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**ECONOMIC AND SOCIAL COMMISSION
FOR WESTERN ASIA**

**THE IMPACT OF THE GULF CRISIS ON
THE ECONOMIES OF WESTERN ASIA***

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Republic of Lebanon
Office of the Minister of State for Administrative Reform
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(C.P.S.P.S.)

**THE IMPACT OF THE GULF CRISIS ON
THE ECONOMIES OF WESTERN ASIA***

* For the preparation of this study, Dr. Bassam Saket served as Consultant to the Economic and Social Commission for Western Asia. The views expressed herein do not necessarily reflect those of the United Nations.

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CONTENTS

	<u>Page</u>
LIST OF TEXT TABLES.....	-iii-
LIST OF APPENDIX TABLES.....	-v-
INTRODUCTION.....	-1-
I. THE ECONOMIC SETTING ON THE EVE OF THE CRISIS.....	-4-
A. Overall Economic Activity.....	-5-
1. Aggregate output.....	-5-
2. Income level.....	-10-
3. Investment activities.....	-11-
B. Labour Market.....	-12-
1. Labour supply.....	-12-
2. Unemployment.....	-14-
3. Labour mobility.....	-15-
4. Workers' remittances.....	-16-
C. Oil : Production, Prices, and Revenues.....	-18-
1. Oil production.....	-18-
2. Oil prices.....	-18-
3. Oil revenues.....	-19-
D. Foreign Trade.....	-20-
1. Exports.....	-20-
2. Imports.....	-20-
3. Trade balance.....	-21-
E. Money and Banking.....	-21-
1. Banking.....	-21-
2. Money supply.....	-22-
3. Net foreign assets and domestic credit.....	-25-
F. Tourism.....	-25-
G. Internal and External Imbalances.....	-26-
1. Government budget.....	-26-
2. Balance of payments.....	-28-
3. Inflation.....	-29-
H. Regional and Sub-Regional Co-Operation.....	-30-

CONTENTS (Cont'd)

	<u>Page</u>
II. MAJOR AREAS OF IMPACT AND AFFECTED COUNTRIES.....	-31-
A. Overall Economic Activity.....	-31-
B. The Regional Labour Market.....	-32-
C. Oil: Production, Prices, and Revenues.....	-37-
D. Foreign Trade.....	-40-
E. Money and Banking.....	-44-
F. Tourism.....	-46-
G. Internal and External Setting.....	-48-
H. Environmental Impact of the Gulf Crisis.....	-52-
III. IMPLICATIONS FOR FUTURE GROWTH AND DEVELOPMENT.....	-55-
A. Overall Economic Activity.....	-55-
B. The Labour Market.....	-58-
C. Oil: Production, Prices, and Revenues.....	-59-
D. External Dependence and Vulnerability.....	-61-
E. Foreign Trade.....	-63-
F. Defence and Development Outlays.....	-65-
G. Regional and International Economic Relations.....	-66-
H. Adjustment and Policy Measures.....	-67-
IV. SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS.....	-69-
A. Summary.....	-69-
B. Further Changes and Divisions.....	-73-
C. Tilt Towards Security Outlays.....	-74-
D. Arab Economic Order.....	-74-
E. Disparity Versus Parity.....	-76-
F. Oil-Related Issues.....	-77-
G. Arab Order Versus Aid.....	-79-
H. Environment and Water.....	-80-
I. ESCWA's Role.....	-80-
J. The political Scene.....	-81-
STATISTICAL APPENDIX.....	-83-

LIST OF TEXT TABLES

<u>Table</u>	<u>Page</u>
I-1 Average Annual Rates of Growth in Investment, GDP, and Population, 1987-1989.....	-6-
I-2 Ratio of Remittances to Commodity Imports in Selected ESCWA Countries, 1987-1989.....	-17-
I-3 Ratio of Oil Revenues to Gross Domestic Product in ESCWA Countries, 1987-1989.....	-19-
I-4 Average Annual Rates of Growth in Commodity Exports and Imports of ESCWA Countries, 1987-1989.....	-21-
I-5 Changes in Money Supply (M2) in ESCWA Countries, 1987-1989.....	-24-
I-6 External Debt of Selected ESCWA Countries, 1985-1989.....	-28-
I-7 Consumer Price Index in Selected ESCWA Countries, 1985-1989.....	-29-
II-1 Estimated Losses of Worker's Remittances in ESCWA Countries.....	-37-
II-2 Estimated Losses of Foreign Trade in ESCWA Countries.....	-43-
II-3 Estimated Losses of Tourism Revenues in Selected ESCWA Countries.....	-48-
II-4 The Six Biggest Contributors to the Gulf War and their Total Payments up to 17 June 1991.....	-49-
II-5 Estimated Losses and Gains of Financial Assistance in some ESCWA Countries.....	-51-
II-6 Estimated Overall Losses of ESCWA Countries.....	-52-

LIST OF TEXT TABLES (Cont'd.)

<u>Table</u>	<u>Page</u>
III-1 External Debt of Selected ESCWA Countries, 1990.....	-63-
III-2 United States Exports to the GCC Countries, 1989-1991.....	-64-
III-3 Basic Indicators on Armed Forces of ESCWA Countries,.....	-65-
III-4 Annual Military Expenditure of ESCWA Countries.....	-66-

LIST OF APPENDIX TABLES

<u>Table</u>	<u>Page</u>
A-1 Population of ESCWA Countries, 1985-1989.....	-84-
A-2 Gross Domestic Product of ESCWA Countries, 1985-1989.....	-85-
A-3 Per Capita Gross National Product of ESCWA Countries, 1985-1989.....	-86-
A-4 Urbanization in ESCWA Countries, 1985, 1987 and 1989.....	-87-
A-5 Contribution of Agriculture and Industry to GDP in ESCWA Countries, 1985 and 1989.....	-88-
A-6 Investment in ESCWA Countries, 1985-1989.....	-89-
A-7 Remittances of Migrant Workers in Selected ESCWA Countries, 1985-1989.....	-90-
A-8 Daily Production of Crude Oil in ESCWA Countries, 1985-1989.....	-91-
A-9 Oil Output and Production Capacity in July 1990, Selected ESCWA Countries.....	-92-
A-10 Monthly Average Spot Price of Crude Petroleum, 1989, 1990 and 1991.....	-93-
A-11 Oil Revenues of ESCWA Countries, 1985-1989.....	-94-
A-12 Daily Consumption of Oil Products in ESCWA Countries, 1985-1989.....	-95-
A-13 Commodity Exports (f.o.b.) of ESCWA Countries, 1985-1989.....	-96-
A-14 Commodity Imports (f.o.b.) of ESCWA Countries, 1985-1989.....	-97-
A-15 Trade Balance of ESCWA Countries, 1985-1989.....	-98-

LIST OF APPENDIX TABLES (Cont'd)

<u>Tables</u>	<u>Page</u>
A-16 Change in Money Supply (M2) in ESCWA Countries, 1985-1989.....	-99-
A-17 Change in Net Foreign Assets of ESCWA Countries, 1985-1989.....	-100-
A-18 Change in Domestic Credit of ESCWA Countries, 1985-1989.....	-101-
A-19 Foreign Exchange Holdings of ESCWA Countries, 1985-1989.....	-102-
A-20 Deficit (Surplus) in Government Finances in Selected ESCWA Countries, 1985-1989.....	-103-
A-21 Current Account Balance of ESCWA Countries, 1985-1989.....	-104-
A-22 Overall Balance of Payments Position of ESCWA Countries, 1985-1989.....	-105-
A-23 Net Transfers to ESCWA Countries, 1985-1989.....	-106-

INTRODUCTION

This study examines the impact on the ESCWA countries of what has become known as the "Gulf Crisis".

Chapter I discusses the economic development setting in the ESCWA countries before the Gulf Crisis. Owing to differences in the extent of dependence on oil, and consequently in development patterns, the ESCWA countries for the purposes of this study are grouped into two categories:

1. The Non-Diversified Economies. This group includes the Gulf Co-operation Council (GCC) countries (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates). These countries have many traits in common. Yet, grouping them together may create a false impression of homogeneity.

These countries recorded successive large external surpluses and high economic growth rates especially in the years following the surge in oil prices in 1973, 1979 and 1981. The oil sector dominates the economy and politics of this group.

2. Countries with Relatively Diversified Economies. This group of countries includes Egypt, Iraq, Jordan, Lebanon, the Occupied Palestinian Territories, the Republic of Yemen and the Syrian Arab Republic. Although the oil sector dominates its economy, Iraq has managed to establish a relatively diversified economic structure with manufacturing linked to both minerals and agriculture. The Republic of Yemen also is an interesting case among this group with its recent discovery of oil.

It is unfortunate that due to the Iraqi-Iranian war, the Lebanese civil war, and the Israeli occupation of Palestinian territories, statistical data on these countries are generally lacking. This has imposed limitations on analysis and confined its scope.

The Gulf Crisis has severely affected economic activity in almost all ESCWA member countries. If the short-term effects of the Crisis are obvious, the medium- and long-term effects still have to be analyzed thoroughly. Obviously, not all countries have suffered to the same degree. For some countries, most of the economic and social problems created by the Gulf Crisis have relatively been resolved. Further employment, investment, and trade opportunities have been created; and substantial financial aid has been received. For other ESCWA countries, the Gulf Crisis has seriously interrupted the development process, caused heavy damage to infrastructure, and created new economic and political problems that will remain for years to come.

Chapter II examines the impact of the Gulf Crisis on ESCWA countries. It focuses on the most affected areas especially the labour market, oil, foreign trade, money and banking, tourism, internal and external setting, regional cooperation and environment. It also provides estimates of the losses incurred by ESCWA countries as a result of the Gulf Crisis.

The findings of this chapter may be subject to a certain margin of error and, accordingly, should be treated and interpreted with caution. The difficulties related to the inadequacy of information need not be emphasized. Furthermore, actual losses go far beyond the quantitative losses given in this study. The losses also include human life and injuries. The negative impact of the Gulf Crisis on the environment, which sustained severe damage from the combined effects of the oil spills and air pollution from burning Kuwaiti oil wells, should not be overlooked. Countries which have been worst hit by the Gulf Crisis, after Iraq and Kuwait, are Jordan and the Republic of Yemen.

The most obvious impact of the Gulf Crisis on the relatively diversified economies are:

1. a sharp decline in external financial resources and consequently a sharp fall in government revenues;
2. high budget deficits especially for those countries that did not receive compensatory funds;
3. a huge number of returnees from Iraq and the GCC countries especially from Kuwait and Saudi Arabia, and a loss of migrant workers' remittances;
4. aggravation of the unemployment problem;
5. decreasing per capita income and, hence, standards of living;
6. aggravation of external debt problems due to losses in foreign exchange earnings;

7. aggravation of the problems of structural adjustment;
8. decreasing exports thereby harming the growing industrial sector and investment climate; and,
9. a lower level of cooperation among ESCWA countries.

Chapter III provides an overview of growth and development prospects in the ESCWA region after the Gulf Crisis. It also suggests new measures and forms of cooperation as a basis for discussion and formulation of more detailed and appropriate strategies. It concludes that economic prospects for the ESCWA region are bleak in the short-term, and stresses the need for additional adjustment and recovery programmes.

Given the state of relations between labour-sending and labour-receiving countries, more self-reliant measures should be taken. The Gulf Crisis and its aftermath have highlighted the need for an integrated approach in the ESCWA region to the major issues of human resources development.

The last chapter summarizes the main findings of the study and provides some recommendations and measures to enhance future economic growth and development in the region. A statistical appendix containing supporting data is provided at the end of the study.

I. THE ECONOMIC SETTING ON THE EVE OF THE CRISIS

This chapter discusses the economic development setting of the ESCWA countries before the Gulf Crisis of 2 August, 1990. For this purpose, the ESCWA countries are grouped into two categories:

- the non-diversified economies
- the relatively diversified economies

The non-diversified economies. This category includes the Gulf Co-operation Council (GCC) countries (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates).

These countries, lying on the shores of the Gulf, have many traits in common. Yet, grouping them together may create a false impression of homogeneity. In terms of general characteristics, there are striking similarities among the countries of this group including:

- a. extreme dependence on oil;
- b. a large and expanding public sector;
- c. a high level of per capita income and living standards;
- d. heavy dependence on imports;
- e. a low level of taxation and high level of subsidies; and
- f. generally small population.

These countries recorded successive large external surpluses and high economic growth rates especially in the years following the surge in oil prices in 1973, 1979 and 1981. The oil sector has dominated the economy and politics of this group. Therefore, the significance of the oil sector for these countries must be carefully examined.

Given the similarities which exist among the GCC countries, the idea of grouping them would make the analysis more realistic and feasible.

Countries with relatively diversified economics. These countries include Egypt, Iraq, Jordan, Lebanon, the Occupied Palestinian Territories, the Republic of Yemen, and The Syrian Arab Republic.

Although the oil sector dominates the economy of Iraq, the country has managed to establish a relatively diversified economic structure where industry is linked to both minerals and the agricultural base. The Republic of Yemen is also an interesting case among this group of economies with its recent discovery of oil.

It is unfortunate that due to the Iraqi-Iranian war and the Lebanese civil war, statistical data on these countries are generally lacking. This has restricted analysis to certain economic issues and specific areas.

A. Overall Economic Activity

1. Aggregate output

The annual growth rate of gross domestic product (GDP) for ESCWA countries averaged 1.7 percent, while the population growth rate averaged 3.2 per cent, during 1987-1989 (Table 1).

Domestic efforts towards modern economic development in most GCC countries began in the early 1960s. During the last two decades, these countries achieved fast economic growth, generated mainly by the oil sector. Yet, the process of economic development had been hindered by the small size of these economies' demographic base, lack of adequate infrastructure, and lack of effective economic management. With a small demographic base and high output, as shown in Appendix Tables A-1 and A-2, respectively, the GCC countries achieved a high level of living standards and wealth.

Table I-1. Average Annual Rates of Growth in Investment, GDP, and Population, 1987-1989

(percent)

Country	Investment	GDP	Population
Bahrain	-21.9	4.6	3.2
Egypt	-32.0	-5.3	2.7
Iraq	0.6	7.3	5.8
Jordan	-15.3	-14.6	3.4
Kuwait	12.7	3.0	4.7
Lebanon	...	5.0	0.2
Oman	-26.6	3.9	4.0
Qatar	-11.6	10.5	3.0
Saudi Arabia	1.7	6.3	3.0
Syrian Arab Republic	17.7	-19.7	4.2
United Arab Emirates	4.8	7.4	3.4
Yemen	13.4	26.3	1.7
Average	-5.0	1.7	3.2

=====

Source: Derived from Appendix Tables A-1, A-2 and A-6.

Note: Growth rates of investment and GDP (at current prices) are derived using current United States dollars. Using national currencies will give different rates of growth.

... Not available

During the 1950s and 1960s, economic development plans of Egypt concentrated on expanding the manufacturing sector and improving the infrastructure of the economy. This emphasis led or paved the way towards achieving some success particularly in building iron, Steel, and other heavy industries. For many years, the economy of Egypt has been suffering from an inefficient public sector, low real economic growth, high rates of population growth, and heavy dependence on external resources, especially foreign aid and workers' remittances. During the years following 1986, more serious problems prevailed including a more visible slowdown in the economy, high inflation rates and intensified pressures on the country's balance of payments.

Economic growth rates have not been sufficient to cope with the rapidly increasing labour force or to soften the rising rate of inflation. During the three years preceding the Gulf Crisis, the rate of growth in GDP was negative, about -5.3 per cent, (Table 1). Although the Government of Egypt made serious efforts to speed up the pace of economic growth and increase the country's real output, these efforts did not bear tangible results until the end of 1989 when the Government decided to implement a comprehensive economic reform package agreed upon with the International Monetary Fund (IMF) and the World Bank.

In Iraq, serious development planning, especially designed for setting up industrial projects, was adopted in the 1970-1975 plan. During this period, and indeed during the following years, the public sector was the pre-eminent investor. A central feature of the Iraqi planning programmes was its emphasis on chemicals, petrochemicals, and oil-related industries.

Before the Gulf Crisis, the economy of Iraq had suffered badly in terms of large outflows and drain in human and capital resources. This was due to the Iraqi-Iranian war that lasted for eight years and ended in August 1988. In 1989, the country's external debt was estimated at \$70 billion. The magnitude of the setback in the state of the economy can be realized from the depletion of the country's reserves which stood at \$32 billion in 1982. The two Arab countries that mainly financed Iraq's military efforts were Saudi Arabia and Kuwait. Yet, the balance of payments faced acute deficits and the economy experienced a rapidly depreciating currency with an inflation rate unofficially estimated at over 40 percent.¹ As for the Government budget, large deficits were recorded as the country followed the dual

¹ N. Abdalla, Impact of the Gulf Crisis on Developing Countries, (New York, June 1991), P.6.

track of buying guns and butter. It heavily subsidized essential food items while undertaking large industrial projects and huge expenditures on armament.

The Economy of Jordan experienced considerable growth in the 1970s and early 1980s. This is attributed to rising receipts from exports, workers' remittances, and aid mainly from the GCC countries. However, economic slowdown and rising unemployment were evident even before the Gulf Crisis.

In 1989, Jordan embarked upon an adjustment programme covering the period 1989-1993. This programme practically replaced the anticipated Five-Year Economic and Social Development Plan of 1991-1995. To implement this adjustment programme, a series of policy measures were adopted that included structural reforms, reduction in the budget deficit, increasing net domestic assets, and the pursuit of flexible interest rates and foreign exchange policies. During the period 1987-1989, GDP in nominal terms decreased by about 14.6 per cent annually (Table I-1).

As will be seen later, the Gulf Crisis had severe repercussions on the economy of Jordan created by a complete halt in financial aid, a slump in exports, and the forced return of large numbers of Jordanian and Palestinian workers from the Gulf.

The economy of Lebanon was devastated by more than fifteen years of civil war which left the country extremely weak and vulnerable, and seriously undermined all aspects of economic and social life. The economy of Lebanon was characterized by political and economic uncertainty, high mobility and emigration of skilled workers, continuous flight of capital, a rapidly depreciating national currency, sharp deterioration of services, and a widening political rift.

Preliminary estimates placed the direct losses incurred by the economy of Lebanon, due to internal fighting and violence, between \$1.3 billion to \$1.5 billion in 1989, and between \$0.5 billion and \$1.0 billion in the first half of 1990.¹

¹ ESCWA, The Impact of the Gulf Crisis on the Economy of Lebanon, (January 1991, Amman), P.6.

Palestinian efforts to achieve economic growth and development have been frustrated by a wide range of economic and political constraints imposed by the continued occupation and instability. The performance of the Palestinian economy under occupation showed a continuing decline in aggregate economic variables and activities, especially declining factor income and transfers from abroad, investment, and per capita income. Despite some aid and emergency assistance from the United Nations, the European Community and other international organizations, GDP fell by around 35 per cent between 1987 and 1989.

Since 1987, the Israeli occupation authorities have imposed a series of economic and political measures aimed at reducing Palestinian resistance to Israeli occupation - "The Intifada". Major economic indicators in the Occupied Palestinian Territories in the years 1988 and 1989 indicate a visible decline. Economic performance departed from trends of preceding years. However, not all recent trends had been negative especially in the agricultural sector. Yet, it is unlikely that this pattern of economic decline will be reversed under the present conditions of prolonged military occupation.¹

Prior to the Gulf Crisis, the GCC countries, especially Kuwait and Saudi Arabia, made significant contributions to the development of the Palestinian economy. Funds were made available for health care, education, housing and other utilities. On the other hand, Palestinian migrant workers also helped restraining the decline in the development of the Occupied Territories through remittances.

The public sector in the Syrian Arab Republic dominated economic activity while the role of the private sector remained limited and restrained. During the later years of the 1980s, the Syrian economy underwent austerity measures aimed at controlling public expenditure, and successive government budgets limited rates of increase in expenditures. These increase, nevertheless, were wiped out by high inflation rates. Before the Gulf Crisis, the economy had been suffering from a shortage in foreign exchange, steep depreciation of the value of the Syrian pound and a heavy reliance on borrowing.

¹ United Nations Conference on Trade and Development, Recent Economic Developments in the Occupied Palestinian Territories, Report by the UNCTAD Secretariat (Geneva, 3 September 1990), TD/B/1266/Corr.1, p.16.

Democratic Yemen and Yemen were united on 22 May 1990, into the Republic of Yemen. Both countries were categorized as least developed countries, with limited resources and heavy dependence on foreign aid and workers' remittances from the Gulf states, especially from Yemeni workers in Saudi Arabia.

The new Republic of Yemen has been benefiting from oil exports since 1988. This has had a major impact on stimulating the country's socio-economic development.

2. Income level

Prior to the Gulf Crisis, all ESCWA countries were much better off than two decades earlier. But there were, and still are, considerable pockets of poverty even in richer GCC countries. In the relatively poor ESCWA countries, there were often sectors that commanded substantial purchasing power; yet these countries were, and still are, as a whole, poor. Poverty, within and between countries, menaces society and creates social and political unrest since poverty and other aspects of inequality are not variables with economic dimensions only. The relationship between low income levels and political instability is very strong and should not be overlooked. Indeed, it would be naive to deny that there is such a flash-point, in all countries alike, so that below a certain level of income, political instability is inevitable.

Before the Gulf Crisis, issues of income distribution and inequalities in income and wealth were not seriously raised. The Arab summit of 1980, that was held in Jordan, was the only official gathering at the highest political level to address Arab economic problems and particularly the case of income inequality amongst Arab countries. Before this summit, there had not been even clear intentions or systematic policies to bridge the gap between rich and poor countries of the region. One of the major economic differences between the countries of relatively diversified economies and the GCC countries has been the big gap in their living standards. This gap, to certain social analysts, was probably one of the factors that precipitated the Gulf crisis.

In the GCC countries, levels of income and wealth are generally very high. The United Arab Emirates and Kuwait, for instance, had a per capita GNP of \$18,430 and 16,150, respectively, in 1989. On the other hand, Egypt and the Republic of Yemen are the poorest in terms of per capita GNP (\$640 and

\$650, respectively). During the period 1987-1989, the trend was for the poor ESCWA countries to get poorer, thereby widening the gap between poor and rich countries (Appendix Table A-3). With such disparities in income levels, the ESCWA region clearly has potential social and political problems quite different in scale from what politicians may think.

3. Investment activities

Total investment in the ESCWA countries, excluding Lebanon and Palestine, decreased by about 5 per cent during 1987-1989 (Table I-1). For the GCC countries, investment in 1985 was relatively higher than that in the following years. Oman, Bahrain, and Saudi Arabia had a low investment record in the three years preceding the Gulf Crisis (Appendix Table A-6). The fall in oil prices and revenues may have contributed to this.

In Egypt, investment allocations for the public sector dropped from 76.5 per cent of planned investment in the five-year development plan of 1982-1986 to 62 per cent in the five-year plan of 1987-1992.¹ Among the ESCWA countries, Egypt recorded the lowest investment performance. Total investment at current prices decreased by 32 per cent, on average, during 1987-1989.

In Jordan, the average annual growth of investment was about 0.8 per cent during 1985-1987. As Appendix Table A-6 shows, the rate of investment declined by 4.3 per cent in 1988 and 26.2 per cent in 1989.

As mentioned earlier, the role of the Iraqi private sector was negligible in contrast to that of the public sector. Private sector's share in investment during the 1970-1975 plan was approximately 12 per cent. With the rise in oil prices, the relative importance of the private sector diminished especially in the industrial field where the public sector took the lead. This pattern continued in the 1976-1980 plan with a modest emphasis on non-oil-based industries, thus representing a start to diversify away from oil. Investment in a wide array of industrial projects was one of the main features of this plan.

Attempts were also made to make Iraq more self-sufficient in clothing, tanning, shoe making, and carpet weaving. The country

¹ ESCWA, Egypt: A Country Profile in the Wake of the Gulf Crisis (Amman, unpublished, n.d.), p.5.

made a significant contribution to promote Arab joint ventures by investing in these ventures. However, the Iraqi-Iranian war had restraining effect. It slowed down the country's pace of economic development by diverting resources from development, and through the damage inflicted on infrastructure and industrial sites, including petrochemicals. Annual rates of growth in investment averaged 0.6 per cent during the period 1987-1989.

Despite the extended list of Israeli measures to prevent any Palestinian self-reliance from emerging, a significant change occurred in the pattern of private investment in the Occupied Territories in 1989. More emphasis was put on investing in small-scale industrial projects as part of an effort to achieve greater self-sufficiency.¹

Investment in the Syrian Arab Republic grew from around \$2.2 billion in 1987 to about \$3.0 billion in 1989, or at an annual rate of 17.7 per cent. As mentioned earlier, most of this investment was in the public sector.

B. Labour Market

1. Labour supply

The GCC countries are labour-deficit economies. They are characterized by a relatively small and unskilled indigenous work force. Consequently, they had to rely heavily on expatriate workers. Indeed, without the help of expatriate workers, it would have been impossible for these countries to implement impressive development programmes and achieve the rapid growth and development which they did.

Before the Gulf Crisis, it was estimated that there were approximately 1.5 million expatriates in Kuwait, constituting around 67 per cent of the total population.¹ The composition of migrant Arab workers tilted towards Jordanians and Palestinians who made up 34.8 per cent of the total, followed by Egyptians (14.7 per cent). Many of these expatriates had been in Kuwait for more than two decades.

¹ United Nations Conference on Trade and Development, op. cit. p.5.

² N. Abdalla, op cit. p. 5.

In Iraq, there were also about 1.162 million non-Iraqis, of whom 1.069 million were active labour. Egyptians numbered 850,000.

For many years, Egypt has been facing a serious demographic problem in the sense that the economy was not growing fast enough to accommodate the rapidly increasing population. The annual increment in the number of job-seekers is estimated at about 450,000. At one time, Egyptian workers in Iraq constituted about 80 per cent of the total expatriate workers. However, when the Iraq-Iran war was over, hundreds of thousands of Iraqi soldiers joined the civilian labour force. Foreign labour had to leave to accommodate the new situation as evidenced by the massive exodus of Egyptians after August 1988.

The labour market in Jordan is characterized by a relatively high skilled and educated labour force, excess in supply over demand, low but active female participation, and, more recently, a high rate of unemployment. For many years, there has been a large Jordanian and Palestinian community in the GCC countries, especially in Kuwait and Saudi Arabia. This community, estimated at around 1.25 million before the Gulf Crisis, was a well-educated community.¹ It was well integrated in the economies of the GCC countries especially in Kuwait, situated in the middle and high income professions (trade, education, and business). In Iraq, their number did not exceed 30,000 with a similar pattern of occupational involvement.²

Lebanon, for so many years, has been one of the labour-surplus economies in the region. Before the Gulf Crisis, the Lebanese community in the GCC countries was over 70,000, most of them engaged in business, crafts, contracting and other professions.

Before the Gulf Crisis, the number of workers from the Occupied Palestinian Territories (West Bank and the Gaza Strip) in the Arab Gulf States was estimated at about 52,000. Almost half of these were employed in Kuwait, 30 per cent in Saudi Arabia and the rest in other Arab Gulf states.

¹ Ibid, p. 14.

² ESCWA, "The Absorption of Returnees: A major Challenge to the ESCWA Region in the Years Ahead", A Paper Presented at Expert Group Meeting on the Absorption of Returnees in the ESCWA Region with Special Emphasis on Opportunities in the Industrial Sector, (Amman, 16-17 December 1991) P.7.

¹ United Nations Development Programme, "Impact of the Gulf Crisis on the West Bank and Gaza Strip", (Jerusalem, January 1991), pp. 12-13.

Official Israeli estimates indicate that the population of the Occupied Palestinian Territories was just over 1.62 million in 1988. If the number of "permanent" residents, who were temporarily outside the occupied territories, were included, the figure would rise to around 2 million. Meanwhile, the size of the labour force was about 289,000 in 1988.¹ The annual rates of growth in population and labour force were about 3.1 per cent and 1.7 per cent, respectively. However, some estimates give a lower rate of growth in the labour force in 1989.² The sectoral distribution of labour shows that construction, industry, and trade and services employed 10 per cent, 16 per cent, and 47 per cent of the total number of active labour force, respectively.³

Prior to the Gulf Crisis, the Syrian community in Kuwait numbered more than 100,000. Like the Jordanians, the Palestinians, and the Lebanese communities, the Syrians have been working in the GCC countries for many years, and were businessmen, contractors, professionals, and skilled craftsmen.⁴ Estimates place the number of Syrian returnees from the Gulf at about 110,000.⁵

The Republic of Yemen, the least developed member country in the region and one of the most affected by the Crisis, is one of the major Labour-surplus countries in the region. It has traditionally depended on its migrant labour in the GCC countries especially those working in Saudi Arabia. At least 850,000 Yemenis returned from Saudi Arabia, and 30,000 returned through Jordan.⁶

2. Unemployment

Prior to the Gulf Crisis, unemployment rates in most ESCWA countries with relatively diversified economies were relatively

¹ United Nations Conference on Trade and Development, op. cit. p. 11.

² Ibid., p. 12.

³ Ibid.

⁴ N. Abdalla, op. cit. p. 20.

⁵ United Nations Development Programme, Direct and indirect Impact of the Gulf Crisis on Syria (Damascus), p. 20.

⁶ N. Abdalla, op. cit. p. 21.

high. Considerable increases in unemployment rates started after 1986.

The economy of Jordan, for instance, faced several problems paramount among which was a 15 per cent unemployment rate. The unemployment rate in Lebanon was between 25 and 30 per cent.¹ Throughout the 1980s, working abroad was considered by the non-diversified economies an economic vent which significantly decreased unemployment levels in these countries.

Official statistics on unemployment rates reported for the Occupied Palestinian Territories should be treated with caution. The unemployment rate is reported to have increased from 2.6 per cent in 1988 to 3.7 per cent in 1989. The two main recent trends with respect to Palestinian labour force and employment are: growing domestic unemployment, and the reorientation of the domestic labour more towards self-reliance and less towards dependence on Israeli employment policies.

3. Labour mobility

Labour mobility across the ESCWA region has been a relative success. The movement of labour was one of the most important - though mostly spontaneous- areas of regional co-operation. Indeed, it has been beneficial to all parties involved. The GCC countries had succeeded in attracting workers from Egypt, the Republic of Yemen, Jordan, the Occupied Palestinian Territories, the Syrian Arab Republic and Lebanon, with whose help they managed to build a modern socio-economic infrastructure and implement important socio-economic projects which significantly contributed to their prosperity.

In return, the labour-surplus countries benefitted from high remittances which, in certain instances, far exceeded in magnitude other sources of foreign exchange. These remittances provided labour-surplus countries with much needed foreign exchange. Also, migrant workers and their dependents benefitted in the form of increased savings and investment capabilities. The know-how which they gained from regional contacts and training was also a positive by-product of working abroad. However, and as will be seen later in this study, migrant workers and their dependents were among the main victims of the Gulf Crisis. More than two million people were forced to flee the troubled region leaving behind their savings, property, and a multitude of relationships which they built over the years.

¹ United Nations Development Programme, op. cit. p. 15.

4. Worker's remittances

Remittances from migrant workers have been a major source of foreign exchange to all labour-sending countries of the region. On average, these remittances covered about 41 per cent of total commodity imports of these countries in 1987. However, this contribution fell to about 36 per cent and 30 per cent in 1988 and 1989, respectively (Table I-2).

Migrant workers provided Egypt with badly needed foreign exchange. After a temporary decline in 1986, remittances of Egyptian workers resumed their rise to reach almost \$3.8 billion and \$4.3 billion in 1988 and 1989, respectively. The dependence of Egypt on these remittances is reflected in the ratio of these remittances to merchandise exports, imports, and trade deficit which reached 113.3 per cent, 37.3 per cent, and 55.5 per cent, respectively, in 1989.¹

Remittances by Jordanian migrant workers played an important role in the economy of Jordan. However, these remittances declined rapidly after 1986 to reach \$609 million in 1989. Despite this, remittances helped to close about 86 per cent of country's trade deficit in 1989.

The remittances of Lebanese migrant workers from the GCC countries helped support the deficit in the balance of trade which has been a constant feature of the economy of Lebanon. In 1989, the total remittances of Lebanese migrant workers in Kuwait was estimated at \$150 million (Appendix Table A-7). The ratio of these remittances to the country's commodity imports reached 6.7 per cent in the same year, which is much lower than that of any other labour-sending ESCWA country (Table I-2).

Remittances transferred by Palestinian workers were estimated at about \$146 million in 1989, of which \$73 million were from Kuwait, and \$44 million from Saudi Arabia (Appendix Table A-7). As will be seen in the next chapter, the massive return of Palestinian workers from the Gulf, and consequently the loss of their remittances, has dealt a severe blow to living standards in the Occupied West Bank and Gaza Strip.

The estimated annual level of remittances of Syrian migrant workers in the ESCWA countries remained around \$340 million. In

¹ See Appendix Tables A-7, A-13, A-14, and A-15.

relative terms, the fluctuations of these remittances over the period 1985-1989 were small. However, their contribution to the country's commodity imports increased from 15 per cent in 1987 to 18.1 per cent in 1988 and reached 19.5 per cent in 1989, as shown in Table I-2.

Even before the Gulf Crisis, remittances of Yemeni workers were declining rapidly, having fallen from \$1,214 million in 1985 to \$438 million in 1989, due to recessionary conditions in the Gulf states.

One could conclude that workers' remittances played a very important role in increasing incomes of labour-exporting countries in the ESCWA region. These remittances helped these countries in financing their chronic balance of trade deficits and servicing part of their external debt. The total value of remittances of migrant workers reached about \$58 billion over the period 1980-1989: of which Egypt acquired \$32 billion, the Republic of Yemen (\$11.8 billion), Jordan (\$9.9 billion), and the Syrian Arab Republic (\$4.0 billion).¹ The annual average value of these remittances was almost \$10 billion during the period 1980-1984. However, this average decreased to less than \$6 billion prior to the Gulf Crisis (Appendix Table A-7). Remittances have financed, on average, almost one-third of the above mentioned countries' visible imports.

Table I-2. Ratio of Remittances to Commodity Imports in Selected ESCWA Countries, 1987-1989

(percent)			
<u>Country</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>
Egypt	44.5	40.2	37.3
Jordan	39.7	37.5	13.8
Lebanon	...	...	6.7
Syrian Arab Republic	15.0	18.1	19.5
Yemen	61.9	30.5	23.9
Average	41.1	35.8	30.3
=====			

Source: Computed from Appendix Tables A-7 and A-14.

... = Not available

¹ ESCWA, The Absorption of the Returnees: A major Challenge to the ESCWA Region in the Years Ahead. A paper Presented at the Expert-Group Meeting on the Absorption of Returnees in the ESCWA Region with Special Emphasis on Opportunities in the Industrial Sector, (Amman, 16-17 December 1991), p. 3.

C. Oil: Production, Prices and Revenues

1. Oil production

As mentioned earlier, oil dominates the economy and politics of most ESCWA countries. Before the Gulf Crisis began, production of crude oil in the region had reached around 14.2 m/b/d. The contributions of Saudi Arabia, Iraq, the United Arab Emirates, and Kuwait were, of course, the highest: 38 per cent, 20 per cent, 13 per cent, and 12 per cent, respectively. The high production levels, along with high stocks in various OPEC member countries, helped to depress oil prices on the international market. Some oil-producing countries did not mind lower prices in order to maintain demand for their oil and a stable flow of foreign exchange to meet external obligations. In 1989, the ratio of oil consumption to oil production in the region averaged 16.3 per cent.¹ The lowest ratios were those for Oman, Qatar, Kuwait, and the United Arab Emirates, while both Egypt and the Syrian Arab Republic consumed about 47 per cent of the oil they produced. It is also worth noting that Saudi Arabia and Iraq consumed about 16.8 per cent and 11.9 per cent of their oil production, respectively. The growth of oil production in the region averaged about 10.1 per cent per annum during 1987-1989 (Appendix Table A-8).

Over-production was the main issue of the OPEC meeting during July 26-27, 1990. Kuwait and the United Arab Emirates agreed to adhere to their quotas. Nevertheless, market forces did not react to these agreements and world oil production and demand remained generally in balance.² In July 1990, just before the Gulf Crisis erupted, the total output of crude oil in the major five ESCWA member countries was 12.8 m/b/d while the production capacity was 16.5 m/b/d as shown in Appendix Table A-9.

2. Oil prices

Oil prices were falling before the Gulf Crisis began. As shown in Appendix Table A-10, the average price of the basket of seven OPEC crude dropped from \$19.98 per barrel in January 1990 to \$14.05 per barrel in June of the same year, then partially recovered to about \$17 per barrel in July. This was due to two main reasons: over-production by some OPEC member states and high

¹ See Appendix Tables A-8 and A-12.

² ESCWA, The Gulf Crisis: Developments in the International Oil Markets and their Impact on the ESCWA Region, (Amman, n.d.), pp. 2-4.

levels of world oil stocks. Even in the period between the invasion of Kuwait and the outbreak of war, the flare-up in oil prices was temporary. The highest level attained was \$34.58 per barrel in October, 1990.

By the end of September 1990 average oil prices had increased to \$32.06; they increased to \$34.58 in October. In November, when part of the Strategic Petroleum Reserves of the United States were put on sale following a Government decision to that effect in October, the prices of oil started to go down. on average, oil prices in 1988, 1989, and 1990 were \$14.24, \$17.31, and \$22.17 respectively.¹

Table I-3. Ratio of Oil Revenues to GDP in ESCWA Countries, 1987-1989

(Percent)			
Country	1987	1988	1989
Bahrain	20.8	20.5	19.0
Egypt	1.8	1.5	1.8
Iraq	22.3	20.4	24.2
Kuwait	28.2	33.8	38.6
Oman	29.6	35.2	40.1
Qatar	33.6	28.3	33.8
Saudi Arabia	24.5	21.9	30.5
Syrian Arab Republic	3.9	7.8	9.2
United Arab Emirates	22.9	17.5	38.0
<u>Average</u>	<u>19.1</u>	<u>19.5</u>	<u>26.4</u>

Source: Computed from appendix Tables A-2 and A-11.

3. Oil revenues

Some OPEC member countries especially Iran, Nigeria, Saudi Arabia, the United Arab Emirates and Venezuela benefitted from higher prices and production. However, the consequences of the Gulf Crisis on the economies of both Saudi Arabia and the United Arab Emirates wiped out these benefits as discussed later in the study. In fact, the oil-exporting countries, under study, did not benefit from the increase in oil prices caused by the Gulf Crisis to the same extent as during the two past major oil price hikes. This can be explained by high expenditures on military hardware and other related services, rising prices of imports,

¹ N. Abdalla, op. cit. p. 3a.

damage to infrastructure, outflow of capital, compensatory flows to the so-called coalition and other states, and trapping of resources for financing the Gulf conflict.

As can be seen from Appendix Table A-11, oil revenues for all GCC countries increased in 1989 over 1988. Saudi Arabia, Kuwait, and the United Arab Emirates had the lion's share. Among the relatively diversified economies, Iraq, the Syrian Arab Republic, and Egypt also benefitted.

D. Foreign Trade

1. Exports

Commodity exports of the ESCWA countries grew at about 15.7 per cent per year during the period 1987-1989. For the GCC countries, the total value of exports depends heavily on prices of oil which dominates these countries exports. Oman, Lebanon and Bahrain experienced slow growth in their commodity exports over the period 1987-1989, while the Republic of Yemen, the Syrian Arab Republic, and Iraq recorded high rates of growth (Table 1-4).

The Republic of Yemen more than doubled its export earnings between 1986 and 1987. There was also a dramatic increase in exports in 1988. Again this was due to the increase in oil production and export.

Since a considerable portion of exports of countries with relatively diversified economies go to the GCC countries, it is obvious that increased economic growth in the latter is conducive to growth in the former. Indeed, increased dependence of these countries on the GCC countries in terms of trade, foreign exchange, and foreign aid has made them susceptible to the state of economic and political relations with the GCC countries.

2. Imports

Commodity imports of the ESCWA countries followed a pattern similar to that of exports, in that they decreased sharply in 1986 and then recovered in subsequent years. On average, the annual rate of increase in commodity imports of ESCWA countries was about 11.3 per cent over the period 1987-1989. Both Jordan and the Syrian Arab Republic reduced their annual imports on average by 10.7 per cent 9.5 per cent, respectively. In contrast, Iraq, the United Arab Emirates, Egypt, and Kuwait experienced sharp increases in their commodity imports (Table I-4).

3. Trade balance

As can be seen from Appendix Table A-15, the GCC countries continued to experience a surplus in their trade balance during the period 1985-1989 with the exception of Bahrain which experienced a deficit in 1987. In contrast, the member countries with relatively diversified economies continued to experience deficits in their trade balance during the same period. However, the Syrian Arab Republic managed to narrow the deficit and turned it to considerable surplus in 1989.

The trade of the relatively diversified economies has a number of features in common, including a relatively narrow range of exports and a persistent trade deficit that in some countries originates from public sector transactions.

Table I-4. Average Annual Rates of Growth in Commodity Exports and Imports of ESCWA Countries, 1987-1989

(Percent)

<u>Country</u>	<u>Exports</u>	<u>Imports</u>
Bahrain	8.3	8.2
Egypt	12.2	18.8
Iraq	31.2	31.2
Jordan	9.0	-10.7
Kuwait	20.7	15.9
Lebanon	4.7	12.5
Oman	4.5	9.6
Qatar	14.1	8.2
Saudi Arabia	10.7	2.7
Syrian Arab Republic	54.0	-9.5
United Arab Emirates	14.0	19.6
Republic of Yemen	190.2	6.1
<u>Average</u>	<u>15.7</u>	<u>11.3</u>

Source: Calculated from Appendix Tables A-13 and A-14.

E. Money and Banking

1. Banking

For the GCC countries, banking is a major financial activity which rapidly grew out of the accumulation of oil revenues in the 1970s and subsequently. During this period the number of banks and financial intermediaries and institutions increased sharply. Many international banks chose to operate in these countries, especially in Bahrain and Saudi Arabia, and considered them as a

base for their operations in the Arab World. Over the 1980s, banks continued to increase their range of services, expand their staff and scale of operations, and increase the number of branches and total assets.

Since 1982, a main feature of fiscal policy in the GCC countries was the pursuit of a policy of deficit financing where governments borrowed large amounts from domestic sources to finance budget deficits. Until 1985, the role of the banking system in financing public deficits was limited. The decrease in oil revenues in 1986 forced most GCC countries to increase their dependence on commercial as well as government banks for financing budget deficits. The reduction in oil revenues had lowered the relative importance of government deposits in total banking deposits during the 1980s.

2. Money supply

The annual rate of growth of money supply, broadly defined, for the GCC countries declined from almost 8 per cent in 1985 to rates ranging between 4 per cent and 5 per cent in the years which followed.

Some of the monetary tools in the GCC economies were not effective in achieving economic ends. For instance, the rate of interest was not an effective tool for many reasons. The margin of change in the rate of interest was very limited; the rate itself was low; the economies were not fully monetized; and in most of these countries, interest remained a controversial as well as a disagreeable issue from a religious point of view.

For the relatively diversified economies, except Iraq, the main sources of foreign exchange have been foreign aid, remittances of migrant workers, exports, and receipts from tourism and other services. During the last decade, monetary policy depended on more government involvement in controlling rates of exchange, interest rates, and the introduction of other regulatory laws pertaining to foreign exchange. This intervention obstructed the normal function of market forces, thus hindering possibilities of improvement in the balance of payments of these countries.

Since May 1987, Egypt followed an official two-tier system of foreign exchange rates. One rate applied by the Central Bank and another lower rate for commercial banks. Export earnings, dues from the Suez Canal, foreign debt servicing, and imports of major commodities were recorded at the highly overvalued Central Bank rate.¹

¹ESCWA, Egypt: A Country Profile in the Wake of the Gulf Crisis, op. cit. p.11.

At the end of 1989, the rate of exchange between the Egyptian pound and the United States dollar was pegged by the commercial banks. It was raised from \$1 = 2.35 pounds to \$1 = 2.55 pounds. The devaluation of the Central Bank rate in July 1990 from \$1 = 1.10 pounds to 2.00 pounds was another step towards liberalizing the country's foreign exchange policy.¹ Although the number of banking institutions exceeded 100, over 80 per cent of their assets were in the hands of the public sector.²

Money supply, broadly defined, grew by some 20 per cent annually between 1985 and 1989. On the other hand, government borrowing, which accounted for about 45 per cent of total domestic credit, increased by about 26 per cent during the same period, compared with 14 to 15 per cent in the preceding years.³

For more than two decades, the economy of Jordan has been characterized by heavy dependence on foreign aid. During the 1980s, the GCC countries had, in many ways, assisted the economy of Jordan. The financial assistance received from ESCWA'S oil-exporting countries constituted over 80 per cent of the government's external receipts which amounted to about \$365 million in 1988 and \$616 million in 1989.⁴ In addition, recorded remittances of migrant workers constituted over one-third of foreign exchange earnings. The increasing dependence on this foreign exchange source has made the economy of Jordan very vulnerable to economic and political factors and conditions prevailing in the GCC countries. Indeed, the country's foreign exchange reserves rose and fell with the rise and fall of oil revenues in the GCC countries.

The growth in Jordan's money supply was gradual over the period 1985-1989. It averaged 16.1 per cent per year, over 1987-1989, as shown in Table I-5. Most of this growth occurred in the deposits of the private sector thereby reflecting an improved monetization of the economy and enhanced ability of the banking system to attract deposits.

¹ Ibid., p. 12.

² Ibid., p. 13.

³ Ibid., p.15.

⁴ ESCWA, The Impact of the Gulf Crisis on the Jordanian Economy, (Amman, 1990), p. 10.

One of the most noticeable features of the Lebanese monetary system is the continued high increase in money supply. The change in money supply, broadly defined, reached about 345 per cent in 1987 and 48 per cent in 1988 and 13.4 per cent in 1989, as shown in Table I-5. Another important feature is the continued depreciation of the Lebanese Pound. In 1985, the average exchange rate between the Lebanese Pound and the United States dollar was LL 16 per dollar. By 1987, it reached LL 225. In 1988 the depreciation slide slowed down. In general, it was held down throughout most of 1989, despite the increased pressures caused by political instability, mounting public deficit, internal debt, sharp rise in money supply, and inflation.¹

As in most relatively diversified economies under study, and prior to the Gulf Crisis, remittances of migrant workers had been a major source of foreign exchange as well as a stabilizing factor for the Lebanese banking system.¹

Table I-5. Changes in Money Supply (M2) in ESCWA Countries, 1987-1989

(Percent)			
Country	1987	1988	1989
Bahrain	9.40	4.00	4.70
Egypt	21.00	21.60	17.50
Jordan	15.70	15.60	16.60
Kuwait	4.70	6.40	4.10
Lebanon	344.30	47.80	13.40
Oman	5.30	5.90	9.40
Qatar	8.60	-8.40	13.90
Saudi Arabia	4.90	5.70	0.90
Syrian Arab Republic	11.60	21.10	...
United Arab Emirates	5.50	5.90	8.80
Republic of Yemen	0.90	5.60	4.40
=====			

Source: Based on Appendix Table A-16.

... = Not available.

¹ESCWA, The Impact of the Gulf Crisis on the Economy of Lebanon, op. cit. p. 12

¹Ibid., p. 15.

3. Net foreign assets and domestic credit

Net foreign assets increased by 10.5 on average in Bahrain, during the period 1985-1989. Net foreign assets of Kuwait fell by 8.9 per cent in 1987 and 8.4 per cent in 1988 but increased by 9.6 per cent in 1989. Both Oman and Qatar followed a rather similar pattern during 1988 and 1989 as shown in Appendix Table A-17. For the relatively diversified economies, excluding Lebanon, the change in net foreign assets was, in general, small except for the last two years preceding the Gulf Crisis.

Domestic credit experienced a decrease in all GCC countries particularly during the period 1988-1989 (Appendix Table A-18). Available data on changes in domestic credit in the relatively diversified economies indicate rates of change ranging between 5 per cent and 30 per cent during 1988 and 1989. Only Jordan and the Republic of Yemen experienced a rather similar decrease in domestic credit, in the two years preceding the Gulf Crisis (from 18 per cent to 5 per cent for Jordan and from 15 per cent to 7 per cent for the Republic of Yemen).

F. Tourism

Tourism has been a major source of foreign exchange in a number of countries in the region. For many years, revenues from tourism constituted an important part of total Egyptian foreign exchange revenues. Revenues from tourism reached \$920 million in 1988/1989, an increase of 4 per cent over the previous year.¹ During the period 1981-1989, the total number of tourist nights more than doubled from 9.3 million to about 20 million. Forty per cent of visitors were tourists from the GCC countries.² Service contracts and fees from commercial shipping through the Suez Canal have also been important sources of foreign exchange for Egypt.

Following a policy of diversification of the sources of national income, Jordan intensified efforts towards increasing income from tourism. The structural economic adjustment programme of November 1988 envisaged an income of around \$660 million to be generated from tourism in 1990. By the end of July, income from tourism reached \$410 million.³ This

¹ ESCWA, Egypt: A Country Profile in the Wake of the Gulf Crisis, op. cit., p. 19.

² Ibid.

³ ESCWA, The Impact of the Gulf Crisis on the Jordanian Economy, op. cit., p. 25.

constituted about 23 per cent of the country's annual foreign exchange earnings.

Over the last few years, the tourism sector in the Syrian Arab Republic witnessed a slow rate of development. Successive government decrees had encouraged private investment in this sector and allowed private investors to take the lead and be the driving force behind the establishment of Syria's modern tourism infrastructure. During the 1980s, the Higher Council for Tourism passed various decrees which allowed the establishment of joint ventures and companies where the government participation was only 25 per cent, enabling the private sector to enjoy tax exemptions, low customs duties, and special privileges for the transfer of profits and foreign exchange earnings back into the investment stream.¹ The number of incoming tourists decreased from 565,000 in 1984 to 421,000 in 1988. Estimated revenues from tourism in 1989 were about \$400 million,² i.e., about 23 per cent of the country's foreign exchange earnings.

G. Internal and External Imbalances

1. Government budget

Oil has been the main source of government revenues in the GCC countries. As for the relatively diversified economies under study, deficits in government budget have been a striking feature. For many years, this deficit has been financed by foreign aid and remittances of migrant workers, mainly engaged in the GCC countries.

Kuwait recorded a surplus in the government budget that exceeded KD 1.6 billion in 1986; an increase of more than three-fold over 1985 (Appendix Table A-20). Higher oil revenues (Appendix Table A-11) in the subsequent period point in the same direction. Unlike most other GCC countries, Oman experienced a continuous deficit in the government budget which averaged about RO 369 million during 1985-1989. The United Arab Emirates had also recorded deficits in its government budget which averaged about 518 million Dirham during 1987-1989.

Throughout most of the 1980s, the deficit in the Egyptian budget exceeded 20 per cent of GDP. The average annual

¹ ESCWA, Impact of the Gulf Crisis on the Syrian Economy, (Amman, February 1991, not published), p. 4.

² Ibid,

government deficit was about 3,909 million Egyptian pounds during 1985-1989. Several measures were taken to reduce this deficit including "an increase in the prices of petroleum and electricity by 30 per cent, an increase in the sales tax on cigarettes by 25 per cent, a doubling of stamp duties, and imposing a tax on the income of civil servants seconded to Arab countries¹. Additional measures were also applied to reduce the government budget deficit, such as implementing a more effective tax system, but their effect was limited. All the above taxes did not contribute more than 25 per cent of government revenues. The main sources of government revenues remain import duties, Suez Canal dues, foreign borrowing and oil exports.²

Jordan's budget has consistently been in deficit. In 1989, financial assistance received from ESCWA oil-exporting countries constituted over 80 per cent of the external receipts of the Government. Remittances of migrant workers in the GCC countries also helped, indirectly, in financing budget deficits. Many financial institutions and incorporated businesses would not have been functioning properly without these remittances.

The deficit in the government budget increased by 37 per cent from JD 112 million in 1985 to JD 153 million in 1986 and increased further to reach JD 205 million in 1988. Only in 1989 did the deficit start to decrease as shown in Appendix Table A-20. The average annual deficit in the government budget during 1985-1989 was about JD 161 million.

The budgeted deficit in the Syrian Arab Republic decreased from LS 8,267 million in 1986 to LS 3,355 million in 1987. In 1988, the budgeted surplus amounted to LS 2,319 million (Appendix Table A-20).

Yemen also experienced a continuous deficit in its government budget which averaged about YR 5,917 million during 1985-1989.

A large portion of government deficits of the relatively diversified economies, under study, was financed by foreign aid and workers' remittances. Another important fiscal issue pertaining to government budgets is net transfers. In general,

¹ESCWA, Egypt: A Country Profile in the Wake of the Gulf Crisis, op. cit., p. 23.

² Ibid., p. 23.

the GCC countries had a negative net transfers position of which other countries in the region were the main beneficiaries. In contrast, the other ESCWA countries had positive net transfers during 1985-1989, as depicted in Appendix Table A-23.

External indebtedness is the most important problem facing the relatively diversified economies. This external debt, excluding that of Iraq, jumped from about \$51 billion in 1985 to more than \$70 billion in 1989, as shown in Table I-6. All countries, with the exception of Lebanon, witnessed increases in their external debt during the period 1985-1989. Further, these countries' debt burden, as measured by the ratio of total debt payments to exports of goods and services, was, on average, high.

Table I-6. External Debt of Selected ESCWA Countries, 1985-1989

(\$ millions)

Country	1985	1986	1987	1988	1989
Democratic Yemen	1,540	1,710	1,930	2,088	2,339
Egypt	39,883	44,051	49,624	49,780	51,344
Jordan	3,978	4,538	5,279	5,484	8,369
Lebanon	416	458	496	499	516
Syrian Arab Republic	3,537	4,424	4,695	4,890	5,003
Yemen	2,022	2,359	2,631	2,948	2,978
Total	51,376	57,504	64,655	65,689	70,549

=====

Source : World Bank, World Debt Tables, (several issues).

2. Balance of payments

In this section, two main indicators are discussed to give an overall view of the balance of payments in the ESCWA countries prior to the start of the Gulf Crisis. These indicators are: the current account and the overall balance.

The current account of the GCC countries during the period 1985-1989 was consistently in surplus in the case of Kuwait and the United Arab Emirates, in deficit for Saudi Arabia and showed no definite pattern in the other three countries (Appendix Table A-21).

In the Syrian Arab Republic, the deficit decreased rapidly after 1985 and turned into a large surplus in 1989. The current account deficit of Jordan showed a similar trend.

The second important item in the balance of payments is the overall balance. Bahrain had a deficit in its overall balance during 1986, 1987 and 1989. Jordan had also a striking performance in this respect since its overall balance was growing positively throughout the period 1985-1989 as shown in Appendix Table A-22. In contrast, Egypt, Kuwait, Oman, Saudi Arabia and the Syrian Arab Republic did not have a discernable pattern in their respective overall balance.

3. Inflation

Prior to the Gulf Crisis, the GCC economies in general did not experience inflationary pressures. In fact, during the period 1986-1989, the consumer price index remained generally stable (Table I-7). As will be seen later, the governments of Kuwait and Saudi Arabia are planning to increase spending on imported goods and construction. This, along with the pre-occupation with security, could reduced the ability to maintain low inflation rates.

Concerning inflationary pressures in the relatively diversified economies, the highest inflation rates were recorded in the Syrian Arab Republic, Egypt and Jordan, with the latter experiencing lower rates of inflation than others.

Although inflation rates for Lebanon and Iraq are not reported here, it is quite clear that the political situation and weak currencies have been fuelling high inflationary pressures in both countries.

Table I-7. Consumer Price Index in Selected ESCWA Countries, 1985-1989

Country	1985	1986	1987	1988	1989
Bahrain	100.0	97.7	96.0	96.3	97.7
Egypt	100.0	123.9	148.3	174.4	211.5
Jordan	100.0	100.0	99.9	106.4	133.8
Kuwait	100.0	101.0	101.6	103.1	106.6
Qatar	100.0	101.6	...	...	...
Saudi Arabia	100.0	96.8	95.3	96.2	97.1
Syrian Arab Republic	100.0	136.1	217.0	292.0	315.3

Source: International Monetary Fund, International Financial Statistics, (several issues).

... = Not available

H. Regional and Sub-Regional Co-operation

Prior to the Gulf Crisis, regional co-operation among ESCWA countries took many forms. Several organizations had been established to consolidate this co-operation. The three main organization are:

1. **The Arab League:** This includes all ESCWA countries along with the other Arab countries. It was founded in March 1945 with the aim of promoting closer ties among Arab states and coordinating their policies and activities for the common good of the Arab World. Despite its long history, the League was not effective in promoting real economic and political co-operation among Arab countries. It suspended Egypt's membership in March 1979 following the Camp David's Accords. Consequently, the League's headquarters were transferred from Cairo to Tunis. In May 1989, Egypt was re-admitted to the Arab League and in March 1990 a decision to return its headquarter's to Cairo was taken.
2. **The Gulf Co-operation Council (GCC):** This was founded in May 1981 with the aim of establishing co-ordination, integration, and co-operation in economic, social, and cultural affairs amongst member countries (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates). The GCC proved to be relatively successful in financial and trade co-ordination amongst member countries. Political and foreign affairs activities were also strong.
3. **The Arab co-operation Council (ACC):** The ACC was founded in February 1989 by Egypt, Iraq, Jordan and Yemen. It aimed at achieving gradual integration of the economies of its members. The ACC managed to initiate a number of agreements in different fields. However, the activities of the ACC were halted during the Gulf Crisis and may remain frozen for the foreseeable future.

Trade agreements between individual ESCWA countries were also concluded but did not evolve to take the shape of free trade. The Arab Common Market (ACM) agreement did not also fulfill its objectives and administrative and trade barriers hindered its expansion and development. Only in the field of labour co-operation among ESCWA countries has been relatively successful.

II. MAJOR AREAS OF IMPACT AND AFFECTED COUNTRIES

At the outset, it should be emphasized that the Gulf Crisis has shaken economic activity in almost all ESCWA member countries. The short and medium-term effects of the Crisis are obvious; but the long-term effects will take time to materialize. Obviously, not all countries suffered equally. Some countries managed to solve some of economic and social problems created by the Gulf Crisis. For other ESCWA countries, the Gulf Crisis has seriously interrupted the development process, caused heavy damage to existing infrastructure, and created new economic and political problems that will remain with them for years to come.

This chapter examines the impact of the Gulf Crisis on ESCWA countries. It will discuss the most affected areas particularly the labour market, oil, foreign trade, money and banking, tourism, internal and external setting, regional co-operation and environment. It will also try estimate and capture the losses incurred by ESCWA countries as a result of the Gulf Crisis. The inadequacy of information on the present subject need not be over-emphasized nor should it be underestimated. Furthermore, actual losses go far beyond the quantitative losses provided in this study.

The countries that have been worst hit by the Gulf Crisis, after Iraq and Kuwait, are Jordan and the Republic of Yemen.

A. Overall Economic Activity

The following are the most obvious areas of impact of the Gulf Crisis on the relatively diversified economies:

1. loss of foreign exchange resources and consequently sharp declines in government revenues;
2. large budget deficits especially for those countries that did not receive compensatory funds;
3. labour exodus from Iraq and the GCC countries that will increase pressure on the already narrow labour market, aggravate the unemployment problem and generate social instability;
4. a lower and narrower level of co-operation among ESCWA countries.

The average annual growth rate in GDP, which had ranged between 1.1 and 7.5 per cent in most ESCWA countries during 1985-1989, declined. It should be emphasized, however, that oil production in most GCC countries, except Kuwait, increased. In particular, Saudi Arabia boosted its oil production from 5.4 million barrel per day before the Gulf Crisis to 8.5 million barrel per day. However, the cost of the war has mopped up a large portion of oil revenues. As shall be discussed in the next chapter, the Saudi contribution to finance the Gulf Crisis reached about \$11.6 billion while Kuwait and the United Arab Emirates have paid \$11.1 billion and \$4.1 billion, respectively, by June 1991.¹ However, actual figures may be higher than these rough estimates.

The reconstruction of both Kuwait and Iraq is expected to exert further demand on available resources which will limit investment opportunities in these countries. The growing optimism about stability and financial progress which had prevailed in the region following the end of the Iraq-Iran war in 1988 was shattered in the wake of the Gulf Crisis. Both regional and foreign investors were discouraged from making further investment.¹

The Gulf Crisis had a deleterious effect on the economies of both Jordan and the Republic of Yemen. The United Nations sanctions against Iraq together with the loss of foreign aid, mainly from the GCC countries, have caused significant economic hardships to these two countries. On the surface, these economies may appear to have weathered the immediate effects of the crisis. Nevertheless, the Gulf Crisis cost Jordan and the Republic of Yemen dearly.

B. The regional Labour Market

As mentioned earlier, the sudden exodus of more than two million migrant workers and their dependents from Iraq and the GCC countries was disastrous for both the returnees and for the home countries. Their massive departure resulted in the loss of workers' remittances, a rise in unemployment rates, and an increased pressure on government expenditures on education, health care, and municipal services. It is worth noting that all countries hit by the Gulf Crisis were not in a position to sustain the additional pressures, let alone endure and face the impact of the immediate needs of the returnees.

¹News Week, 17 June 1991.

²ESCWA, the Gulf Crisis: Developments in the International Oil Markets and their Impact on the ESCWA Region, op.cit, P.11.

It is also worth mentioning in this context, that the effects of forced returnees on their home economies was not confined to lost flows of remittances in the static sense. One should look at these losses from a dynamic point of views, i.e., loss of trade, transfer of know-how, and also losses emanating from forced liquidation of assets and wealth and lost savings, as well.

For the GCC countries, the sudden exodus of expatriate workers slowed down the level of economic activity and the pace of economic development and growth.

Before the Gulf Crisis began, large numbers of Egyptian workers were residing in Iraq and Kuwait. It has been estimated that some 700,000 expatriates returned from the troubled zone to Egypt. The loss of their remittances was estimated at \$1 billion in fiscal year 1990/1991.¹ The return of migrant workers also created major problems in housing, education and demand for utilities.

Immense strains have also been placed on the domestic labour market. The unemployment rate, which had ranged between 20 per cent and 25 per cent before the war rose to 30 per cent as a result of the returnees. It was reckoned that the greatest loss to the Egyptian economy attributed to the Gulf Crisis was the lost revenues from workers' remittances. These remittances have been the largest source of foreign exchange. A projected \$2.02 billion of expatriates earnings were lost thereby creating a further deficit in the current account of \$1.1 billion.² However, as will be seen later, the loss of foreign exchange from workers' remittances has been offset by financial aid from the GCC countries and the forgiveness of Egypt from part of its foreign debt.

The forced return of about 220,000 Jordanian migrant workers and their dependents from Kuwait and other GCC countries has aggravated the already prevailing unemployment problem in Jordan. It increased the unemployment rate from 15 per cent prior to the

¹ESCWA, Egypt: A Country Profile in the Wake of the Gulf Crisis, op. cit., p. 40.

²ESCWA, The Gulf Crisis: Developments in the International Oil Markets and their Impact on the ESCWA Region, op. cit., p. 17.

Gulf Crisis, to 20 per cent at the end of 1990, and to over 20 per cent in 1991.¹ Jordan has had to cope with this influx of returnees from the Gulf area, putting a serious strain on government-provided services, including education, health care, and transport, as well as putting an extra burden on Jordan's infrastructure.

More important is the loss of workers' remittances which were estimated at \$213 million² and \$494 million³ in 1990 and 1991, respectively. Although, remittances of Jordanians working abroad remained almost constant, in absolute terms (\$609 million), over the period 1989-1990, as a proportion of the trade deficit they decreased from 61.2 per cent to 40.3 per cent, over the same period.⁴ Jordan was also forced to cope with and assist in servicing an estimated 800,000 non-Jordanian migrant workers and their families who passed through the country, fleeing the troubled zone in Kuwait and Iraq.⁵

Lebanon, whose economy had not yet recovered from war exhaustion, was also negatively affected by the Gulf Crisis. The Crisis has considerably aggravated the economic problems confronting Lebanon. The return of more than 60,000 Lebanese, mainly from Kuwait and Iraq, aggravated the already difficult unemployment problem in the country. Annual remittances of Lebanese migrant workers in Kuwait were estimated at \$150 million

¹ESCWA, The Impact of the Gulf Crisis on the Jordanian Economy, op cit. , p. 17.

²Central Bank of Jordan, Annual Report 1990, p. 65.

³The Gulf Crisis: Developments in the International Oil Markets and their Impact on the ESCWA Region, op.cit, P.15

⁴Central Bank of Jordan op. cit., p. 60.

⁵N. Abdalla, op. cit., p. 15.

in 1989.¹ However, not all the impact was negative; the Kuwaiti Government scheme for reconstruction, will require, among other things, Lebanese and other expatriate workers. On one hand, employment opportunities for the Lebanese seem better than before since recruitment of Lebanese to substitute for Palestinian, Jordanian, and some Egyptian expatriates has already started. On the other hand, the situation of migrant Lebanese workers who had been in Iraq before the Gulf Crisis, has become very bleak. From the 11,000 Lebanese workers in Iraq before the Gulf Crisis, only 2,000 remained.² In conclusion, the labour problem which was created by the Gulf Crisis appears manageable.

The economy of the Occupied Palestinian Territories was also shattered by the Gulf Crisis. Of about 52,000 Palestinians (from the West Bank and Gaza Strip) who had been working in the Gulf countries before the Gulf Crisis³, an estimated 20,000 workers returned to the West Bank and Gaza. Their remittances of around \$120 million in 1989 have been a major component of the foreign exchange resources of the Palestinian economy. Remittances from other GCC countries along with official contributions, amounting to \$240 million, have also been affected.⁴

Given the favourable Palestine Liberation Organization's stand towards Iraq in the Gulf Crisis, it is very unlikely, in the foreseeable future, that these crucial remittances and official funds from the GCC countries will resume flowing back.

The impact of the Gulf Crisis on the Syrian labour market is reflected in the return of about 50,000 Syrian migrant workers from Kuwait causing a rise of 4 per cent in the country's unemployment. Prior to the Gulf Crisis, recorded remittances of

¹ ESCWA, The Impact of the Gulf Crisis on the Economy of Lebanon, op.cit, p. 16.

² Marwan Iskandar, The Impact of the Gulf Crisis on Lebanese Employment and Technical Assistance Programmes, (Beirut, 16 July 1991), P.2.

³ N. Abdalla, op. cit., p. 18.

⁴ ESCWA, The Gulf Crisis: Developments in the International Oil Markets and their Impact on the ESCWA Region, op. cit., p. 18

Syrian migrant workers in Kuwait had been estimated at about \$150 million annually. The Gulf Crisis halted these remittances that were estimated at \$157.5 million in 1991, along with \$10.5 million of poll tax revenues. The Crisis caused a loss of in-kind transactions of about \$367.5 million, and the temporary loss of migrant workers' assets and deposits in Kuwaiti banks, estimated at \$2.1 billion.¹ Adding up these losses, the total reaches around \$2.65 billion.

The Republic of Yemen has been severely hurt by the Gulf Crisis. The number of Yemeni workers who returned home was put at 880,000.² This represents a sudden 9 per cent increase in population and about 15 per cent of the total labour force.³ The sudden return of these migrant workers also aggravated the unemployment problem. The rate of unemployment increased from 8.3 per cent 1989 to about 24 per cent in 1990. Coupled with the stagnation of external financial assistance, the return of migrant workers have had severe adverse effects on all economic activities. The Republic of Yemen has for long suffered chronic balance of payments deficits and was heavily dependent on workers' remittances in financing this deficit. The labour market is not only one of the most adversely affected areas but the country is also among the least able to cope with the repercussions of the returnees.

¹ ESCWA, Impact of the Gulf Crisis on the Syrian Economy, op. cit., p. 5.

² International Labour Organization, "Ministerial Meeting on Migrant Workers Affected by the Gulf Crisis (Geneva, 19 November 1990)", p. 3.

³ N. Abdalla, op. cit., p. 21.

Table II-1 Estimated Losses of Workers' Remittances in ESCWA Countries

Country	Number of Returnees	Lost Remittances (\$ Million)
Egypt ¹	700,000	1,417
Jordan ²	220,000	707
Lebanon ³	60,000	150
Palestine ⁴	20,000	120
Syrian Arab Republic ⁵	50,000	158
Yemen ⁶	880,000	1,700
Total	1,930,000	4,252

1- The losses are calculated as \$417 million for 1990 and another \$1,000 million for 1991.

2- Losses include \$213 million in 1990 and \$494 million in 1991. Assets of migrant workers in Kuwaiti banks were estimated at about \$1,400 million while the losses in properties were placed at \$1,500 million.

3- The number of returnees represents those who returned from Kuwait only. The size of Lebanese workers' remittances from Iraq and the GCC countries is much higher than this figure but most losses were incurred by workers in Kuwait.

4- Including the losses in remittances of the remaining 32,000 migrant workers in the GCC countries.

5- The Government budget also lost \$10.5 million in the form of poll-tax revenues. Maintaining the returnees also cost the government budget some \$18.90 million. Estimated losses of the total assets and deposits of Syrian migrant workers is about \$2,100 million.

6- Including in-kind transfers.

C. Oil: Production, Prices, and Revenues

The oil sector was one of the most affected sectors by the Gulf Crisis. In fact, the issues of oil production and prices were considered by some to be among the major reasons that led to the Gulf war. Prior to the crisis, impressive rates of growth in oil production prevailed. Daily production, of all ESCWA

الجمهورية اللبنانية

مكتب وزير الدولة لشؤون التنمية الإدارية
مركز مشاريع ودراسات القطاع العام

countries, of crude oil increased from about 12.9 million barrel in 1988 to about 14.2 million barrel in 1989, or by 10.2 per cent. In 1989, the share of the GCC countries was more than 70 per cent. With the imposition of United Nations sanctions, oil production in Iraq was reduced drastically to almost half a million barrel a day, sufficient to meet domestic demand.¹

The increase in oil revenues for ESCWA countries was also dramatic. These revenues jumped from \$45 billion in 1988 to \$67 billion in 1989, a growth of about 48.8 per cent in² (Appendix Table A-11).

For Kuwait, the impact of the Gulf Crisis on the oil sector was devastating. It was reported that over 730 oil wells were set ablaze in February 1991 which resulted in the burning of some 4 million barrels a day of crude oil. It took more than 9 months and \$2.0 billion to extinguish fires in these wells.³ Initial estimates of the losses of production, cost of extinguishing oil wells fires and repairing cost of oil fields and other damages put the total cost of losses at about \$60 billion.⁴ However, other sources had put the cost of damage between \$50 billion and \$100 billion.⁵ Oil production has been resumed at moderate levels but full recovery to pre-Gulf Crisis levels might take four years.⁶

Iraq also suffered far greater war-damage to its oil industries, infrastructure, and economy than any ESCWA member country. The Gulf Crisis has also inflicted some damages on Saudi Arabia and, to a lesser extent, other GCC countries. In particular, the Crisis drained their financial resources. Needless to say, that the damage on both Kuwait and Iraq is by far greater than that done to other ESCWA countries.

¹ N. Abdalla, op. cit., p. 8.

² Excluding the Republic of Yemen.

³ Financial Times, 26 February 1992.

⁴ The Economist Intelligence Unit, Kuwait, Country Report, No. 1, 1991, p. 8.

⁵ Financial Times, 28 February 1990.

⁶ New York Times, 9 May 1991.

Based on oil output levels in July 1990, Iraq's loss in oil revenues could be estimated to be between \$16 billion and \$24 billion annually. Kuwait losses, on the other hand, could be estimated at about \$8 billion to \$9 billion, a year.

Saudi Arabia's oil output rose by 36 per cent between January 1991 and January 1992. It managed to fill 60 per cent of the gap left by lost Iraqi and Kuwaiti oil production.¹ With Kuwait re-entering the market and an eventual re-entry of Iraq, it would be difficult for Saudi Arabia to sustain its high oil output.

Due to the Gulf Crisis and the anticipated hostilities, oil markets were feverish and prices of an oil barrel increased dramatically. On average, the price of crude petroleum increased from \$15.68 in July 1990 to \$34.58 in October 1990, as shown in Appendix Table A-10.

For Egypt, the increase in oil prices in the wake of the Gulf Crisis has been beneficiary. During the year ending June 1991, the country's oil revenues were estimated at about \$2 billion, which is almost twice their level in 1990.² A major part of these revenues is attributed to the increase in oil prices.

During the Gulf Crisis, the Syrian Arab Republic also increased its production of high grade crude and made significant gains from the sudden rise in oil prices. In 1990, it was estimated that the Syrian Arab Republic earned over \$1.6 billion from crude oil exports, which is almost twice as much as earnings of the previous year.

Both Egypt and the Syrian Arab Republic realized significant windfall gains during the Gulf Crisis, as far as the oil sector is concerned. The rise in the price of oil mainly coupled with higher production had a favourable effect on their export revenues and in narrowing the trade deficit.

The loss of oil exports from Kuwait and Iraq during and immediately after the Gulf Crisis was offset by both the increase

¹ Financial times, 24 January 1992.

² ESCWA, Egypt: A Country Profile in the Wake of the Gulf Crisis, op. cit., p. 43.

in oil production of other oil-producing countries of OPEC and by the fall in consumer demand in OECD countries. These factors, along with political events and the draw on oil stocks built in anticipation of any shortfalls in supply, helped in lowering oil prices after their sharp increase during the Gulf Crisis. In this respect, it is worth mentioning that Saudi Arabia has boosted its oil production from 5.4 million b/d before the Gulf Crisis to 8.5 million b/d in January 1992.¹ However, the anticipated outcome the war caused prices to fall to \$20 a barrel on the first day of the war.

D. Foreign Trade

Trade was one of the areas most affected by the Gulf Crisis. Successive resolutions adopted by the United Nations' Security Council restricting trade with Iraq have adversely affected trade among ESCWA countries. Restoring trade ties among these countries will partly depend on the relaxation of sanctions against Iraq and improved political relations.

Non-oil exports are Egypt's fifth largest source of foreign exchange earnings, after oil revenues, workers' remittances, tourism and Suez Canal earnings. Due largely to the Gulf Crisis, Egypt's oil export earnings jumped by 70 per cent, from \$1.49 billion before the Gulf Crisis to \$2.54 billion in the fiscal year ending June 1991. The loss of Egyptian exports to Iraqi and Kuwaiti markets together with the loss of remittances income for workers repatriated from Iraq were officially estimated at \$4.5 billion.²

Given the strong linkages between Jordan and the economies of Iraq and the GCC countries, the impact of the Gulf Crisis have had a devastating effect on the country's, exports and transit trade. Many industrial firms were forced to halt operations, dismiss workers, or severely reduce operations. With over 65 per cent of the country's exports going to the GCC countries, and about 6 per cent of GDP coming from transit trade, the loss of these markets has obstructed Jordan's economic development and growth. In 1990, Jordan's losses in commodity exports were estimated at about \$229 million.³ As for imports, it was projected that the oil import bill would increase by around \$115

¹Financial Times, 16 January 1992.

²Keesing's Record of World Events, 1991, Vol. 37, No. 2 (Supplement), p. 38061.

³Central Bank of Jordan, Annual Report 1990, p.65.

million if alternative oil sources, other than Iraq, were sought, assuming that the cost of a barrel is \$35.

The onset of the Gulf Crisis swiftly reversed Jordan's foreign trade recovery. The imposition of the United Nations sanctions against Iraq, Jordan's largest trading partner, brought a halt to vital Jordanian exports. The embargo which was imposed on Aqaba port skyrocketed the cost of freight and insurance. In addition, transit trade, international flights, and shipping into and out of the Jordanian port of Aqaba were halted or seriously disrupted. Losses in inland transport, air traffic, civil aviation, Aqaba port and Marine corporation, in addition to transit trade were estimated at \$513 million for 1990 and 1991.¹ Other losses due to the increase in oil prices were estimated at \$263 million for 1990 and 1991.²

However, preliminary figures for 1991 show some encouraging development on the trade front. Jordan's domestic exports, mainly phosphate, potash, fertilizer derivatives, and cement grew at about 2.8 per cent during 1990-1991 period, while re-exports increased by 5.9 per cent during the same period.³ Imports also increased by 3.6 per cent during 1990-1991.

Lebanon is one of the ESCWA countries worst hit in its foreign trade sector as a result of the Gulf Crisis. The country's imports rose sharply because of the increase in prices of crude petroleum and its derivatives. Owing to the crucial links with the GCC countries and Iraq, the impact was strong. These countries have been leading markets for Lebanon's exports and oil imports, a situation similar to that of Jordan. The losses suffered by Lebanon as a result of higher fuel prices were estimated at \$223 million, in 1990, while losses of export

¹ESCWA, The Impact of the Gulf Crisis on the Jordanian Economy, op.cit, P.4.

²Ibid., P.5

³Central Bank of Jordan, Monthly Statistical Bulletin, August, 1991.

revenues were placed at \$520 million, including \$270 million in merchandize exports.¹

Prior to the Gulf Crisis, the Syrian foreign trade sector experienced an exceptional improvement compared to previous years. For the first time in years, the trade balance turned positive, as shown in Appendix Table A-15. This was mainly due to the increase in the value of exports of crude oil, better performance of the private sector, and the decline in imports.² Recent data concerning the trade balance show an impressive increase from \$1192 million in 1989 to \$2159 million in 1990, equivalent to an increase of 81 per cent.³ The Gulf Crisis seems to have had very minor effects on Syria's exports to the GCC countries. In 1990, an estimated loss of about \$10 million could be added to the loss in foreign trade with Kuwait.⁴ The country's political stand, supportive of Kuwait in the Gulf Crisis, has helped open new market for exports and compensated for any losses incurred in the GCC countries. In fact, the Gulf Crisis has benefitted the Syrian Arab Republic in increasing its exports' earnings largely as a result of the increase in oil prices and output. In this respect, Syria's oil export revenues must have increased by at least \$261 million in 1990 and \$627 million in 1991.⁵

Trade links between the Republic of Yemen and Iraq have been weak. Prior to the Gulf Crisis, trade (exports and imports) with Iraq did not exceed 0.1 per cent of total trade of the Republic of Yemen. The share of goods exported to Kuwait was also negligible, representing 0.3 per cent of total Yemeni exports in 1989. Due to the low volume of non-oil exports, it can be

¹ ESCWA, Impact of the Gulf Crisis on the Economy of Lebanon, op. cit., p. 56.

² Syria's exports of crude oil constituted about 27 per cent of the country's total exports, while the private sector contributed about 48 per cent of the total, in 1989. For further details, see: ESCWA, Impact of the Gulf Crisis on the Syrian Economy, op. cit., pp. 2-5.

³ International Monetary fund, International Financial Statistics, November 1991.

⁴ ESCWA, Impact of the Gulf Crisis on the Syrian Economy, op. cit., p. 6.

⁵ Calculated by assuming that the share of oil exports in total exports remained 27 per cent throughout August 1990 to December 1991.

concluded that the country's foreign trade did not suffer a significant setback.

Table II-2. Estimated Losses of Foreign Trade in ESCWA Countries

Country	(\$million)		
	Losses	Gains	Balance
Egypt ¹	3,083	1,045	-2,038
Iraq ²	16,000	0	-16,000
Jordan ³	985	0	-985
Kuwait ⁴	8,000	0	-8,000
Lebanon ⁵	500	0	-500
Qatar ⁶	0	798	798
Syrian Arab Republic ⁷	45	800	755
Yemen ⁸	273	0	-273
Total	28,886	2,643	-26,243

1- The losses of foreign trade and remittances were officially estimated at \$4.5 billion. The gains are mainly from the rise in oil export earnings due to increases in oil production and prices. Other relevant losses (not included here) are \$300 million which are losses of Suez Canal revenues.

2- The losses are mainly in oil revenues.

3- Other losses include \$513 million from interruption of inland transport, air traffic, civil aviation, Aqaba port, transit trade, ... etc,. Losses of other services include \$70 million in 1990 and \$170 million in 1991

4- Losses resulting from the halt of oil exports.

5- Including increases in cost of fuel imports (\$223 million) and the losses in export earnings (\$277 million)

6- Due to the surge in oil prices.

7- Comprising \$34.65 million losses of exports to Kuwait and other Gulf countries and \$10.50 million losses of government revenues from these exports.

8- Consisting of \$42 million in 1990 and \$231 million in 1991.

E. Money and Banking

The banking sector is highly sensitive to political stability and events. The Gulf Crisis has not only affected monetary and financial systems of ESCWA countries but also the financial institutions and intermediaries. With falling and unstable exchange rates of the currencies of most ESCWA countries, particularly the Kuwaiti and Iraqi Dinars, the position of investors in the stock exchanges of Kuwait and Bahrain was shaky. Some of the GCC countries have invested heavily in promoting an international stock exchange in the Middle East and established modern banking facilities.

Many commercial banks in the region had been involved in drawing ambitious plans for the future to locate new channels of business and provide incentives to the private sector to increase their assets in the 1990s. At the end of the Iraqi-Iranian war in 1988, signs of improvement started to show up. The 1990s appeared promising and better than the 1980s in terms of the levels of foreign reserves and profits. The Gulf Crisis has damaged the investment climate in the ESCWA region and badly hit trust in its banks and financial institutions. Naturally, huge amounts of deposits have been withdrawn and transferred to safe havens in Europe and North America.

As soon as the Gulf war broke out international banks cut lines of credit to most banks in the region. They also suspended dealing with local currencies, even with the Saudi Riyal. In relative terms, Bahrain has been the worst hit of the GCC countries, after Kuwait. For the first time in over three decades, the governments of Kuwait, Saudi Arabia, Oman, and Qatar entered into the foreign financial markets to seek credit and liquidity. Kuwait, for example, signed an international syndicated loan of about \$5.5 billion late in 1991.¹ No doubt capital flight from these countries added further damage to their economies.

The unifying of the foreign exchange rate of the Egyptian pound, along with the favourable progress made in implementing the reform programme of May 1991, earned Egypt a second tranche of SDRs 272 million from the International Monetary Fund (IMF). There are also some indications that the Egyptian economy, burdened by a lingering recession, has begun to grow again, although it is too soon to assess the strength of the pickup in economic activity.

¹ Financial Times, 26 February 1992.

While Egypt won praise from international lending institutions and aid donors for adhering to IMF agreed reforms, it was censured for slow progress in implementing a \$300m World Bank adjustment programme. Egypt has also benefitted from foreign aid and debt rescheduling. As will be seen later, in this chapter, about half of Egypt's foreign debt of \$50 billion was either forgiven or rescheduled on favourable terms.

The conclude, imminent economic disaster had been averted in Egypt by further injections of foreign aid and debt rescheduling. However, this optimism should be tempered by the traditional lingering size of the country's manifest problems, including a chronic dependence on imported foodstuffs, lack of real economic growth and intense population pressures.

With limited natural resources and heavy dependence on foreign aid from the GCC countries, Jordan has been worst hit by the Gulf Crisis in terms of its loss of foreign exchange earnings including remittances, foreign trade, grants and loans. The impact of the Gulf Crisis on Jordan is further reflected in the Country's external payments position. Government receipts from external transfers have declined sharply. Foreign aid from the GCC countries and Iraq was expected to be \$550 million in 1990. Only \$295 million were actually received during the first seven months of 1990.¹

Although the main sources of foreign exchange of Jordan were baldly hit, Jordan has managed to keep the exchange rate of the Jordanian Dinar under control. Interest rates and money supply did not seem to have experienced any significant decline. This is due, among other things, to transfers from Japan and the EC and to debt rescheduling. In summary, Jordan's loss of foreign exchange due to the Gulf Crisis was estimated to be around \$1.8 billion and \$1.7 billion in 1990 and 1991, respectively.

Monetary developments in Lebanon reflect the combined effects of the civil war, that lasted for almost fifteen years, and the Gulf Crisis. The money market and the banking system were characterized by the lack of a capital market, a deterioration of the balance of payments, and a high growth rate in money supply due to inflationary pressures and currency depreciation.

¹ESCWA, The Impact of the Gulf Crisis on the Jordanian Economy, op. cit., p. 9.

As a result of the Gulf Crisis, total commercial banks deposits of foreign currencies fell from \$3,254 million in July 1990 to \$3,116 million in September of the same year. Foreign exchange reserves held by the Bank of Lebanon also experienced a considerable decline. These reserves fell from \$630 million at the end of July to \$587 million at the end of August 1990.¹ A temporary improvement was recorded by the end of October when the level of reserved reached \$815 million, but then declined to \$773 million and \$542 million in November and December, respectively.²

At the end of 1991, it was evident that the government budget deficit would almost be \$1,400 million which is about 40 per cent of the country's GNP.³ Pressure on foreign reserves held by the Bank of Lebanon were slightly reduced during 1991 in comparison to the previous year. However, the last three months of 1991 witnessed the return of pressure, largely due to the government intervention to stop further deterioration in the market rate of the Lebanon pound by further injections of United States dollars into the market.

Banking activities in most countries with relatively diversified economies have also declined following the eruption of the Gulf Crisis. Further deterioration is expected since sufficient flows of foreign exchange are not easy to maintain in the foreseeable future. Fears are emerging that inflationary pressures would affect these countries more than the rest of the world thereby causing their economies to go into recession. Major economic indicators in 1991 showed an increase in the overall level of prices, slower production growth, and sharp rises in unemployment.

E. Tourism

Tourism is very sensitive to the state of political instability. For all countries with relatively diversified economies, tourism is a very important sector and a significant source of foreign exchange earnings. The effect of the Gulf Crisis and war on this sector did not persist generally. After the initial shock, tourism activities seem to have started recovering.

¹ESCWA, The Impact of the Gulf Crisis on the Economy of Lebanon, op. cit., p. 18.

²Ibid., p. 48.

³Bank of Lebanon, Annual Report 1991, (in Arabic).

In Egypt, the tourism sector was badly hit by the Gulf Crisis. In the fiscal year July 1990/June 1991, the number of tourist nights was 16.5 million, compared with 22.1 million in the previous year. The Gulf Crisis caused revenues from tourism to fall by 65 per cent by December 1990.¹ However, recent indicators show extremely positive trends in tourism activities. The first quarter of the fiscal year 1991/1992 (July-September) showed a strong recovery. The average increase in arrivals in August 1991 stood at 2.5 per cent. Some of this success is due to Egypt's marketing campaign after the end of the Gulf Crisis which aimed at promoting Egypt as a secure destination. This campaign was successfully launched by the government together with the private sector. Another important factor may have been that many tourists had postponed their travel until the end of the Gulf Crisis.

The temporary halt in tourism activities, which resulted in a drop in tourist arrivals by about 35 per cent during the season 1990/1991, caused a total loss of some \$400 million. To conclude Egypt's income from tourism dropped by about 65 per cent,² resulting in a shortfall of \$1,625 million (Table II-3).

Jordan's tourism sector was also adversely affected. During the second half of 1990, most tourism establishments and places were almost empty. Many hotels and related places had to lay off some of their employees and retain a small number only for maintaining essential operations. The losses of the tourism sector resulting from the Gulf Crisis were placed at \$274 million, in 1990.³ Unlike Egypt, the tourism sector in Jordan appeared unlikely to recover fully in the short-term.

During the Gulf Crisis, tourism activities in the Syrian Arab Republic were brought to a nearly complete halt, following some improvements in 1989 which had brought total tourism revenues to about \$400 million. The losses of Syria's tourism sector due to the Gulf Crisis are not documented. However, if the deficit in the balance of services in 1989 was extrapolated into 1990, and change could be attributed to the damage in tourism, these losses would exceed \$207 million⁴ in 1990 and \$213 in 1991.

¹ Keesing's Record of World Events, op. cit., p. 38061.

² Ibid.

³ Central Bank of Jordan, Annual Report 1990, P.66.

⁴ For further details, See: ESCWA, Impact of the Gulf Crisis on the Syrian Economy, op. cit., p. 6.

Table II-3. Estimated Losses of Tourism Revenues in Selected ESCWA Countries

(\$ Million)

<u>Country</u>	<u>Losses</u>
Egypt ¹	1,625
Jordan ²	790
Lebanon	...
Syrian Arab Republic ³	420
Yemen ⁴	...
Total	2,835

1- Other studies give lower estimates: \$400 million in 1990 and \$540 million in 1991. See: ESCWA, The Gulf Crisis: Developments in the International Oil Market and their Impact on the ESCWA Region, op. cit., p. 17.

2- \$274 million in 1990 and \$516 million in 1991. See also, Central Bank of Jordan, Annual Report 1990, p. 141.

3- \$207 million in 1990 and \$213 million in 1991. For further details, see: ESCWA, Impact of the Gulf Crisis on the Syrian Economy, op. cit., p. 7.

4- ... = Not available.

G. Internal and External Setting

When all the accounting is done, Kuwait and Iraq are the biggest losers in the Gulf war. The war was actually financed by the GCC countries. This has meant a diversion of resources from development to destruction and human suffering. Some reports have indicated that the United States may actually turn a profit on the Gulf war.¹ By mid-June 1991, Kuwait, Saudi Arabia, and the United Arab Emirates had contributed more than \$26 billion to finance the Gulf war, as shown in Table II-4.

¹News Week, 17 June 1991.

Table II-4. The Six Biggest Contributors to the Gulf War and their Total Payments up to 17 June 1991

(\$ million)

Country	Pledged	Paid	Percentage of paid to pledged
Saudi Arabia	16,839	11,593	68.8
Kuwait	16,006	11,099	69.3
United Arab Emirates	4,000	4,067	101.7
Germany	6,572	6,554	99.7
Japan	10,740	9,429	87.8
South Korea	385	163	42.3
Total	54,542	42,905	(78.7)

=====
 Source: News Week, 17 June 1991.

Regarding Egypt, about half of its foreign debt of \$50 billion was either forgiven outright or rescheduled on favourable terms. Its balance of payments seems to be in a better situation, not only relative to what it was before the Gulf Crisis but also better than several years earlier. Estimated reserves stood at about \$3 billion at the end of 1991.

Among the factors that helped Egypt improve its balance of payments were the stabilizing of the Egyptian pound, after falling some 60 per cent against foreign currencies in the past five years, increases in the value of oil and debt write-offs. It is worth mentioning, here, that the negative effects of the Gulf Crisis had been eased by the debt write-offs by the GCC countries and the United States, totaling \$14,100 million, and economic aid of \$400 million and \$300 million from Japan and Germany, respectively. Canada also canceled a \$11 million debt and agreed \$22 million in further aid. Saudi Arabia also pledged \$1,500 million in aid.¹

For Jordan, the loss of foreign exchange revenues from foreign aid and workers' remittances, along with the sharp decline in exports caused a shortfall in government revenues, and consequently led to an increase in the budget deficit as additional expenditures were incurred to accommodate the flow of returnees.

¹ Keesing's Record of World Events, op. cit.

The losses of foreign aid and grants were estimated at \$310 million, in 1990. In addition, Jordan's losses of undisbursed loans from Kuwaiti-based Arab funds were about \$35 million.

The Gulf Crisis interfered with Jordan's efforts to complete vital debt-rescheduling arrangements. Soon after the Crisis, Jordan was forced to halt payments on all bilateral foreign debts. Indeed, prior to the Crisis, there was no movement on rescheduling arrangements. Disbursements from an IMF stand-by credit arrangement and a World Bank structural adjustment loan were also halted.

However, Jordan has managed to reschedule services of its debts, which gave it a breathing space and contributed to the improvement of balance of payments. The influx of non-Jordanian returnees from the troubled zone through Jordan cost the budget some \$48 million. Additional government expenditures on public education, health, transport, and other services due to the return of about 220,000 workers from the Gulf, especially from Kuwait, further burdened the government budget. The decline in government revenues, coupled with these unforeseen expenses, adversely affected the level of economic performance.

Lebanon was also badly hit by the loss of financial aid due to the Gulf Crisis which delayed the setting up of the International Fund for Aid to Lebanon that was to have a capital of \$2,000 million.

Financial aid to the Occupied Palestinian Territories was completely halted. The construction of several vital projects, such as schools, universities, and hospitals, was stopped. The losses in financial aid were estimated at about \$240 million.

Contrary to the case of Jordan, Lebanon and the Republic of Yemen, the Syrian Arab Republic was able to mitigate the adverse effect of the Gulf Crisis, due to the financial assistance and debt forgiveness extended to it. The GCC countries showed their appreciation for Syria's support during the Gulf Crisis by providing large financial transfers. According to some sources, the Syrian Arab Republic received \$1,000 million, mostly from Saudi Arabia, by early December 1990.¹

The losses of the Republic of Yemen in terms of financial aid were estimated at about \$570 million. This amount includes aid from both Iraq and Kuwait.

¹ Keesing's Record of World Events, op. cit., p. 38069.

Table II-5 Estimated Losses and Gains of Financial Assistance in Some ESCWA Countries.

(\$ million)

Country	Losses	Gains	Balance
Egypt ¹	300	16,333	16,033
Jordan ¹	393	350	-43
Lebanon ¹	2,000	0	- 2,000
Palestine ¹	240	0	-240
Syrian Arab Republic ¹	0	1,000	1,000
Yemen ¹	570	0	-570
Total	3,503	17,683	14,180

=====

1- Gains are composed of debt write-offs by the GCC countries and the United States (\$14,100 million), economic aid from Japan (\$400 million) and Germany (\$300 million), Canada (\$33 million), and Saudi Arabia (\$1,500 million).

2- The losses and gains are for 1990 only.

3- This figure was released at the beginning of the Crisis. Actual losses may be much lower.

4- For 1990 and 1991

5- The Syrian Arab Republic received \$1,000 million, mostly from Saudi Arabia, by early December 1990. For further details, see Kessing's Record of World Events, 1991, Vol. 37, No. 2, (Supplement).

6- Including \$397 million undisbursed Kuwaiti development aid, \$145 million and \$28 million in lost budget and project support from Iraq and Kuwait, respectively.

Table II-6 Estimated Overall Losses of ESCWA Countries

Country	(\$ Million)
Bahrain	...
Egypt ¹	10,953
Iraq ¹	100,00
Jordan	4,369
Kuwait ²	50,000
Lebanon	2,650
Oman	...
Palestine	360
Qatar	798
Saudi Arabia ¹	11,593
Syrian Arab Republic	3,119
United Arab Emirates ³	4,067
Yemen ²	2,543
Total	168,546

- 1- Gains.
 - 2- Preliminary estimate.
 - 3- See Table II-4.
- ... = Not available

H. Environmental Impact of the Gulf War

The war caused tremendous damage to the environment which extended beyond the borders of Iraq and Kuwait to affect other countries in the region and elsewhere. Several countries including Iran, Pakistan, Bulgaria, Turkey and the former Soviet Union reported black rain and smoke. High soot concentrations in the air as well as a drop in temperatures below the yearly average were also recorded in many countries.¹ The worst environmental damage was certainly in Kuwait where the fully

¹Abdulla Toukan, "Humanity at War: the Environmental Price", The PSR Quarterly, December 1991, Volume 1, Number 4, pp. 214-220.

integrated petroleum facilities, incorporating all facets of exploration, drilling, production, and refining, were badly damaged.

The number of Kuwaiti oil wells known to have burned, for various durations, was estimated at about 740. Kuwait Oil Company estimated the total burning of 3 billion barrels of crude. Some of the wells were self-extinguished but continued to gush oil polluting the soil, threatening the plant cover, and eventually draining to the sea and thus threatening marine life. Burning wells produce soot and poisonous fumes. This endangers human and animal life causing respiratory diseases, eye irritation, and sometimes heart problems.

The smoke produced absorbs solar radiation so that temperatures can drop by 10 degrees or more in areas covered by the smoke plume. Acidic rain could also follow because the smoke contains sulphur dioxide and nitrogen oxides. Approximately 10 million barrels of crude oil were dumped in the sea. Desalination plants in the area were very much affected since they are not equipped to purify water from organic oil materials.

Land degradation was another out-come of the Gulf Crisis. Three main reasons can be stated:

- a. defense constructions and oil filled trenches;
- b. vehicles moving off the road cause damage to the vegetable cover and upper soil thus causing wind and water erosion; and,
- c. the coast has been severely damaged by explosions.

Serious pollution problems caused by left-behind mines, infrastructure damage, cessation of agricultural and fishing activities were also immediate outcomes of the war. The total loss due to the burning of oil wells and loss of oil production has been put at \$60 billion and about \$8.5 billion, respectively. The cost of extinguishing the fires was placed at about \$600 to \$850 million. Other estimates put the figure for extinguishing oil fires at about \$2.0 billion including \$0.6 billion of equipment.¹ Gushing uncontrolled oil causes severe damage to the underground oil reservoirs.

¹Financial Times, 26 February 1992.

In Iraq, the southern oil wells were hard hit, though the damage cannot be compared to that of the Kuwaiti oil fields. Bombing Iraq has caused sever damage to infrastructure and services thereby creating cumulative environmental damage over a wider area than the battle field itself. The environmental impact range from the obvious, such as bombed irrigation projects, to the loss conspicuous, such as damaged textile, chemical, and milk factories that have burned harmful elements in the atmosphere or threatened nearby water quality.

Environmental impact can be better seen in the agricultural sector which was paralyzed by the Allied bombings of factories that produce fertilizers, pesticides, seeds, veterinary drugs, and farm machinery. The bombing of electrical power stations has also aggravated environmental problems concerning water quality and soil-salinity curbing system. This system operates by pumping water through a field drainage network that washes the soil. Electricity is the only source that operates the pumps. Several studies have reported significant death rates among livestock, fish, birds, and plants due to environmental hazards caused by the war. Dead animals and fish were common objects across Iraq. Environmental damage caused the prices of agricultural products to more than triple. Water borne disease, unsanitary conditions, increases in soil salinity, and transitory severe air contamination are also major environmental damages.

While damage to groundwater, forests, wildlife, municipal sanitation is obvious, little is known about the radiation hazards caused by bombing Iraqi nuclear, chemical, and biological facilities.

III. IMPLICATIONS FOR FUTURE GROWTH AND DEVELOPMENT

This chapter provides an overview of future growth and development prospects of the ESCWA region after the Gulf Crisis. It also suggests measures and forms of co-operation which could be considered a useful basis for discussion and formulation of more detailed and suitable strategies.

After reviewing the economic setting of the region prior to the Gulf Crisis and the impact of the Crisis, one can make some suggestions concerning future development and growth. Much of the thoughts, especially those pertaining to the second half of this decade, are conjectural.

In reviewing overall socio-economic conditions in the region, the short-term prospects appear bleak. To cope with this situation, there is a great urgency for implementing adjustment and recovery programmes. If one were to propose a slogan for the present decade, one would say it is the decade of "socio-economic adjustment".

A. Overall Economic Activity

In the short-term, the Egyptian economy is expected to grow but at low rates. It was argued that after the successful implementation of the IMF adjustment programme and the unification of the exchange rate, Egypt is expected to make some economic progress since constraints on foreign trade are likely to be phased out. However, this progress might be limited to 1992. Economic prospects for the year 1993-1995 may not be encouraging since the country's GDP is expected to grow by a meager rate of about 1 per cent annually, while the population growth will be higher than 2.8 per cent. Thus, the Egyptian economy is in need of higher production growth to match demographic trends.

Iraq has succeeded in patching up some of the damage that was inflicted on its essential infrastructure. However, a massive repair and reconstruction programme requires substantial funds that cannot be obtained without the resumption of oil exports. While telecommunications are gradually being restored, major industrial plants still lack the equipment and spare parts. Persistent shortages of basic commodities may remain a feature of the Iraqi economy for the next few years. High inflation rates

are also expected to persist. Unemployment and internal instability are also difficult socio-economic problems that will remain hanging over the country for some years to come.

In the longer term, and owing to the maintenance of United Nations sanctions on Iraq, repairing the damage, caused by Allied bombing and the unrest in the aftermath of the war, would hinder economic development in Iraq. Rebuilding Iraq, especially its heavy industries, needs outside help. Unfortunately, this does not appear likely in the near future.

The cost of reconstruction in Iraq is difficult to estimate; so also its duration. There are also some uncertainties concerning Iraqi debts and war compensation. Iraq's current account might experience an annual deficit of about \$3 billion for at least the next four years.

Jordan is expected to continue its efforts to reactivate its economy. The annual rate of growth in GDP might not exceed 3 per cent during the coming four years. However, high population increases, as shown in Appendix Table A-1, mean that annual per capita income growth rates are likely to remain low during the period 1993-1995. Much of this growth will heavily depend on the inflow of foreign aid, the country's ability to secure some debt reduction or forgiveness, the degree of success in exports and the implementation of austerity measures including, among other things, rationalization of consumption and imports.

Kuwait will be deeply occupied with reconstruction, in the short-term. Oil will be the most important sector and Kuwait is expected to spend \$8.5 billion on the rehabilitation of its oil installations. Massive reconstruction in the non-oil sector will include airport development, telecommunication, computerization and sanitation, rebuilding six of Kuwait's power plants and more than 300 sub-stations that were damaged during the war. The demand for high-technology products will be strong, not only for personal computers, main frames and mini-computers, but also for computer software. The Kuwaiti economic and political leadership and decision makers may take the results of the Gulf war as an opportunity not only to maintain but also to upgrade the country's infrastructure.

Lebanon is envisaging involving the private sector more actively in rebuilding the country's infrastructure. After a

relative calm of more than two years, private investment is likely to increase considerably within the three forthcoming years, providing the political stalemate is resolved and the future is more certain.

Despite the increases in Saudi Arabia's oil revenues in 1990-1991, the country's per capita income, even in nominal terms, is much lower than its level a decade ago. The Saudi economy is likely to go into a period of a modest, but steady, growth during the period 1993 - 1995. In the longer term, the Government might take some steps to reduce public spending, but not military spending. The latter, is expected to grow sharply bearing in mind two factors:

- (a) the need to upgrade and expand the country's military establishment ; and,
- (b) building new military infrastructure which is bound to be more technology-intensive and accordingly, capital intensive.

Investment activity will assume some sort of revival, particularly in the private sector. Petrochemical industries will also draw in new joint ventures.

The reconstruction of Kuwait might boost the economies of some ESCWA member countries, especially some of the labour-surplus economies. Lebanon, Egypt and the Syrian Arab Republic will perhaps gain from the reconstruction of Kuwait and possibly from other construction schemes in Saudi Arabia. Employment opportunities for Jordanians, Palestinians, and Yemenis are likely to remain limited. However, among the countries that might benefit most from reconstruction, the United States will certainly take the lead. Rebuilding would primarily help the United States' business sector. Contracts with that country's construction firms have already been signed and some construction in both Kuwait and Saudi Arabia is underway.

Saudi Arabia which has boosted oil production from 5.4 million barrels per day before the Gulf Crisis to 8.5 million barrels per day is unlikely to reduce its oil production much below 7 million barrel per day. This level of production will secure high revenues even if world oil prices remain at about \$19 a barrel.

The Omani plan of 1991-1995 aims at securing an annual economic growth of about 6.3 per cent, and raising per capita income by 14.4 per cent in real terms.

In the long term, the most important indicator for economic prospects in the Syrian Arab Republic will be oil.

B. The Labour Market

With the outbreak of the Gulf Crisis, more than 3.5 million migrant workers and their dependents were forced to flee the troubled zone. Among those, more than 1.9 million (54 per cent) were from the ESCWA region. Some of the affected countries have partially adjusted to these changes while others are still suffering.

The prospects for improvement in the regional labour market seem to be limited in the short-term. If the prevailing attitudes in the Gulf area continued, it is unlikely that migrant workers, from Jordan, the Occupied Palestinian Territories, and the Republic of Yemen will be allowed to return to their previous work. Identification of programmes of work and activities to be implemented by the governments of labour-sending countries to re-integrate and rehabilitate the returnees is therefore essential. More emphasis should be put on those programmes which encourage private investment and mobilize the savings of some of the returnees. The affected economies took several measures to cope with the shock and its aftermath. Indeed, the absorption of the returnees has become one of the major challenges facing the ESCWA region.

Most countries involved have adopted measures and implemented programmes to enhance the absorption of returnees. Given the state of relations between labour-sending and labour-receiving countries, more self-reliant measures should be taken by the former. The Gulf Crisis and its aftermath have highlighted the need for an integrated approach to attend to questions of human resources development in the region focusing on:

1. increasing employment opportunities;
2. encouraging the private sector to invest in small and medium-size enterprises;
3. improving industrial relations and work conditions;
4. determining a minimum wage level; and,
5. raising the level of co-operation and information exchange concerning adjustment processes and labour absorption.

Labour mobility among ESCWA countries is an essential issue which must be addressed in both the medium and long-term. It is an issue which has important economic ramifications. If co-operation were to be built on common and mutual interest, then labour mobility would be the issue to fulfill this objective. This has been proven prior to the Gulf Crisis, and will remain a vital issue in the future. Free movement of labour among ESCWA countries not only reduces the economic and social gap between the poor and the rich but also paves the way to more economic and social development. It could also gradually iron out the tensions in the area which have been the bitter harvest of the Gulf Crisis.

C. Oil: Production, Prices, and Revenues

The Gulf Crisis dealt a devastating blow to the oil sector in Kuwait, and, to a lesser extent, to the oil sector in Iraq. The halt of Iraqi exports of crude petroleum has negative short- and long-term economic implications as it will certainly postpone the recovery of the economy as well as increase its cost.

The sharp increase in the level of oil production and temporary higher prices have greatly increased oil revenues of all GCC countries except Kuwait. However, as discussed in chapter II, much of the windfall gains have been dissipated by obligations to finance the war and its ramifications. Since world oil consumption is anticipated to increase by some 1.5 per cent annually and oil production of other countries will not experience a noticeable increase, oil production in the region may be expected to increase by 4 per cent or 5 per cent annually, during 1992-1995.

Recently, it was speculated that Iraq may resume limited oil exports between the end of 1992 and mid 1993. However, reparation payments along with increasing debt service demands are likely to mop up more than 30 per cent of the country's oil revenues.

Kuwaiti oil production was expected to return to its pre-crisis level by the end of 1993. Kuwaiti oil production might become a significant factor in the market at the end of 1992, when it is expected to reach 900,000 b/d. By then, it will be earning about \$ 4.5 billion. Oil output is expected to reach 1.5 million b/d and 1.8 million b/d in 1993 and 1994, respectively, thus increasing oil revenues to \$8.8 billion and \$11.4 billion, over the same period.

Oman is also expected to increase its oil revenues during 1992. Qatar is endowed with huge reserves of natural gas. During

the second half of this decade, around 1997, Qatar will be in competition with other major producers such as Iran, Algeria, Libya, Russia, and Norway.¹ Its high level of foreign exchange reserves and its huge reserves of natural gas (150 tcf), are the two main factors that will consolidate the country's economic growth.

As discussed earlier, Saudi Arabia dramatically increased its oil production to substitute for the loss of Kuwaiti and Iraqi oil exports. This has resulted in an increase in nominal GDP by about 22 per cent in 1990, followed by a 5 per cent increase in 1991. GDP was expected to increase by about 2.9 per cent in 1992.² The level of production is expected to continue at around 8 million b/d. This continued high level of output would keep the international prices of crude petroleum between \$19 and \$21 a barrel until 1995. Another important variable which will influence oil prices is the continued high level of demand for oil by Russia and other emerging and developing republics.

Syrian oil revenues have been rising steadily since 1985. These revenues reached \$5 billion in 1991. Output of crude oil is also expected to increase from 500,000 b/d in 1991 to about 600,000 b/d in 1992. Natural gas production had also reached 130 million c.f. a day.

Excess production of oil from sources outside the conflict zone has more than made up for the radically reduced output from Iraq and Kuwait. As mentioned earlier, several GCC countries have pumped as much oil as they could to compensate for the absence of these two big exporters since the onset of the Gulf Crisis in August 1990. Companies trading in oil, on the other hand, continued building up stocks in anticipation of any shortfall in supply. This process caused oil prices to rise.

The problems that faced some of the GCC countries in the wake of the Gulf war were mainly oil-production cuts and not price increases. In fact, further declines in oil prices are likely to occur. The unit price for North Sea Brent crude,

¹Middle East Monitor, February 1992, P. 160.

²Ibid., P. 159.

for instance, slipped by \$5 a barrel to \$18.50 in December 1991.¹ Several reasons were behind this price decline, most important among which was that traders had anticipated a cold winter and a continuing drop in deliveries from the former Soviet Union. In addition, they were counting on a substantial pick-up in demand as the world economy headed for recovery. What actually occurred was that oil consumption failed to show much of an increase, OPEC was weakened and the Western economies, including North America, were much slower to recover than expected. Accordingly, oil prices did not show noticeable increases. Any increase in oil prices during the next three years, if it takes place, will be small. Increases in real prices of oil in the second half of this decade might create little surpluses in the current accounts of GCC countries.

To conclude, oil prices might remain around \$20.0 per barrel during 1992-1995. Therefore, annual price levels might slightly increase by some 3 per cent as world economic activity recover.

D. External Dependence and Vulnerability

The economies of ESCWA countries are expected to face difficulties during the 1990s. Paramount among these are budgetary deficits, inflation, difficulties in managing domestic debt and lower levels of economic co-operation. A strong economic and financial rift became evident in the ESCWA region after the Gulf war. Countries which used to be called surplus countries turned by the end of the war into countries with "financial deficits". In other words, some "creditor" economies of the ESCWA region turned into "debtor" economies. This situation will continue to exert pressure on the ability of such economies to go into joint ventures or expand their economies.

After implementing major economic reforms, such as liberalizing currency rates, Egypt is counting on the inflow of private foreign capital to boost its economy. However, it seems that the benefits from the Gulf Crisis were temporary and confined to 1990 and 1991. By the end of 1991, Egypt's total external debt reached \$23 billion. The inflation rate increased from 16.8 per cent in 1990 to 21.3 per cent in 1991 and was expected to reach 17.0 per cent in 1992. Lower oil prices are expected to hit export earnings and might push inflation to its pre-crisis level of about 22 per cent in 1995. Accordingly, major sources of foreign exchange earnings (oil exports and Suez Canal fees) are likely to be affected. On the other hand,

¹Financial Times, 16 January 1992.

workers' remittances are likely to increase after 1993 since Kuwait, and other GCC countries, appear to welcome the return of Egyptians to their pre-crisis jobs.

Debt repayments, which Jordan had suspended due to the Gulf Crisis, are expected to be made in 1993. Financial aid from the GCC countries, if resumed, i.e., a big if, is not likely to reach its pre-crisis level. In this context, it is worth emphasizing that political considerations are still the prime factors affecting Jordan's economy. It is also expected that the IMF will have a greater say in relation to the country's management of debt and aid. As shown in Table III-1, Jordan's per capita external debt is the highest amongst the countries under comparison.

In Kuwait, the combination of massive reconstruction and defence spending and extraordinarily low oil revenues are reflected in the budget deficit for 1991/1992 of around \$18.7 billion while the planned budget was about \$5.2 billion. The two items that will dominate the budget are defence spending and debt-servicing. For Bahrain, the deficit in the current account of the balance of payments reached \$150 million in 1991 and may reach \$50 million in 1992.

For Lebanon, the security issue, be it external or internal, will remain the major factor influencing the country's economic growth and prospects. As discussed earlier, the 15 years of intermittent civil war and external military interventions had devastated the country. Future co-operation among ESCWA countries should address the security of Lebanon. Serious Arab-Israeli Peace talks may help in this respect. The GCC countries-despite evidence to this effect so far- are likely to support Lebanon financially and the inflow of funds for reconstruction will greatly depend on Arab donors and investment by Lebanese expatriates.

For Qatar, the balance of payments improved as a result of the surge in oil prices. This surge contributed to an estimated 12 per cent growth in nominal GDP, in 1990. The balance of payments prospects are also expected to improve during the first half of the 1990s.

Due to the significant increases in military spending, the budget deficit of Saudi Arabia is expected to persist over at least the next three years, 1993-1995. The budget deficit is expected to be around \$15 billion and \$18 billion in 1991 and

1992, respectively.¹ Inflation rates during the same period may remain around 3-3.5 per cent.²

The Syrian Arab Republic also allocates almost one-third of its budget to military spending and security. Other economic problems that are expected to face the country during the next three years are high inflation rates and depreciation of the Syrian Pound. A more serious problem often discussed is that the Syrian economy is operating under an over-centralized economic system, which, sooner or later, will have to be addressed.

Table III-1. External Debt of Selected ESCWA Countries, 1990

Country	External Debt (\$ million)	Population (million)	Per Capita External Debt(\$
Egypt	52,191	52,886	987
Jordan	8,768	3,453	2,539
Lebanon	517	2,655	195
Syrian Arab Rep.	5,217	12,558	415
Yemen	5,471	11,700	468
Total	72,164	83,252	864

Source: Arab League et al. (1991), Unified Arab Economic Report 1991, Draft, (in Arabic).

1) Prior to forgiveness in the wake of the Gulf Crisis:

E. Foreign Trade

Imports of the GCC countries, particularly Kuwait, will sharply increase due to new construction activities and the repair of damage caused by the war, thereby reducing the scope of financial aid to the relatively diversified economies.

It is most likely that the large oil producers in the GCC countries will suffer from deficits in their current accounts during the first half of this decade. The most salient deficit will be that of Kuwait given the country's anticipated volume of imports of goods and services. In contrast, Kuwait's revenues from its investments abroad will be much less than that of the

¹Middle East Monitor, op. cit, p. 159.

²Ibid.

late 1980s since a significant portion of the country's foreign assets was liquidated to finance the war effort and its consequences.

The Gulf Crisis has diverted foreign trade of almost all GCC countries in favour of Western Countries and away from the relatively diversified economies in the region. A vivid example is the exports of the United States to the GCC economies. These increased from \$4,253 million during the first nine months of 1990 to more than \$7,120 million during the same period of 1991, or by more than 67 per cent. The largest increase was recorded by Kuwait (86.9 per cent) followed by Saudi Arabia (79.3 per cent), as shown in Table III-2.

Saudi Arabia is also planning to purchase about 40 aircraft to modernize its national airlines at a cost estimated to be around \$3,500 million to be paid during 1993-1997.¹

Table III-2. United States Exports to the GCC Countries, 1989-1991

Country	(\$ million)		Jan.-Sept.		%change 1991/1990
	1989	1990	1990	1991	
Bahrain	488.7	718.4	334.3	343.6	2.8
Kuwait	855.0	400.1	400.7	748.8	86.9
Oman	169.6	162.8	104.4	145.0	38.9
Qatar	100.7	114.7	79.9	97.6	22.1
Saudi Arabia	3,576.0	4,034.8	2,631.7	4,720.1	79.3
United Arab Emirates	1,239.6	998.2	702.4	1,064.9	51.6
Total	6,429.6	6,429.0	4,253.4	7,120.0	67.4

Source: Al-Iktissad Wal-Aamal, 1992, Vol. 7, No. 127, P. 4., (in Arabic)

There are signs of recovery in Jordan's exports and transit trade. New markets in Sudan, Libya, Republic of Yemen, and Eastern Europe have relatively helped offset the loss of trade with the GCC countries. In the short-term, Jordan's strategy should focus, more than before, on finding and developing new export markets, encouraging and liberalizing investment, expanding the industrial production base, and creating employment opportunities. The reconstruction of Iraq would represent a good opportunity for Jordan to become a major supplier of construction materials, goods and services.

¹ Ibid, p. 2.

F. Defence and Development Outlays

During the 1980s, most ESCWA countries made radical plans to increase their military capabilities. This had in turn increased budget deficits. Before the Gulf Crisis the total number of active armed forces for ESCWA countries reached more than two million; and the annual military expenditures of all ESCWA countries, excluding Bahrain and Qatar, reached about \$42 billion (Table III-4). Cases of high military expenditure, relative to GNP can be cited in Iraq, Oman, Saudi Arabia, and the Republic of Yemen. The percentage of military expenditures to GNP for these countries has been put at 32.0 per cent, 27.6 per cent, 22.7 per cent and 22.0 per cent respectively (Table III-4).

This high military expenditure is bound to substantially delay economic growth, increase external debt of the relatively diversified economies, and may prolong the period of instability.

Table III-3. Basic Indicators on Armed Forces of ESCWA countries.

Country	Armed Forces		Army	
	Active	Reservists	Active	Reservists
Egypt (1989)	368,000	534,000	320,000	500,000
Iraq (1990)	1,000,000	...	...	...
Jordan (1990)	84,250	35,000	74,000	...
Kuwait (1989)	16,100	...	13,000	...
Lebanon (1988)	16,500	...	150,000	...
Oman (1990)	25,500	...	...	...
Saudi Arabia (1988)	73,000	...	45,000	...
Syrian Arab Rep.(1990)	346,000	400,000	300,000	50,000
United Arab Emirates(1989)	44,000	...	40,000	...
Yemen (1990)	66,000	...	61,000	85,000
Total	2,039,350	...	...	...

Source: Kaleidoscope, Current World Data, 1991, ABC-Clio, Inc., (several issues).

... = Not available.

Table III-4. Annual Military Expenditure in ESCWA Countries.

<u>Country</u>	<u>\$ million¹</u>	<u>% of GNP² (1986)</u>
Democratic Yemen (1990)	220	22.0
Egypt (1989)	6,800	8.9
Iraq (1988)	12,870	32.0
Jordan (1988)	763	13.8
Kuwait (1988/1989)	1,550	8.5
Lebanon (1986)	100	...
Oman (1990)	1,385	27.6
Saudi Arabia (1988/1989)	13,210	22.7
Syrian Arab Republic (1989)	2,490	17.4
United Arab Emirates (1988)	1,590	8.8
Yemen (1988)	556	6.8
Total	41,534	---

Sources: 1. Kaleidoscope, Current World Data, 1991, ABC-Clio, Inc., (several issues).

2. Keesing's Record of World Events, (several issues).

.. = Not available

G. Regional and International Economic Relations

As a consequence of the Gulf Crisis, the ESCWA countries were divided and regional co-operation was severely hit.

The Arab Co-operation Council (ACC) which includes Iraq, Egypt, Jordan, and the Republic of Yemen was effectively shelved in the aftermath of the Gulf Crisis, and is not likely to be revived soon. Financial aid to both Jordan and the Republic of Yemen was also halted.

The forced return of nearly 1.9 million migrant workers mainly from Iraq, Kuwait and Saudi Arabia to Egypt, Jordan, Lebanon, the Syrian Arab Republic, and the Republic of Yemen dealt a severe blow to regional co-operation. Regional co-operation was also weakened in other fields such as foreign trade and tourism. In fact, the ramifications of the crisis will, surely, require considerable time to heal.

At the outbreak of the Gulf Crisis, Jordan's close economic links with Iraq, Kuwait, and Saudi Arabia came under particular pressure. The crisis led to a serious deterioration in relations between Jordan and the GCC countries in general which have been the traditional markets for its exports, its main financial

supporters, and the main recipients of Jordanian workers. The close links between the Republic of Yemen and Saudi Arabia and Kuwait also came under severe pressure.

In contrast, both Egypt and the Syrian Arab Republic managed to offset the adverse effects of the Gulf Crisis through aid and/or debt relief and forgiveness.

It may be said that co-operation among ESCWA countries is unlikely to return to its pre-crisis level in the near future. However, strengthening this cooperation might be better approached by coordination among few countries rather than all ESCWA countries. This cooperation can be firmly build on common economic interests and would require, inter-alia: lifting of trade barriers, free movement of labour, and aid to the relatively diversified economies, especially those affected by the Gulf Crisis.

H. Adjustment and Policy Measures

The massive return of migrant workers and their families caused by the Gulf Crisis has prompted concerned governments, regional institutions, and international organizations to look for ways to formulate and implement adjustment policies aiming at absorbing the returning migrants. With this large-scale return of migrants, adjustment policies are not an easy job particularly for the Republic of Yemen, Jordan, and Egypt. Labour-sending economies are facing substantial problems not only in creating jobs for the returned migrants but also in managing pressures on government budgets. A strong demand emerged for education, health, and other public utilities.

So far, an array of policies have been implemented in labour-sending economies to overcome the above mentioned problems. Among the policies and measures taken were the following:

- (a) expanding and diversifying vocational training programmes;
- (b) providing returnees with special financial incentives and loans to establish small and medium enterprises;

- (c) giving returnees some tax exemptions on their hand-carried and portable assets; and
- (d) reforming some public sectors to accommodate the returnees.

However, national adjustment efforts alone can not resolve the problem. Regional policies and external assistance for job creation and integration in all economic sectors are needed to meet the challenge. Such long-range policies can be more successful with the development of public services, the encouragement of private investment especially in the agricultural and industrial sectors, and the co-operation of international organizations. Financial aid from regional and international organizations can be of vital importance in this respect.

SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS

A. Summary

Before the Gulf Crisis, the GCC countries recorded large external surpluses and high economic growth rates especially in the years following the surge in oil prices in 1973, 1979 and 1991. The oil sector has dominated the economy and politics of this group. The early process of economic development had been hindered by the small size of these economies' demographic base, lack of adequate infrastructure, and lack of effective management of the economy. With a small demographic base and high aggregate output, the GCC countries attained high per capita income levels, and accordingly high standards of living and wealth.

For the relatively diversified ESCWA economies, the annual growth rate of GDP was on average negative, with the exception of the Republic of Yemen, while the population growth rate averaged 3.2 per cent, during 1987-1989. Although the oil sector dominated the economy of Iraq, the country has managed to establish a relatively diversified economic structure which linked manufacturing to the mineral and agricultural base. Yemen also presents an interesting case with its recent discovery of oil. However, economic growth has not been adequate to cope with the rapidly increasing population and labour force, or free from high inflation. During the three years preceding the Gulf Crisis, the rate of growth in GDP was negative.

Prior to the Gulf Crisis, all ESCWA countries were much better off than two decades earlier. But there were, and still are, considerable pockets of poverty even in richer GCC countries. In the relatively poor ESCWA countries, there were often sectors that commanded substantial purchasing power; yet these countries were, and still are, as a whole, poor. Poverty, within and between countries, menaces society and creates social and political unrest since poverty and other aspects of inequality are not variables with economic dimensions only. Yet the issues of income distribution and inequalities in income and wealth were not seriously addressed.

Total investment in the ESCWA region, excluding Lebanon and the Occupied Palestinian Territories, decreased by about 5 per cent during 1987-1989. For the GCC countries, investment in 1985 was relatively higher than that in the following years. Oman, Bahrain, and Saudi Arabia had a low investment record in the three years preceding the Gulf Crisis.

Unemployment rates in the ESCWA countries with relatively diversified economies were relatively high. Significant increases in unemployment rates started after 1986. Labour mobility across the ESCWA countries has been a relative success. Through mostly spontaneous, it has been one of the most important areas of regional co-operation. Indeed, it has been beneficial to all parties involved.

Remittances from migrant workers have been a main source of foreign exchange to all labour-sending countries of the region. On average, these remittances covered about 41 per cent of total commodity imports of these countries in 1987. This contribution fell to about 36 per cent and 30 per cent in 1988 and 1989, respectively. One could conclude that workers' remittances played a very important role in increasing incomes of labour-sending countries in the ESCWA region.

Commodity exports of the ESCWA countries grew at about 15.7 per cent annually during the period 1987-1989. For the GCC countries, the total value of exports depends heavily on prices of oil. Oman, Lebanon, and Bahrain experienced slow growth in their commodity exports over the period 1987-1989, while the Republic of Yemen, the Syrian Arab Republic, and Iraq recorded high rates of growth. The Republic of Yemen more than doubled its export earnings between 1986 and 1987, with a dramatic increase also recorded in 1988 due to the increase in oil production and export.

Commodity imports of the ESCWA countries followed a pattern similar to that of exports, in that they decreased sharply in 1986 and then recovered in subsequent years. On average, the annual rate of increase in commodity imports of ESCWA countries was about 11.3 per cent over the period 1987-1989.

All GCC countries experienced a surplus in their trade balance during the period 1985-1989 with the exception of Bahrain which experienced a deficit in 1987. In contrast, the member countries with relatively diversified economies experienced trade deficits, during the same period. However, the Syrian Arab Republic managed to narrow the deficit and turned it into a considerable surplus in 1989.

Oil has been the main source of government revenue in the GCC countries. As for the relatively diversified economies, the deficit in the government budgets has been financed by foreign aid and remittances of migrant workers mainly engaged in the GCC countries.

External indebtedness is the most important economic problem facing the more diversified economies. The total external debt, excluding that of Iraq, jumped from about \$51 billion in 1985 to more than \$70 billion in 1989.

The ESCWA countries have been affected to a great extent by the Gulf Crisis. Although the impact of the Crisis varied, in general their economies suffered negative and slower growth. The non-oil countries of the ESCWA region have been particularly affected. Workers from these countries were forced to return home, thus losing their jobs and leaving behind part of their savings and wealth, while exerting great pressure on economic and social services and infrastructure at home.

In the midst of economic difficulties, i.e. recessionary trends, negative economic growth, high unemployment rates, and increasing pockets of poverty, the ESCWA countries, particularly the non-oil ones, found themselves burdened with even further severe conditions. In particular, the inability of such countries to absorb the increasing number of university and college graduates into their economies has worsened. They became in bad need of foreign financial assistance and economic aid to cope with mounting economic and social problems.

At the aggregate level, preliminary estimates indicate that the overall losses of ESCWA countries reached about \$170 billion (Iraq \$100 billion and Kuwaiti \$50 billion). Among the relatively diversified economies, Jordan was the most affected country (\$4.4 billion).

The main points that could be drawn from the study are:

- 1- The gap between rates of growth in output and population remains wide in the region. During 1987-1989, the annual rate of population growth averaged about 3.2 per cent, while growth in GDP was less than 2 per cent. In the meantime, several countries recorded negative rates of growth. The Gulf conflict aggravated the situation.
- 2- The economies of the non-oil ESCWA countries were severely hit by the Crisis. The losses incurred by these countries were in billions of dollars. The most severe losses were in the domain of labour and associated remittances, aid, trade, and tourism.
- 3- Close to two million workers from the Republic of Yemen, Egypt, Jordan, Lebanon, the Syrian Arab Republic, and the Occupied Palestinian Territories lost their jobs in the Gulf countries. The Republic of Yemen in particular received about 880,000 of its citizens who used to work in the Gulf States, especially in Saudi Arabia. Egypt lost about 700,000 jobs, while the exodus of Jordanian returnees went beyond 300,000. Syrian, Lebanese, and Palestinians migrants lost about 130,000 jobs.
- 4- The direct losses, in terms of remittances from migrant workers in the Gulf Countries, exceeded \$4 billion. However, other losses such as savings and belongings were even higher.
- 5- Trade in goods was adversely affected by interruptions and sanctions resulting from the Gulf events. The losses incurred by the trade sector in Egypt, Jordan, the Syrian Arab Republic and Lebanon were about \$3.7 billion. With the exception of the Syrian Arab Republic, trade deficits of these countries widened.
- 6- The investment picture reflected the overall economic situation dominated by negative performance. Investment levels in the ESCWA countries decreased sharply in the late 1980s. The drop was estimated at about 5 per cent in the last three years of that decade. However, the situation was even worse in some countries particularly in Egypt and Jordan. The level of investment in Egypt declined by about 32 per cent during the said period. Some oil-producing countries like Oman, Bahrain, and Qatar also witnessed a sharp drop in investment. The decline in Oman was about 27 per cent, and in Bahrain and Qatar 22 per cent and 12 per cent, respectively.

- 7- Tourism came to an almost standstill during the Gulf Crisis. The number of tourist nights dropped in Egypt from about 22 million to 16.5 million between the preceding year and the crisis year itself. The number of arriving tourists plunged by 35 per cent during the same period, thus inflicting losses of about \$400 million. Income from tourism dropped by about 65 per cent by December 1990.

Jordan's tourism experienced similar adverse effects. The losses of the sector were estimated at about \$275 million during the crisis year. The major four ESCWA countries which depend to a great extent on tourism, i.e. Egypt, Jordan, the Syrian Arab Republic, and Lebanon, lost more than \$2825 million during the conflict year.

- 8- Damage inflicted by the Gulf conflict went beyond quantifiable aspects. The quality of the environment, for instance, suffered severely. The sea, the land, and air were polluted with oil, chemicals, and toxic gases and smoke. Millions of oil barrels were leaked to sea waters, thus threatening marine life over tens of square miles in the Gulf.

B. Further Changes and Divisions

The Gulf Crisis Produced a far reaching rift among the countries of the region. Countries which used to be called "surplus countries" turned by the end of the war into countries with "financial deficits". In other words, some "creditor economies" of the ESCWA region turned into "debtor economies". This situation will continue to exert pressure on the ability of such economies to go into new economic ventures or expand their already strained economies. Kuwait is a vivid example of such economies. Late in 1991, Kuwait signed a syndicated international loan totalling \$5.5 billion.

The other salient feature of divisions and structural changes that have been growing, but which became more visible as a result of the crisis, relate to trade diversion and trade creation. The Trade of the region experienced both trends in the sense that intra-Arab trade shrank, tilting in the process towards the developed countries and those of East Asia. This tilt comes as an anti-climax to decades of Arab economists' calls for trade integration between economies of the region. The recently published data on trade between the GCC countries and the United States clearly testify to this trend as exports from the United States, in the first nine months of 1991, expanded by 67.4 per cent over the same period of 1990, to reach a level of \$7.12 billion.

Not only were the terms of trade of goods moving to the disadvantage of the ESCWA economies but also the terms of trade for services are thought to have moved in the same direction. A corollary of the diversion of inter-Arab trade was the reduced activity of the transport sector be it land transport or air transport. Economies like that of Jordan suffered. Thousands of families live on activities related to/or emanating from this sector.

C. Tilt Towards Security Outlays

The economic repercussions of trade diversion went beyond civilian goods, i.e., diversion in favour of Partners from outside the region to trade in armaments. This trade is technology-intensive and arranged through closed and expensive packages. This raises the question of whether such trade diversion is beneficial to the recipient. The answer is a simple No. Obviously, the economies of the ESCWA countries and particularly the GCC countries are not in position to reap externalities associated with such trade. Further, as the anticipated defence packages would involve sophisticated technologies, the GCC economies would incur higher capital costs.

The move towards more outlays on security comes at a time when the international scene seems to be moving in the opposite direction .

D. Arab Economic Order

When referring to the "Arab Economic Order", one would recall The Arab Economic Charter of November, 1980, that came as a culmination to the Arab Summit meeting held in Amman. The Charter spelled out clearly the need for an Arab Economic Order that guarantees a better Arab position amongst the World groupings. It also referred to the following main features:

- (i) An Arab joint economic action free from transitory political tremors.
- (ii) Exchange of inter-Arab preferential treatment.
- (iii) Freedom of movement of Arab Labour.

- (iv) A speedy narrowing of inter-Arab development gaps thereby guaranteeing social stability and social order.
- (v) The adoption of planning principles in Arab joint projects. Each country's development plan should encase additional resources for the financing of projects related to a wider National Arab Plan.¹

The situation in the aftermath of the Gulf War has witnessed actions and policies contrary to the agreed upon charter. The so-called beginnings of an Arab economic order were shattered. As was surveyed in the earlier chapters, restrictions were imposed on the movement of manpower and capital. Further, financial transfers, be they loans, aid-in-kind, or unrequited transfers were also curtailed.

To come to grips with the present bleak situation, one may recall the fact that 1982 marked the beginning of developing countries' debt explosion where several countries lost their financial credibility and found it rather costly to resort to bilateral sources of credit in the international market. Credit from existing multilateral institutions remained the sole source of finance. Accordingly, abiding by regulatory policies, as far as economic measures are concerned, has become the pre-requisite for credit and aid eligibility. Countries with controlling shares in such institutions have had greater say in credit disbursements. A greater tilt towards socio-economic strings has, therefore, become a normal practice in some multilateral institutions. Not-with-standing the fact that this tilt may be tantamount to a correction mechanism for attaining economic stability in some developing countries, it was interpreted by some countries as a means for enforcing the rules of the New International Order of the North. Naturally, this feeling has been enforced by the dwindling sources and levels of bilateral credit.

As for Arab Economic co-operation, the Gulf Crisis has inflicted considerable damage in this domain. Not only it has affected relations amongst political leaders and people, but it has also affected the lending and aid policies of Arab financial and development institutions like the Arab Fund for Economic and Social Development, the Arab Monetary Fund and other credit and financial intermediaries.

¹The Arab League, General Secretariat, The Economic Charter, The 11th Arab Summit, The Hashemite Kingdom of Jordan, November 1980.

Aggravating this grim economic outlook, these same Arab institutions had already been suffering from liquidity shortages. This has created cumulative effects which added to the already existing built-in shortages. It caused these institutions to move away from previous inter-Arab co-ordination and complementarity towards a new form of bilateralism with socio-economic ties and strings attached to credit.

The "Damascus Declaration" that came out after the meeting of GCC foreign ministers with their counterparts from Egypt and the Syrian Arab Republic, in March, 1991, was intended as a new security and economic arrangement by the signatories to the Declaration. Though, the security objectives of the Declaration were not implemented, if not abandoned, the economic arrangements were confined to the development of economic trade and aid. It can be argued, in this context, that the Damascus Declaration has narrowed the concept of Arab complementarity. The concept was designed to suit socio-political arrangements of the parties to the Declaration.

E. Disparity Versus Parity

Economic and Social disparities among the economies of the ESCWA region have led to a two-stage social and political tensions. Disparity within states caused social tensions, crime and political turmoil. When such tension was accompanied by deficient socio-economic policies, it was magnified and a spill-over was felt in neighbouring states. To curtail such eventualities, it is obvious that short-term solutions cannot be devised with lasting effects. There may be possibilities of charity-like solutions. Yet the reappearance of the problem and accordingly need for help cannot be totally eliminated.

Massive aid and assistance programmes must be launched to help non-oil ESCWA member countries whose economies have been adversely and severely affected by the Gulf war. Special efforts must be paid to deal directly with the thorny issues of unemployment and poverty which have been recording high-time rates. Such measures are of paramount importance to the economic and political stability of the region. Further steps need to be taken in the direction of establishing joint ventures in the major productive and service sectors of their economies, i.e. industry, agriculture, transport, and tourism. This would also require mutual cooperation between member countries in vital fields such as technology, technical assistance, labour movement, and marketing.

The longer term solutions should have a local as well as an international dimension. A parallel to the solutions European countries adopted in the aftermath of the second World War could be drawn upon. Of course these solutions cannot and should not be aid in the form of outright charity only. Yet a higher grant element in the transfer of funds to selective weak economies is desirable. What is meant by the parallel solution is the setting up of a credit facility within one of the "existing", the emphasis here is on "existing", multilateral credit and development institutions in the Arab World. The Arab Fund for Economic and Social Development (AFESD) is an example. The proposed facility should be furnished with adequate resources as well as new objectives to enable it extend advice and credit to the needy economies. We feel that there is no harm if industrial countries or counterpart international credit institutions were to participate in the capital of such a proposed facility. On the contrary, mechanisms for securing efficiency and control could be considered as externalities of such participation.

If such an expansion or a restructuring of existing institutions were to be found impractical, a new facility could be devised where existing Arab development institutions, together with willing European and Asian counterparts, could join in and participate in the capital, share in rationalizing the uses of funds and ultimately control the successful outcome of its operations. A venture like that, if well studied and supported by a strong political will, could pave a solid road towards reconstruction, development and ultimately, the socio-economic stability of the whole ESCWA region. No doubt that the prevalence of efficient and credible administrations within the countries of the concerned beneficiaries is a prerequisite and would greatly determine the success of such a futuristic but necessary proposal.

F. Oil-Related Issues

The Gulf Crisis changed the status of some ESCWA countries from "creditor" to "debtor" countries and accordingly changed their economic role. Some oil-producing economies, like Kuwait, will require at least five years to restore their pre-war economic status, if one recalls that oil fires had on Kuwait a cost \$2.0 billion to be extinguished. The oil industry's total reconstruction bill is estimated to range between \$10-15 billion, over 3 years. Further, the direct cost of settling the coalition bills was \$22 billion. The foregone oil revenues, the \$20 billion reconstruction bill together with the quick liquidation of almost half (\$30 billion) of the country's foreign investment, with what it entails of losses, warrant economic vigilance.

In the aftermath of the Gulf war, the oil sector witnessed important changes. The war has secured for the oil suppliers and the consumer countries a stable market. For the consumer countries, it has meant both secure supplies and stable prices. For the producer countries, the political and security arrangements with the major Western countries, particularly the United States, meant enhanced stability. The system existing before the crisis whereby prices were determined by the producers club (OPEC) has been greatly weakened. Oil has increasingly become an international commodity where its price level is no longer determined solely by OPEC. It is a commodity needed by all, consumers as well as producers, and each has a stake in keeping both prices and supply stable and secure. As some financial analysts see it, Saudi Arabia's proven reserves of 259 billion barrels constitute almost one-quarter of the World's Known resources.¹ Adding to this that it can boost oil production to the level of 10 million barrel per day, qualify Saudi Arabia for a more assertive role in OPEC. Bearing in mind its overall position on oil issues and moderation, its economic muscle is bound to influence the oil scene towards relative stability. Therefore, the propensity for oil prices to shift dramatically, upward, has been weakened and the world oil market is expected to enjoy relative stability.

At this juncture, and in view of the above, one tends to believe that oil-producing economies of the ESCWA region, particularly the largest amongst them, are bound to invest and expand in the up-stream and downstream operations related to oil industry, i.e., operations related to production, refining and petrochemicals. Of course, costs, in the short-term, will be tremendous, yet returns are expected to be higher. In Saudi Arabia, for example, the scale of costs is estimated to reach \$33 billion for developing all aspects of its oil industry. This would require attention to management of both government expenditures and revenues. Inflationary pressures are correlated with the expected scale of expenditures. Further, a prudent management of oil revenues, inside and outside the region, is also in order. It is worth noting that the Gulf War and its ramifications have opened the eyes of investors in the ESCWA region, both individuals and institutional investors, to the need for safeguarding their investment and resources from political repercussions, such as freezing deposits. The war has also drawn attention to the need for diversifying investment portfolios within and outside the region.

¹ Financial Times, Survey, 30 January 1992.

G. Arab Order Versus Aid

Political reconciliation is a necessary prerequisite for a viable Arab Economic Order. As for the concept of "Arab Development Effort", attention should be focussed on the concept of "Arab Aid". This concept deserves a thorough examination. No doubt government to government aid flows should not stop. Yet linking this type of aid flows to specific projects and uses can improve their impact.

It is common knowledge that aid from the developed countries is facing challenges. These challenges are bound to make the ESCWA region's share of world aid a diminishing item. Firstly, the concept of aid is losing support in these countries' legislature, for many reasons, highest amongst them is the recession in the economies of the donor countries. Previous and existing incidents of misuse of aid by recipient administrations should not also be overlooked.

Secondly, the disarray of the former Soviet Union, together with the emergence of the newly independent Central and East European States, are increasingly attracting attention and thus representing extra demand for aid. Needless to say, other developing countries from Africa and Latin America are also competing for aid resources.

Thirdly, aid is increasingly becoming bilateral and a political tool. Political ties and strings are attached and, therefore, recipient countries tend to shy away from this type of aid.

Fourthly, with the proliferation of economic blocs like the European Community and Latin American States, the ESCWA countries would become individually at a disadvantage. Therefore, the restructuring of the existing Arab economic bloc, or groupings, requires a serious new look.

All the above factors argue for action to restore the old spirit of Arab economic complementarity, where aid for the needy economies should resume its role, and with emphasis on:

- (i) Freedom of trade
- (ii) Freedom for labour movement within the ESCWA region
- (iii) Freedom and safety of capital.

These three freedoms, if attained, could reform the Arab Economic Order and put it back on track, particularly so when we recall that the pre Gulf War freedom or mobility of Labour had been a successful symbol of Arab socio-economic complementarity which managed to contribute to the development of several economies of the ESCWA region.

H. Environment and Water

Short and long-term plans of ESCWA countries must emphasize the vitality of the environment for future growth and progress. Water resources, surface or underground, need to be protected and saved from any form of pollution. Strict control and supervision are required to secure environmental quality and to protect the environment from deterioration. Similar measures are needed to conserve air quality and subsequently to keep a clean environment in all ESCWA member states. Finally, the maintenance of a data base on environment is required as a mechanism for disseminating information and making the public fully aware of this issue.

I. ESCWA's Role

ESCWA, as a regional United Nations body, may find it very instructive to call for the isolation of economic co-operation from political considerations. It may be convenient to market the concepts of free trade and mobility of factors of production. It is rather the duty of Arab professional communities as well as governments to ensure the attainment of these objectives.

ESCWA could closely work with the relevant international and regional institutions in identifying investment opportunities in the area, precipitating optimistic outlooks, soliciting funds and monitoring the implementation of projects.

Another area in which ESCWA could play a positive role is in the field of "manpower relations". It is clear that the labour market in the region has experienced dramatic movements and shifts and changes in its size, quality, and sectoral distribution. However, legislation still lags behind in this respect. Therefore, one of the recommendations here is to have ESCWA participate in encouraging the process of upgrading labour laws towards maintaining good and healthy labour relations.

In view of the recent structural changes so many economies of the ESCWA region have been witnessing, proper monitoring should be made of the ramifications emanating from changes related to the debt burden and the implementation of adjustment policies supported by the International Monetary Fund (IMF) and the World Bank. Monitoring such changes and their impact on the socio-economic fabric of the ESCWA societies is becoming a necessity. It is a well established fact that the political and economic stability of these economies depend, to a great deal, on proper implementation and control of these corrective measures.

J. The Political Scene

The overcoming of the economic and social difficulties associated with the events of the Gulf Crisis requires concerted efforts, commitment, cooperation, and a vision which encompasses the interests of all states and parties in the ESCWA countries. In the short-term, reconciliation efforts should start immediately to remedy the political and economic rifts between concerned states. Arab organizations and institutions, particularly the Arab League, must work as the melting pot of differences within the ESCWA region. New codes could be written and well-developed cooperation programme need to be worked out and adopted by all parties in the region. International organizations, such as United Nations agencies, could play a constructive role in such efforts.

It is worthnoting that the solution to the economic ills of the ESCWA region cannot be isolated from the region's political scene. The recent wide inter-Arab rift has added to the major areas of conflict in the ESCWA region, manuely the long-standing Arab-Israeli conflict and the Iraq-Iran conflict. Yet the most threatening and destabiling factor remains the Palestinian problem.

Currently, the parties to the Middle East conflict are engaged in a peace process which was initiated after the Gulf War. A two-track system of negotiations is underway whereby the parties are discussing both bilateral and multilateral issues. The bilateral talks are directly related to political issues whereas the multilateral ones are centered on water, environment, refugees and regional economic co-operation.

A successful breakthrough in the bilateral talks is considered by many in the region as the prelude to a successful multilateral dialogue. In the event of a breakthrough in implementing the two main United Nations Secretary Council Resolutions, namely, 242 and 338, the whole socio-economic scene will reflect optimism and hope for a better future. A better redistribution of funds towards development and away from military expenditures, together with a proper exploitation of comparative advantages, are promising positive diversions towards growth and stability. The economies of the ESCWA region are well endowed with natural resources like oil and manpower together with a growing scientific and technological potential.

No doubt the current political labouing will need time to bear results. In the meantime, the clouds of uncertainty will continue to over shadow the ESCWA economies constraining both the magnitude of investment and its direction. Further, the outside markets will remain the safe havens for middle east funds and trade

STATISTICAL APPENDIX

Table A-I. Population of ESCWA Countries, 1985-1989

(million)					
<u>Country</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>
Bahrain	0.42	0.44	0.46	0.47	0.49
Egypt	46.43	47.70	49.01	50.35	51.73
Iraq	15.58	16.11	16.33	17.25	18.28
Jordan	3.41	3.52	3.63	3.75	3.88
Kuwait	1.71	1.79	1.87	1.96	2.05
Lebanon	2.67	2.67	2.66	2.66	2.67
Oman	1.24	1.29	1.34	1.39	1.45 ^a
Qatar	0.30	0.31	0.33	0.34	0.35
Saudi Arabia	11.60	12.07	13.61	14.02	14.43
Syrian Arab Republic	10.27	10.61	10.97	11.34	11.72
United Arab Emirates	1.35	1.40	1.45	1.50	1.55
Yemen	9.05	9.31	9.59	9.69	9.91
<u>Total</u>	<u>104.03</u>	<u>107.22</u>	<u>111.25</u>	<u>114.72</u>	<u>118.51</u>

Source: International Monetary Fund, International Financial Statistics (several Issues).

a) Estimates

Table A-2. Gross Domestic Product of ESCWA Countries, 1985-1989

(\$ million at market prices)

<u>Country</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>
Bahrain	3705	3187	3170	3359	3471
Egypt	26296	28306	29013	24528	25699
Iraq	49435	47829	51164	53649	58863
Jordan	4818	5827	6170	5919	4428
Kuwait	21457	17690	22080	20023	23082
Lebanon	2169	2677	3298	3665	3624
Oman	9999	7331	7809	7610	8402
Qatar	6153	5053	5446	6038	6651
Saudi Arabia	86674	73203	73552	76141	82997
Syrian Arab Republic	21204	25461	32573	16457	18126
United Arab Emirates	27081	21674	23799	23681	27282
Yemen	5313	4948	5422	7096	8635
Total	264304	243186	263496	248166	271260

Source: Arab League et al., Unified Arab Economic Report,
(several Issues; in Arabic).

Table A-3. Per Capita Gross National Product (GNP) for
ESCWA Countries, 1985-1989

(United States dollars)

<u>Country</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>
Bahrain	...	...	...	...	...
Democratic Yemen	530.0	550.0	590.0	640.0	650.0
Egypt	610.0	760.0	680.0	660.0	640.0
Iraq	...	...	...	...	...
Jordan	1560.0	1540.0	1560.0	1500.0	1640.0
Kuwait	14480.0	13890.0	...	13400.0	16150.0
Lebanon	...	...	...	...	...
Oman	6730.0	4980.0	5810.0	5000.0	5220.0
Qatar	...	...	...	...	...
Saudi Arabia	8850.0	6950.0	6200.0	6200.0	6020.0
Syrian Arab Republic	1570.0	1570.0	1640.0	1680.0	980.0
United Arab Emirates	19270.0	14680.0	15830.0	15770.0	18430.00
<u>Yemen</u>	550.0	470.0	420.0	430.0	...

Source: World Bank, World Development Report, (several Issues).

... = Not available

Table A-4. Urbanization in ESCWA Countries, 1985, 1987, and 1989

(Per cent of population)

<u>Country</u>	<u>1985</u>	<u>1987</u>	<u>1989</u>
Bahrain	81.5	82.0	82.7
Egypt	44.7	47.0	48.3
Iraq	69.8	72.0	73.5
Jordan	61.6	66.0	67.4
Kuwait	93.0	95.0	95.2
Lebanon	...	81.0	83.0
Oman	27.2	10.0	10.2
Qatar	87.6	89.0	89.2
Saudi Arabia	71.8	74.0	76.4
Syrian Arab Republic	48.7	51.0	51.3
United Arab Emirates	78.8	76.0	77.8
Yemen	28.1	31.5	28.0

Source: Arab League et al., Unified Arab Economic Report,
(several issues; in Arabic).

... = Not available

Table A-5. Contribution of Agriculture and Industry in GDP for ESCWA Countries, 1985 and 1989

(Per cent)

<u>Country</u>	<u>Agriculture</u>		<u>Industry</u>	
	<u>1985</u>	<u>1989</u>	<u>1985</u>	<u>1989</u>
Bahrain	1.09	1.18	28.20	36.45
Egypt	18.79	18.57	24.40	18.60
Iraq	13.56	14.00	31.56	32.40
Jordan	7.18	5.00	15.63	17.20
Kuwait	0.48	0.68	56.30	55.27
Lebanon	8.83	...	12.60	...
Oman	2.85	3.60	50.70	50.00
Qatar	1.03	1.06	47.50	43.00
Saudi Arabia	2.80	7.60	43.00	33.80
Syrian Arab Republic	21.60	25.60	13.15	18.60
United Arab Emirates	1.50	1.70	55.74	47.60
<u>Yemen</u>	<u>17.55</u>	<u>20.20</u>	<u>9.44</u>	<u>22.60</u>

Source: Arab League et al., Unified Arab Economic Report,
(several issues; in Arabic).

... = Not available

Table A-6. Investment in ESCWA Countries, 1985-1989

(\$ million)					
Country	1985	1986	1987	1988	1989
Bahrain	1994.7	1726.1	922.9	444.0	480.0
Egypt	12781.7	13958.9	11643.1	4374.0	4309.0
Iraq	14144.7	14710.9	11580.8	9329.0	11259.0
Jordan	1125.8	1126.2	1154.3	1105.0	815.0
Kuwait	3555.6	3778.8	3661.4	3514.0	4548.0
Lebanon	256.8	115.5	36.0	...	...
Oman	2759.4	2587.8	2197.7	1329.0	1148.0
Qatar	912.8	730.2	1069.7	746.0	798.0
Saudi Arabia	28821.8	25806.1	16690.3	16861.0	17270.0
Syrian Arab Republic	4951.0	5385.0	2165.1	2595.0	2974.0
United Arab Emirates	6859.0	6447.7	5855.0	5911.0	6422.0
Yemen	971.4	930.6	1000.2	1128.0	1286.0
Total	79134.7	77303.8	57976.5	47336.0	51309.0

Source: Arab League et al., Unified Arab Economic Report,
(several issues; in Arabic).

... = Not available

Table A-7. Remittances of Migrant Workers in Selected ESCWA Countries, 1985-1989

(\$ million)

<u>Country</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>
Egypt	3,212	2,506	3,604	3,770	4,257
Jordan ¹	1,007	1,202	953	906	609
Lebanon ²	...	...	...	...	150
Palestine ³	...	...	...	...	146
Syrian Arab Republic	350	323	334	360	355
<u>Yemen</u>	<u>1,214</u>	<u>864</u>	<u>1,019</u>	<u>581</u>	<u>438</u>

Source: Nazem Abdalla, Impact of the Gulf Crisis on Developing Countries, (June 1991), PP. 62, 69, 70, and 72.

Notes:1. Derived from : Central Bank of Jordan, Annual Report, (Several issues; in Arabic).

2. See N.M. Ladki, 1990, "Impact of the Gulf Crisis on Manpower in Lebanon", P.2

3. United Nations Development Programme, 1991, "Impact of Gulf Crisis on the West Bank and Gaza Strip", January 1991, Jerusalem, PP. 12-13.

... = Not available

**Table A-8. Daily Production of Crude oil in ESCWA Countries,
1985-1989**

(000 barrel)

<u>Country</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>
Bahrain	42	44	43	42	42
Egypt	897	829	922	852	854
Iraq	1404	1688	2089	2605	2830
Kuwait	936	1416	1465	1463	1741
Oman	498	560	582	619	641
Qatar	290	333	332	311	395
Saudi Arabia	3175	5042	4531	4942	5332
Syrian Arab Republic	176	194	232	270	301
United Arab Emirates	1309	1370	1501	1578	1845
Yemen	-	-	-	170	195
Total	8727	11476	11697	12852	14176

Source: Arab League et al., Unified Arab Economic Report,
(several issues; in Arabic).

Table A-9. Oil Output and Production Capacity in July 1990,
Selected ESCWA Countries¹

Country	Output	Production Capacity ¹	Difference
Saudi Arabia	5.5	7.5	2.0
Iraq	3.1	4.0	0.9
United Arab Emirates	2.0	2.2	0.2
Kuwait ¹	1.8	2.4	0.6
Qatar	0.4	0.4	0.0
Total	12.8	16.5	3.7

Notes:1. Extracted from: Arab oil & Gas, 1 September and 16 August, 1990.

2. Production capacity that can be utilized for more than 90 days.

3. Production capacity for Kuwait includes its share in Neutral zone.

Table A-10. Monthly Average Spot Price of Crude Petroleum,
1989, 1990, and 1991

<u>(\$ per barrel)</u>			
<u>Month</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>
January	...	19.98	...
February	...	19.02	...
March	17.45	17.69	...
April	18.85	15.63	...
May	17.33	15.45	17.68
June	16.77	14.05	17.03
July	16.87	15.68	18.01
August	16.02	24.89	18.24
September	16.82	32.06	19.14
October	17.65	34.58	...
November	17.63	31.04	...
December	18.52	26.11	...

Source: International Monetary Fund, International Financial
Statistics, (several issues).

... = Not available

Table A-11. Oil Revenues of ESCWA Countries, 1985-1989

(\$ million)

Country	1985	1986	1987	1988	1989
Bahrain	997	657	660	688	660
Egypt	780	703	535	357	460
Iraq	10685	6905	11416	10952	14240
Kuwait	7631	6130	6237	6775	8920
Oman	4478	2514	3209	2682	3370
Qatar	3068	1720	1829	1709	2250
Saudi Arabia	24413	11467	17999	16638	25350
Syrian Arab Republic	795	336	1286	1286	1670
United Arab Emirates	6060	4864	5460	4141	10360
Yemen	...	...	...	...	...
Total	58907	35296	48631	45228	67280

Source: Arab League et al., Unified Arab Economic Report,
(several issues; in Arabic).

... = Not available

**Table A-12. Daily Consumption of Oil Products in ESCWA Countries,
1985-1989**

(000' barrel)					
<u>Country</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>
Bahrain	16.9	16.9	17.3	18.0	18.8
Egypt	369.2	366.1	390.5	389.9	397.3
Iraq	272.0	274.1	295.1	317.6	338.3
Jordan	54.0	55.4	57.5	58.5	59.6
Kuwait	175.5	158.5	156.4	129.8	142.8
Lebanon	51.6	51.0	54.4	56.1	57.8
Oman	26.9	27.1	24.6	23.5	24.0
Qatar	12.9	13.5	13.8	14.7	15.7
Saudi Arabia	839.0	821.2	869.7	869.6	896.6
Syrian Arab Republic	156.0	152.8	153.1	139.0	143.0
United Arab Emirates	105.1	131.0	140.8	147.1	153.8
Yemen	49.6	49.8	52.3	55.9	59.0
Total	2128.7	2117.4	2225.5	2219.7	2306.7

Source: Arab League et al., Unified Arab Economic Report,
(several issues; in Arabic).

Table A-13. Commodity Exports (f.o.b.) of ESCWA Countries,
1985-1989

(\$ million)					
<u>Country</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>
Bahrain	2896.1	2202.1	2429.5	2411.4	2831.0
Egypt	3835.0	2632.0	3115.0	2770.0	3755.0
Iraq	9628.7	6983.6	7134.2	8687.1	12220.4
Jordan	788.9	732.0	933.1	1007.4	1109.4
Kuwait	10374.0	7216.0	8221.0	7709.0	11383.0
Lebanon	376.5	412.1	472.6	598.7	495.3
Oman	4971.0	2861.0	3805.0	3342.0	4047.0
Qatar	3098.0	1849.0	2042.0	2210.0	2653.3
Saudi Arabia	27391.8	20123.4	23137.4	24315.1	28296.7
Syrian Arab Republic	1856.0	1037.0	1357.0	1348.0	2812.0
United Arab Emirates	14764.4	10269.7	12258.2	12176.5	15663.3
Yemen	50.7	46.5	119.1	529.2	719.8
Total	80031.1	56364.4	65024.1	67104.4	85986.2

Source: Arab League et al., Unified Arab Economic Report,
(several issues; in Arabic).

Table A-14. Commodity Imports (f.o.b.) of ESCWA Countries,
1985-1989

(\$ million)					
<u>Country</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>
Bahrain	2796.0	2164.6	2442.3	2334.0	2820.2
Egypt	9050.0	7170.0	8095.0	9378.0	11419.0
Iraq	9506.5	7531.7	5967.3	8003.9	10265.3
Jordan	2426.7	2158.4	2400.1	2418.7	1882.5
Kuwait	5662.0	5265.0	4945.0	5999.0	6624.0
Lebanon	2023.4	1986.2	1800.5	2322.7	2231.7
Oman	3028.0	2309.0	1769.0	2090.0	2113.0
Qatar	1017.2	981.1	1012.6	1131.2	1184.0
Saudi Arabia	20362.0	17063.4	18282.0	19803.7	19230.2
Syrian Arab Republic	3946.0	2363.0	2226.0	1986.0	1821.0
United Arab Emirates	5743.4	5844.7	6438.7	7751.2	9212.3
<u>Yemen</u>	<u>1702.5</u>	<u>1244.5</u>	<u>1646.3</u>	<u>1905.5</u>	<u>1836.5</u>
<u>Total</u>	<u>67263.7</u>	<u>56081.6</u>	<u>57024.8</u>	<u>65123.9</u>	<u>70639.7</u>

Source: Arab League et al., Unified Arab Economic Report,
(several issues; in Arabic).

**Table A-15. Trade Balance of ESCWA Countries,
1985-1989**

(\$ million)					
Country	1985	1986	1987	1988	1989
Bahrain	100.1	37.5	-12.8	77.4	10.8
Egypt	-5215.0	-4538.0	-4980.0	-6608.0	-7664.0
Iraq	122.2	-548.1	1166.9	683.2	1955.1
Jordan	-1637.8	-1426.4	-1467.0	-1411.3	-773.1
Kuwait	4712.0	1951.0	3276.0	1710.0	4759.0
Lebanon	-1646.9	-1574.1	-1327.9	-1724.0	-1736.4
Oman	1943.0	552.0	2036.0	1252.0	1934.0
Qatar	2080.8	867.9	1029.4	1078.8	1469.3
Saudi Arabia	7029.8	3060.0	4855.4	4511.4	9066.5
Syrian Arab Republic	-2090.0	-1326.0	-869.0	-638.0	991.0
United Arab Emirates	9021.0	4425.0	5819.5	4425.3	6451.0
Yemen	-1615.8	-1198.0	-1527.2	-1376.3	-1116.7
Total	12767.4	282.8	7999.3	1980.5	15346.5

Source: Tables A-13 and A-14.

Table A-16. Change in Money Supply (M2) in ESCWA Countries,
1985-1989

(per cent)					
<u>Country</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>
Bahrain	9.1	-2.0	9.4	4.0	4.7
Egypt	18.3	21.0	21.0	21.6	17.5
Iraq	...	...	...	...	...
Jordan	6.6	10.6	15.7	15.6	16.6
Kuwait	-0.9	2.5	4.7	6.4	4.1
Lebanon	56.1	172.0	354.3	47.8	13.4
Oman	21.1	-6.8	5.3	5.9	9.4
Qatar	9.2	11.2	8.6	-8.4	13.9
Saudi Arabia	27.4	9.3	4.9	5.7	0.9
Syrian Arab Republic	20.3	12.0	11.6	21.1	...
United Arab Emirates	6.4	4.4	5.5	5.9	8.8
Yemen	28.7	36.7	0.9	5.6	4.4

- Sources:
1. Arab League et al., Unified Arab Economic Report,
(several issues; in Arabic).
 2. International Monetary Fund, International
Financial Statistics, (several issues).

... = Not available

**Table A-17. Change in the Foreign Assets of ESCWA Countries,
1985-1989**

(per cent)					
<u>Country</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>
Bahrain	28.0	3.9	-13.1	18.5	15.0
Egypt	1.9	2.4	2.9	-0.6	-6.8
Iraq	...	...	...	...	...
Jordan	-6.3	1.6	-2.7	-1.9	11.7
Kuwait	2.2	1.8	-8.9	-8.4	9.6
Lebanon	40.1	165.2	344.4	159.6	-16.9
Oman	-4.9	-11.2	21.4	-10.9	15.0
Qatar	8.7	0.2	7.5	-3.6	0.2
Saudi Arabia	-61.1	-21.2	-8.0	-7.5	-6.9
Syrian Arab Republic	-8.4	-1.4	-1.2	-4.7	...
United Arab Emirates	9.2	15.0	5.3	4.4	9.8
Yemen	-4.2	7.5	1.0	-6.4	-1.0

Sources: Arab League et al., Unified Arab Economic Report,
(several issues; in Arabic).

... = Not available

Table A-18. Change in Domestic Credit of ESCWA Countries,
1985-1989

(per cent)

Country	1985	1986	1987	1988	1989
Bahrain	-10.8	3.1	19.4	-24.3	-10.3
Egypt	23.6	23.1	20.8	23.6	28.9
Iraq	...	...	...	...	...
Jordan	8.8	4.8	17.2	18.4	5.0
Kuwait	1.4	12.4	11.8	22.8	-5.4
Lebanon	32.5	-6.3	160.0	23.5	24.4
Oman	27.1	16.4	-4.9	18.7	-3.7
Qatar	7.9	16.8	6.4	-0.6	20.2
Saudi Arabia	18.6	77.7	24.2	31.8	22.8
Syrian Arab Republic	30.1	13.0	13.3	29.8	...
United Arab Emirates	11.4	1.0	-3.5	5.2	5.6
Yemen	34.5	31.4	4.4	15.1	7.3

Source: Arab League et al., Unified Arab Economic Report,
(several issues; in Arabic).

**Table A-19. Foreign Exchange Holdings of ESCWA Countries,
1985-1989**

(Million SDRs)					
Country	1985	1986	1987	1988	1989
Bahrain	1473	1177	768	887	754
Egypt	721	678	971	939	1157
Iraq	...	...	...	...	...
Jordan	363	338	291	81	350
Kuwait	4237	3853	2393	1015	2104
Lebanon	957	378	237	704	690
Oman	950	748	949	746	992
Qatar	352	416	383	305	358
Saudi Arabia	12528	5806	7603	8337	8589
Syrian Arab Republic	73	118	157	142	...
United Arab Emirates	2647	2497	3092	3077	3167
Yemen	415	439	427	233	254
Total	24716	16448	17271	16466	18415

Sources: International Monetary Fund, International Financial
Statistics, (several issues).

... = Not available

SDRs = Special Drawing Rights.

Table A-20. Deficit (surplus) in Government Finances in Selected ESCWA Countries, 1985-1989

(Million National Currency Units)

Country	1985	1986	1987	1988	1989
Egypt	-3439.0	-4655.0	-2613.0	-4715.0	-4126.0
Jordan	-112.0	-153.0	-198.0	-205.0	-137.0
Kuwait	501.0	1690.0	...	...	...
Oman	-364.0	-700.0	-146.0	-347.0	-290.0
Syrian Arab Republic	...	-8267.0	-3355.0	2319.0	...
United Arab Emirates	...	...	-624.0	-314.0	-618.0
Yemen	-5063.0	-3562.0	-8617.0	-7294.0	-5047.0

Source: International Monetary Fund, International Financial Statistics, (several issues).

... = Not available

Table A-21. Current Account Balance of ESCWA Countries, 1985-1989

(\$ million)					
Country	1985	1986	1987	1988	1989
Bahrain	38.3	-68.8	-200.3	189.9	-19.1
Democratic Yemen	-253.0	-175.7	-129.7	-404.5	-416.6
Egypt	-1894.9	-1500.4	-52.3	-1413.4	-1691.0
Iraq	...	...	...	...	...
Jordan	-252.1	-41.9	-347.5	-284.8	384.9
Kuwait	4815.0	5386.0	4371.0	4483.0	8445.0
Lebanon	...	...	...	...	...
Oman	265.0	-1017.0	851.0	-289.0	315.0
Qatar	549.0	-188.8	-169.3	-261.0	-40.1
Saudi Arabia	-12935.0	-11795.0	-9775.5	-7341.0	-8472.9
Syrian Arab Republic	-862.0	-529.1	-187.5	-164.0	874.0
United Arab Emirates	6946.3	2369.9	4086.1	2478.9	4140.6
Yemen	-518.2	-301.0	-581.9	-1098.8	-995.6
Total	-4101.6	-7861.8	-2135.9	-4104.7	2524.2

Source: International Monetary Fund, International Financial Statistics, (several issues).

Note: Data for Qatar and the United Arab Emirates are from: Arab League et al., Unified Arab Economic Report, (several issues; in Arabic).

... = Not available

**Table A-22. Overall Balance of Payments Position of
ESCWA Countries, 1985-1989**

(\$ million)					
Country	1985	1986	1987	1988	1989
Bahrain	357.4	-179.4	-349.6	99.7	-188.5
Democratic Yemen	-89.6	-58.0	-48.0	-26.0	-15.9
Egypt	-200.0	-31.0	315.0	-101.0	-696.0
Iraq	...	...	...	...	...
Jordan	-41.9	42.5	141.3	203.9	464.7
Kuwait	545.0	-83.0	-1847.0	-1996.0	1255.0
Lebanon	...	...	...	...	...
Oman	122.0	-622.0	108.0	-382.0	359.0
Qatar	-99.4	-486.9	-452.5	-614.3	65.4
Saudi Arabia	-709.0	-7619.0	2640.0	-1519.0	-1721.8
Syrian Arab Republic	-186.0	61.0	79.0	-32.0	233.0
United Arab Emirates	719.1	1307.5	1699.8	604.7	1501.0
Yemen	-133.3	14.9	19.7	-303.0	-26.2
Total	284.3	-7653.4	2305.7	-4065.0	1229.7

Source: International Monetary Fund, International Financial Statistics, (several issues). Data for Qatar and the United Arab Emirates are from: Arab League et al., Unified Arab Economic Report, (several issues; in Arabic).

... = Not available

Table A-23. Net Transfers to ESCWA Countries, 1985-1989

(\$ million)					
Country	1985	1986	1987	1988	1989
Bahrain	-114.6	-143.9	-130.4	173.4	-93.6
Egypt	4007.0	3101.0	4330.0	4436.0	5390.0
Iraq	...	...	...	...	...
Jordan	1585.8	1618.6	1342.1	1351.5	1178.7
Kuwait	-1573.0	-1266.0	-1259.0	-1319.0	-1498.0
Lebanon	...	...	...	...	...
Oman	-732.0	-846.0	-673.0	-723.0	-774.0
Qatar	...	...	...	...	...
Saudi Arabia	-8447.3	-7804.1	-8234.5	-8657.0	-8705.0
Syrian Arab Republic	1561.0	1082.0	1095.0	896.0	561.0
United Arab Emirates	-190.7	-381.4	-109.0	...	...
Yemen	1310.3	1050.1	1203.3	643.0	656.5
Total	-2593.5	-3589.7	-2435.5	-3199.1	-3375.4

Source: Arab League et al., Unified Arab Economic Report,
(several issues; in Arabic).

... = Not available

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Republic of Lebanon
Office of the Minister of State for Administrative Reform
Center for Public Sector Projects and Studies
(C.P.S.P.S.)