapid increases in urban growth rates in capital cities and the emergence of primate cities and/or city states. At present, rapid economic development characterized by large scale investments in sectoral projects has multiplied the many physical problems such as the cost and scarcity of urban land and transportation; slums, poor housing, bad sanitation and traffic congestion. Solutions to these problems is particularly hampered in the least developed countries of the region due to inadequate economic base incapable of supporting a rapidly increasing urbanization. This is also compounded by severe shortage of utilities and community facilities, inadequate administrative structure, and lack of plans and planning machinery.

Most countries of the ECWA region have, in recent years, achieved a rapid growth in building and other construction activities. This involved, in many cases, substantial capital outlays originating not only from domestic sources but also from considerable flow of funds from other countries within the region. Construction formed, in general, above 50 percent of the gross fixed capital formation (GFCF) of these countries. In some of these countries, this proportion was even much higher. In Iraq, for example, construction constituted nearly 75 percent of GFCF in 1982 while in Saudi Arabia, it was high as 81 percent in 1980 (Table 2).

Capital formation in residential construction was generally much lower than in non-residential construction. The share of gross fixed capital formation in residential construction in total gross fixed capital formation varied from one country to another. In Jordan, it ranged from 21 percent in 1977 to 30 percent in 1981, while in Syria the range was between 15 and 21 percent during the same period. In Iraq, this ratio was generally close to 20 percent while in Saudi Arabia it was the lowest and continued to decrease from 15 percent in 1977 to nearly eight percent in 1980.

Despite the expansion of the construction sector and substantial investment in dwellings, housing output has not yet caught up with the needs of population growth and urbanization. Available data (table 3) for most countries in the region is neither comparable nor sufficient to give a real picture of actual housing output. The rate of output of dwellings per thousand population was low for both the Syrian Arab Republic and Egypt for which estimates were possible. This rate was around 4.1 in

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Table 2. Share of Residential Construction in Gross Fixed Capital Formation in Selected Countries of the ECWA Region, 1977-1982 at current prices (percentages).

Country	Year	GFCF	% GFCF in Construction	
		(in millions of national currency)	Total	Residential
Iraq ^{a/}	1977	--	--	--
	1978	--	--	--
	1979	2714.2	66.0	19.0
	1980 ^{b/}	3471.5	61.3	19.5
	1981 ^{b/}	4527.3	62.6	15.7
	1982 ^{b/}	5374.5	74.6	19.5
Jordan	1977	197.0	59.1	21.0
	1978	229.1	56.1	20.8
	1979	294.5	54.1	20.1
	1980	397.8	62.3	30.3
	1981	515.0	61.2	30.0
	1982	--	--	--
Kuwait	1977	982.9	34.3	--
	1978	862.9	48.9	--
	1979 ^{c/}	882.6	57.6	--
	1980 ^{c/}	983.8	52.2	--
	1981 ^{b/}	1161.8	54.8	--
	1982	--	--	--
Saudi Arabia	1977	51191.2	73.7	14.4
	1978	66890.6	77.1	10.5
	1979	76654.1	82.8	8.4
	1980	94977.3	80.9	7.7
	1981	--	--	--
	1982	--	--	--
Syrian Arab Republic	1977	9597.0	44.5	14.8
	1978	8887.0	53.2	18.3
	1979	10194.0	63.3	15.1
	1980 ^{b/}	12717.0	63.5	20.8
	1981	13408.0	63.9	21.5
	1982	--	--	--
United Arab Emirates	1977	22686.0	63.0	--
	1978	25779.0	56.5	--
	1979	28442.0	54.0	--
	1980	30155.0	54.3	--
	1981	---	--	--
	1982	--	--	--
Yemen Arab Republic	1977	3160.0	38.7	33.5
	1978	4445.0	34.5	29.8
	1979	4882.0	33.9	28.4
	1980	5413.0	33.0	27.4
	1981	5463.0	30.6	24.9
	1982 ^{b/}	6039.0	30.3	23.8

Source: Compiled by ECWA, based on national sources of information.

a/ Gross Domestic Fixed Capital Formation.

b/ Provisional.

c/ Likely to be revised.

the Syrian Arab Republic and 4.7 in Egypt during the period 1978-1981^{1/}.

While urban population seems to have benefited from progressive developments in the housing sector, apparently higher and middle income groups in cities have been able to take greater advantage of these developments.

In pursuing the IDS objective of improving housing conditions for the most disadvantaged communities, the oil-producing countries of the Gulf have made some efforts designed specifically to meet the needs of their limited income groups. Some of the less endowed countries in the region are beginning to focus on improving the housing conditions of their respective disadvantaged groups. Jordan, for example, is a case in point. It is currently progressing in implementing its first "Urban Development Project at a cost of JD 17 million in order to meet the needs of the poorest 40 percent of Jordan's urban society and benefit approximately 50,000 to 60,000 person. Nevertheless, low income housing continues to constitute only minor annual additions to the housing stock in most ECWA countries.

The prevailing laws and administrative systems in the countries of the region hamper considerably the execution of planned development of human settlements. The new scale and complexity of human settlements problems call for a new form of departmental specialization. Because of weak zoning regulations, in appropriate solutions have been found to land use problems. Thus, there is a very high speculation in land and mushroom growth of housing estates. With inflation on the rise, housing costs have been increasing tremendously leading to a spiralling increase in rents which low income families cannot afford. This situation is creating a big gap between real demand for housing that people can afford and supply.

The results of unmet requirements, concentration on higher and middle income groups and the negligence of rural housing and welfare have become increasingly visible throughout the region in terms of greater overcrowding, slum formation and growth of uncontrolled settlements.

Housing finance continues to be a major problem. While most countries of the region established housing financing institutions, all countries still face financial problems in meeting housing needs:

^{1/} Computed on the basis of table 3. The figure for Egypt covers only urban areas. The annual rate of dwellings per thousand population was as follows:

	1978	1979	1980	1981
Egypt	2.7	4.8	5.3	5.8
Syrian Arab Republic	4.9	4.1	3.7	3.8

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Table 3 Construction and floor area licenced for residential buildings in selected countries of the ECWA region, 1978-1982 (floor area in thousand m²)

Country and Item	1978	1979	1980	1981	1982
<u>Egypt</u>					
Dwelling units completed ^{a/}	48181	90875	103558	118329 ^{b/}	--
floor area	--	--	--	--	--
<u>Iraq</u>					
Residential building permits ^{c/}	39484	51459	66363	--	79103
floor area	6005	7998	10900	--	14298
<u>Jordan</u>					
Residential building permits ^{d/}	3665	4233	4077	3386	3272
floor area ^{e/}	685	1118	1299	1194	1046
<u>Kuwait</u>					
Residential building permits ^{f/}	4073	2606	2660	1317	1757
floor area	3260	2766	2251	1968	2934
<u>Qatar</u>					
Residential building permits ^{g/}	355	678	2614	3154	5484
floor area	--	--	--	--	--
<u>Syria</u>					
Dwelling units permits ^{h/}	40848	35452	33194	34435	--
floor area	4424	4025	3782	3893	--
<u>Yemen Arab Republic</u>					
Housing permits ^{i/}	5185	4450	4335	4418	5147
floor area ^{j/}	1598	1488	1417	1196	1167

^{a/} Dwelling units completed in urban areas only.

^{b/} Provisional, covering period mid 1980 to mid 1981. Inconsistent figures are given in the 1982 and 1983 Statistical Abstracts of Egypt. The 1982 figures were adopted as they seem closer to other sources.

^{c/} New residential building permits for the private sector only.

^{d/} Residential building permits for Amman, Zarka and Irbid.

^{e/} Floor area for residential building permits for Amman, Zarka and Irbid.

^{f/} New residential construction permits issued by the municipality of Kuwait.

^{g/} Residential building licenses cover villas, apartments, and popular houses.

^{h/} Dwelling units licenced.

^{i/} Housing permits in five main cities: Sana'a, Taiz, Hodeidah, Ibb and Dhammar.

^{j/} Floor area covering housing permits in five main cities: Sana'a, Taiz, Hodeidah, Ibb and Dhammar.

Source: Compiled by ECWA, based on national sources of information.

availability of funds, long-term credit, cost of money, building costs and affordability, etc... Intensive efforts are needed to attract the larger resources of the private sector into investment in low-cost housing and to encourage individual saving for housing. Such endeavours would have a notable impact on meeting the national housing needs, as well as conserving budgetary funds for use in other areas.

The building materials industry in the ECWA region continues to face problems related to the general inadequacy of local production to meet total demand: imbalanced regional pattern of production and consumption of building materials; absence in some countries of sheet glass, hardware and metal products; and the lack of technical and managerial skills.

Research and the dissemination of findings on efficient methods of construction, low-cost design and technology for infrastructure, indigenous building materials and environmental protection have been called for by the IDS. Research institutes in the region, such as the Jordanian Royal Scientific Society, the Iraqi Scientific Research Foundation and the Kuwaiti Institute for Scientific Research among others, have been active in conducting research in many relevant areas. However, for such research to be more meaningful it should be undertaken within the framework of an overall integrated planning for human settlements.

All countries in the region have paid attention to housing and construction in their governmental structures. Most of them have made provisions for the construction of housing schemes, and some have put more emphasis on the development of low cost housing and/or the development of the construction industry. However, these policies remain fragmented and incapable of meeting the actual needs.

The Five Year Plan of Democratic Yemen (1981-1985) allocates YD 86.3 millions to construct about 5,900 apartments during the plan period, of which 5,370 apartments are expected to be built in Aden district. To expedite the implementation of this programme, priority will be given to prefabricated housing.

Egypt suffers from a severe housing deficit in terms of number and quality despite progress achieved in the building of housing units. During the previous plan period 1977-1981/82, over 80 thousand units

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were built yearly of which 27 percent was constructed by the public sector. The long-term objectives of the current plan (1982/83-1986/87) is to provide an adequate housing unit for each family by the year 2000 taking into consideration various income levels. Another objective is the redistribution of population in order to correct existing imbalances through building new housing complexes in new communities or settlements away from cultivated areas. The plan aims at providing 800 thousand additional housing units for urban areas, of which 94 percent will be constructed by the private sector. Investment allocations for the housing units to be built during the plan period amounted to LE 4637 million, of which 55 percent will be for economic housing, 37 percent for average housing, and 8 percent for above-average and luxurious housing.

In Jordan, the major aim of the national development plan (1981-1985) is the construction of 17,500 housing units for employee housing as well as housing for middle, limited, low and very low income groups. The plan also aims at insuring the participation of specialized credit corporations in the financing of 60,000 housing units to be constructed by the private sector and housing cooperative societies, with special emphasis on housing for the low and very low income groups.

In Saudi Arabia, the construction industry is almost entirely in the private sector which is composed of very large local and foreign companies as well as small loosely organized builders who construct houses or do other minor works. During the Plan period (1980-1985), this composition is expected to continue with local contractors assuming greater role. In fact, among the objectives of the Third Development Plan is to encourage the development of an efficient national contracting industry and improve the construction materials manufacturing industry. Local cement and reinforcing bar production will, for example, be substantially increase.

The 1981-1985 Development Plan of the Syrian Arab Republic aims at constructing 300,00 housing units in various parts of the country. An investment of S.L. 787 million is envisaged. The share of the public sector amounts to 585 million, representing 74 percent of total investment in housing. However, the share of the construction and building sector in total planned investments is 2.5 percent while that of housing is 0.8 percent only.

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Yemen plans to invest during the planning period 1982-1986 the sum of YR 1,536,5 million in the building materials industries which represents 47 percent of total investment in manufacturing. The major objectives of the plan are achieving self-sufficiency in building materials, supporting the development of a national contracting industry, and reducing the cost of construction.

Despite the keen interest and great efforts of ECWA member countries to resolve the problem of human settlements, it is obvious that the present accumulated deficit in housing and community facilities can only be met in stages in view of the scarce economic resources in terms of finance in some countries, limited qualified and skilled manpower in others, and limited technological resources in most in terms of the capacity and productivity of construction industries. Furthermore, a balanced network of cities, towns and villages and the provision of basic shelter and community facilities cannot be achieved in the short-term in view of current trends of population growth and urbanization. Policies and programmes for the short-term focus on better utilization of existing resources such as building materials, equipment and skills; the development of manpower through training and retraining of skills in short supply; and the upgrading of existing slums and uncontrolled settlements. A longer term policy should give much emphasis to a balanced regional and rural development.

CHAPTER X. POPULATION AND SOCIAL DEVELOPMENT

A. Population

The population of the ECWA region was recorded at about 99 millions in mid-1983. The region is characterized by very young age structure, rapid population growth, large migrations, and relatively low population density. However, as much of the land is desert and hardly habitable, population density tends to be very high in the inhabited areas. While there are no clearly defined policies with respect to population in almost all countries of the region, most of them have adopted measures which do affect their respective population conditions and characteristics, particularly with respect to migration.

Analysis of the age structure points out that the median age of the population of the ECWA region is around 19 years which means that 50 per cent of the population is under the age of 19. This young age structure is also reflected in the dependency ratio which is as high as 84.6 per cent.

On the other hand, fertility is relatively high in all the countries of the ECWA region, with the total fertility rate being around 7 per cent in the majority of those countries. However, it has declined to 5.2 per cent in Bahrain and Egypt and to 4.6 per cent in Lebanon. With the exception of Egypt, all countries do not consider their high fertility as a constraint which may hamper their socio-economic development. In Egypt, vigorous programmes have been carried out with a view to reducing the fertility rate. As recommended in the World Population Plan of Action 1/, family planning is generally recognized as a human right in most of the ECWA countries. Services required are made available for medical and other non-demographic reasons.

Although marriage patterns are important and have substantial impact on fertility, their study has not yet received proper attention. Age at marriage is rising as a result of the spread of education and the implementation of socio-economic development.

The level of mortality in the ECWA region varies considerably from one country to another. Life expectancy ranges between a low level of 44 years in Yemen, to a relatively high level of 71 years in Kuwait. According to estimates of life expectancy in 1983, the ECWA countries can be classified into two wide groups: the very low mortality group which comprises Bahrain, Jordan, Kuwait, Lebanon, Qatar, the Syrian Arab Republic, and the United Arab Emirates, where life expectancy is higher than 60 years,

1/ Report of the United Nations World Population Conference, Bucharest, 19-30 August 1974. (United Nations Publication, Sales No. E.75.XIII.3), Chap. I.

as envisaged in the IDS, and the relatively high mortality group including the remaining countries of the region. Life expectancy in the two Yemens, the least developed countries of the ECWA region, is estimated to be about 44 years for both sexes which is clearly one of the lowest levels in the world.

The situation prompted ECWA member countries to attach utmost importance to the reduction of mortality, especially at young ages as indicated by its significant steady decline. Nevertheless, the IDS infant mortality target rate of less than 120 per thousand live births has not yet been achieved by Democratic Yemen, Oman and Yemen.

Both internal and inter-country migration in the ECWA region continues to be a major factor in determining the national and regional population redistribution. During the past decade and the early part of the 1980s the ECWA region has witnessed a phenomenal mass migration from non-oil to oil-exporting countries. Iraq, for example, has recently attracted large number of migrants, mainly from Egypt, in order to meet manpower needs and accomplish its ambitious development projects. In fact, there are particular situations which have accentuated population movement in the ECWA region. These include displaced Palestinians and Lebanese as a result of wars and civil disorder.

There are no accurate estimates of migrants. In addition to the unreliability of the available data which clearly suffers from inconsistency, many countries have not released detailed data on migration.

On the other hand, the internal migration has substantially affected the growth rates of cities in the ECWA region. In Egypt, for example, population pressure upon limited agricultural resources has speeded up rural to urban migration leading to tremendously high density in cities like Cairo and Alexandria. While the IDS calls for a better interregional balance between rural and urban development, this unbalanced pattern of migration has generally placed heavy burden on both the sending and the receiving areas. Thus, while the rural areas are suffering from the lack of labour, the urban areas are confronting the problems of accommodating large number of migrants.

Another important area where ECWA member countries have showed concern is the collection and analysis of demographic data. They have realized that the lack of up-to-date demographic, social, and economic information seriously limits their ability to formulate development programmes. The view has been widely expressed about the need for substantial improvement in statistical information services and that data collection should be complemented by data analysis. All ECWA member countries, with the exception of Oman, have conducted a census during the last decade and intend to repeat it after a five or ten-year interval. Civil registration of vital statistics is incomplete in some countries and inaccurate in most

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others. Nevertheless, Bahrain and Kuwait are exerting great efforts in establishing a computerized system for civil registration and thereby improving their data collection.

B. Education

Growth in Enrolment:

The first half of the United Nations Third Development Decade has witnessed, in the Western Asia region, a continuation of the prevailing growth trends in various levels of primary, intermediate, secondary and higher education. The average rate of growth has varied from one level to another among different countries of the region. However, in all cases there was relative decline in the average growth rate in comparison to the rapid expansion in education during the 1970s, particularly in most of the Gulf Countries.

A review of the situation of education starting at pre-school education (Kindergartens) shows considerable attention given to this stage, which is reflected in large quantitative expansion especially in the oil-producing countries. Enrolment rate in 1983, reached a level of more than 25 per cent of the total number of children in the age group of 3-5 years. Most of these countries have integrated this stage in the educational system, while it is not yet, part of the system in other countries of the region, where it is either left partially or totally to the private sector and popular organizations or is accorded lower priority in relation to other educational priorities.

At the primary level of education, which is compulsory in the countries of the region, eight countries, namely: Bahrain, Iraq, Jordan, Kuwait, Lebanon, Qatar, the Syrian Arab Republic and the United Arab Emirates have achieved by mid-decade, an enrolment rate that exceeded 80 per cent of the relevant age group (6-11 years). By the end of the decade this rate is expected to reach 100 per cent in some countries and about 90 per cent in others. However, according to some projections, the enrolment rate in the Yemen Arab Republic will not exceed 55 per cent at the end of the present decade, if the current rate of growth is continued.

Education at the second stage (intermediate and secondary education) has been growing at an accelerated pace since late 1970s. The enrolment rate of the age group 12-17 years stands at around 75 per cent in Bahrain, Jordan, Kuwait, and Qatar, around 60 per cent in Iraq, 50 per cent in Egypt, Lebanon and the Syrian Arab Republic and not less than 30 per cent in the remaining countries, except for Yemen, where the enrolment rate at this level does not exceed 15 per cent.

As regards higher education, the highest enrolment rate in the age group 18-23 years, at mid-decade was between 15 to 25 per cent in Egypt,

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Iraq, Kuwait, Qatar, Saudi Arabia and the Syrian Arab Republic. This rate was only 4 to 10 per cent in Oman, the United Arab Emirates and Yemen.

Some Specific Education Problems:

The efforts made to develop the quality of education do not meet the requirements of an economic and social development that promotes self-sustained development both at the country and the regional levels.

There is a general complaint, regarding low internal efficiency at the primary school level in many countries of the region, due to the congestion of classes and low teacher/student ratio. The problem of diversifying education at the secondary level is still in sharp contrast with the high demand for academic education and the low demand for technical vocational education. However, some countries in the region have succeeded in achieving a relative increase in enrolment in technical education, as a step towards setting up a balanced system of academic and vocational education. On the other hand, some countries, particularly in the Gulf region, have not yet achieved similar progress in this direction despite the many incentives granted to the students in technical education.

Data in some Gulf countries refer to the decreasing number of students in technical education programmes, which makes institutional vocational education very expensive per student. The average number of students per school in some cases does not exceed 100, which does not achieve the educational or economic feasibility of establishing such a school. Certain countries of the region have experimented with comprehensive secondary schools in order to overcome social obstacles related to the creation of vocational aptitudes. Some reports refer to promising results in this respect.

Available data refer to the continuous increase in enrolment in humanities and social studies at higher education as compared to enrolment in sciences and technology (natural science, agriculture, engineering and medicine). There is an increasing trend, however, in some countries of the region, to mutual approximation in the enrolment rates of students in the two groups. In some countries the enrolment rates of the second group reached more than 40 per cent of total enrolment in various branches of higher education, such as Egypt, Iraq and the Syrian Arab Republic. At the beginning of the 1980s, new universities were established with emphasis on science and technology such as: Yarmouk University in Jordan and the Gulf University in Bahrain. The plan for Qaboos University in Oman is underway and the inauguration of the university is expected to take place during the second half of the present decade.

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Despite the efforts and the human and financial resources accorded to education there is still an urgent need for proper co-ordination between these efforts and the requirements of the social and economic development in its various sectors. Such a co-ordination does not exist at present. As a result, there has emerged some structural deviations within the existing labour force in some countries regarding social and economic activities. While the prevailing educational system enhanced the provision of cadres to serve the modern sector, it has had, inter alia, adverse impacts on some traditional and disorganized sectors. However, there is a crucial need to intensify efforts during the decade towards improving the overall educational system. More efforts are required to develop the fields of informal education, training and re-training.

Decrease in Illiteracy Rate:

Illiteracy rates have decreased with the increase of enrolment rates at the primary level. Serious efforts are being exerted to combat illiteracy in the countries of the region. These efforts vary in comprehensiveness and outcome. Iraq was able by the National Campaign for Compulsory Eradication of Illiteracy, to eliminate illiteracy. Current efforts are seriously exerted to eliminate some existing gaps. Educational planning is underway in Democratic Yemen and Yemen for a comprehensive campaign to combat illiteracy. However, its implementation is impeded by the lack of necessary human and financial resources. Kuwait is also in the process of implementing a comprehensive plan of adult education and eradication of illiteracy. Despite the efforts made, the rate of illiteracy among adults (15 years and over) is still high in most countries of the region. At present, it ranges between 30-60 per cent in most countries. In the remaining countries, it varies between 70-90 per cent. Despite the continuous decrease in the rate of adult illiterates, their absolute number is continuously on the increase. With the present rate of decrease it is not expected to reasonably control the problem of illiteracy before the end of the century.

C. Health

The difficulty of assessing the situation of health in the region stems from the lack of data and indicators which are either not available or are outdated. Nevertheless, efforts have continued in all countries of the region, during the period under review, to provide basic preventive and curative services for their populations. Priority is given to curative services, building of hospitals and health centres followed by preventive services especially with respect to its technical cadres, organizational and educational requirements. However, efforts aimed at diversifying health services are mainly concentrated in urban areas.

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There is a considerable improvement in nutritional situation represented by per capita calorie requirements. Similarly, there is an evident interest in providing for potable water, although some remote areas or dispersed population aggregates are deprived of pure water supply. Generally, countries of the region vary with respect to the availability of health services, provision of doctors and health personnel.

Some countries of the region with population densities and dispersed aggregation, have introduced policy measures aimed at increasing awareness and remedying the shortages of technical cadres in health services. In addition, there are efforts to spread health education through the mass media. The role of Arab and Gulf regional organizations is increasing in the fields of health education, drug control, medical research, control of infectious diseases and training of health staff.

D. Youth and Development

Youth, represented by the age group of 15-24 years, make up 20 per cent of the whole population of the region. Considering the size of this group which stood at 18 million of both sexes at the beginning of this decade, it is likely that its rate of increase will remain relatively stable through the end of the century. This may increase their absolute size by the year 2000 to more than 31 million. The increasing attention given by governments in the region to youth issues is not only based on the size of this segment of population but also to the growing understanding of regarding youth as a social group having capabilities and powers which could be utilized in the fields of economic and social development. The regional plan of action in Western Asia, which is adopted by the member countries in the context of the International Youth Year, forms the fundamental bases for integrating youth in the development process; through training, active participation, and exposure to opportunities which promote such participation.

The growing attention given to youth is illustrated by the establishment of the ministries of youth and higher central organizations. In some countries of the region, popular organizations for youth also have been set up at various local levels for planning, co-ordination and implementation of youth programmes. Sectoral plans include the establishment of youth centres and clubs to facilitate youth participation in sports, cultural and scientific activities. Apart from concentrating on sports and scouting activities, there is an increasing trend towards moving the youth programmes from being merely recreational services to becoming an instrument for the more effective integration of youth in developmental efforts and their active participation in local projects.

E. Integration of Women in Development

There are no adequate statistical indicators in ECWA member countries to evaluate the progress made in integrating women in the

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process of development, except for their status of education. However, it is worth noting that attention is increasingly being devoted to the integration of women in development as both participants and beneficiaries. The United Nations Decade for Women and its relevant documents, such as the International Plan of Action, Programme of Action for the Second Half of the United Nations Decade for Women, and the Regional Plan of Action for the Integration of Women in Development in the Western Asia Region, have had a noticeable impact on the concern accorded to the role of women in the family and in society, be it at the government or community level.

The past several years have witnessed support for national committees and organizations of women, as well as the establishment of vocational societies for women, at national and regional levels. Efforts were also made for the development of some civil and employment laws with the objective of improving the position of women in the family and in economic activities. At the sectoral level, the growth in girls' education reveals continuous increases at all levels. However, girls' enrolment rate in primary education still lags behind that of boys' for the same age bracket (6-11 years). Boys' drop-out rate, particularly in rural areas or in poor quarters of cities, is high. In secondary and higher education, the rate of female to male students is improving continuously; it is almost equal in a few universities in some Gulf countries. Girls enrolment in technical education is still limited, or non-existent in some countries, due to traditional values that regard technical education a suitable area for men.

As for the staffing of the health sector, services are provided by the existing maternity and child care centres. Special orientation programmes on elementary health care for women are locally given by trained staff.

In the field of labour and employment, women's participation rate in the modern economic sector remains low and the special training programmes and apprenticeship opportunities in the traditional jobs of agriculture and handicrafts are still limited. It may be said that in some countries of the region, there are two labour markets: one of men and one of women. Training and preparations of the two markets differ at the institutional and organizational levels.

As for the public administration, there is an increasing number of women engaged in high administrative posts in some countries of the region where civil service laws permit equal opportunities for promotion. However, their role in decision and policy-making is still restricted.

F. Employment Promotion and Manpower Development

Labour migration has affected the socio-economic conditions in both labour exporting and importing countries. The size of migrant

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labour in countries of the Gulf Co-operation Council, which was 1.086 million in 1975, reached a total of 2.935 million in 1980, reflecting an average annual growth rate of 20 per cent during the period. The proportion of migrant labour to total labour force in the main Arab labour exporting countries reached 5 per cent in 1979, varying from 2 per cent in Tunisia to 40 per cent in Jordan. According to the World Bank estimates, these proportions will reach 8 per cent in 1985 and will vary from 38 per cent in Jordan to 5 per cent in Egypt. On the other hand, national labour force in the countries of the Gulf Co-operation Council formed on the average less than half (i.e. 42 per cent) of total labour force in 1980, with the lowest level recorded in the United Arab Emirates (10 per cent) and the highest level in Oman (61 per cent).

The increasing migration of labour has brought about significant socio-economic effects at all levels. On the economic level, remittances of those working abroad, constituted high proportions of total revenues in labour exporting countries which has also served as a source of hard currency. It is to be noted, however, that not much of these remittances was effectively directed towards productive investment. Instead, much of the remittances went to the import of luxury consumption goods. On the other hand and due to the intense drainage of labour, the shortage of skills in the main Arab labour exporting countries increased with time. According to the World Bank estimates, these countries will face in 1985 a net deficit in the following occupational categories: professional, semi-professional, technical, clerical, and skilled labour. Recently and by the end of 1970s, replacement migration phenomena appeared in both Jordan and Yemen. The easiness in hiring labour from abroad by the labour importing countries has in a way prevented national labour force from contributing to and benefitting fully from the actual development process.

In general, labour force in the countries of ECWA is characterized by a relatively low and crude participation rate, varying between a maximum of 26 per cent in Egypt, Iraq and Lebanon and a minimum of 19 per cent of nationals in almost all Gulf oil producing countries. This low participation rate is due to the region's young population structure combined with a very low female participation rate, which varies between a maximum of approximately 10 per cent in Bahrain, Iraq, Lebanon and the Syrian Arab Republic...and a minimum of less than 4 per cent in most Gulf oil producing countries. It is necessary, however, to bear in mind the inadequacy of the statistical tools used in measuring economic activity and participation, particularly in rural areas, when dealing with these ratios.

The rate of growth of expatriate labour force in the main ECWA oil producing countries has decreased considerably during the 1980-1983 period, and is expected to continue to decline through 1985. This trend is clearly reflected in the development plans of the Gulf countries, and

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the recent statistics in Kuwait indicate that the rate of growth of non-Kuwaiti labour force was negative (i.e. minus 1.16) during the period 1980-1983. Moreover, the trend of labour migration back to the exporting countries is expected to increase due to the recession in the oil market and the completion of the "major" projects in the labour importing countries as well as the replacement of Arab labour by the Asian labour which increased during the later part of 1970s and early 1980s.

As regards to the low ECWA crude labour participation rates, they are not expected to increase significantly in the coming few years, despite the recent rise in female participation in the labour force of the Gulf States.

A few ECWA member countries have adopted a policy regarding human resources development in general and labour force in particular. The interrelation between education and manpower planning is very weak due mainly to a surplus of the educated in the field of arts and behavioural sciences reflecting clear shortages of professional, technical and skilled occupations. Similarly, there are no integrated regional policies facilitating the movement of Arab labour force among the Arab countries. Despite the importance given to the "Arab Agency for Employment", no effective financial or technical support was extended to it to effectively plan the Arab labour flows. Decisions regarding labour migration within the Arab countries continue to be taken on a case-by-case basis irrespective of their negative impact on the labour importing and exporting countries.

Human resources development in general, and labour force development in particular, in Western Asia requires the strengthening of national and regional planning bodies in order to formulate policies which take into account national interests within a global regional setting. Statistical tools and their uses need to be developed in order to reflect with accuracy the realities of the situation especially in rural areas. Arab joint action on human resources development and movement of Arab labour force needs to be given particular importance. The "Arab Agency for Employment" and the "Arab Centre for Vocational Training and Trainers" are in need of full support as the regional specialized bodies in this field.

PART THREE. SPECIFIC DEVELOPMENTAL ISSUES

CHAPTER I. CURRENT ISSUES IN ECONOMIC COOPERATION
AND INTEGRATION IN WESTERN ASIA

Introduction

The International Development Strategy^{1/} (IDS) for the Third United Nations Development Decade stresses the importance of economic and technical cooperation among developing countries for the effective restructuring and attainment of equitable and balanced international economic relations and for reducing developing countries' external dependence and vulnerability, promoting self-reliant development and strengthening their role in the world economy.

The launching of the Third United Nations Development Decade coincided with a number of encouraging developments bearing on Arab regional economic cooperation. The Eleventh Arab Summit Meeting (Amman, November 1980) accorded unprecedented attention to economic issues by endorsing a Strategy for Joint Arab Economic Action^{2/} to the year 2000, and approving The Unified Agreement for the Investment of Arab Capital in the Arab Countries to encourage intraregional private capital flows. Almost simultaneously, the Arab Economic and Social Council approved a new Convention for Facilitating and Developing Trade between Arab States to replace the 1953 Convention. These and other initiatives - conceived within the broader context of inter-Arab cooperation - have, however, been frustrated by the worsening of political relations among member states.

At a different plane, a number of features with significant implications for the longer-term prospects for regional cooperation have been asserting themselves during the period reviewed. The most far-reaching of these has, perhaps, been the growing support for sub-regional cooperation which culminated in the formation of the Gulf Cooperation Council (GCC) in 1981. A second important development concerns the growing consensus that joint ventures constitute one of the more promising vehicles for promoting regional cooperation in the present circumstances. There has also been a growing

1/ General Assembly Resolution 35/56, para. 40.

2/ Within the framework of this Strategy, the Summit approved a project considering the 1980s as the First Arab Development Decade and made an initial allocation of \$5 billion to that end.

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recognition of the need to involve the private sector more actively in the cooperative process, and the adoption of some important initiatives in that direction. In addition, the period reviewed witnessed the continued conclusion of trade and economic cooperation agreements among the countries of Western Asia, as well as a number of other developments of an institutional nature.

A. Sub-regional Cooperation

The most significant development in this respect has been the establishment, on 25 May 1981, of the Gulf Cooperation Council (GCC) by Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates.^{1/}

Although the formation of the GCC appears to have been primarily in response to preoccupations peculiar to the Gulf sub-region, its implications for economic cooperation among the countries of Western Asia, and in the wider Arab context, cannot be over-emphasized. The GCC member states wield substantial economic and financial power (as aid donors and markets for goods, services and labour), and to that extent their economic policies will have considerable impact on other countries in the region.

The GCC continued the momentum with which it set out about three years earlier as reflected in the progress realized since. Early in its existence (November 1981) the Council approved the Unified Economic Agreement^{2/} which set out to coordinate and unify economic, fiscal, monetary and industrial policies of member countries in the long-term with the ultimate aim of

^{1/} The Council, which is based in Riyadh, created an elaborate organizational structure, involving the Heads of State who meet, as the Supreme Council, twice a year, and the Foreign Affairs Ministers who meet, as the Ministerial Council, six times a year. The Council also set up substantive committees in various fields of economic and social activity.

^{2/} The Agreement provides or calls for, inter alia: (a) elimination of customs duties between GCC states, and the establishment of a common minimum external tariff; (b) coordination of export and import policies and strengthening bargaining power vis-a-vis foreign suppliers; (c) free movement of labour and capital; (d) coordination of oil policies and industrial activities and standardization of industrial laws; (e) coordination of technology, training and labour policies; (f) cooperative approach to transport policies; and (g) steps to set up a common investment strategy and to coordinate financial, monetary and banking policies.

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integrating the six member countries' economies into a common market. The first stage of the Unified Economic Agreement came into effect on 1 March 1983 and provided for:

- a) Abolition of customs duties on intra-trade in agriculture, manufactured and animal products made from materials obtained in a member state; manufactured goods made from imported raw materials if domestic value added constitutes at least 40 per cent of the cost of the finished product and nationals own at least 51 per cent of the equity of the firm producing it;
- b) Exemption of products of member states passing in transit from fees and taxes; and free access for national ships to ports in any of the six GCC states and exemption of passengers and goods aboard these ships from taxes and fees;
- c) Freedom of movement of citizens of GCC states and of professional practice in the fields of medicine, law, engineering, accounting and consulting services provided local standards can be met.
- d) Right to establish commercial, industrial and agro-business ventures provided that nationals of the host government own at least 25 per cent of equity.

Subsequently, the GCC finance ministers approved the establishment, by 1 September 1983, of a common external tariff^{1/} of 4 per cent and rising to 20 per cent for competing imports. They also approved the establishment of joint customs centres on the borders to facilitate movements of GCC citizens.

At the sectoral level, the GCC countries agreed to coordinate their efforts in the petroleum industry with emphasis on downstream operations, and to coordinate policies on product markets and prices with a view to balancing supply and demand for refined products within the areas, as well as narrowing differences in local prices. The GCC oil ministers agreed (August 1983) to commission feasibility studies on a Gulf gas distribution network to supply fuel for electric power, desalination plants and basic industries. They also agreed to undertake further studies on a proposed 90-day oil products strategic reserve.

^{1/} By November 1983, the common external tariff was in effect in five of the six GCC states; Oman was allowed, upon its request, a one-year exemption from adherence.

In the monetary and financial field, the Governors of the central banks have discussed procedures for coordinating monetary policies, including the structure of domestic interest rates, the impact of international interest rates movements on domestic liquidity, and methods of setting exchange rates.

In the industrial field, a meeting was held grouping representatives from all the cement plants in the Gulf and government representatives to consider plans for the harmonization of standards and the future planning of production; a similar exercise has been considered for aluminum.

Another development, which could have significant trade policy implications in the future, was the reported collective negotiation by four GCC countries (Bahrain, Kuwait, Oman and Saudi Arabia) of a deal involving the bulk purchase of 150,000 tons of rice worth \$90 million ^{1/}. Given the huge and expanding volume of imports into the Gulf area, the return from cooperation in import procurement should be high.

The GCC also agreed to set up the Gulf Investment Corporation (see Annex 1) with an authorized capital of \$2.1 billion to invest in commercial, agricultural and industrial projects inside and outside the region.

In assessing the prospects of the GCC, a number of considerations appear relevant. First, it is pertinent to emphasize that the states members of the Council share a number of characteristics and concerns favouring closer cooperation including socio-cultural homogeneity, similarity in political and economic systems and geographical proximity. They also maintain strong links with, and are excessively dependent on, the international economy arising from the overwhelming importance of oil in their economies; their reliance on imports for a disproportionately large part of their needs of goods, labour and technology; and, on external capital markets for placing their savings.

Second, the establishment of the Council followed more than three decades of efforts to forge closer economic relations among the Arab countries. There has also been a number of earlier moves at the level of the Gulf sub-region itself which have contributed to pave the way for setting up the Council, such as the establishment of the Gulf Organization for Industrial Consulting (GOIC), and various coordination and consultative conferences dealing with trade, agriculture, industry, planning, currency and banking. The experience acquired in the working of several joint ventures set up by the Gulf countries should also prove useful.

Third, the GCC appears to have opted for a gradualist approach in which the key elements are coordination and harmonization, as against the traditionally ambitious and comprehensive approaches proposed in the broader context of

^{1/} The GCC has been studying the feasibility of setting up a central spare parts organization which would be responsible for procurement and distribution of spare parts for basic industries in member states.

Arab integration efforts. At the same time, the organizational structure of the GCC comprises features, such as the Supreme Council at the level of Heads of State meeting twice a year, which should be helpful in ironing out differences of views and in effectively implementing decisions.

Fourth, the members of the Council seem to be aware of the adverse effects of a polarization of benefits in favour of the economically stronger partners. This is reflected in the Council's decision to accord preference to Bahrain and Oman 1/ when locating intergovernmental joint ventures in the field of oil and its derivatives, and ferrous metals.

Last, but not least, the overall availability of financial resources should make it easier for the GCC to overcome possible friction and divergence of interests among its members and/or losses resulting from the integration process.

B. Joint Ventures

In the prevailing circumstances of the region, great hopes have come to be put on Joint Ventures (JVs) to play a leading role in establishing the complementary productive structures, which are viewed as a prerequisite for expanding intraregional trade and for absorbing accumulated financial surpluses.

The setting up of JVs began to gather momentum around the mid-1970s, subsequent to the upward adjustment in oil prices after 1973 and the emergence of large financial surpluses in the oil-producing countries of the region. A wide spectrum of JVs having a regional/Arab scope were established. However, this pace seems to have slowed down somewhat during the late seventies and early eighties, though JVs having a narrower geographical and functional scope and increasingly involving private sector participation continued to multiply 2/.

1/ The GCC decided (August 1983) to commission a feasibility study to establish a joint export refinery in Oman which will be linked to Saudi oil fields by a pipeline to be constructed for that purpose.

2/ JVs have emerged in virtually all sectors of economic activity. These JVs, however, differ considerably among themselves with respect to the size of their capital and ownership, participation (public, private or mixed), geographical scope (bilateral, sub-regional, regional or Arab), nature of activities and mandate (holding companies type or specific ones), motivation, and sponsorship.

The period reviewed witnessed the setting up of a relatively large number of JVs, as well as progress in executing earlier projects and the establishment of "second generation" projects by "parent" holding companies. An examination of the main features - as outlined in Annex I - of recently formed JVs in the ECWA region reveals that:

- The bulk (18 out of 21) of JVs were established in the Gulf area and centered in Bahrain (12); the formation of the Gulf Cooperation Council and its decision to accord Bahrain (and Oman) preferential treatment when setting up projects in certain sectors can be expected to deepen this trend.

- In terms of capital, the largest outlays (about \$4.1 billion) appear to have been in the services sector (mostly in banking and insurance), followed by JVs having a general investment nature (\$3.3 billion), manufacturing (\$0.9 billion), agriculture (\$1 billion) and transport (\$70 million). In numerical terms, manufacturing is first with 8 projects, followed by services (6), general investment (4), one project in agriculture and (2) in transport.

- While government sponsorship and participation continued to be dominant, a widening participation by the private sector can also be observed.

- The field of operations of some of the large JVs (e.g. the Arab Insurance Group and the Arab Banking Corporation) remains essentially international in character.

In reviewing the operations of inter-Arab JVs from a longer-term perspective, a number of issues relating to their formation and operations, and bearing ultimately on their effectiveness, emerge. Some of these issues are briefly considered below.

1. Objectives

While economic viability is the long-term objective of all JVs, for some of the major intergovernmental JVs profitability has not constituted an overriding consideration in the short - or medium - term. Entering certain fields considered "strategic", such as oil exploration and transportation, or ship repair and maintenance, with attendant benefits in terms of acquisition of know-how and manpower training, have been viewed as adequate compensation.

While such benefits could be, and are being in some cases, "externalized", they are increasingly proving inadequate to justify the substantial resources tied down in the project and incurring initial

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losses, thus creating pressure to give up or reduce the scope of activities 1/. In this connexion, it is worth noting that such "strategic" pursuits were made possible by the fact that while incurring losses on the operational side, the enterprise was able to realize a profit as a result of substantial returns accruing on the unused portion of capital.

2. Financial and human resources

The financial resources put at the disposal of major governmental JVs - such as those set up by the Council of Arab Economic Unity - do not appear generally to have been a constraining factor. While it is arguable that these resources may be inadequate in terms of the broad mandates assigned to these JVs, the rate of their utilization has been slow such that the return on the unused portion of equity capital has come to constitute a disproportionately large share of total assets, and has been used in certain cases to finance operational losses. Thus, these JVs have not so far reported a need to raise their capital. Given the slow pace of resource utilization, such an eventuality for most of them, appears to be still remote. More so, if the JVs are able to generate profits and plough them back into new investments, or sell, in part or whole - once the mechanism to render such operations possible come into existence - the projects they help to set up and use the proceeds to finance other activities.

The issues of resource utilization and management are intimately related. The ownership of capital appears to have influenced - directly and indirectly - the selection of higher management cadres, the quality of which in turn is a major determinant of the success of a venture. As ownership of capital and managerial skills do not necessarily go together, a number of proposals have been put forward to dissociate them. But given the prevailing economic, political and psychological environment in the region, such a process is likely to be very slow and its chances of success to be greater with the widening of private sector involvement in the setting up of JVs.

The management and staffing of JVs have generally suffered from the prevailing overall scarcity of managerial talent and technical expertise in the region. This has been reflected in several ways including (a) difficulties of recruitment and high staff turn-over

1/ The Arab Maritime Petroleum Transport Company (AMPC) is reported, in a move to cut expenses and rationalize operations, to have sold the first tanker in a planned disposal of five vessels, cut down by almost one-half the number of staff of its headquarters and laid off some 70 trainees (see: Arab Report and Memo, October 24, 1983).

resulting from the availability of more competitive offers 1/ elsewhere, particularly private firms; (b) an employment set up heavily biased in favour of nationals of the host country; (c) excessive dependence, at least in the initial years, on expatriate experts and labour; and, (d) need to undertake extensive and costly training programmes.

Among the more discussed issues related to the management of JVs - whether in relation to the selection of higher echelons or in the discharge of their functions - is the possibility of government interference and its effects on the operations of JVs. While some advantage can be seen in this 2/, government interference could result in restricting the freedom of decision-making.

3. Sponsorship and participation

At the level of joint Pan Arab economic action, the promotion and establishment of JVs has mainly been the work of the Council of Arab Economic Unity (CAEU), the Organization of Arab Petroleum Exporting Countries (OAPEC) and the League of Arab States, as evidenced by the formation of several large, in terms of capital, enterprises by these organizations around the mid-1970s. Since then, the momentum appears to have slowed down considerably 3/. This could be interpreted in terms of number of factors including: (a) the need to allow sufficient time for existing JVs to prove their viability before considering new ones; (b) weakening of enthusiasm for JVs with large membership (and therefore more diffused decision-making power) and broad mandates; and,

1/ Intergovernmental JVs are, moreover, constrained by the need to observe that their salary scales are not excessive relative to those paid by the government for similar work.

2/ Provided proper selection is made, the presence of government designated policy/decision makers could make a positive contribution to the operations of the enterprise by keeping governments well informed, thus retaining their interest in its activities and helping to reach better decisions and faster implementation.

3/ For example, the CAEU which succeeded in establishing four major JVs in a relatively short period to time (namely, the Arab Mining Company, the Arab Livestock Development Company, the Arab Company for Drug Industries and Medical Appliances, and the Arab Industrial Investment Company) has since managed to propose the formation of only two additional ventures namely, the Arab Printing Press for Printing Postal Stamps and the Arab International Company for Land Transport. Both proposals, however, were still at the study and preparatory phase; the first reportedly delayed by inability to agree on its location and the second by failure so far to meet the minimum capital requirements stipulated for commencing operations.

(c) the emergence of apparently more attractive combinations characterized by having both fewer members and private sector participation, 1/ and more specific mandates.

Outside the frame of intergovernmental bodies, the Arab countries have also come together in different combinations to establish multilateral 2/ and bilateral JVs involving public or private sector participations and mixed undertakings. At the subregional level, the Gulf Organization for Industrial Consulting (GOIC) has been active in trying to identify joint investment possibilities. The formation of the Gulf Cooperation Council is expected to further this process.

Intergovernmental initiatives to form JVs have also materialized following political rapprochement as in the case of the Federation of Arab Republics (1971) between Egypt, Libya and the Syrian Arab Republic; or the JVs set up in the context of the Jordanian - Syrian Agreement of 1975, and between Iraq and Jordan more recently. Additional interesting examples are the Syrian - Saudi Corporation for Industrial and Agricultural Investment and the Syrian - Libyan Corporation for Agricultural Investment.3/

At the non-governmental level, the sustained efforts of the Union of Arab Chambers of Commerce, Industry and Agriculture have been instrumental in setting up the Arab General Investment Company and in convening the First Conference of Arab Businessmen and Investors which decided to establish the Arab Company for Agricultural Investment (see Annex I).

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- 1/ Generally, the larger the number of participants, the more difficult it has proven to set up and operate JVs. The reverse could be illustrated by the case of the Jordan Potash Company the success of which after 1974 should partly be attributed to the fact that one country (Jordan) became the major shareholder.
- 2/ Examples of JVs with wide Arab participation include the Arab Investment Company and the Arab Authority for Agricultural Investment and Development. The Gulf International Bank and the Gulf Petrochemical Industries Company are among the major JVs set up at the sub-regional level.
- 3/ Both JVs are located in the Syrian Arab Republic and are established along similar lines with equal equity participation but with the Syrian contribution being in local currency while that of the partner being in United States dollars.

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The numerous investment companies and consortia which have sprung up in the Gulf area 1/ have succeeded in mobilizing substantial savings. Available information, however, indicates that the bulk of investments made by these companies has been outside the Arab region, and that such direct investment and equity participation have concentrated on few countries including Bahrain, Egypt and Tunisia, and on real estate, property development and banking. 2/ This situation, it is believed, arises from differences in assessment of country risks involved, lack of well-studied projects, limited experience inhibiting the companies from getting involved in the more complex types of investments and by the character of their liabilities, being dominated by short-term obligations.

As to the distinction between private and public JVs, available information 3/ relating to 244 joint industrial ventures (Arab and Arab-international) shows that private projects numbered 164, mixed projects 52 and governmental projects 28, with investments amounting, respectively, to \$3.38 billion, \$3.73 billion and \$2.73 billion. Of the 93 Arab industrial projects, 59.1 per cent are bilateral 4/ projects accounting for 44.4 per cent of an estimated total capital outlay of \$4.81 billion; the corresponding ratios for joint Arab-international projects being 71.5 per cent and 66.4 per cent.

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- 1/ Such as the Kuwait Foreign Trading Contracting and Investment Company (KFT CIC), Kuwait Real Estate Investment Consortium, Kuwait Real Estate Investment Company, Kuwait International Investment Company, and Gulf Investment Company.
- 2/ Among the more important exceptions are direct investments made by KFTCIC in the Arab Iron and Steel Company (1980) and the Arab Petroleum Pipelines Company, SUMED (1974).
- 3/ See: S. Massoud, "Joint Arab Industrial Projects: an Assessment", OAPEC, Oil and Arab Cooperation Vol. 9, No. 1, 1983, pp. 155-196 (in Arabic).
- 4/ JVs established outside the scope of Arab intergovernmental institutions could largely be attributed to private sector efforts. Moreover, such projects are overwhelmingly bilateral (see: Kuwait Chamber of Commerce and Industry, the Role of the Private Sector in Joint Arab Industrial Projects, paper submitted to the Seminar on Joint Arab Industrial Projects, organized by GOIC and OAPEC, Doha, Qatar, 28-30 November 1982, (in Arabic).

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4. Location

Available information ^{1/} on the geographical distribution of ARAB JVs shows a marked concentration in favour of countries in the Gulf area and in certain non-oil deficit countries (e.g. Egypt and Tunisia). It can also be observed that in general the larger projects in terms of capital size are based in the Gulf; the opposite being true of projects in the non-oil countries.

Without underestimating the importance of economic considerations, concern with ensuring an equitable distribution of benefits has been a determining factor in locating JVs mooted through the intergovernmental machinery responsible for promoting Arab economic cooperation, such as the four major JVs sponsored by the Council of Arab Economic Unity. Similar factors appear to explain the location of the JVs (6) which were set up by the Federation of Arab Republics (with two in each of Egypt, Libya and the Syrian Arab Republic), and those formed within the context of the Jordanian/Syrian agreement of 1975. Special bilateral relations also explain the location of some JVs as the Syrian - Saudi Corporation for Industrial and Agricultural Investment and the Syrian - Libyan Corporation for Agricultural Investment, both being in the Syrian Arab Republic.

The desire to assist the least developed member countries has also influenced the location of projects (e.g. in Sudan and Yemen). Similarly, the GCC has also adopted a policy favouring the location of certain types of projects in the relatively less-endowed member States (Bahrain and Oman).

On the economic side, the main factors which have exerted influence on the location of JVs relate to the assessment by the potential investor(s) of the overall "investment climate"; knowledge of and access to market; availability of supporting facilities and incentives; and inputs (trained and/or cheaper labour and raw materials).

Notwithstanding the provisions of investment laws and legislation and other incentives intended to encourage the flow of capital, potential investors have come to attach different degrees of risks to different countries in the region favouring in the process only a small number. In some countries, notably Bahrain, investors have been attracted also by the existence of a well-developed infrastructure and communications

^{1/} See: Ibid; and, S. Massoud, "Joint Arab Projects: Present and Future", OAPEEC, Oil and Arab Cooperation, Vol. VII, No. 2, 1981, pp. 101-134 (in Arabic).

network, as well as special incentives. The availability of trained (Bahrain) or cheap (Egypt) labour have served to reinforce these tendencies.

The size of the domestic market has tended to favour investment in countries like Egypt. Proximity (coupled with good neighbourly relations) to potentially large markets, such as that of Saudi Arabia, and familiarity with the country (e.g. by Kuwait and Saudi investors) has also worked in favour of Bahrain. 1/

5. Competition and support measures

Inter-Arab JVs have encountered varying types and degrees of competition. Experience has shown that competition from similar national enterprises 2/, whether in the form of more favourable treatment of products/services offered by national enterprises or denial of access to the domestic market could pose a serious threat to the success of JVs, especially where large capital outlays and world-wide competition are involved, or where the project is regionally export-oriented. The Arab Maritime Petroleum Transport Company (AMPTC) has faced such competition. Similarly, the Arab Ship Repair Yard (ASRY) could encounter a similar situation as a result of competition from the operations of the recently completed dry dock in Dubai.

In contrast, building on the experience of national enterprises has proven to be advantageous, as illustrated by the example of the United Arab Shipping Company 3/ (UASC) which was established through a merger with the Kuwait Shipping Company. Similar results - i.e. doing away with the need to set up competing national enterprises and ensuring market access - could be achieved by sharing in existing enterprises as was done by Saudi Arabia in Aluminium Bahrain (ALBA) and in MIDAL, a manufacturer of aluminium conductors in Bahrain. To forestall competition,

1/ It has been suggested that enterprises registered in Bahrain are likely to enjoy a relative advantage in dealing with other Gulf States because of the latter's trust in the Bahraini system of investigation preceding the granting of a license.

2/ Such competition is not necessarily limited to the operational phase but is likely also to be encountered at the inception stages in that good projects tend to be retained for implementation as national projects and not as JVs. This situation could, however, change if the JV status could bring with it more than a financial contribution, i.e., expertise and technology.

3/ The status of the Company is further strengthened by provisions whereby member countries (Bahrain, Iraq, Kuwait, Qatar, Saudi Arabia and the United Arab Emirates) are to refrain from setting up national companies subsequent to its establishment.

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the Arab Industrial Investment Company has been examining possibilities of going into partnership with product users. Another approach to achieve the same end is to ensure complementarity between JVs (e.g. the pelletizing plant of the Arab Iron and Steel Company) and planned national projects.

The JV status has carried with it a number of advantages which have varied considerably from one JV to another depending on several factors including the provision of their by-laws, location and membership. These have included tax holidays and exemptions, land at nominal prices, exemption from foreign exchange control, protection against confiscation and expropriation, duty-free importation of equipment and spare parts and other inputs, preferential treatment in public sector procurement, market access and ability to operate (in socialist economies) as private sector undertakings thus by-passing routine.

It is possible to observe a general tendency among JVs to claim preferential treatment - over and above that stipulated in the establishing agreements and statutes invoking the "infant" industry argument. The merits of such claims, however, should be considered only on a case-by-case basis and great care should be exercised so that such protection does not become a permanent feature. A more convincing argument can, however, be made in favour of extending government support commensurate with benefits accruing to the economy from the operations of JVs and which cannot be reflected in their profit and loss accounts (e.g. training).

Concern has also been expressed regarding the fulfilment of commitments undertaken by host governments at the formative stage of a JV. Such commitments - which extend beyond equity participation and representation on the board of directors - cover such aspects as the provision of infrastructural and related facilities, power and water, access to markets and purchase of products/services. For example, one of the factors behind the disappointing performance of AMPTC may be traced to the wide discrepancy between the actual share of OAPEC's oil transported on the company's carriers and that underlying the feasibility study 1/ on which the company was based.

6. "Second-Generation" projects

A main objective behind the establishment of holding-type JVs, - whether in specific sectors such as the ones set up by the Council of

1/ While there is no explicit commitment in this respect, the approval of setting up the company - where transporting an increasing share of OPEC's oil was essential for its successful performance - implies such a commitment on the part of member states.

.../

Arab Economic Unity, or of the general type as the Arab Investment Company - was to create a mechanism for the further generation of projects and the equitable distribution of benefits arising therefrom. Experience in this respect reveals marked variations in achievements and approach.

Based on the number and geographical spread of "second-generation" projects set up directly or in partnership, and the extent of use made of resources put at their disposal, the Arab Company for Livestock Development (ACOLID), the Arab Mining Company (ARMICO) and the Arab Investment Company appear to have been among the more active of the major intergovernmental ventures. Thus, ARMICO has, since its establishment in 1976 and up to the end of 1982, shared in 11 mining or industrial projects related to the exploitation of mineral resources in 7 Arab countries. Similarly, ACOLID has set up projects in a number of Arab countries and has several others under active implementation. In contrast, only few of the projects contemplated by the Arab Company for Drug Industries and Medical Appliances (ACDIMA) and the Arab Industrial Investment Company appear to have reached the implementation stage.

Differences in performance could be adduced to a wide range of factors including the date of start of operations, location and the quality of management and staff. However, the relative advantages associated with resource-oriented activities, involving generally simpler technologies and less keen external competition from imports, must have also played their part.

The second-generation projects have, by and large, been national in scope and intended basically to cater to domestic needs (mining projects being a main exception). The mode of involvement of the "parent" company, however, has varied considerably.

Thus, the record of ACOLID reflects preference for wholly-owned projects or majority-share holding. Exceptions are generally explained by a desire to bring in expertise and technology. ARMICO's involvement, in contrast, has taken the form of minority share-holding 1/, ranging

1/ A similar approach is followed by ACDIMA and the Arab Industrial Investment Company. The intended policy of the former is to acquire 25 per cent of the equity, leaving the balance for subscription by the host country and Arab enterprises active in the same field. The anticipated range of participation by the Arab Industrial Investment Company is between 12-35 per cent. Such participation, whenever possible, is to be sought with the users of the products to ensure markets and avoid duplication.

from about 8 to 40 per cent and averaging 15.5 per cent in all projects.

The Arab Investment Company's approach has been to combine minority equity participation with the extension of loans. Other things being the same, full ownership or majority equity participation implies a more active role in the development of projects from conception to operation, and should help in promoting the process of learning by doing. This is in line with the intended aim to have the holding-type JVs act as project generators. Such an aim could also be served if the minority participation and associated expertise are essential for getting the project off the ground. In the event, the sharing could ultimately be withdrawn to free resources for other uses.

The field of operations of some major intergovernmental JVs has remain broad in terms of the projects entered into, thus foregoing benefits of learning by doing. The repetition of projects is more in evidence in the case of ACOLID, reflecting perhaps its preference for full or majority ownership of projects. This seems to be in marked contrast with the actual or envisaged activities of other JVs which encompass a wide array of projects and a broad sectoral scope of operations. The experience so far and the slow pace of progress argue in favour of defining more narrowly the fields of concern. In several instances, this could be done, without necessarily having to commit new resources, by allocating portions of the unused funds.

7. Economic vs. political considerations

The recent experience - involving JVs set up within the context of the 1975 economic and trade cooperation agreement between Jordan and the Syrian Arab Republic - lends support to the argument that once sufficient economic interest and momentum are generated, the chances of revoking agreements and commitments will be reduced. Thus, strained political relations between the two countries beginning in 1980 have not prevented some of the more important projects conceived earlier (the Syrian - Jordanian Industrial Company 1/ and the Jordanian - Syrian Land Transport Company) from being realized. Apparently, this was helped by the fact that equity was already paid (unlike the case of the Jordanian - Syrian Free Zone project which had not started by the

1/ This company, in turn, has established a joint plant for the production of white cement and was expected to award by end 1983 contracts for a pesticides formulation plant and a carpet factory in the Syrian Arab Republic.

time political relations deteriorated and the implementation of which has fallen much beyond schedule), and by stability in the composition of company board members (personal relations).

That economic considerations have been gaining ground in regional economic cooperation efforts relative to political ones is also borne out by the survival of JVs involving Egypt in the aftermath of the Camp David Agreements.

C. Trade Promotion and Economic Cooperation Agreements

At the multilateral level, two major agreements were concluded among the Arab countries namely: the Convention for Facilitating and Developing Trade between Arab States, and the Unified Agreement for the Investment of Arab Capital in the Arab Countries 1/.

The new Convention 2/ replaces the 1953 Convention for Facilitating Trade and Regulating Transit Trade between the states of the Arab League. It is more elaborate and comprehensive than its predecessor. Among the provisions of the new Convention, the following are worth noting:

- Exemption from customs duties, taxes with similar effect, and waiving of non-tariff restrictions on animal and agricultural products, mineral and non-mineral raw materials, semi-manufactures, and commodities produced by Arab Joint Ventures, established within the frame of the Arab league and affiliated organizations.
- Gradual tariff exemption for manufactured goods.
- Graduated protection of Arab commodities and products against competition of similar and substitute non-Arab goods.
- Right of each state party to the Convention to grant preferential treatment to any other Arab country, whether through bilateral or multilateral arrangements.

1/ The first agreement was approved by the Arab Economic and Social Council of the Arab League in 1981 (Resolution 848/D.30/c.3-27/2/1981) and the second agreement was approved by the Eleventh Arab Summit Meeting (Amman, November 1980).

2/ The Convention came into force on 26 November 1982 following its ratification by five Arab states (Tunis, United Arab Emirates, Iraq, the Libyan Arab Jamahiriya and Yemen). Subsequently, the Convention was ratified by Jordan, Kuwait, Saudi Arabia and the Palestine Liberation Organization.

.../

- In addition to trade liberalization, the aims of the Convention include coordinated linkage between production and exchange, particularly through the provision of financing necessary for production; equitable distribution of benefits and costs arising from the application of the Convention; and, taking into consideration the developmental circumstances of member countries, especially the least developed among them (as specified by the Council) the products of which to be accorded preferential treatment.

The following observations appear relevant in connexion with the above. First, the aims of the Convention include a number of issues - such as the establishment of a common external tariff and the equitable distribution of costs and benefits - which have been at the centre of the preoccupations of regional groupings and concerned organizations, and for which workable solutions still need to be found.

Second, the call of the Convention to take into consideration the circumstances of the various parties adhering to it could, in practice, set serious limitations on the ultimate scope of agreed commitments. Flexibility in this respect could perhaps have been introduced through provisions enabling the contracting parties to adhere to certain parts of the Convention, rather than be faced with the choice, as it is, of full adherence or rejection.

The Unified Agreement for the Investment of Arab Capital 1/ contains, in addition to the provisions relating to the treatment to be accorded to Arab Investments, clauses on the guarantee of investments and the settlement of disputes 2/. The agreement was prompted by the ineffectiveness of earlier arrangements 3/.

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- 1/ The Agreement came into force on 9 September 1981 following its ratification by five member states (Bahrain, Jordan, Saudi Arabia, Tunis and Yemen). They were followed by Iraq, United Arab Emirates, Kuwait, Libyan Arab jamahiriya, Qatar, Sudan and the Palestine Liberation Organization.
 - 2/ For details, see: League of Arab States, General Secretariat, Department of Economic Affairs, the Unified Agreement for the Investment of Arab Capital in the Arab Countries (in Arabic).
 - 3/ These are, in order of their effective dates: the Agreement on Investment and Transfer of Arab Capital (1971); Agreement on Avoidance of Double Taxation and Tax Evasion (1975); and, Agreement on the Settlement of Disputes between Host Countries and Arab Investors (1976).

.../

In assessing the possible impact of the Agreement on inter-Arab capital flows, the following points should be borne in mind:

- The Agreement states (Article 22) that the Inter-Arab Investment Guarantee Corporation shall insure the funds invested in accordance with its provisions. Given the fact that virtually all the resources at the disposal of the Corporation have been committed, the augmentation of these resources will be an important indication of the seriousness with which the implementation of the Agreement will be pursued.
- The escape clause provisions (Article 19) enable a country party to the Agreement, in a situation of extreme necessity, to suspend on an urgent basis the application of some clauses of the Agreement. However, the conditions under which such an action may be justified are not spelled out.
- It appears (Article 5) that the definition of investment coverage is limited to the shares held by non-nationals as stipulated by the laws of the countries concerned. While this may be largely inevitable it, nevertheless, can act to deter would-be investors.
- While the Agreement guarantees ownership rights, it allows (Article 9) expropriation for considerations related to public interest without, however, specifying what these situations could be.
- While the Agreement represents an effort to provide a legal legislative framework for the investment of Arab capital, the fact remains that the flaw does not lie essentially in deficient legislature as much as in actual practices and procedures resulting in a poor investment environment and lack of confidence.

It is interesting to note the endorsement of both agreements by the Gulf countries reflecting, inter alia, their concern with ensuring outlets for their emerging exports, petrochemicals notably, and promoting a healthy investment climate.

The period reviewed saw also the conclusion of a number of bilateral trade and economic cooperation agreements (Annex II) between countries of Western Asia. These agreements have generally involved

.../

Iraq and Jordan, or one of them and a partner from the Gulf area. This is explainable in terms of the close political 1/ and economic relations which have evolved in the past few years between the two countries; and the importance of the Gulf sub-region for Jordan as a major export outlet and employer of Jordanian labour, and for Iraq as a direct and indirect (through transit) source of imports.

D. An Expanding Role for the Private Sector

Arguments advocating a more active role for the private sector in regional economic cooperation have steadily gained grounds in recent years prompted by a number of considerations including: (a) the growing potential of the private sector to play an effective role in regional cooperation, stemming from its ability to mobilize and invest substantial savings as illustrated by the establishment and operations of several investment companies and consortia in the Gulf area, notably in Kuwait and Bahrain; (b) the concentration of investible funds in predominantly market-oriented economies and the generally more attractive "investment climate" prevailing in similarly-oriented deficit economies; (c) the weakening of the notion that Arab economic cooperation is basically an intergovernmental domain, reflecting the limited progress achieved by following that path; and, (d) the continuing arguments expounding the merits of greater private sector involvement by Arab economists and private sector organizations, with the Union of Arab Chambers of Commerce, Industry and Agriculture palying a leading and pioneering role.

The "formal" recognition of the importance of a larger private sector participation 2/ is reflected in the approval by the Eleventh Arab Summit Meeting of the Unified Agreement for the Investment of Arab Capital in the Arab Countries (see Section C), and the joint organization

1/ Improved political relations between each of Iraq and Jordan, on the one hand, and Egypt, on the other hand, have been mirrored in a resumption of trade relations. Thus, Jordan and Egypt are reported to have resurrected the bilateral 1978 Protocol (December 1983) officially endorsing inter-state trade for the first time since the Camp David Accords. Also, Iraq and Egypt signed a protocol in August 1983 providing for a \$35 million of trade involving exchange of Egyptian textiles for sulphur and phosphates from Iraq.

2/ An earlier important step in the same direction was the setting up in 1975 of the Inter-Arab Investment Guarantee Corporation. The operations of the Corporation, however, have been constrained by its relatively small, and virtually committed capital. Its impact on promoting private investment is also constrained by the fact that its insurance coverage does not extend to the domestic partner.

by the Arab League, the Union of Arab Chambers of Commerce, Industry and Agriculture and the Inter-Arab Investment Guarantee Corporation, of the First Conference of Arab Businessmen and Investors (Taif, Saudi Arabia, 30 March - 1 April 1982) and the decision to convene the Conference periodically 1/. More recently, this trend was reaffirmed by the Task Force established to promote agricultural development and food security through the establishment of joint ventures in its first meeting held in November 1983 2/.

Moreover, the issue has come to occupy an increasingly important place on the agenda of seminars, workshops and other meetings concerned with promoting inter-Arab economic cooperation.

The economic factors holding the flow of private capital for productive investment purposes have been amply documented. But inadequate attention seems to have been accorded to the perhaps equally-important associated psychological barriers. Many of the potential investors are inward-looking - reflecting lack of knowledge and experience, with external markets - and show preference for financial investments and for real estate and related activities, as against commodity - producing (agriculture and industry) activities. The latter preference can be explained not only in terms of the relative complexity of the activities in question, but also by the background of the would-be investors, being mostly traders rather than industrialists or entrepreneurs.

E. Institutional Developments

At the institutional level, a number of significant developments can be noted. First, the Economic and Social Council of the League of Arab States continued to reassert its role - relative to the Council of Arab Economic Unity (CAEU) as the focal point for inter-Arab cooperation. In part, this must be viewed against the fact that in contrast to the CAEU, its wider membership includes all the Gulf oil-exporting countries which have come to wield substantial financial and economic power since the 1973 adjustment of oil prices.

1/ The Conference called for the establishment of an Arab Company for Agricultural Investment; and three years earlier, the Union of Arab Chambers of Commerce, Industry and Agriculture sponsored the establishment of the Arab General Investment Company (see Annex I).

2/ The Task Force is chaired by the Arab Economic and Social Council with the Arab Fund for Economic and Social Development as its Secretariat and the membership for the Council of Arab Economic Unity, the Arab Industrial Development Organization, the Union of Arab Chambers of Commerce, Industry and Agriculture, the Arab Organization for Industrial Development, the Arab Development Funds, the Inter-Arab Investment Guarantee Corporation and concerned Joint Ventures.

Second, there has been increasing cooperation and coordination in the activities and operations of the major Arab development funds, particularly in the area of co-financing ^{1/}. This has also been reflected in technical assistance activities, loan management, exchange of information, undertaking of studies, project evaluation and the standardization of work procedures and documentation. Such cooperation has enabled the funds to make a more effective use of their "scarce" resource, namely, managerial and technical expertise.

Third, in an effort to accelerate the utilization of resources and enhance the efficiency of operations, the Arab Investment Company (Riyadh) opened in 1983 representative offices in each of Jordan and Tunisia. The intention is to help in identifying new investment opportunities and follow up on existing projects, as well as establishing close working relations with participants in these projects, government agencies and local regional financial institutions and with businessmen with whom cooperation could be envisaged for setting up joint projects. The Government of Bahrain has also agreed to permit the Company to open a branch in addition to its granting of permission to operate an "offshore" banking unit. Similarly the Arab Company for Livestock Development (Damascus) opened in 1982 a regional office in Riyadh to supervise its projects in each of Sudan, Saudi Arabia, the United Arab Emirates and Yemen, in addition to the preparation of project studies and engineering design. The Inter-Arab Investment Guarantee Corporation also has plans to open offices in Saudi Arabia and the United Arab Emirates to be closer to potential investors.

Fourth, the Industrial Development Centre for Arab States (IDCAS) was transformed into the Arab Organization for Industrial Development (AIDO). Also, the OPEC Special Fund was converted into a permanent international agency for technical cooperation and development under the name of the OPEC Fund.

The authorized capital of the Arab Fund for Economic and Social Development was doubled to KD 800 million as of 1 March 1983. Similarly the capital of the Arab Monetary Fund was (April 1983) more than doubled to 600 million Arab accounting dinars (about \$2 billion) from 288 million dinars (about \$950 million).

The region appears - in terms of numbers and envisaged activities - to be well-endowed with institutions geared to promote cooperation among

^{1/} The volume of joint financing covering some 90 projects amounted to KD 186 million at the end of 1982.

its members. However, the overall impact in this respect has remained rather limited and much below expectations. While not arguing against the setting up of new institutions, efforts could more usefully concentrate on building up the effectiveness of existing institutions, devoting particular attention to the manpower aspect.

F. Resource Transfers

The rapid accumulation of financial resources since 1973 has stimulated new interest in the potential of Arab economic cooperation by focusing on these countries' interdependence and the complementarities linking their economies, and by opening up a wide spectrum of cooperation possibilities.

However, the flow of funds within the region for productive investment remained modest, both relative to the overall magnitude of available resources and to investment opportunities, reflecting the hesitation of the private sector to invest within the region, and the nature of official flows. These have been largely shaped by governmental decisions and attitudes, and used basically as instruments of national policy, or in response to regional security considerations and other political developments emanating from joint Arab decisions.

The dominance of non-economic influences in the disbursement of Arab financial assistance is reflected in the allocation of aid flows. These have largely benefited countries with which the donors have special ties and relations rooted in common security preoccupations and/or religious, ethnic and cultural ties (mainly Arab and Islamic countries in Asia and Africa and a limited number of other developing countries). Political considerations are also evident in the preference for channelling aid bilaterally, predominantly in the form of non-project assistance, and in the concentration of individual donor's aid on particular countries. These features, in turn, partly explain the observed irregularity of some flows and the large variations in their size and overtime and their interruption or discontinuation at times.

Moreover, the disbursement of official aid has not generally been undertaken within a long-term developmental or regional perspective. Rather, it has been strongly influenced by the level of earnings 1/ from

1/ This is not necessarily the case with assistance disbursed by national and multilateral aid institutions set up by the Arab donors. The resources available to these institutions, being determined by previously made capital commitments and accumulated reserves, are, in the short and medium-term at least, insulated from the effects of fluctuations in export earnings.

exporting oil - sometimes with a lag - as evidenced by the upsurge in aid flows in the period immediately following the adjustment of oil prices in 1973 and 1980, their levelling off in 1979 and sharp decline in the 1981-1982 period.

In view of the paucity of documented information on private capital movements inside the region, the discussion which follows deals mainly with bilateral official assistance for which relatively systematic information is available ^{1/}; statistical information on assistance handled through multilateral channels being readily available only for the component disbursed through Arab aid institutions.

Concessional assistance flows from the region's five members of the Organization of Petroleum Exporting Countries (OPEC), namely, Iraq, Kuwait, Qatar, Saudi Arabia and the United Arab Emirates peaked in 1980, reaching \$ 9,137 million, but declined sharply in the subsequent two years to \$ 6,537 million in 1982 (Table 1). The setback reflected the impact of unfavourable developments affecting the oil sector, and the virtual cessation of Iraqi aid following the outbreak of war with Iran in September 1980. Only Kuwait managed to raise the level of its aid in 1982 by about \$ 140 million from the previous year.

The proportion of GNP of the ECWA donors devoted to concessional assistance has been falling over the past 3-4 years and seems unlikely to revert in the near future to the high levels attained earlier (Table 1). Nevertheless, their performance compares very favourably with that of the members of the Development Assistance Committee (DAC) of OECD where net official development assistance (ODA) flows represented 0.38 per cent of their combined GNP in 1982. Aid flows from the ECWA countries,

^{1/} This information, published regularly by the secretariat of the Organization for Economic Cooperation and Development (OECD), has itself been subject to substantial revisions (see, for example, OECD, Development Cooperation, 1982 and 1983 reviews).

Table -1. Concessional Assistance by ECWA Countries Members of OPEC, 1975-1982

(Net disbursements)

	1975	1976	1977	1978	1979	1980	1981	1982 ^{a/}
	<u>\$ million</u>							
Iraq	215	231	62	172	847	876	148	-
Kuwait	946	531	1292	978	971	1140	1154	1295
Qatar	338	195	189	98	287	269	248	251
Saudi Arabia	2756	3028	3086	5464	4238	5943	5664	4428
United Arab Emirates	1046	1021	1052	885	970	909	811	563
Total	5301	5006	5681	7597	7313	9137	8025	6537
	<u>As percent of CNP</u>							
Iraq	1.62	1.44	0.33	0.76	2.53	2.39	(0.40)	-
Kuwait	7.40	3.63	8.10	5.46	3.50	3.40	3.55	4.86
Qatar	15.58	7.95	7.56	3.38	6.18	4.03	3.75	(3.80)
Saudi Arabia	7.76	6.46	5.24	8.39	5.55	5.09	3.58	2.82
United Arab Emirates	11.68	8.88	7.23	6.35	5.09	3.30	2.88	2.06

Source: Organization for Economic Cooperation and Development (OECD), Statistical Annex
(Development Cooperation, 1983 Review).

a) Provisional.

- = Nil or negligible.

() = OECD Secretariat estimates.

moreover, have almost invariably and largely surpassed the 0.7 per cent target of the International Development Strategy 1/ (IDS) for ODA from developed to developing countries.

Financial assistance extended by the ECWA countries has been dominated by Saudi Arabia whose share in total concessionary aid supplied by the five ECWA/OPEC members between 1975-1982 amounted to 63.4 per cent. Since 1974, this country has ranked as the second largest aid donor.

Concessional aid extended by the ECWA countries members of OPEC has been overwhelmingly bilateral (Table 2), reflecting the importance of the grant component in overall aid flows. For instance, the share of bilateral flows in total concessionary assistance from the ECWA/OPEC members amounted to 93.2 per cent in 1981. This share declined to 84.9 per cent in 1982 while that of multilateral flows increased both in relative and absolute terms. It would appear that the brunt of a decline in aid is borne by bilateral flows because of the relative ease with which they can be manipulated by the donor and the relative rigidity of the much smaller multilateral commitments.

More than 38 per cent of OPEC 2/ bilateral aid from 1979 to 1982 is unallocated geographically. Of the allocated portion (Table 3), the ECWA region, excluding Egypt 3/, has had the largest share with the Syrian Arab Republic leading, followed by Jordan and to a lesser extent Yemen. During the same period, the share going to other Arab countries fluctuated between 9.1 per cent and 15.9 per cent. Both shares have, however, been following a declining trend in recent years in favour of other developing countries notably in Africa and Asia.

1/ The IDS, in its paragraph 24, calls for "a rapid and substantial increase ... in official development assistance by all developed countries, with a view to reaching and where possible surpassing the agreed international target of 0.7 per cent of the gross national product of developed countries." The Strategy urges developed countries which have not yet attained the target to do so by 1985, but not later than the second half of the decade, and to reach the target of 1 per cent as soon as possible thereafter. The Strategy also calls upon developing countries "in a position to do so to continue to provide assistance to other developing countries." It stresses on the need to direct assistance to the least developed countries and other special categories where needs and problems are greatest.

2/ OPEC aid is dominated by the Arab donors whose share in the total averaged close to 95 per cent during 1979-1982.

3/ Egypt received virtually no aid after 1979.

Table -2. Concessional Assistance by ECWA Countries Members of OPEC

Channelled Bilaterally and Multilaterally, 1981-1982

(Net disbursements; millions of dollars)

Donor Country	1 9 8 1			1 9 8 2			Percentage Share of bilateral flows	
	Total	Bilateral	Multilateral	Total	Bilateral	Multilateral	1981	1982
Iraq	147.5	121.7	25.8	--	-25.0	25.0	82.5	-
Kuwait	1154.1	1009.4	144.7	1294.6	989.5	305.1	87.5	76.4
Qatar	248.4	229.9	18.5	250.5	212.1	38.4	92.6	84.7
Saudi Arabia	5664.2	5359.4	304.8	4428.1	3907.0	521.1	94.6	88.2
United Arab Emirates	810.6	760.7	49.7	562.9	466.5	96.4	93.8	82.7
Total	8024.8	7481.1	543.7	6536.1	5550.1	986.0	93.2	84.9

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Source: Organization for Economic Cooperation and Development (OECD), Statistical Annex

(Development Cooperation: 1983 Review).

Table 3. Geographical Distribution of Concessional Aid Flows from OPEC Donors, 1979-1982

	(Net disbursements)				Percentages			
	\$ million							
	1979	1980	1981	1982 ^{a/}	1979	1980	1981	1982 ^{a/}
<u>ECWA countries</u>	<u>3423.4</u>	<u>3634.9</u>	<u>2772.8</u>	<u>2361.5</u>	<u>49.2</u>	<u>41.6</u>	<u>36.4</u>	<u>42.9</u>
Egypt	166.4	4.8	-18.3	-17.2	2.4	-	-0.2	-0.3
Bahrain	97.1	147.4	138.9	79.7	1.4	1.7	1.8	1.4
Jordan	1123.0	1127.8	911.1	709.1	16.3	12.9	12.0	12.9
Lebanon	57.2	193.2	374.4	112.1	0.8	2.2	4.9	2.0
Oman	168.2	164.7	230.3	120.3	2.4	1.9	3.0	2.2
Syrian Arab Republic	1632.7	1654.8	874.9	1057.5	23.4	19.0	11.5	19.2
Democratic Yemen	24.6	49.9	45.6	66.4	0.3	0.6	0.6	1.2
Yemen	156.2	294.4	215.8	235.2	2.2	3.4	2.8	4.3
<u>Other Arab Countries</u>	<u>1000.5</u>	<u>1079.0</u>	<u>692.6</u>	<u>875.1</u>	<u>14.4</u>	<u>12.3</u>	<u>9.1</u>	<u>15.9</u>
<u>Unallocated</u>	<u>2330.7</u>	<u>3074.0</u>	<u>3644.5</u>	<u>2054.3</u>	<u>33.5</u>	<u>35.2</u>	<u>47.9</u>	<u>37.3</u>
<u>Total</u>	<u>6962.3</u>	<u>8732.4</u>	<u>7612.2</u>	<u>5507.0</u>				

Source: Organization for Economic Cooperation and Development, Statistical Annex (Development Cooperation, 1983 Review).

^{a/} Provisional

The bulk of bilateral assistance continues to be channelled through intergovernmental agreements, though an increasing portion is being channelled through national aid agencies. The role of these agencies has, nevertheless, remained relatively modest reflecting the fact that a high share of aid takes the form of cash grants over which they have no control, and the concentration of their operations on project assistance which is a time-consuming process.

Non-project assistance, consisting overwhelmingly of budget and balance of payments support, has in recent years accounted for about four-fifths of total OPEC bilateral concessional commitments (Table 4), the balance going to infrastructure projects. The predominance of budget and balance of payments support, relative to other forms of aid, implies minimal preparations and follow-up once the aid decision is made. However, the developmental impact of such aid is difficult to assess unlike the more specific project-oriented assistance.

Table 4. Sectoral Distribution of Bilateral Concessional Commitments by OPEC Donors, 1978-1981
(In per cent of total)

	1978	1979	1980	1981
Non-project assistance	79.8	76.4	84.9	79.8
of which:				
General Support	76.9	65.4	78.5	75.2
Project assistance	20.2	23.6	15.1	20.2

Source: Organization for Economic Cooperation and Development, Aid from OPEC Countries (Paris, 1983)

Project assistance has remained the domain of Arab aid agencies, whether national or multilateral. These agencies have in recent years stepped up their operations enabled by the sizable increases in their resources, enactment of legislation expanding the geographic scope of their activities and co-financing arrangements among themselves and with other

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leading international aid institutions. The cumulative commitments made by eight institutions (Table 5) up to the end of 1982 amounted to \$ 16.5 billion. The sectoral distribution of these commitments leans heavily towards transport and communications as well as power and electricity. Their geographical distribution, while continuing to show strong preference in favour of Arab countries, has been showing a discernible shift in favour of African and Asian developing countries whose share in total cumulative commitments increased from an average of 38.9 per cent in 1977-1979 to 58.1 per cent in 1980-1982. In part, this is a reflection of the setting up of institutions the scope of activities of which is not primarily directed towards the Arab countries (e.g., the Islamic Development Bank).

There is no doubt that the absorption of funds within the region could be raised through a more effective exploitation of the potential of regional cooperation. The process could be enhanced by bearing inter alia, the following considerations in mind. First, to the extent that existing constraints are a reflection of inter-country differences in socio-political philosophies and systems and, consequently, are not likely to be amenable to a rapid change, then attempts to promote intra-regional investment flows that ignore this fact could prove counter-productive and frustrating. Second, there is a tendency to gloss over the distinction between private and public flows. A better understanding of the issues involved and remedies needed could be gained from such a distinction because of differences in the premises governing the use of each type of funds and in the conditions that induce its flow. Third, the obstacles to intra-regional capital movements usually cited conveys the impression that the responsibility lies solely with the would-be recipient countries. While this may be largely correct there is, however, a need also to consider possible obstacles that emanate from policies or attitudes prevailing in the potential source of finance.

At the same time, equal attention at least should be focused on extra-regional investments, with special consideration related to their safety and remuneration. In this respect, the surplus countries in the region have a great stake in promoting international economic and political stability. Accordingly, the effective presence of member countries in relevant international negotiating fora is essential. Their efforts in this respect would be greatly helped if supported by other developing countries. This, in turn, would largely depend on the active support the ECWA countries for the major preoccupations of other third world countries, including the extension of financial assistance.

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Table -5. Arab Aid Institutions: Cumulative Distribution of
Development Financing Operations (Commitments)
until 31/12/1982

	\$ million	Percent
A. Sectoral distribution		
Transport and telecommunications	3983	24.1
Power and electricity	4461	27.0
Water and sewerage	800	4.8
Agriculture and Livestock	2472	15.0
Industry and mining	2817	17.1
Other	1975	12.0
<u>Total</u>	<u>16509</u>	100.0
B. Geographical Distribution ^{a/}		
ECWA countries	3534	21.4
Other Arab countries	4931	29.9
Developing countries in:		
Africa	3330	20.2
Asia	4329	26.2
Latin America	315	1.9
Other	70	0.4
<u>Total</u>	<u>16509</u>	<u>100.4</u>

	\$ million	Percent
<u>C. By institution</u>		
Islamic Development Bank	2451	14.8
Abu Dhabi Fund for Arab Economic Development	1004	6.1
OPEC Fund for International Development	1629	9.9
Saudi Fund for Development	3786	22.9
Iraqi Fund for External Development	1733	10.5
Arab Fund for Economic and Social Development	1566	9.5
Kuwait Fund for Arab Economic Development	3866	23.4
Arab Bank for Economic Development in Africa	474	2.9
<u>Total</u>	<u>16509</u>	100.0

Source: The Unified Arab Economic Report, 1983.

a/ Among the Arab countries the leading beneficiaries were Jordan (6.2 percent) followed by Morocco (6.0 percent), Yemen (5.6 percent), Tunisia (5.2 percent), Egypt (4.6 percent), Sudan (4.5 percent) and Mauritania (3.8 percent).

G. Labour Movements

Less conspicuous, but perhaps equally or more significant than financial flows, has been the large movement of manpower from the labour surplus countries in the direction of the Gulf sub-region mainly. The importance of intraregional labour flows derives not only from the contribution they make to the process of development in the receiving countries and to the balance of payments and savings of the countries of origin, but also from the fact that workers' remittances represent an income earned from rendering services to the host country. Hence, they are likely to be less affected by non-economic considerations in contrast to the more volatile and unstable financial flows.

While the intraregional flow of labour has served the interests of both the supplying and the receiving countries, the massive labour flows witnessed in recent years have not been free of drawbacks. The labour-importing countries have had to deal with mounting economic and socio-political costs as a consequence of accommodating large numbers of expatriates, while the demand pressure on the suppliers of labour has turned them into importers of certain types of labour, and caused the emergence of undesirable consequences, e.g., declining agricultural output and high inflationary pressures. Moreover, the shift in the skill requirements of some labour-importing countries carry possibilities of displacement as cheaper non-Arab labour compete with labour from the region. Despite these undesirable consequences, the extensive movement of labour within the region has created a situation of mutually beneficial interdependence for all the countries concerned.

The new labour demand-supply relationship emerging in the region, the declining trend in the region's share in the supply of labour, and the imbalances in the region's requirements of skills and their supply call for concerted effort by both the labour-importing and labour-exporting countries to develop a long-term perspective of the region's manpower needs and the best way of meeting them. The effort could usefully begin with manpower planning at the national level, delineating priority areas along with clear-cut employment policies. The countries involved could then enter into bilateral agreements embodying legislative provisions aimed at governing the flow of labour across national boundaries. Such an arrangement could also enable them to exploit their comparative advantage to promote cooperation among themselves and protect the rights of Arab labour vis-à-vis non-Arab labour. Furthermore, the situation calls for concerted efforts to increase co-operation in educational, scientific and technical areas. Progress in all these fronts will undoubtedly provide the basis for initiating collective action within the framework of multilateral agreements at the regional level.

Bilateral or multilateral agreements designed to regulate intra-regional labour movements, resulting in better planned and orderly policies, should help in evening out fluctuations, render remittances more predictable and "return" migration less painful. It should also help to reduce the social costs associated with massive labour flows.

The urgency of action in this respect has been rendered more pressing by the recent slowdown in economic activity in the labour-importing countries the impact of which is already felt in lower workers' remittances.

Conclusions

The experience with Arab regional economic cooperation, until the early nineteen seventies, was dominated by efforts to liberalize and facilitate the flow of trade. The overall approach was often too ambitious and comprehensive with respect to both objectives and geographic scope. The proposals generally lacked the necessary flexibility to allow for the wide differences in the situations of various countries. These proposals were offered on a full adherence or rejection basis and the would-be contracting parties did not have the choice to adhere to parts thereof for which they were ready. Witness, in this respect, the example of the Arab Common Market agreement the membership and effectiveness of which have remained very limited despite efforts by the Council of Arab Economic Unity (CAEU) extending over a period of two decades. Another drawback of these earlier efforts resided in the fact that the decisions adopted by the institutional machinery (e.g., the CAEU) were not binding on member countries. In other words, political rather than technical considerations were the decisive factor.

The earlier experience also leaned very heavily on intergovernmental action reflecting perhaps the dominant economic and social philosophies prevailing at the time in the regionally more active countries, namely, Egypt, Iraq and the Syrian Arab Republic. Regional economic cooperation was basically viewed, and pursued, as a matter between governments with a limited role for the private sector to play. Moreover, these efforts suffered from absence of support by "interest" groups, such as producers' associations which emerged subsequently.

While the approaches discussed above reflected the prevailing thinking and trends in regional cooperation at the time, which assigned a leading role to trade liberalization and government action, options must have been limited by the lack of financial resources.

The adjustment in oil prices in 1973 and 1974 and the subsequent accumulation of substantial financial resources have altered the old equations and opened a wide spectrum of cooperation possibilities. It should be noted, however, that this has not led to abandoning entirely the pursuit of earlier lines of action - notably trade liberalization and freedom of capital movement. This is evidenced by the recent introduction of a new Convention for Facilitating and Developing Trade between Arab States - in place of the 1953 Convention - and the Unified Agreement for the Investment of Arab Capital - to supersede the various agreements concluded thereto. Again, many countries have yet to ratify the two

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agreements - not to mention their implementation ultimately. But it is interesting to note the support by the Gulf countries for the two agreements reflecting, inter alia, their growing concern with ensuring outlets for their emerging exports, petrochemicals notably, and promoting a healthy investment climate.

The current phase in Arab economic cooperation is characterized by a number of features which have been making themselves increasingly felt since the mid-1970s and which will certainly have far-reaching implications in the long-term. Among the more significant of these features the following may be mentioned: the growing support for sub-regional cooperation; increased involvement of the private sector in the cooperative process; emergence of a consensus considering joint ventures among the more, if not the most, promising vehicle for promoting regional cooperation; large influx of capital from the surplus to the deficit member countries and a substantial flow of labour in the opposite direction; institution building and change; and, strong impact of political factors on cooperation efforts.

Several of these features, it is worth noting, can be related in one way or the other to the emergence of the Gulf oil-producing countries as a major economic and financial influence in the region.

Sub-regional Cooperation

The most significant development in this respect has been the establishment of the Gulf Cooperation Council (GCC), on 25 May 1981, by Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates.

Although the formation of the GCC appears to have been primarily in response to preoccupations peculiar to the Gulf sub-region, its implications for economic cooperations in Western Asia, and in the wider Arab context, cannot be over-emphasized. The GCC member states wield substantial economic and financial power as aid donors and markets for goods, services and labour. To that extent their economic policies can have considerable impact on other countries in the region.

The achievements of the Council since its inception about three years earlier have been quite impressive including the abolition of customs duties on intra-trade, freedom of movement of citizens and of professional practice, right to establish business ventures, establishment of a common external tariff, policy coordination in a number of sectors and the establishment of the Gulf Investment Corporation with an authorized capital of \$2.1 billion.

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Private Sector Involvement

Arguments advocating a more active role for the private sector in regional economic cooperation have steadily gained grounds in recent years to the extent of receiving explicit expression of support from the Arab Economic and Social Council. While the weakening of the notion that Arab Economic Cooperation is basically an intergovernmental domain - reflecting the limited progress achieved by following that path - must have contributed to this, the explanation should be thought in changed economic realities including: the growing potential and ability of the private sector to mobilize and invest substantial savings; the concentration of investible funds (both public and private) in predominantly market-oriented economies; and, the generally more attractive "investment climate" prevailing in similarly disposed economies. The issue is how to make best use of this potential. In this, great hopes have come to be pinned on joint ventures.

Joint Ventures

In reviewing the operations of inter-Arab joint ventures (JVs) a number of issues relating to their formation and operation, and ultimately on their effectiveness, emerge.

The objectives of some major intergovernmental JVs place considerable emphasis on "strategic" considerations such as man-power training and acquisition of know-how. Their sponsors, however, seem to have failed to indicate the importance of this dimension relative to financial profitability. This has led to difficulties in assessing the effectiveness of operations and should, therefore, be avoided whenever possible.

Some of the major intergovernmental JVs seem also to be over-endowed with financial resources relative to their ability to spend as judged by the experience so far. In part, this could be related to the very broad nature of their mandates. A faster and more effective utilization of resources could result from defining more narrowly the scope of their operations.

The link between the ownership of capital, selection of higher management cadres, and the possibility of governments interfering in the operations of JVs has been a crucial concern. This stems, on the one hand, from the observation that ownership of capital and managerial skills do not necessarily go together and, on the other hand, because government interference could result in restricting the freedom of decision-making.

The momentum of establishing large intergovernmental JVs with broad mandates - which reached its peak around the mid-1970s - appears to have

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slowed down. This could be interpreted largely in terms of the weakening enthusiasm for JVs with a large membership and, therefore, more diffused decision-making power, and broad functions, and the emergence of apparently more attractive combinations characterized by having both fewer members and private sector participation, and more specific mandates. The move towards more "compact" types of JVs reflects the difficulties experienced with setting up and operating JVs with a large number of participants and broadly defined scope of activities.

That competition from similar national enterprises could pose a serious threat to the success of JVs, especially where large investments and world-wide competition are involved, or where the project is regionally export-oriented, are supported by the experience of the Arab Maritime Petroleum Transport Company (AMPTC). In contrast, building on the experience of national enterprises has proven to be advantageous as illustrated by the case of the United Arab Shipping Company. Avoiding harmful competition and ensuring market access could be achieved by sharing in existing enterprises as, for example, has been done by Saudi Arabia with respect to Aluminum Bahrain (ALBA).

Claims by JVs for preferential treatment invoking the "infant" industry argument are not infrequent. These, however, ought to be considered on a case-by-case basis and care should be exercised unless they become permanent features. The argument for governmental support is stronger in the case of JVs whose operations result in benefits to the economy which would not normally appear in their profit or loss accounts (e.g., training).

The experience of the holding-type JVs in setting up "second-generation" projects reveals marked variations in achievements and approach. The "second-generation" projects have generally been national in scope and intended basically to cater to domestic needs. In some cases, as the Arab Company for Livestock Development, definite preference has been shown for wholly-owned projects or majority sharing. In others, minority share-holding, as in the Arab Mining Company, or a combination of minority sharing with lending, as with Arab Investment Company, was preferred.

Other things being the same, full ownership or majority equity participation implies a more active role in the development of a project from conception to operation which should promote learning by doing. This is in line with the intended aim of the holding-type JVs to act as project generators. Such an aim could also be served if minority participation and associated expertise are essential for getting a

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project off the ground; in the event, the sharing could ultimately be withdrawn to free resources for other uses.

The field of operations of some major intergovernmental JVs has remained broad in terms of projects entered into, thus foregoing the benefits of learning by doing. The experience so far and the slow pace of progress argue in favour of defining more narrowly the fields of concern. In several instances, this could be done without necessarily having to commit new resources by redeploying unused funds.

Resource Transfers

Financial flows have perhaps been the most conspicuous feature of economic relations between countries of Western Asia in recent years. These flows have constituted a major influence in the balance of payments of the deficit member countries and in their capacity to import. However, the flow of funds for investment purposes remained modest, reflecting the hesitation of the private sector to venture beyond national bounds and the dominance of non-economic considerations and, hence, non-project assistance, notably budget and balance of payments support, in the disbursement of official aid. Moreover, official aid was not generally undertaken within a long-term and regional development perspective. Rather, it was strongly influenced by the level of current export earnings; hence, the observed irregularity and at times interruption of some flows, and large variations in their size and over time.

The prospects that a larger share of official aid be devoted to investment projects will largely depend - given present policies - on the ability of Arab national and multilateral aid agencies to expedite the disbursement of their loan and technical assistance aid. This, in turn, is a function of the availability of suitable projects and expert manpower needed to process aid disbursements. While some notable progress has been made in this respect, the process can be expected to pick up momentum only gradually.

Governments have channelled the bulk of their investment aid through their national/multilateral aid institutions and participation in joint ventures. Many of these joint ventures, it should be noted, were the outcome of political rapprochement to start with. Given the likely continuation of present policies, efforts should be directed towards inducing the private sector to invest increasingly in productive ventures inside the region.

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The flow of private capital faces constraints varying from one country to another. These impediments have their origin either in the lack of investment opportunities or knowledge about them, and in the existence of what has come to be known as unfavourable "investment climate" - itself a convenient label for a constellation of economic and political factors. In this connexion, therefore, it is not sufficient to suggest the setting up of institutions in the surplus countries to collect and channel private savings. The experience in this area indicates that the savings thus mobilized have been largely invested outside the Arab region, and that such direct investment and equity participation as there has been in the region have concentrated on few countries and have gone to real estate, property development and banking. Similarly, the solution is unlikely to come through the enactment of new legislation or the setting up of institutions to guarantee the safety of investments, though such steps will no doubt help. The crucial issue is how to overcome the "psychological" barrier inhibiting the flow of private capital. To a considerable extent, this will depend on having governments of the potential recipients enunciate clear, well-defined and enduring policies regarding the role of the private sector as confidence can only be built up slowly.

Labour Movements

Less conspicuous, but perhaps equally or more significant than financial flows, has been the large movement of manpower from the labour surplus countries in the direction of the Gulf sub-region mainly. The importance of intraregional labour flows derives not only from the contribution they make to the process of development in the receiving countries and to the balance of payments and savings of the countries of origin, but also from the fact that workers' remittances represent an income earned from rendering services to the host country. Hence, they are likely to be less affected by non-economic considerations, in contrast to the more volatile and unstable financial aid flows.

While the intraregional flow of labour has served the interests of both the supplying and the receiving countries, the massive labour flows witnessed in recent years have not been free of drawbacks. The labour-importing countries have had to deal with mounting economic and socio-political costs as a consequence of accommodating large numbers of expatriates, while the demand pressure on the suppliers of labour has turned them into importers of certain types of labour, and caused the emergence of undesirable consequences, e.g., declining agricultural output and high inflationary pressures.

The new labour demand-supply relationship emerging in the region, the declining trend in the region's share in the supply of labour, and the imbalances in the region's requirements of skills and their supply call for

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concerted effort by both the labour-importing and labour-exporting countries to develop a long-term perspective of the region's manpower needs and the best way of meeting them. The urgency of action in this respect has been rendered more pressing by the recent slowdown in economic activity in the labour-importing countries the impact of which is already felt in lower workers' remittances.

Institution Building and Change

The region appears - in terms of numbers and envisaged activities - to be relatively well-endowed with institutions, both of the coordinating and development financing types. While not arguing against the setting up of new institutions, efforts could more beneficially concentrate on building up the effectiveness of existing ones, devoting particular attention to manpower development which appears to be the most important single constraint. Efforts could also be directed at avoiding duplication and pooling up of expertise through closer coordination as has been taking place among the development funds.

At the level of inter-governmental machinery concerned with regional cooperation, attention is drawn to the re-asserted position of the Arab Economic and Social Council as the focal point for inter-Arab economic cooperation. In part, this must be viewed against the fact that in contrast to the Council of Arab Economic Unity, its wider membership includes the Gulf oil-exporting states.

Political Factors

Political considerations have worked both in favour and against inter-Arab economic cooperation. However, their overall impact has adversely affected the process and frustrated many initiatives. This negative impact has arisen mainly from a generally weak political commitment which have obstructed implementation, and uncertainty regarding the continuity of integration measures created by unstable and shifting political relations.

The crucial issue is how to isolate economic cooperation efforts at various levels from the vicissitudes of political relations. One way is to avoid hasty commitments motivated by momentary considerations. Revoking such engagements could have a cumulative negative effect on further efforts to promote cooperation. Another is to ensure that sufficient economic interest and momentum are generated so as to reduce the chances of revoking agreements and commitments. This is illustrated by the fact that strained political relations between Jordan and the Syrian Arab Republic have not prevented some of the more important joint ventures (e.g., the Syrian-Jordanian Industrial Company) conceived within the frame of their 1975 economic and trade cooperation agreement from coming into being and even expanding their activities.

ANNEX I

Some Major Joint Ventures (JVs) among Arab Countries of Western Asia, 1979-1982
(by sector)

<u>Sector</u>	<u>Name</u>	<u>Sponsor</u>	<u>Participation</u>	<u>Authorized Capital</u>	<u>Nature of activities</u>	<u>Location/ Year of Establishment</u>	<u>Other</u>
<u>General</u>	Arab General Investment Company	Union of Arab Chambers of Commerce, Industry and Agriculture	Chairman and Board members of Arab Chambers of Commerce, Industry and Agriculture as founders; Arab nationals, Governments and Companies	Dh 700 mn.	Mobilization of Arab savings and their investment in subsidiary firms and/or equity participation in industrial, agricultural, financial and commercial projects	Dubai 1979	Holding company with a Pan-Arab scope
	Gulf Investment Company	Private investors and firms from Bahrain and Kuwait	Large numbers (1743) of private investors and firms mainly from Kuwait and Bahrain, and some from other Gulf states	\$ 500 mn.	Wide range of investment activities including finance, real estate, industry, commodities, agriculture, mining and tourism and related activities	Bahrain 1979	Authorized capital: \$ 125 mn. at time of establishment
	Gulf Investment Corporation	Gulf Cooperation Council (GCC)	Equal shares by GCC member states	\$ 2100 mn. to be paid over 5 years with first instalment by mid-November 1983	Investment in commercial, agricultural and industrial projects inside and outside the Gulf area	Kuwait 1982	Member states can sell up to 49% of their shares to their respective nationals
	Gulf Company for Arab Investment		Businessmen, firms and institutions from GCC states, plus Arab businessmen residing in the Gulf area	\$ 500 mn. (paid: \$ 50 mn.)	Investment in real estate, agriculture and industry, concentrating on setting up touristic complexes	Bahrain 1982	Geographical scope: Egypt, North Africa and South-east Asia

ANNEX I (contd.)

<u>Sector</u>	<u>Name</u>	<u>Sponsor</u>	<u>Participation</u>	<u>Authorized Capital</u>	<u>Nature of activities</u>	<u>Location/Year of Establishment</u>	<u>Other</u>
<u>Agriculture</u>	Arab Company for Agricultural Investment	First Conference of Arab Businessmen and Investors	Mainly Arab private investors; Governments may participate in a minority capacity	\$ 1000 mn.	Direct investment in agricultural projects; processing of agricultural products; trade in agricultural products and in machinery, equipment and fertilizers	Bahrain 1982	Pan Arab scope; bank to be set up to finance projects
<u>Manufacturing</u>	Gulf Petrochemicals Industries Company	Bahrain National Oil Company, Kuwait Petrochemical Industries Company and Saudi Basic Industries Corporation	Bahrain, Kuwait and as of June 1980, Saudi Arabia	BD 60 mn.	Production of methanol and ammonia	Bahrain 1979	Production planned for 1985 at rate of 1000 tons/day of each of methanol and ammonia
	Arab Iron and Steel Company	Arab Governments, Arab organizations and private and public investment firms from Bahrain, Iraq, Kuwait and UAE	Founders include: Arab Mining Co.; Kuwait Foreign Trading, Contracting and Investment Co.; Kuwait Metal Pipe Industries Co.; Al-Jazira Contracting and Investment Co.; General organization for Social Insurance (Bahrain); Al-Sharjah Group; Gulf Finance Centre; National Industries Co. (Kuwait); National Bank of Bahrain; Bank of Bahrain and Kuwait; and, Al-Ahli Commercial Bank	\$ 160 mn. (paid: \$ 105 mn.)	Transformation of iron ore into various products, starting with a pelletizing plant	Bahrain 1980	Start of operations planned for 1984

ANNEX I (contd.)

<u>Sector</u>	<u>Name</u>	<u>Sponsor</u>	<u>Participation</u>	<u>Authorized Capital</u>	<u>Nature of activities</u>	<u>Location/Year of Establishment</u>	<u>Other</u>
	Gulf Pharmaceutical Industries Company	Government of Ras al-Khaima, Arab Company for Pharmaceutical Industries in Iraq, and private investors from the Gulf region		Dh 100 mn.	Manufacture of pharmaceutical products	Ras al-Khaima 1980	
	Gulf Aluminium Rolling Company	Gulf Organization for Industrial Consulting (GOIC)	20% each of Bahrain, Iraq, Kuwait and Saudi Arabia; 10% each of Oman and UAE	BD 24 mn.	Production of Aluminium Sheets and Strip	Bahrain 1981	Production planned for 1985 at 40000 tons/year
	Ras al-Khaima Company for White Cement and Construction Materials		Gulf financial groups and nationals (Kuwait and UAE)	Dh 600 mn.	Production of white cement and building materials	Ras al-Khaima 1981	Capital fully paid 1235-
	Arab Company for White Cement	Syrian-Jordan Industrial Company	25% by public sector institutions/organizations in each of Jordan and Syria, and 50% by the Syrian-Jordanian Industrial Company	JD 10 mn.	White cement	Jordan 1981	Production expected to start in 1984 at rate of 100,000 tons/year
	Saudi-Kuwaiti Cement Manufacturing Company		45% of shares owned by Kuwaitis	\$ 281 mn. (paid \$ 188 mn.)		Saudi Arabia 1981	Authorized capital to be raised to SR 967.5 mn (\$ 281.3 mn.) and paid-up capital to SR 645 mn. (\$ 188 mn.).

ANNEX I (contd.)

<u>Sector</u>	<u>Name</u>	<u>Sponsor</u>	<u>Participation</u>	<u>Authorized Capital</u>	<u>Nature of activities</u>	<u>Location/Year of Establishment</u>	<u>Other</u>
	Fuel oil processing plant	Governments of Bahrain, Kuwait and Saudi Arabia	Government of Bahrain (40%), Kuwait Petroleum Authority (30%) and Petromin (30%)	\$ 600 mn.	Processing of heavy fuel oil into lighter fuels and naphtha for export	Bahrain 1981	Expected to become operational in 1986 with a capacity of 80,000 barrels/day
<u>Services</u>							
	Arab Insurance Group	Governments of Kuwait, Libya and UAE	Governments of Bahrain, Kuwait, Libya and UAE as equal partners	\$ 3 bn. (paid: \$ 150 mn.)	All types of insurance and related operations, concentrating initially on reinsurance	Bahrain 1980	International scope of operations
	Arab Banking Corporation	Governments of Kuwait, Libya and UAE	Ministry of Finance Kuwait (\$ 250 mn.), Libyan Secretariat of Treasury (\$ 250 mn.) and Abu Dhabi Investment Authority (\$250 mn.).	\$ 1000 mn.	Banking operations	Bahrain 1980	International scope of operations
	Consolidated Gulf Services and Industry Company		Public and private firms of Gulf states	\$ 100 mn.	Contracting and engineering works and administration of ports and hospitals	Bahrain 1980	

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ANNEX I (contd.)

<u>Sector</u>	<u>Name</u>	<u>Sponsor</u>	<u>Participation</u>	<u>Authorized Capital</u>	<u>Nature of activities</u>	<u>Location/ Year of Establishment</u>	<u>Other</u>
	Gulf Medical Projects Company		Private investors (chiefly from Sharjah and Kuwait) and London-based Hospital Affiliates	\$ 19.5 mn.	Building hospitals and manufacturing and trading in pharmaceutical products	Bahrain 1980	
	Arab Engineering and Consulting Company	OAPEC	National oil companies of OAPEC states and Arab Petroleum Investments Corporation (APICORP)	\$ 20 mn.	Provision of design, consultancy and training services in the engineering field	Abu Dhabi 1980	
	Arab International Insurance Company		Insurance Companies from Bahrain, Iraq, Oman, Qatar, Saudi Arabia and UAE	\$ 10 mn.	Insurance	Bahrain 1980	
<u>Transport</u>							
	Iraqi-Jordanian Land Transport Company	Governments of Iraq and Jordan	Shared equally by Governments of Iraq and Jordan	\$ 50 mn.	Transport of merchandise from Aqaba port to Iraq	Jordan 1980	
	Arab Air Cargo	Governments of Iraq and Jordan	Shared equally by Governments of Iraq and Jordan	JD 20 mn.	Air freight	Jordan 1981	

Source: Compiled by the secretariat of the Economic Commission for Western Asia.

ANNEX II

Bilateral Agreements: 1979-1982

1. Technical cooperation agreement (January 1979) between the Syrian Arab Republic and the United Arab Emirates.
2. Technical cooperation agreement (February 1979) between Iraq and Saudi Arabia.
3. Telecommunications agreement (February 1979) between Bahrain and Qatar.
4. Agreement between Jordan and Yemen (May 1979) providing for cooperation in the field of information.
5. Agreements between Iraq (Iraq Inland Transport Company) and each of Jordan, Kuwait, and the United Arab Emirates for the use of their ports and territories for transiting goods into Iraq.
6. Trade and cooperation agreement between Iraq and Qatar (October 1979) providing for the establishment of joint projects and the facilitation of movement of their nationals and capital.
7. Cooperation agreement between Qatar and Saudi Arabia on production of petrochemicals and iron and steel.
8. Economic cooperation agreement (December 1980) between Oman and the United Arab Emirates providing for increasing trade and standardizing import specifications.
9. Economic and Trade cooperation agreement (January 1981) between Jordan and Qatar.
10. Trade Protocol (April 1981) between Iraq and Jordan calling for an increase in the quota of the Jordanian Trade Centre in Baghdad (from JD 4 million to JD 11 million); a loan to Jordan of JD 30 million for road construction; and, Iraqi investment of JD 11 million in Jordanian industries and joint ventures (to make durable goods such as refrigerators, air-conditioners and agricultural equipment, as well as food packaging and wood processing).

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ANNEX II (contd.)

11. Trade agreement (September 1982) between Bahrain and Iraq aiming at increasing the exchange of goods between the two countries and the elimination of customs duties in certain sectors. The two countries also approved other measures to encourage air transport and communication links and to provide for the exchange of technical expertise and training.
12. Agreement (September 1982) between Iraq and Jordan to form a JD 20 million industrial company. The company is to conduct feasibility studies for joint projects, deal in company shares in the two countries and promote trade. The company will be based in Amman but may have branches in both countries.
13. Labour agreement (October 1982) between Yemen and the United Arab Emirates according to which Yemeni workers in the United Arab Emirates will receive full legal rights afforded to nationals. The agreement, which is for a period of 5 years and automatically renewable, also stipulates strengthening cooperation in the areas of labour supply and exchange of information, as well as easing labour movement and work permit procedures.
14. Joint statement on trade cooperation (February 1983) between Iraq and Jordan signed at the end of the third session of the joint Iraqi-Jordanian Committee for economic and technical cooperation, covering terms relating to cooperation in the fields of trade, agriculture, irrigation, transport and industry. Accordingly, each of the Iraqi Trade Centre in Amman and that of Jordan in Baghdad will have a quota of JD 15 million for 1983.
15. Trade Protocol (August 1983) between Egypt and Iraq providing for \$35 million worth of trade exchange involving Egyptian textiles and Iraqi sulphur and phosphates.
16. Trade Protocol (December 1983) between Egypt and Jordan reactivating the 1978 Protocol which was suspended following the Camp David Accords.

CHAPTER II. THE LEAST DEVELOPED COUNTRIES

A. Performance against the objectives of the Substantial New Programme of Action (SNPA).

The United Nations Conference on the Least Developed Countries, which was held in Paris from 1 to 14 September 1981, adopted the substantial New Programme of Action (SNPA) for the 1980s for the Least Developed Countries. The General Assembly in resolution 36/194 of 17 December 1981 endorsed this programme. It falls within the annual framework of the International Development Strategy (IDS) for the Third United Nations Development Decade which calls for the implementation of a number of measures at the national level and for increased assistance from the international community to support the development efforts of these countries. The main objectives of the SNPA are to: (1) structurally transform the economies of the LDCs towards self-sustained development; (2) provide internationally minimum standards accepted social and economic well-being; (3) promote investments; and, (4) mitigate potential disaster damages. To this effect, it recommends action at the national level by providing targets and policy measures and at the international level by calling for certain targets in contributions for Official Development Assistance (ODA) and other measures aimed at rendering such assistance most effective in the recipient countries.

The development prospects of the two least developed countries of the ECWA region, namely Democratic Yemen and Yemen, have remained bleak over the years as a result of extremely low level of agricultural productivity, small industrial sector, high rate of population growth, poor resources endowment, lack of physical and institutional infrastructure, high level of illiteracy, lack of skilled manpower, endemic diseases, isolated settlements and strong rural-urban and outward migration. This situation had been aggravated in Yemen by a century-old isolation from the rest of the world and still prevailing regional tribal governing systems, which severely hamper development initiatives in the hinterlands.

In an effort to resolve these multi-dimensional problems development programmes were formulated which called for bold measures at the national level and sought international assistance in various fields. Both countries made satisfactory progress in these directions. They took actual part in the elaboration of the SNPA and incorporated most of its provisions in their current development plans.

However, both countries suffered severe set-backs in their development processes, caused by natural disasters in 1982, i.e., extensive floods in Democratic Yemen and devastating earthquakes in Yemen.

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In March 1982, after torrential rains, large areas of PDRY were hit by extensive floods, which left about 500 people killed and 50,000 homeless and destroyed about 50,000 livestock and 25,000 houses as well as a large number of bridges and wells. Vast areas of farmland were washed out. As of spring 1983, the affected areas were repeatedly hit by new floods, which increased the damage and rendered the repair and reconstruction efforts more difficult and costly. The total losses at the end of 1982 were at about \$ 975 million and continued rising in 1983.

The international community as well as individual countries started relief measures immediately by extending assistance in cash and kind. More than \$ 15 million were extended to PDRY immediately after the floods, from Arab countries and various multilateral organizations and about \$ 1.25 million were made available by Yemeni migrants. More than \$ 4 million were extended by United Nations organizations, including the World Food Programme, UNICEF, World Health Organization, FAO, UNDP and the UN Disaster Relief Organization. Much of this aid was in kind.

Bilateral assistance came from almost all Arab States led by Saudi Arabia with about \$ 9.5 million, and several European countries.

The assistance provided by bilateral and multilateral donors during the emergency stage, was essential, yet it did not continue to the same extent into the rehabilitation and reconstruction phase, thus forcing the development plan of Democratic Yemen to be revised. Provisional repair of the damages received priority in the allocation of funds and the permanent reconstruction became part of the revised plan, thus cutting out other necessary improvements in the development process of the country. The funding of a comprehensive programme of financial, technical and material assistance, as called for by several resolutions of international bodies ^{1/}, is now urgently needed in order to allow for a progressive recovery and further development of Democratic Yemen.

In December 1982, the Dhamar province of Yemen was struck by heavy earthquakes, causing extensive damage to life and property in the area, killing about 3,000 people and leaving 150,000 people homeless, 42,000 houses destroyed or damaged and many infrastructural installations useless.

^{1/} Economic and Social Council resolution 59/1982
ECWA resolution 107(IX)
General Assembly resolution 37/150

The total damage is estimated at exceeding \$ 3,000 million.

The disaster relief measures started immediately by the Yemen Government, supported by extensive assistance, initiated by a \$ 2.5 million grant from Saudi Arabia. Upon request of the Yemen Government, a joint mission consisting of experts from several regional funds ^{1/}, the International Development Agency (IDA) and ECWA visited the affected areas and formulated a reconstruction and rehabilitation programme.

After the relief period cash assistance received for reconstruction and rehabilitation from all donors, mostly Arab countries and citizens, amounted to about \$ 40.4 million. In addition the government issued a law levying a tax for reconstruction purposes. It is estimated that revenues in two years will amount to about \$ 40 million. Thus, total cash resources would be about 15 percent of the costs estimated by the programme for rehabilitation and reconstruction. However, during the recent meeting of the Gulf Cooperation Council, commitments were made to provide Yemen with \$ 43 million in grants and a further \$ 145 million in loans. Further aid was committed by individual Arab and friendly countries and organizations and Arab citizens, so that all available and committed aid (grants and loans) completely cover the estimated costs of the programmes. These commitments are in line with GA resolution 38/204, calling for assistance to Yemen.

It can, therefore, be briefly summarized that the provisions of the SNPA with respect to disaster assistance has been fulfilled regarding Yemen **but were** insufficiently met in the case of Democratic Yemen. It should be mentioned, however, that the General Assembly at its 38 session adopted resolution (38/206) calling again for assistance to Democratic Yemen.

As part of the relief and reconstruction programme, domestic budgetary resources had to be redeployed for immediate disaster relief and continuing repair works in addition to the appeals for international assistance which met with contribution from various sources. However, the adverse effects of these disasters will continue to draw of development efforts in both countries for years to come.

^{1/} Kuwait Fund for Arab Economic Development (KFAED) Arab Fund for Economic and Social Development (AFESD) Organisation for Arab Petroleum Exporting countries (OAPEC).

Both countries are in their Second Five-Year Development Plans (SFYDP), covering in Democratic Yemen the period 1981-1985 and in Yemen 1982-1986. The Plans, drawn-up with external technical assistance are comprehensive socio-economic development programmes. Given the present socio-economic situation and the capabilities of both countries, these Plans appear very ambitious. The priorities of the Plan in Democratic Yemen comprise Agriculture, Transport and Communication and Industry. The growth targets in these key-sectors are set at 9.1 percent, 14.5 percent and 13.9 percent respectively within a planned GDP-growth of 10 percent. These targets exceeded the SNPA recommended growth rate of 7.2 percent. The actual GDP growth rates (at 1980 constant prices) exceeded the plan-targets in 1981 and 1982 with 14.1 percent and 10.6 percent, respectively. However, due to the devastating floods, growth in GDP was reduced to an estimated rate of 9.7 percent in 1983. The GDP for the corresponding years amounted to \$ 792.2 million, \$ 876.0 million and \$ 961.1 million, respectively. The priority sector of agriculture suffered most from the disaster.

In Yemen, the most important priority sectors in the Plan are Agriculture, Transport and Communication and Industry with target growth rates of 4.8 percent, 6 percent and 17 percent, respectively. Growth rates of GDP for 1981, 1982 and 1983 (1980 constant prices) were recorded at 1.8 percent, 5.4 percent and 1.7 percent respectively, which were much below the targeted plan figure of 7 percent and the SNPA target of 7.2 percent. The low growth rate in 1983 was partly caused by the 1982 earthquakes and partly by the draught in addition to the effect of rural to urban and outward migration of workers leaving their land to be fallow.

The investment programmes in Yemen envisage expenditures of \$ 6,244 million and in Democratic Yemen of \$ 1,471 million. The distribution of the investments is planned as follows:

	Democratic Yemen (in percent)	Yemen (in percent)
Agriculture and Fisheries	17.4	15.8
Transport and Communication	18.5	16.5
Industry	29.0	24.0
Housing	17.7	13.3
Trade and Catering	4.1	10.2
Social services	8.1	16.5
Construction	1.1	2.3
Others	4.1	1.4
	<u>100</u>	<u>100</u>

Source: Country Documents

As shown, the largest share of investment is earmarked for the Industrial sector followed by transport and communications, and agriculture.

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Planned growth targets for the industrial sector (including mining and electricity) in both countries. Both targets exceed the SNPA recommended target of 9 percent. While the annual average growth rate of industry in the Yemen subregion during the period 1980-1984 was about 9.1 percent in real terms, i.e. in line with the SNPA objectives, Yemen seems to have contributed much more to this end, with 12.3 percent growth during this period. In Democratic Yemen, however, the sector experienced a sharp fall in its growth of 32.9 percent in 1981 and the growth rates of the following two years only compensated for this drop, bringing the 1983 level to only 1.1 percent higher than the level of 1980. These sharp fluctuations are due to the oil refinery which can only work according to extend contracts for refining crude oil.

The level of investments in relation to the GDP has been growing in Democratic Yemen, at an annual rate of 18 percent during the last few years. It reached 36.5 percent in 1981 and was estimated at 57 percent in 1982 as against 28 percent recommended by the IDS for 1990. Yemen experienced a slowly declining trend in investments but reached about 42 percent in 1982. The reasons for this development are very low GDPs at the beginning of the decade and a significant inflow of financial assistance and remittances which allowed for extensive investment programmes in both countries. The planned shares of external assistance in total investment programmes of both countries development plans stand as high as 73 percent in Yemen and 70 percent in Democratic Yemen, reflecting very low levels of domestic financial resources.

A large share of income in both countries comes from remittances of Yemeni workers mainly in the neighbouring oil-countries. Much of these private transfers are used for private consumption without going into the banking system. Concurrently, the high government current and capital expenditures which are to a large extent financed from outside, coupled with a high trade deficit, lead to domestic dissaving and to public and private consumption exceeding GDP and drain on reserves. In Democratic Yemen, tight economic management has put a halt to this trend.

Both countries would have to improve their production base, reduced consumption and mobilize domestic resources. For this purpose, beside tax-revisions in both countries, Democratic Yemen has, inter alia encouraged investments by emigrant workers through incentives as customs exemption and preferential interest rates, while the Government in Yemen has, as part of package of measures, issued a special law to encourage foreign investors.

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Due to poor resources endowment and a very low agricultural output, both countries are heavily dependent on imports of food. In 1982, imports have surpassed 80 percent of GDP in Democratic Yemen and are rapidly on the rise in Yemen, having exceeded 60 percent of GDP in that year. There are reasons to believe, however, that considerable unregistered imports would further increase this ratio. The trade balances of both countries are chronically in deficits, recorded, in 1982, at about 20 percent of total (\$ 876.3 million) in Democratic Yemen and about 18 percent (\$ 2,064.3 million) in Yemen. While Democratic Yemen seems to be able to slowly pull out of its difficulties, the situation in Yemen has deteriorated at an alarming rate together with the implementation of measures to rationalize imports, the government introduced a package of austerity measures, such as reducing government spending and controlling the foreign exchange market, in order to put a halt to the drain of foreign exchange reserves. Yet, with declining exports and rapidly growing imports, the relation of exports to imports deteriorated continuously, reaching a ratio of 1:410 compared to 1:20 in Democratic Yemen in 1982. This inter alia led to an increasing balance-of-payments deficit reaching \$ 353.6 million in 1982. Furthermore, foreign exchange reserves have been dwindling at a rapid pace. Several measures were undertaken to improve the export-import ratios of both countries. In Democratic Yemen, the Government allowed for imports to be rather easily controlled and developed into a tight, well balanced system. In Yemen, economic circumstances had not allow the imposition of strict measures to control particularly the conspicuous consumption. However, a number of measures, aimed at controlling imports, have been recently introduced to remedy the situation.

The low level of production in these countries, especially Yemen, is partly attributed the very strong rural to urban migration and outward migration, which have substantially reduced national labour force at a time when development efforts have created a strong demand for labour. The traditional sectors thus suffered from the emigration, while the new sectors suffered from a severe shortage of skilled labour. This trend does not only depopulate the rural areas, leading to present low agricultural output, but has also adversely affected domestic wages in Yemen reflecting itself in cheaper imports of goods and services. The situation seems to have been accepted for the benefit of increased foreign exchange earnings. At the same time, efforts are underway to bridge the gap in the labour market by raising the productivity of the agricultural sector.

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Agriculture plays a leading role in both countries where 60 percent and 80 percent of the population, in Democratic Yemen and Yemen, respectively, depend on land. In view of the high rate of population growth (2.4 percent-2.8 percent) and an increasing demand for food, the development plans in both countries emphasize food production. Yemen has planned a 4.8 percent rate of growth in agriculture which is slightly above the 4 percent recommended by the SNPA. However, actual growth was minimal in 1981 and 1982 and was negative in 1983. The agricultural sector in Democratic Yemen grew at a commendable rate of 10 percent per annum during the last few years. The flood disaster in 1982, however, reduced output by about 10 percent, while the earthquakes and draughts in Yemen reduced the 1983 output by an estimated 18.4 percent. In both countries, a number of projects are under way to raise productivity in agriculture, reduce post-harvest losses and improve food distribution. Cattle- and especially poultry- production are progressing along with improvements of veterinary services, while large investments in fisheries and related infrastructure are expected to contribute to food situation and to raise exports.

Mineral endowments in the two Yemens are not yet sufficiently known, but surveys and explorations are underway. Oil-prospection has had some positive results, especially in Democratic Yemen while extensive copper deposits were discovered in Yemen. Current mineral extraction, however, is mainly limited to salt and building materials.

The lack of physical infrastructure is one of the salient features of the level of development in the two countries. Large investments are, therefore, allocated to this sector in the areas of construction and/or improvements of ports, roads, airports, telecommunication including the purchase of related equipment, as well as, water, power and sewerage distribution systems. Along with this development, the institutional infrastructures are being set-up or improved. Although Democratic Yemen enjoys some advantages in this respect, owing to historical and institutional background, both countries are confronted with a severe lack of skilled and educated manpower.

The efforts concentrated on the development of the social sectors have showed remarkable results in both countries, especially in Yemen which has a particularly difficult stand in view of its relatively large population (3.5 fold compared to Democratic Yemen) which lives dispersed in rugged, inaccessible terrain and is cast into tribal tradition. Both countries launched comprehensive education programmes with the view to achieving self reliance in trained manpower. Illiteracy will further be reduced, since in Democratic Yemen about 70 percent and in Yemen about

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30 percent of the school-age children are enrolled in free and compulsory primary schools and an increasing number of students are enrolled in institutions for higher-education. Vocational training receives increasing emphasis in various training centres.

Concurrently, health services are being expanded country-wide, with hospitals in major towns and health centres in remote areas. In addition, vaccination campaigns to combat the most common diseases are successfully continued and preventive medicine is being expanded. Continuation in this direction in conjunction with improvements in water supply, sanitation and transportation facilities will enable the countries to reach internationally accepted standards. Infant mortality rates at present stand at 146 per thousand in Democratic Yemen and 170 per thousand in Yemen, while life expectancy is 45 years and 41 years in Democratic Yemen and Yemen respectively. Considerable efforts in both countries will be necessary to achieve the IDS- recommended rates of 120 per thousand for infant mortality and 60 years for life expectancy at birth.

B. External aid and the SNPA objectives

The heavy trade deficits, estimated in 1982 at US \$ 876.3 million in Democratic Yemen and to about US \$ 2,0643 million in Yemen, combined with the requirements of ambitious development programmes, create a large and increasing resource gap in both countries. A large part of the deficit is covered by remittances from emigrant workers, while the remainder is filled by external financial assistance. The recent fluctuation in the amount of the remittances, due to a slow down in overall economic activity in the oil-countries of the region and the need to redeploy resources for the rehabilitation and reconstruction of the disaster affected areas increased the two countries' dependence on international aid.

As mentioned earlier, the current development plans in both Yemens are based on the anticipation of a certain amount of private remittances and external assistance. However, receipts from these sources have fallen short of expectations. Aggravated by the financial implications of the natural disasters, both countries have had to revise and scale down the targets of their development plans.

Almost 30 percent of the total amount of US \$ 1.147 million and US \$ 2400 million in foreign assistance received by Democratic Yemen and Yemen, was in the form respectively, constituted non-reimbursable grants,

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either in cash for budgetary and balance-of-payments support or as commodity grants or in the form of technical assistance, the latter two mostly in connection with development projects. The major part of these grants came from Arab countries.

Until the end of 1982, total loans committed to both countries amounted to about US \$ 1,630 million to Democratic Yemen and about US \$ 2,130 million to Yemen, most of which was highly concessional for financing development projects. Up to 1982 already 50 percent of these loans had been disbursed, indicating an increasing absorptive capacity and improvement in institutional, physical and human infrastructures and social framework. The socialist countries of Eastern Europe provided around 67 percent of aid to Democratic Yemen followed by 21 percent from Arab funds and individual Arab countries and 12 percent by international agencies. For Yemen, the shares of the international community and the Arab world are much higher, with 40 percent from individual non-Arab countries 37.5 percent from Arab countries and 22.5 percent from international and multilateral agencies.

The terms of the loans extended are very favourable, with grace periods ranging from 5 to 15 years, maturities varying between 18 and 50 years and carrying very low interest rates. Cash loans are frequently converted into grants or rescheduled to the convenience of the receiving countries.

Despite these concession and features, the debt service burden in both countries pose an increasing problem as they have risen sharply during the last few years. Debt servicing amounted to almost 1.5 percent of GDP in Democratic Yemen in 1982 and 2.0 percent of GDP in Yemen in 1981. It should be noted, however, that exports in both cases were insignificant.

Both countries, and especially Democratic Yemen, have preferably invested foreign aid primarily in projects with low capital-output ratios having strong foreign-exchange earning potential and rather short start-up periods. These measures, however, will only show results follow a medium to long-term gestation period. In the meantime, international assistance will have to be considerably stepped up and the terms further softened in order not to reduce the effectiveness of such assistance, as called for by the SNPA.

Advanced payment of funds, as proposed by the SNPA, is realized only on a very limited scale. In fact, both countries encountered

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obstacles in getting commitments disbursed at the time they were needed. Problems in this area could be reduced through the interposition of an objective, partial clearing agency, a role, that multilateral institutions are best suited to perform.

Food aid has been received by both countries in connection with projects and disaster relief. Apart from the obvious effect, it also creates counterpart funds, which can be used in the local financing system, thus supporting the countries' resource build-up.

Technical assistance is of primary importance to both countries at present, whether received on bilateral and/or multilateral basis, as both countries severely lack skilled and educated manpower. Such assistance comprises, inter alia, the provision of experts and teachers and advisory services in all fields and at all levels. Technical assistance is at times extended on a loan basis, whereby the recipient countries might have to bear the cost of the expertise received. Under these circumstances, a careful evaluation of the costs including interest would be beneficial to the recipients.

C. Prospects

In view of the numerous obstacles confronting development efforts in both least developed countries of the region, and the damages inflicted up on their weak economies by natural disasters, the prospects for rapid and sustained economic development appear unfavourable.

The recent slow down in international assistance, bilateral and multilateral, set additional limits to the development potential of these countries.

Over the last decade, both countries have achieved considerable progress in their socio-economic development and have laid the foundation for a more productive future. The most important issues the two countries have to address themselves to as soon as possible are: (1) finding a solution for the dilemma concerning labour migration and the remittances; (2) improving the domestic financial potential and the foreign-exchange situation; (3) reducing the trade deficits; and, (4) reversing the declining trend in food production. Measures in this direction have had slow progress. In order to enhance development efforts, external assistance needs to be stepped up considerably.

In view of the needs of the countries and the growing burden of debt servicing, it is necessary, for aid donors to closely adhere to the

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provisions of the SNPA and increase contributions while softening the terms of their assistance. At the same time, possibilities for technical co-operation, also with developing countries (TCDC), should be further investigated.

Finally, it is necessary to maintain continuous dialogue between the two least developed countries and aid donors as stipulated under the provisions of the SNPA (through review meetings, round tables), so that assistance can best meet the requirements of the two countries and support their development efforts most effectively.

CHAPTER III. THE ROLE OF TRANSNATIONAL CORPORATIONS

Introduction

The International Development Strategy for the Third United Nations Development Decade assumes, in its para 70, that negotiations on a United Nations code of conduct on Transnational Corporations (TNCs) will be concluded in 1981. This expectation has not materialized, and negotiations will be resumed in 1984, in order to overcome the apparent impasse faced by governments participating in the Special Session of the Commission on Transnational Corporations. However, the different aspects of the operations of the TNCs are dealt with under the IDS for the Second United Nations Development Decade by addressing itself to foreign private investment 1/.

It summarized the major economic issues surrounding the activities of the TNCs addressed to by the draft code of conduct relating to transnational corporations.

Evidently, the growing importance of transnational corporations on the world's economic scene made governments consider the necessity for a certain degree of supervision over their activities. The nature of the operations of these corporations, the global complexity of the relationships involved, and the exchange of information required made it inevitable for the United Nations to be involved in an attempt to assist the various parties concerned. The Commission on Transnational Corporations (a subsidiary body of the Economic and Social Council) and the Centre on Transnational Corporations (a part of the United Nations Secretariat) were created in 1974 by governments to serve as the focal points within the United Nations system for the full range of issues relating to transnational corporations.

1/ Paragraph 50 of the IDS stipulated that "... Foreign private investment in developing countries should be undertaken in a manner consistent with the development objectives and priorities established in their national plans. Foreign private investors in developing countries should endeavour to provide for an increase in the local share in management and administration, employment and training of local labour, including personnel at the managerial and technical levels, participation of local capital and reinvestment of profits. Efforts will be made to foster better understanding of the rights and obligations of both host and capital-exporting countries, as well as of individual investors". G.A. Resolution 2626 (XXV), 24 October 1970.

This report sketches the scope of activities of transnational corporations in Western Asia, highlighting the resulting growing dependence of the countries of the region on the international, "global", market for its new export-oriented petrochemicals and other manufactures the acquisition of appropriate technologies and management capabilities.

Against this background the efforts of the United Nations in formulating a code of conduct relating to transnational corporations are reviewed. The main raison d'être of the proposed Code being to assist developing countries in maximizing their benefits from their association with transnational corporations while simultaneously minimizing, and ideally eliminating, their negative effects.

A. Scope of Operations of Transnational Corporations in Western Asia

Transnational Corporations have been active in various fields in the countries of Western Asia for a number of decades. The pattern and degree of their involvement vary among the countries concerned.

1. The crude-oil sector

In the oil sector, the trend adopted by transnational corporations was to realize the maximum volume of production to which their own pricing policy was applied; and, to play one country against the other with the view of obtaining advantageous concessions 1/.

With the growth of OPEC and its regional counterpart, OAPEC, the region succeeded during 1973-1979 in partially adjusting the selling price of crude petroleum, and in spreading national sovereignty over the production of this depletable natural resource. Thus, most of the countries of the region have systematically adjust the volume of their production of crude petroleum in accordance with their own development expectations and responsibilities vis-a-vis the rest of the world.

The decline of the absolute power of transnational corporations and the growth of OPEC have led to the emergence of national oil companies. However, in most cases the international oil companies are still present under various forms of association. They provide services, technical advise, or are simple lifters of crude 2/.

1/ ECWA/UNCTC Joint Unit The Practices of Transnational Corporations in the Oil Industry in the ECWA Region (Beirut, E/ECWA/96/Add.1, 25 April 1979)p.84.

2/ ECWA/UNCTC Joint Unit Technology and Management Dependence in the Oil Industry in the ECWA Region (Beirut, May 1982) p.78.

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Through the phenomenon of inter-affiliate transactions, and through technical and managerial know-how, the transnational oil corporations continue to exercise considerable effective control over the market. 1/

2. Petrochemicals

A natural development for the region of Western Asia was to develop its petrochemical industries sometime ago. However, many governments in the region were discouraged by reputed "consultants" against the development of petrochemical industries.2/ Nevertheless, once the distorted market structure in the crude oil sector was partially rectified, oil producers in the region took the politico-economic decision to proceed with plans to develop the petrochemical industries, now that prices of the major feedstocks consolidated the comparative advantage of these countries.

Events in this sector are still unfolding and the success of the region will ultimately depend on the degree of self-reliance that would be achieved in terms of know-how in production and marketing. The apparent situation suggests that the countries of the region will, for the foreseeable future, depend on transnational corporations operating in the petrochemicals field for the maintenance and upgrading of their production facilities, and for the marketing of their products. However, some degree of implicit distribution of petrochemical downstream operations seems to be taking place, whereby oil-producers would specialize in producing basic petrochemical products, while transnational corporations would continue and further develop the production of more specialized petrochemicals.

3. Alluminium, Iron and Steel

For the last decade, the structure of industrial activities in the Arab World has evolved towards further integration into the "global" concept of transnational corporations. The aluminium, metal and steel industries are examples of the growing dependence of the region on other regions, mostly the developed ones, as markets for these large-scale, export-oriented industries. The ability of the Arab region to absorb these products, as inputs for further processing, is relatively limited in the case of aluminium and non-existent in the case of metal and steel. In both cases, the region imports the raw material needed for the industries, and offers its natural gas as a source of energy, for the processing of these materials.

1/ Ibid.

2/ UNIDO/ECWA Basis for the Formulation of Strategies Pertaining to Development of the Petrochemical Industry in the ECWA Region (Vienna, E/ECWA/ID/W.G.5/3, May 1981) p.2.

4. Contracting and the Labour Force

In most countries of Western Asia, major construction projects have landed with transnational corporation (international contractors). These infrastructure projects were, not only implemented by TNC's, but also manned through TNC's. The concept of "guest-workers" has been widely applied, with TNC's drawing on the large pool of the work force existing outside the region. This approach was resorted to as a result of the growing demand for labour in the traditional importers of labour as well as in the traditional exporters of labour among the countries of the region, a phenomenon triggered by efforts aimed at achieving development targets set during the seventies and the first half of the eighties.

Thus, while Arab contractors are kept at the margin of high technology projects, the Arab labour force is also deprived of the opportunity to acquire and accumulate know-how, in the field of construction. As a result, the implementation many of technologically advanced construction projects was effected, almost entirely, by manpower from outside the region, on the grounds that such an approach allows the immediate implementation of these projects at lower costs 1/.

The absence of the Arab labour force for the implementation of these construction projects leads also to growing dependence on TNC's for the maintenance, and upgrading of these projects; not to mention the continued dependence for the erection of similar projects in the same or in other countries.

Attempts of governments to promote local contractors by excluding foreign contractors from bidding for specified medium sized projects may not lead to the desired results since many Arab contractors are also being forced to draw on the labour pool from outside the region, in order to remain competitive.

5. Shipping 2/

Most of the region's exports and imports are carried in foreign ships belonging to transnational conference liners and independent operators. This makes the trade of the region heavily dependent and

1/ For a detailed review of the socio-politico-economic implications of current labour-import policies, see Proceedings of ECWA Conference on International Migration in the Arab World (Beirut, 1982) vol.I and II.

2/ This section is based on the findings of a study prepared Operations of Transnational Corporations in Shipping with special reference to the ECWA Region (E/ECWA/DPD/83/1), Joint ECWA/UNCTC Unit, (Baghdad, January 1983).

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indirectly controlled by these companies. In fact, more than 77 percent of the shipping lines serving the ECWA region are from the developed market-economy countries.

It must be noted that in the last few years a number of joint ventures in shipping have been established among the ECWA member countries as well as with transnational shipping companies. While some of the joint ventures are operating successfully, most of them are in an embryonic stage, having yet to make a significant impact on the ECWA region's share in total world shipping tonnage.

The dominance of transnational shipping lines in the liner trade of the region is noteworthy. Liner services to the ECWA region are likely to undergo a further period of expansion in the early 1980s, although at a slower rate than experienced so far, and mainly in the containerized sector. The major beneficiaries of this expansion are likely to be the transnational shipping companies. In view of the very small rate of growth predicted for the liner trade in the next few years, and considering the present overall excess capacity in liner shipping to the ECWA region, ECWA member countries are likely to be confronted with stiff competition. 1/

1/ In order to regulate unfair, discriminatory and restrictive practices followed by liner conferences with respect to admission to membership, sharing of trade, fixing of freight rates etc., and to improve the share of the developing countries in the liner trade, the UNCTAD Convention on a Code of Conduct for Liner Conferences was adopted in 1974. Among the ECWA member countries, Iraq and Egypt have become parties to the Convention. Democratic Yemen, Kuwait, Saudi Arabia and United Arab Emirates have voted in favour of the Convention but have not yet ratified or adhered to it. The emerging maritime needs of the ECWA member countries, as in the case of other developing countries, would best be served in the liner trade by their adhering to the Convention. Their accession to the Code would strengthen their position to contain freight rate levels within reasonable limits and also secure rights to obtain membership of conferences on equitable basis in their international trade and as third party carriers in accordance with the 40:40:20 percent arrangement.

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While the Middle East generates around 58 percent of the world seaborne trade in LPG, the ECWA countries have not yet developed any significant LPG shipping capacity. All phases of LPG transportation, especially storage and shipping, require high capital expenditure and are technologically more advanced than tankers. Therefore, in comparison to oil tankers there is higher concentration of ownership of LPG carriers among a few operators. The demand for LPG, both as fuel and feedstock for **the** petrochemical industry, will rise in the near future offering ECWA countries opportunities to increasingly participate in its shipping.

At present, the ECWA region does not participate in LNG Shipping. LNG transportation is equally a highly capital intensive activity and a very specialized trade in terms of routes and is subject to long-term contracts. Such a market is not likely to attract the traditional shipping investor. In view of the expected increase in the LNG share in global energy supply, ECWA countries producing LNG should be able to play a significant role in LNG shipping.

Although ECWA countries have not yet penetrated into the shipping of petrochemicals, the future seems promising. Many of these countries have embarked upon huge petrochemical projects; some are already in operation or under construction, and many other are in the planning stage. As a direct consequence of these developments, the oil producing countries can actively participate in the shipping of these products. It should be noted, however, that the efforts required in terms of capital and manpower to develop transportation capabilities for petrochemicals are enormous.

With respect to dry bulk shipping, the ECWA region is an importer of grain and exporter of phosphate in substantial quantities. Despite a steady increase in the region's dry cargo fleet capacity during the period 1970-1978, ECWA countries have made limited progress in transporting dry bulk cargo in their own fleets. Most of the region's dry bulk cargo is shipped in foreign ships. Jordan's export of phosphates, for example, is made on f.o.b. basis and hence, its maritime transportation is arranged by the purchasers. The significant rise in the dry bulk traffic expected in the 1980s will present immense scope to ECWA member countries to enter this trade.

The growth of the world fleet of combined carriers, such as ore/oil and bulk/ore carriers, during 1972-77 surpassed that of oil tankers as well as bulk carriers. These carriers represent a link

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of growing significance between oil and dry bulk shipping. Although none of the ECWA countries at present own combined carriers, they could be of particular interest to oil-producing countries for exporting oil and importing bulk cargoes.

6. Other sectors

The impact of the operations of transnational corporations is gradually being felt in other sectors as well. For instance, in the field of hotellerie, most countries in the region are now "endowed" with transnational hotels known throughout the world. Yet "As transnational hotels expand, spread and build-up an integrated purchasing, management and marketing network, local firms in less developed tourist areas encounter higher barriers to entry" 1/ to this vital sector 2/. In a number of countries, these hotels are owned by the public sector and yet are a source of income to the transnational hotels under royalties and management contracts, not to mention catering, staff, etc. The main justification in resorting to transnational hotels is provided by their transfer of technology effect and training potential.

In the field of banking, transnational banks have permeated the region, except where the banking sector is either nationalized or regulated as a full national-ownership activity. The management of indigenous banks is also an area of involvement of transnational banks.3/ However, through adequate regulatory policies, a number of

1/ UNCTC Transnational Corporations in International Tourism
(New York, ST/CTC/18, 1982) p.83.

2/ Some would "prefer the kind of ambiance which the smaller and less formal locally owned and managed hotels may offer", Ibid, p. 85.

3/ A number of case studies on the operations of transnational banks in selected countries (Lebanon, Jordan and Bahrain) have been completed while additional ones (on Oman and the United Arab Emirates) are being launched. However, preliminary findings, based on limited information, suggest that the issue requires a regional approach in setting-up policies and guidelines regulating the activities of transnational banks.

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countries in the region have succeeded in assisting their national banking sector to grow and develop.

Although the region does have the nucleus around which it could develop its endogenous hotels, banks, and contracting activities; there are other areas where the region is helplessly dependent on transnational corporations such as modern telecommunications, computers, information - flow, and the manufacturing of capital goods.

B. The Widening Technological Gap

In all of the above mentioned activities, the transfer of technology to the region in many instances has been kept to the bare minimum. Current developments in the international market could even lead to the widening of the technological gap. For instance, in the banking sector, new electronic devices are being introduced (such as the home-banking link, the electronic credit and accounts card, etc.) that while serving the needs of transnational banks, will certainly tend to create a contrived technological gap, unrelated to banking skills, per-se.

Although none of the transnational corporations can operate in a country without the acquiescence of the country's authorities, and while many countries have resorted to transnational corporations with a view to developing the industrial base, creating jobs, earning foreign exchange, and other similar benefits; yet, experience has shown that even in the case of joint ventures, the subsidiary has had little to offer in terms of technology transfer and long-term development 1/.

1/ For a detailed illustration of such cases see:
UNCTC Transnational Corporations in the Fertilizer Industry,
(New York, ST/CTC/25, 1982) pp. 40-51

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C. Conflict of Interest

The operations of transnational corporations have been motivated by business considerations aimed at maximizing profits while the objectives of the governments of host countries of the region are based on the need to develop and diversify their economies and promote complementarities among themselves leading to greater economic co-operation and regional integration. This difference in motivation has brought to the fore a growing interest in regulating the activities of transnational corporations, not only in the Arab region, but also in all parts of the world where transnational corporations operate.

D. Negotiations on the Code of Conduct of Transnational Corporations

An Intergovernmental Working Group on the Code of Conduct on Transnational Corporations, established by the Commission on Transnational Corporations at its Second Session (Lima, March 1976), commenced work in January 1977. Work on the preparation of the Code proceeded at a slow pace, and took over 5 years to evolve a first draft of the Code of Conduct on Transnational Corporations. The Intergovernmental Working Group fulfilled its mandate when the text of the draft Code of Conduct was presented to and subsequently adopted by the Commission on Transnational Corporations at its Eighth Session held in Manila (30 August - 10 September 1982). The draft Code included 71 provisions, out of which about two-thirds had already been fully agreed upon 1/.

In the light of the above, and by resolution 1982/68 of 27 October 1982, the Economic and Social Council decided that the Commission on Transnational Corporations should hold a Special Session for completing the formulation of the Code of Conduct on Transnational Corporations and to submit the full and final draft of the Code to the Economic and Social Council for its consideration and subsequent transmission to the General Assembly at its thirty-eighth session. The Special Session, open to all member states, was held in two parts, namely during 7-18 March 1983, and during 9-21 May 1983. Although some progress was achieved, the mandate of the Special Session was not completed.

The topics not yet agreed upon in the formulation of the Code are the following: (a) Definitions and scope of application; (b) certain paragraphs referring to international law versus the laws of the host country or its jurisdiction; (c) disagreement on the use of a number of qualifying terms such as illegally, illicit, subversive; (d) paragraphs describing the degree of involvement of TNC's in the development process

1/ See document Report on the Special Session of the Commission on Transnational Corporations (7-18 March and 9-21 May 1983) (Official Records (E/1983/17/Rev.1)

in which they operate and work seriously towards making a positive contribution to the achievement of such goals at the national and, as appropriate, the regional level, within the framework of regional integration programmes. In so stipulating, the international community has reached the conviction that a given country taken in isolation, cannot negotiate on equal footing with transnational corporations and that an intergovernmental pronouncement, in the form of a Code of Conduct formulated as a multilateral agreement, could provide some degree of safeguard for the national interests of each developing country and region.

Thus in Latin America, in Africa, and in Asia, regional positions were adopted that were at a later stage incorporated in the overall position of the Group of 77. The Arab countries, while in general sympathetic and supporters of the position of the Group of 77, have not availed themselves of the opportunity to meet as a group, and to iron-out the issues of special interest to them, that could have been incorporated in the draft Code of Conduct relating to transnational corporations.

Although a number of Arab countries have participated at one time or another in the protracted negotiations over the last decade, this should not prevent the Arab countries in general and those of Western Asia in particular to meet as a group and to exchange experiences and adopt positions of common interest in preparation for the forthcoming resumption of the negotiations on the formulation of the Code of Conduct relating to (foreign investment) transnational corporations, scheduled for 11-29 June 1984, to be held in New York.

S U M M A R Y

SUMMARY

The International Development Strategy (IDS) for the Third United Nations Development Decade, adopted by the General Assembly in December 1980, considers the accelerated development of developing countries in the context of an equitable and efficient world economic order as its central objective. However, achievements in all developing countries since the adoption of the strategy were far less than was targetted.

The recent world-wide recession carried with it many factors which severely hindered world economic development in general, and that of the developing countries in particular. These factors included rapidly accumulated foreign debts by developing countries, extremely high levels of interest rates with their adverse effects on investment and employment, deterioration in the terms of trade of the developing countries, increased protectionism in developed countries, stagnation in world trade, severe balance of trade deficits, and a further widening of the gap between developing and developed countries.

The ECWA region, comprising some of the most open economies among the developing countries, was vulnerable to adverse external factors which prevented them from achieving many of the IDS targets. The table below briefly depicts the performance, in terms of selected quantitative aggregates, of the ECWA region during 1980-1983, as against the IDS targets.

Growth Performance

While the IDS calls for an average annual GDP growth rate of 7 percent for the developing countries during the Third United Nations Development Decade, the ECWA region averaged a negative growth rate of 6.4 percent (at constant 1980 prices) during the 1980-1983 period. Such a poor performance is in great contrast to the remarkable growth rates achieved during the Second United Nations Development Decade, particularly by the Gulf Cooperation Council (GCC) ^{1/} members. However, the GDP growth rate varied considerably among various subgroups ^{2/} and

^{1/} Established on 25 May 1981 by Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates.

^{2/} GCC members; Diversified Economies (Egypt, Iraq, Jordan, Lebanon and the Syrian Arab Republic); and, the Least Developed countries (Democratic Yemen and Yemen).

Selected Quantitative Aggregates: IDS Targets
and the Performance of ECWA region,
1980-1983
(at constant 1980 prices)

IDS Target (minimum)	Average annual Growth rate (in percent)	Performance in the ECWA Region	Average annual growth rate (in percent)
GDP	7	GDP	-6.4 <u>a/</u>
Agriculture	4	Agriculture	5.0 <u>b/</u>
Manufacture	9	Manufacture	6.7 <u>c/</u>
Exports of goods and services	7.5	Exports of goods + Services	-16.9 <u>d/</u>
Imports of goods and services	8	Imports of goods + services	10.5
Gross Investment reaching 28 percent of GDP by 1990		Average Annual share of gross Investment in GDP at 25.7 percent <u>e/</u>	
Gross Domestic Savings reaching 24 percent of GDP by 1990.		Average Annual share of Gross Savings at 50.8 percent <u>f/</u>	

Source: ECWA, based on national and international sources.

a/ Including Egypt, it drops to a negative rate of 5.4 percent.

b/ Including Egypt the rate stands at 2.8 percent.

c/ Including Egypt the rate stands at 6.1 percent.

d/ 1980-1982 period and excluding Iraq for lack of comparable data.

e/ End of 1980-1982 period. Including Egypt, the rate stands at 25.9 percent.

f/ End of 1980-1982 period. Including Egypt, the rate stands at 47.3 percent.

from one country to another in the region. The average annual GDP growth rate for the GCC members at constant 1980 prices was negative (4.6 percent), with Kuwait experiencing the worst performance record of minus 13.1 percent and Oman the best, with 8.9 percent average growth during the period under review.

Given that oil and gas comprise the dominant portion of GCC members' GDP and that oil production and prices declined in response to unfavourable international market conditions, a more realistic indication of developments in these countries could be obtained by measuring GDP with the exclusion of mining. ^{1/} During the 1980-1983 period, the average annual growth rate of GDP (excluding mining) for the group was 8.7 percent, with Bahrain averaging 16.5 percent and Kuwait 2.9 percent, as the best and worst performance respectively.

The average annual growth rate of GDP in the diversified economies of the region (excluding Egypt) amounted to as low as minus 12.3 percent (at constant 1980 prices) during 1980-1983. This extremely poor performance of the group as a whole could, in large measure, be attributed to unfavourable developments in both Iraq and Lebanon, the former being engaged in a war with Iran since September 1980 and the latter in civil strife since 1975.

The Least Developed Countries' annual average GDP growth rate was 4.8 percent, with Democratic Yemen achieving 11.5 percent and Yemen 3 percent. Both countries would have achieved significantly higher growth were it not for the natural disasters that struck them in 1982. Democratic Yemen's growth performance not only exceeded the IDS 7 percent target but also its own Five-Year Plan's goal of 10.3 percent annually.

The poor performance during the first three years of the decade casts doubts at the ability of the region to attain the IDS growth target for the Decade as a whole.

Income disparities between and within the countries of the region remain very high, in contrast with the call of the IDS for a more equitable income distribution. The ECWA region includes countries which enjoy a level of per capita income among the highest in the world, while other members belong to the group of least-developed countries. In addition, sharply skewed income distribution at the country level still prevail.

^{1/} The bulk of which is oil and gas in the GCC member countries.

The IDS targets pertaining to industry are expressed mainly in terms of manufacturing. In line with the Lima Declaration, the IDS calls for an expansion of manufacturing output at an average annual rate of 9 percent so as to lay the basis for developing countries to produce 25 percent of world output of manufactures by the Year 2000.

Real growth in the manufacturing sector of the region averaged 6.7 percent ^{1/} during 1980-1983. The GCC members, as a group, averaged 11.1 percent, with the United Arab Emirates recording an impressive 32.6 percent, followed by Qatar (16.9 percent) and Oman (14.3 percent). In contrast, manufacturing output stagnated in Bahrain and declined, by 2.4 percent, in Kuwait. Due to heavy investment in the manufacturing sector since 1973, over 70 percent of manufacturing output in Western Asia (excluding Egypt) has come to be concentrated in the GCC member countries. Even when Egypt is included with its relatively large manufacturing base, the GCC member countries' share in the region's manufacturing total output remains over 60 percent.

The manufacturing sector in the region's diversified economies (excluding Egypt) showed an average rate of decline of 2.3 percent during 1980-1983 again due ^{to} unfavourable developments affecting the sector in each of Iraq and Lebanon. The best record achieved among the subgroup was the 4.4 percent rate of the Syrian Arab Republic.

In the least developed member countries, average annual growth in the manufacturing sector was just slightly higher than the IDS target at 9.1 percent, due to Yemen's 12.3 percent growth rate. However, given the small size of the manufacturing sector in the two Yemens, their relatively good performance had only a slight impact on the region's overall picture.

Agriculture has grown significantly in Western Asia during the 1980-1983 period. The annual average growth rate (at constant 1980 prices) achieved was 5.0 percent, higher than the IDS 4.0 percent target rate. When Egypt is included, however, the average rate falls to 2.8 percent, due to stagnation of agricultural output in Egypt during the period under review and the significant weight of Egypt in the region's agriculture.

1/ Including Egypt, the rate stands at 6.1 percent.

The GCC member countries' average annual agricultural growth rate was 5.6 percent during 1980-1983. All members of this group, except Kuwait with its 2.3 percent growth rate, exceeded the IDS target of 4 percent rate. Qatar, the United Arab Emirates and Bahrain were the most successful members with average growth rates of 13 percent, 11.6 percent and 8.6 percent, respectively.

The countries with diversified economies, excluding Egypt, realized an average annual agricultural growth rate of 6.1 percent in the 1980-1983 period. The major factor responsible for this was the remarkable increase in agricultural output of Iraq where implementation of important irrigation and reclamation projects during the past few years, coupled with a recent pricing policy giving incentives to agricultural production, enabled the country to achieve an impressive expansion, estimated at 13.6 percent annually.

Agricultural output declined by an average of 4.5 percent in the least developed countries of the region, during 1980-1983. The major factors for this poor performance were the substantial outflow of Yemeni labour seeking employment in the Gulf, as well as the natural disasters that struck Democratic Yemen and Yemen in 1982.

Declining Oil Revenues of the ECWA Region

The ECWA region's production and export of oil have been particularly hurt by developments in the world economy during the early years of this decade. The 1979-1983 world recession, energy conservation measures in the industrialized countries in particular, and the substantial increase in other sources of energy, reduced the world's demand for oil. The oil consumption of the developed countries fell from 40.8 million barrels per day (b/d) in 1979 to only 33.8 million b/d in 1982. Simultaneously, the oil production by non-OPEC members such as Mexico, Britain and Norway increased considerably. Faced by the 'oil glut', the ECWA countries cut their total oil production from approximately 19 million b/d per day in 1979 to about 9.7 million b/d in 1983.

The share of the ECWA region in the world output of oil declined from 30 percent in 1979 to only 17.9 percent in 1983. The combined oil exports of Saudi Arabia, Iraq, Kuwait, and the United Arab Emirates fell from 16.8 million b/d in 1979 to 7.2 million b/d in 1983.

Confronted by a rapidly deteriorating international oil market, OPEC oil ministers agreed in March 1983 to cut the bench price of a

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barrel of oil from \$ 34 to \$ 29. Also, while the overall ceiling of 17.5 million b/d for OPEC was left unchanged, the Saudi Arabian quota was reduced to accommodate increases in the quotas of Iran, Libya and Venezuela. Thus, the oil exports of Saudi Arabia which had fallen from 9.8 million b/d in 1981 to 6.3 million b/d in 1982 fell further to only 4.4 million b/d in 1983.

The downward pressure on oil prices resulted in a noticeable decline in oil exploration activity and search for new energy sources worldwide. Even some of the existing oil production facilities may become unprofitable if prices are pushed down further.

The ECWA region, facing lower prices and sharply reduced exports, experienced the disturbing effects of declining revenues and the consequent curtailment in expenditures. The oil revenues of the ECWA region, which reached a peak of \$ 176 billion in 1980 fell to \$ 168.6, \$ 119.4 and \$ 86 billion, respectively in the following three years. Thus, the ECWA region's oil revenues in 1983 were only 49 percent of what was received in 1980. With small, though growing, non-oil sectors in most of the oil economies of ECWA, oil revenues have provided the major source of funds for development. The oil revenues accrue directly to the governments of the oil countries, making the rate of government expenditures the major determinant of economic activity. Thus, the deterioration in the balance of payments and the sharp decline in oil revenues, notably in 1982 and 1983, have forced ECWA countries to alter the level and composition of government expenditures.

The effects of the decline in oil revenues and the associated slowdown in developmental efforts is not confined to the oil-exporting countries of the region, but would also encompass the non-oil and least developed countries. Most of the latter economies depend, in large measure, on economic assistance from the oil member countries for financing their development endeavours. The non-oil economies also have strong linkages with the oil economies and a decline in the level of activity in the latter transmits itself to the former through a decline in their exports and remittances of their workers.

Concessional assistance by the ECWA countries members of OPEC during 1980-1982 totalled \$ 23.7 billion, of which Saudi Arabia contributed over \$ 16 billion and Kuwait about \$ 3.6 billion. However, due to the world recession and the adverse impact of oil glut on the ECWA region's oil revenues, the flow of concessional assistance from the oil exporting countries of ECWA has declined significantly during the early

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1980s. Thus, total concessional assistance provided by these countries, which had exceeded \$ 9 billion in 1980, fell to \$ 8 billion dollars in 1981 and to \$ 6.5 billion in 1982. Furthermore, while the ECWA aid donors have for several years by far exceeded the declared IDS concessional aid ultimate target of 1 percent of GNP, their bright record became less impressive. Saudi Arabia, for example, which had donated 8.39 percent of its GNP in concessional assistance in 1978 and slightly over 5 percent in 1980, donated only 2.82 percent of its GNP in 1982 ^{1/}. Nevertheless, and despite all the adverse effects of the recession, the performance of these countries remains well above the IDS target and by far more than the actual ODA performance of the developed countries.

If oil revenues do not pick up and development expenditures continue to be constrained, an important source of foreign exchange earnings of many countries, particularly Egypt, Jordan, Lebanon, Democratic Yemen and Yemen will be seriously affected. In addition, the difficulties of return migration and settlement will aggravate domestic employment problems in numerous countries.

The ECWA region's oil revenues during the rest of Third United Nations Development Decade will depend on the world economic recovery in general and in the developed countries in particular; the extent of the development and use of other sources of energy; on the oil output of non-ECWA oil-producing countries; and on individual ECWA country production policies and capacities.

Agriculture

The role of agriculture in the economy varies from one group of ECWA countries to another. In the oil-exporting countries, which have a limited agricultural base, agricultural development aims at promoting economic diversification, the development of national resources, and augmenting the production of food. In the non-oil economies, agricultural development is the prime source for export earnings, food, and employment, and is geared to the development of Agro-based food-processing and textile industries.

The total area under cultivation in the region is about 20 million hectares of which about 14 million hectares are rain-fed.

1/ CECD, Development Cooperation, 1983 Review.

The potential productivity of rain-fed agriculture has been seriously underestimated. In Bahrain, Egypt, Kuwait, Oman, Qatar and the United Arab Emirates, virtually all crops are produced under irrigation. In all countries of the region, irrigation provides significant opportunity for increasing the area under cultivation.

Incentives to agricultural producers in the region are generally inadequate. Constraints on production arising from weak systems of price incentives have been compounded by inadequate infrastructures. Marketing, farm credit, and research and extension have been major weak points.

Crop production in the region increased marginally by 0.1 percent during 1981-1983. Cereal production declined by 3 percent annually. However, the setback in the output of cereals was almost offset by greater production of fruits and vegetables as well as sugar crops. Output of non-food crops declined by 2 percent annually, mainly due to 3.1 percent decline in seed cotton production.

The region's output of coarse grains also declined by 6.3 percent during the review period. Output of barley fell by 8.9 percent, maize by 4.1 percent, millet and sorghum by 4 and 8 percent respectively. Except for wheat and maize where some productivity gains were made, all other cereals suffered from lower yields.

Countries in the region are generally not very cost-efficient producers of food. Countries with large financial resources but poorly endowed with non-oil natural resources are developing agricultural projects for producing more food when there are other countries with the potential to produce food much more economically. In this situation, a degree of regional self-sufficiency is a better and more feasible economic goal than the pursuit of a higher degree of self-sufficiency at the national level.

Several countries in the region, notably Egypt, continued to depend on concessional food. Between 1979 and 1981, the self sufficiency ratio in the ECWA region fell from 51 percent to 46 percent for cereals, from 32 percent to 24 percent for sugar, from 8 percent to 7 percent for vegetable oil, from 44 percent to 36 percent for poultry meat and from 82 percent to 74 percent for eggs. The gap

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was filled by imports. The regions imports of cereals rose from 13.6 million tons in 1979 to 17.6 million tons in 1981, greatly adding to the balance of payments difficulties of the poorer member countries.

Major food producing developed countries have often restricted food production and in some cases discarded excess food supplies- in an attempt to maintain certain price levels. It is desirable for the IDS to suggest measures aimed at encouraging such countries to donate such excess food to least developed countries that have starving people and could not at any rate affect significantly the price of such products.

ECWA countries, in cooperation with international agencies, are currently tackling the food security issue by focusing on three pivotal elements: food production, supply stability and access by the needy. Buffer stock reserves for wheat in many ECWA countries now account for more than 25 percent of annual consumption which is a positive achievement.

The livestock subsector performed very well in the early 1980s, registering an annual average growth rate of 5 percent. Much of this growth can be attributed to governmental financial support for new poultry and dairy enterprises. Despite this impressive performance, livestock production still falls short of meeting local demand.

Livestock husbandry was not mentioned in the IDS, except when dealing with the least developed countries (para 144), whereas it is of great importance to all developing countries. It is recommended to include an additional paragraph to section (C) of the IDS that specifies measures for livestock husbandry.

Many countries in the region, due to migration of labour to urban and oil-exporting countries, are facing labour shortages in peak seasons resulting in sharp increases in production costs. The acute shortage and high cost of agricultural labour is further aggravated by the utilization of more labour intensive methods of production. This trend is tending to alter the relative factor prices in agriculture; the opportunity cost of labour can no longer be regarded as low in these economies. This situation is leading to a faster pace of mechanization. However, the effect of mechanization on breaking the bottlenecks in production needs to be carefully weighted against its employment effects.

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Rural Development

Resource flows for rural development during 1978-1982, ranged from less than \$ 20, in constant prices per capita of agricultural population in Egypt, which has the largest population, to more than \$ 51 in Jordan and the Syrian Arab Republic. The average for the Near East countries as a whole is \$77.9 while for the rest of developing countries is \$ 43.3.

Although some ECWA countries have set time-bound targets in the social service sectors, such as enrolment in primary schools, population to be served with medical facilities, provisions of potable water supply and villages to be electrified, little has been done to set time-based quantitative targets in rural areas, particularly in terms of illiteracy, infant mortality, nutrition and minimum income.

In general, there has been little progress since 1980 in policies for improving access of the **rural** poor to land in the ECWA region. In spite of the large-scale movement of population from agriculture to urban sectors and to other countries, particularly the oil exporters in the region, agricultural land is becoming scarce and land/man ratios are deteriorating in most of the ECWA countries. Arable land (including permanent crops) per capita of agricultural population in the ECWA region has declined from 0.53 hectare in 1970 to 0.46 hectare in 1980 or by 12 percent. Declines in arable land per capita of agricultural population have occurred in all countries of the ECWA region except Democratic Yemen, Lebanon, and Saudi Arabia.

Despite the reforms undertaken, landlessness and tenancy still constitute a serious preoccupation of policy-makers. One of the reasons is that agrarian reforms offered only a partial solution by concentrating on the tenants to the general exclusion of landless workers. It is in the context of increasing land scarcity and landlessness that effective implementation of agrarian reform measures, coupled with measures to increase land productivity of small holders, and commitment of resources for meeting the employment needs of the landless and marginal farmers assume added importance in the 1980s.

The important concept of integrated rural development has not been dealt with in the IDS. The inclusion of this concept in section (c) and (o) on social development along with policy measures would contribute to efforts in this area.

Manufacturing

The development of the manufacturing sector has widely varied among the countries of the ECWA region. When ECWA countries are grouped into oil and non-oil countries, greater imbalances in the structure of the manufacturing sector emerge, particularly in the former. In the

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oil countries of the Gulf, the share of chemicals, petroleum, rubber and plastic products alone comprise approximately two thirds of value added in manufacturing . Such a structure of manufacturing is in contrast with the IDS objective which envisages a balanced industrial development in developing countries.

Changes in favour of intermediate and heavy industry are taking place. Faster growth and a larger share in gross output are two main objectives of current development plans. On a regional level, duplication of projects and competition for skilled labour seem to adversely affect the competitiveness of industrial projects. The manufacturing sector will continue, for some time, to suffer from shortages of skilled labour, distorted wage-price relations and maldistribution of industries within individual countries.

In view of the growing importance of the construction industry in the development process of the developing countries, the IDS could call for measures aimed at strengthening the indigenous construction capacity through deeper involvement of developing countries contractors. Collective self-reliance in the construction industry at regional and inter-regional levels could also be envisaged by the IDS.

Mining and Quarrying

During 1980-1983, most ECWA member countries have been involved efforts aimed at making efficient exploitation of their available mineral resources (excluding oil and gas) and large scale exploration for new mineral deposits. This position has, in practice, been basically translated into more allocations for the mining sector in the national development plans and closer co-operation with other countries. Although the contribution of the mining and quarrying sector (excluding oil and gas) to GDP in most member states is still very limited, significant progress has been achieved in various fields of mineral resources development in several countries of the ECWA region.

Considerable increases in phosphate production in the region during the past several years have placed some member countries among the main phosphate producers in the world. Progress has also been achieved in potash and sulphur production. Some new mining activities have been recently undertaken including gold mining and copper production. On the other hand, the increasing demand for construction materials has resulted in large scale exploitation of sand, gravel, building stones and raw materials for the cement and brick-making industries.

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Trade and Payments

The IDS calls for "an annual rate of expansion in exports and imports of goods and services of not less than 7.5 percent and 8 percent, respectively". Indications are that, for the region as a whole, the targets for imports were exceeded by significant margins in the period reviewed. ^{1/} Regarding exports, however, the picture looks exceedingly dismal, with the growth rate for the region not only falling short of the IDS target but declining moderately in 1981 and then dramatically in 1982 and the first half of 1983. In 1980, the region's exports grew to a peak level and expanded by over 50 percent, to reach \$ 193 billion a result of both the sharp rise in crude oil prices in 1979 and 1980 and increased volume of oil exported. Exports then fell by less than 3 percent in 1981 after which they collapsed by over 28 percent to \$ 135 billion in 1982, largely due to the sharply reduced world demand for crude oil.

However, excluding fuels, exports followed a different path as of 1981 when a growth of 15.4 percent was registered, compared to about 23 percent in 1980. Excluding Iraq, for which comparable data were not available for the period 1980-1982, non-fuel exports from the region showed a rise of 25.3 percent and 17.4 percent in 1980 and 1981, respectively, before losing momentum in 1982 and growing by only 6.7 percent.

The region's aggregate imports, on the other hand, having risen by 25 percent to over \$ 73 billion in 1980, decelerated to 12.3 percent in 1981. Excluding Iraq, for which comparable data were not available for the period 1980-1982, the region's imports grew by 24.7 percent in 1980 and by 13 percent in 1981 before slowing down to about 8 percent to reach over \$ 80 billion in 1982.

Preliminary statistics, comparing the first half of 1983 to the corresponding period in 1982, depict a continued decline in the region's ^{1/} exports by 18 percent; while, total imports grew by over 9 percent.

^{1/} Import volume for West Asia increased by 19.3 percent in 1981 and 14.5 percent in 1982. It is projected to rise by 6.8 percent in 1983 and to decline by 0.5 percent in 1984. (See UNCTAD, Trade and Development Report, 1983 (Part I) : where West Asia is defined to include in addition to the ECWA countries, Iran, Cyprus and Turkey).

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The above developments have been reflected in the share of the ECWA region in World trade. Thus, while in 1973 the ECWA region accounted for 3.7 percent of world exports, its share in 1980 grew to 9.7 percent after which it fell to 7.3 percent in 1982. During the first half of 1983, the region accounted for 6.8 percent of world exports. Its imports, on the other hand, grew steadily from 1.5 percent of the World total in 1973 to 5.2 percent in 1982 and 6.4 percent during the first half of 1983.

After multiplying by more than six-fold between 1973 and 1979 expanding by about 72 percent to reach a peak level close to \$ 120 billion in 1980, the region's trade surplus diminished by about 12 percent in 1981. Excluding Iraq, for which comparable data were not available for the period 1980-1982, the region's trade surplus continued expanding in 1981, though by less than 2 percent to reach over \$ 102 billion, before collapsing by more than half to an estimated \$ 44 billion in 1982.

The oil-economies in the region, notably the countries of the Gulf Co-operation Council, have been largely responsible for the region's trade surplus. The trade surplus of Saudi Arabia alone, which represents over 80 percent of the region's aggregate surplus, was more than halved in 1982. Preliminary figures for the first half of 1983 reveal a deficit for the first time in years. The overall trade deficit in the non-oil economies, which in 1979 had widened by seven-fold relative to its 1973 size, deteriorated considerably in 1980 and 1981, reaching \$ 10.4 billion in the latter year. However, in 1982, this deficit narrowed down to \$ 9.4 billion reflecting a somewhat curtailed level of imports. The trade deficit has been covered by transfers (private and public transfers and workers' remittances) and capital inflows, resulting generally in an overall balance of payments surplus.

Some significant shifts in the distribution of the region's exports among the developed market-economies themselves have occurred in recent years. Japan's share in the region's exports increased at the expense of progressively declining shares of the EEC and the United States. On the imports side, no significant shifts were observed in the overall distribution of imports by origin. During the last ten years, the EEC continued to be the main supplier of merchandise to the region, followed by Japan and the United States.

In relative terms, the share of the socialist countries of Eastern Europe in total trade of the ECWA region, remained unimpressive.

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The region's efforts to expand trade with other developing countries were successful through 1981. However, in 1982, affected by the economic recession and the universal slump, the region's trade with developing countries experienced a setback.

Notwithstanding more than three decades of efforts to promote intraregional trade, its share in the total has remained meager and way below expectations.

The combined international reserves of the ECWA member countries reached \$ 47.9 billion in 1981, rising by \$ 10.7 billion, or 28.6 percent, from their level a year earlier. The overall reserve position of the region—which deteriorated slightly in 1982 — has largely been a function of changes in the reserves holdings of the oil economies, notably Saudi Arabia, though significant inter-country differences can be observed.

Import restriction practices and barriers to trade are dealt with, inter alia, in paragraphs 53 and 71 of the IDS. Whenever, these and similar issues are dealt with, the appeal goes in the direction of the developed countries. It is appropriate to recommend that developing countries make additional efforts to study the specifications required by consumers in the developed countries and to adjust their products accordingly. Marketing studies and personnel training are needed.

Fiscal and Monetary Developments

The sharp decline in oil revenues during the early 1980s left its impact on the economies of Western Asia. It necessitated urgent adjustment measures in the fiscal policies of the oil economies and budgetary restraint became the dominant theme. Growth of expenditures decelerated until 1983 when they actually fell. Budgetary deficit however, emerged in most of these countries. Development expenditures took the major brunt of the slash in outlays while current expenditures composed mainly of defense and public services outlays proved to be more difficult to curtail. The sharp decline in oil revenues have highlighted the need for a reappraisal of fiscal policies in these countries, aimed at achieving better resource mobilization and allocation. Although most of the non-oil exporting countries pursued more or less, restrictive fiscal policies, they had rising budgetary deficits and growing public debt.

The ratio of tax revenues to GDP remained very low in the region. There is a striking contrast in domestic saving/GDP ratios between oil

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and non-oil exporting countries in Western Asia. While the ratio is very high in the former group of countries, it was persistently negative in the latter group, with the exception of the Syrian Arab Republic. More emphasis should be put on better mobilization of domestic resources and increasing the level of saving, commensurate with the objectives of the IDS.

Both oil and non-oil countries of Western Asia continue to maintain budgetary systems that do not adequately meet the requirements of efficient and effective economic management by the government. The use of modern budgetary techniques, along with their corresponding accounting and auditing systems, has not yet made a head way in most cases.

Monetary developments in the oil economies have generally followed a pattern similar to developments in the fiscal sector, reflecting the predominance of government expenditures in determining the level of domestic liquidity. Thus, the rate of growth in money supply accelerated in all the oil-exporting countries in 1980 and 1981, but diminished in 1982. In spite of the relatively sharp increases in money supply in 1980 and 1981, the oil-countries made considerable progress in curbing the rate of inflation.

In the non-oil economies, domestic liquidity was partly affected by budgetary outlays and partly by other factors such as public debt. Money supply grew rapidly in 1980, whereas, in 1981, its growth decreased only to pick up again in 1982. Most of these countries are still suffering from high rates of inflation especially Lebanon and the Syrian Arab Republic.

Science and Technology

There are ample evidence that the countries of the ECWA region maintained, and in some cases increased, their emphasis on strengthening their scientific and technological capabilities. The development of scientific and technological infrastructure continued unabated during the early 1980s. This trend is well in line with the IDS objectives for the Third United Nations Development Decade, which emphasized the need for greater access and mastery of modern scientific and technological knowledge in the economic and social progress of developing countries.

It is proposed that the developed countries should be called upon to develop a kind of technology intended for export to developing countries, which is tailored to their needs and conditions, i.e. economizing in the use of scarce resources and intensifying the use of the ones available.

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The countries could, through a division of labour in research, agree among themselves on individual and collective targets in specialization and technology development, aiming at excelling in a particular field during a relatively short period of time.

Energy

Recognizing that oil and gas are depletable sources of energy and in agreement with the IDS call for the development and expansion of all energy resources, member countries of ECWA have undertaken efforts to develop and utilize other sources of energy particularly nuclear and solar energy. Nevertheless, in the early 1980s, oil continues to be by far the largest source of energy in the ECWA region.

Furthermore, despite setbacks during 1981-1983, the ECWA region's role in the world oil market is bound to remain dominant in the long run, due to the magnitude of its hydrocarbon resources. Of the non-socialist world's proven oil reserves of 585 billion barrels, the ECWA countries account for approximately 56 percent. Out of OPEC's proven oil reserves of 462.9 billion barrels, ECWA members' share is 327.1 billion barrels, or over 70 percent. Among the four countries with the largest proven oil reserves in OPEC, three are from the ECWA region namely Saudi Arabia, Kuwait and Iraq. Unlike some other oil-producing countries such as the United Kingdom the absolute demand for oil consumption domestically in these countries will continue to be relatively small. This phenomenon coupled with the proven oil reserves is expected to strengthen the position of the ECWA region in the world oil market in the years to come.

Transport, Communications and Tourism

The most remarkable development in the field of transport has been the expansion and improvement of port infrastructure, particularly in the Gulf area. Due consideration has also been given to the expansion and improvement of road and railway networks. Connections with neighbouring countries have been improved and progress on the impressive causeway connecting Bahrain to Saudi Arabia has been steady.

Another development in late 1970s and early 1980s was the expansion of national shipping fleets, especially in Kuwait, Iraq and Saudi Arabia.

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Despite some significant developments in the field of telecommunications, particularly in Bahrain and Kuwait, telephone communications within the region and with the outside world, remain unsatisfactory. Current development plans - of which the most ambitious is that of Saudi Arabia - aim at the expansion and modernization of the telecommunication system.

During the 1980-1983 period, the share of ECWA countries in world tourism did not increase, with only about 2 percent of the international tourism movement and about 3 percent of receipts.

Water Resources

Many ECWA countries, aware of the importance of assessing their water resources have been making efforts to expand their networks and are showing interest in the use of advanced technology for assessment purposes.

The International Drinking Water Supply and Sanitation Decade (IDWSSD) coincides with the Third United Nations Development Decade. With the passage of a quarter of the Water Decade, most ECWA member States have made considerable progress in improving both their water supply and sanitary systems.

In view of general aridity, ground water takes a special significance in the region; but it is often saline or brackish which require costly desalination processes. Nevertheless, desalination projects are increasingly being developed, specially in some of the Gulf countries, namely Saudi Arabia and Bahrain.

Attention has also been given recently to increase the effective use of water by industry by recycling with due safeguards for the prevention of pollution as well as waste-water treatment and quality control. In various countries treated municipal sewage effluent is being used for irrigation of public parks and gardens.

Population and Social Development

The population of the ECWA region was recorded at about 99 millions in mid-1983. The region is characterized by a very young age structure, rapid population growth, large migration, and relatively low population

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density. However, since much of the land is desert and hardly habitable, population density tends to be very high in the inhabited areas.

Fertility is relatively high in all the countries of the ECWA region, with the overall fertility rate being around 7 percent in the majority of the countries. However, it has declined to 5.2 percent in Bahrain and Egypt and to 4.6 percent in Lebanon. With the exception of Egypt, all countries do not consider their high fertility as a constraint which may hamper their socio-economic development.

The level of mortality in the ECWA region varies considerably from one country to another. Life expectancy ranges between a low level of 44 years in Yemen, to a relatively high level of 71 years in Kuwait. According to estimates of life expectancy in 1983, the ECWA countries can be classified into two wide groups: the very low mortality group which comprises Bahrain, Jordan, Kuwait, Lebanon, Qatar, the Syrian Arab Republic, and the United Arab Emirates, where life expectancy is higher than 60 years, as envisaged in the IDS, and the relatively high mortality group including the remaining countries of the region. Life expectancy in the two Yemens, the least developed countries of the ECWA region, is estimated to be about 44 years for both sexes which is clearly one of the lowest levels in the world. Furthermore, despite significant progress, the IDS infant mortality target rate of less than 120 per thousand live births has not yet been achieved by Democratic Yemen, Oman and Yemen.

Both internal and inter-country migration in the ECWA region continues to be a major factor in determining the national and regional population distribution pattern. During the past decade and the early part of the 1980s, the ECWA region has witnessed a phenomenal mass migration from non-oil to oil exporting countries. Furthermore, displaced Palestinians and Lebanese as a result of wars and civil disorder accentuated mass migration.

Internal migration has substantially affected the growth rates of cities in the ECWA region. Thus, while the IDS calls for a better interregional balance between rural and urban development, this unbalanced pattern of migration has generally placed heavy burden on both the sending and the receiving areas. Thus while the rural areas are suffering from

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the lack of labour, the urban areas are confronting the problems of accommodating large number of migrants.

The first half of the Third United Nations Development Decade has witnessed a continuation of the expansion in various level of primary, intermediate, secondary and higher education. The average rate of growth has varied from one level to another among different countries of the region. However, in all cases there was relative decline in the average growth rate in comparison to the rapid expansion in education during the 1970s, particularly in most of the Gulf Countries.

In pursuing the IDS objective of improving housing conditions for the most disadvantaged communities, the well endowed oil countries of the Gulf, as well as some of the region's less endowed countries, have carried out some projects designed specifically to meet the needs of the low-income groups of their population. However, despite the expansion of the construction sector and substantial investment in dwellings, housing output has not yet caught up with the needs of population growth and urbanization.

Efforts have continued in all countries of the region, during the period under review, to provide basic preventive and curative services for their populations. Priority is given to curative services, building of hospitals and health centres followed by preventive services especially with respect to its technical cadres, organizational and educational requirements. However, efforts aimed at diversifying health services are mainly concentrated in urban areas.

Attention is increasingly being devoted to the integration of women in development as both participants and beneficiaries. The past several years have witnessed support for national committees and organizations of women, as well as the establishment of vocational societies for women, at national and regional levels. In secondary and higher education, the rate of female to male students is improving continuously; it is almost equal in a few universities in some Gulf countries. However, women enrolment in technical education is still limited, or non-existent in some countries, due to traditional values that regard technical education a suitable area for men only.

The size of migrant labour in countries of the Gulf Co-operation Council which was 1.086 million in 1975, reached a total of 2.935 million

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in 1980, reflecting an average annual growth rate of 20 percent during the period. The proportion of migrant labour to total labour force in the main Arab labour exporting countries reached 5 percent in 1979, varying from 2 percent in Tunisia to 40 percent in Jordan. According to the World Bank estimates, these proportions will reach 8 percent in 1985 and will vary from 38 percent in Jordan to 5 percent in Egypt. On the other hand, national labour force in the countries of the Gulf Co-operation Council formed on the average less than half (i.e. 42 percent) of total labour force in 1980, with the lowest level recorded in the United Arab Emirates (10 percent) and the highest level in Oman (61 percent).

In general, labour force in the countries of ECWA is characterized by a relatively low and crude participation rate, varying between a maximum of 26 percent in Egypt, Iraq and Lebanon and a minimum of 19 percent of nationals in almost all Gulf countries. This low participation rate is due to the region's young population structure combined with a very low female participation rate, which varies between a maximum of approximately 10 percent in Bahrain, Iraq, Lebanon and the Syrian Arab Republic, and a minimum of less than 4 percent in most Gulf countries.

The rate of growth of the expatriate labour force in the main ECWA oil producing countries has decreased considerably during the 1980-1983 period, and is expected to continue to decline through 1985.

Only a few ECWA member countries have adopted a policy regarding human resources development in general and labour force in particular. The interrelation between education and manpower planning is very weak due mainly to a surplus of the educated in the field of arts and behavioural sciences reflecting clear shortages in professional, technical and skilled individuals.

In paragraph 44 of the IDS, it is indicated that the labour force is expected to increase by 2.5 percent per annum. This is the same as the expected rate of growth for the population (paragraph 21). However, the IDS calls also for greater women participation in the labour force and development (para. 8, 51, 77, 95, 122, 163, and 168). Thus, it would be appropriate to set the desired rate of growth of the labour force slightly higher than that of population, implying that the increase in female participation in the labour force would be greater than the decrease due to increasing school enrolment.

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Regional Co-operation and Integration

The current phase in Arab economic cooperation in the ECWA region is characterized by a number of features which have been making themselves increasingly felt since the mid-1970s and which will certainly have far-reaching implications in the long-term. Among the more significant of these features are the growing support for subregional cooperation; increased involvement of the private sector in the cooperative process; emergence of a consensus considering joint ventures among the more, if not the most, promising vehicle for promoting regional cooperation; large influx of capital from the surplus to the deficit member countries and a substantial flow of labour in the opposite direction; institution building and change; and, strong impact of political factors on cooperation efforts.

The most significant development with respect to sub-regional co-operation has been the establishment of the Gulf Cooperation Council (GCC), on 25 May 1981, by Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates.

Although the formation of the GCC appears to have been primarily in response to preoccupations peculiar to the Gulf sub-region, its implications for economic cooperations in Western Asia, and in the wider Arab context, cannot be over-emphasized. The GCC member state wield substantial economic and financial power as aid donors and markets for goods, services and labour. To that extent their economic policies can have considerable impact on other countries in the region.

The achievements of the Council have been quite impressive including the abolition of customs duties on intra-trade, freedom of movement of citizens and of professional practice, right to establish business ventures, establishment of a common external tariff, policy coordination in a number of sectors and the establishment of the Gulf Investment Corporation with an authorized capital of \$ 2.1 billion. .

The Least Developed Countries

The development prospects of the two least developed countries of the ECWA region, namely Democratic Yemen and Yemen, have remained bleak over the years as a result of extremely low level of agricultural productivity, small industrial sector, high rate of population growth, poor resources endowment, lack of physical and institutional infrastructure, high level of illiteracy, lack of skilled manpower, endemic diseases, isolated settlements and strong rural-urban and outward migration.

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In an effort to resolve these multi-dimensional problems, development programmes were formulated which called for bold measures at the national level and sought international assistance in various fields. Both countries made satisfactory progress in these directions. They took part in the elaboration of the substantial New Programme of Action (SNPA) and incorporated most of its provisions in their current development plans. However, both countries suffered severe set-backs in their development processes, caused by natural disasters in 1982, i.e., extensive floods in Democratic Yemen and devastating earthquakes in Yemen.

As part of the relief and reconstruction programme, domestic budgetary resources had to be redeployed for immediate disaster relief and continuing repair works. The adverse effects of these disasters will continue to draw on development efforts in both countries for years to come.

The most important issues the two countries have to address themselves to as soon as possible are: (1) finding a solution to the problem concerning labour migration and remittances; (2) improving the domestic financial potential and the foreign-exchange situation, (3) reducing the trade deficits; and, (4) reversing the declining trend in food production. Measures in this direction have had slow progress. In order to enhance development efforts, external assistance needs to be stepped up considerably.

In view of the needs of the least developed countries and the growing burden of debt servicing, it is necessary, for aid donors to closely adhere to the provisions of the SNPA and increase contributions while softening the terms of their assistance. At the same time, possibilities for technical co-operation, also with developing countries (TCDC), should be further investigated.

Transnational Corporations in Western Asia

Transnational corporations have been active in various fields and in varying degrees in the countries of Western Asia. Their involvement in the oil sector has shifted in nature as a result of the emergence of OPEC and OAPEC. However, transnational corporations are associated with the efforts of oil-producers in the region to develop petroleum-based downstream processing facilities, starting with basic petrochemicals. In the services sector, transnational corporations are involved, inter-alia in banking, shipping and hotel industry.

The difference in the nature of factors motivating the operations of transnational corporation in developing countries and those governing national development objectives in these countries, including those

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of the ECWA region, led to a growing interest in regulating the activities of transnational corporations. The international community, convinced that a country, taken in isolation, could not negotiate on equal footing with transnational corporations had initiated, since 1975, work on a Code of conduct on Transnational Corporations. The draft Code, in its present version includes 71 provisions, out of which about two-thirds have already been fully agreed upon. The resumption of the negotiations for the completion of the formulation of the Code in a special session of the Commission on Transnational Corporations, open to all member states, is scheduled to be held in New York from 11 to 29 June 1984.

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