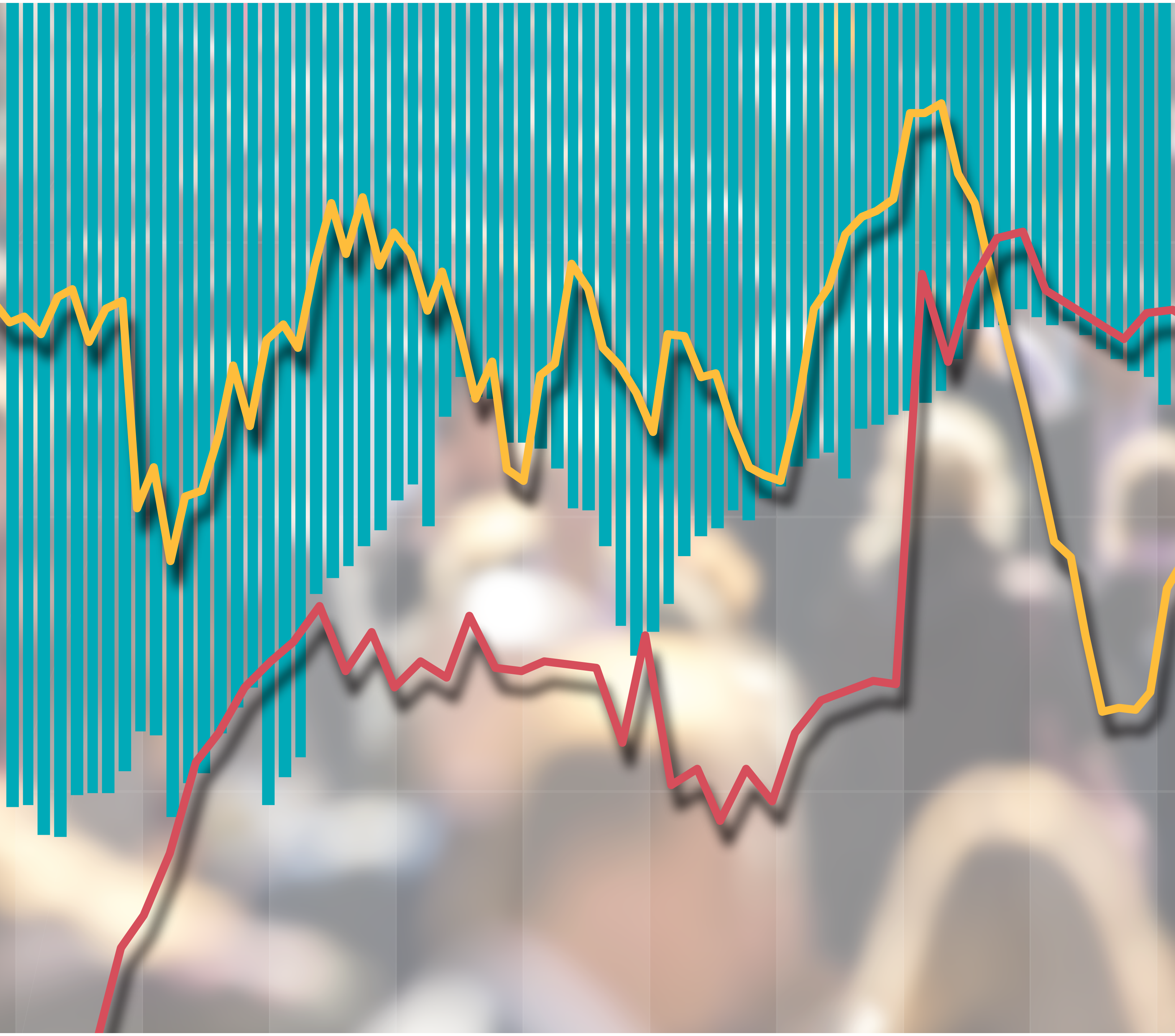
Economic and Social Commission for Western Asia



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Survey of Economic and Social Developments in the Arab Region 2013-2014

Economic and Social Commission for Western Asia

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2013-2014

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Preface

In the wake of the global financial crisis, Arab economies were praised for their resilience and mitigation against the adverse effects of the crisis, which were felt far less severely than in other regions. During 2008 and 2009, Arab policymakers managed to use macroeconomic tools to stabilize their economies and weather the global liquidity crunch. Yet despite this resilience, Arab economies continue to face structural rigidity that has left the region with low economic diversification, high unemployment, stagnated wage growth and persisting gender gaps. The severity of these issues has resulted in their incorporation in the development strategies of Arab countries, including discussions in a series of Arab Economic and Social Development Summit meetings in 2009, 2011 and 2013, producing policy measures to tackle these issues with regional leverages, such as the Arab Customs Union, which is set to be launched in 2015. Despite these policy efforts, the structural weaknesses of Arab economies have not improved visibly. Rather, continuing armed violence, political instability and social unrest in the region are threatening the strength of Arab economies and are marginalizing intraregional economic activities.

One of the most striking structural weaknesses revealed in the Arab region is the widening financing gap for development, both in terms of foreign exchange and government budgets, particularly among energy-importing countries. Until 2011, it was rare to see any Arab country undergoing foreign exchange constraints. Since 2011, however, the general picture has changed as several Arab countries saw the depletion of foreign reserves and currency devaluations, resulting in the emergence of severe financing gaps. For countries under chronic current-account deficits, financing gaps in foreign exchange and government budgets result in a double-edged financial crisis. In order to achieve developmental goals, it is essential for countries to take an active fiscal policy stance. However, fiscal expansion both adds pressure to foreign reserves and leads to additional import demand, resulting in a decline in foreign reserves. This issue has left countries with insufficient funds at a critical moment in which development spending is most needed. The nature of the financing gap facing Arab countries is even more complex owing to the variety of channels, including both current and financial accounts, through which alternative flows move into and out of the region. Various types of foreign fund inflows, namely workers' remittances, foreign direct investment, official development assistance and other flows, impact a country's economy differently in terms of the capacity to alleviate financing gaps. The numerous channels through which domestic and global financial trends impact the Arab region's development finances must be investigated in order to gain a clearer understanding of the nature of the region's structural constraints and to begin to find solutions to these pressing issues.

In the light of the pressing nature of this policy issue, the *Survey of Economic and Social Developments in the Arab Region 2013-2014* addresses the theme of financing gaps. In chapters I and II, the Survey presents analytical observations on the Arab region's socioeconomic development situations and prospects in the global context, in the monitoring period from January 2013 to June 2014. In addition to macroeconomic analysis, both chapters are augmented by analytical observations on social development, concentrating on gender issues, which were enabled by an increasing availability of gender-sensitive data. In chapter III, the Survey discusses the issue of current financing gaps, estimates financing gaps to achieve full employment and concludes with a set of policy recommendations, particularly regarding the potential of regional integration. During the monitoring period of this Survey, the political, security and humanitarian crisis in Iraq, Palestine and the Syrian Arab Republic deepened, impacting neighbouring Jordan and Lebanon. Political instability remained in Egypt, Libya, the Sudan and Yemen. The Arab region has increasingly been seen as fragile and chaotic in both socioeconomic and sociopolitical terms, despite its vast energy and natural resource wealth. Yet the Arab region has significant strengths and potential for socioeconomic development and the Survey depicts how each Arab country is coping with uncertainty across the region and progressing along a socioeconomic development path. Moreover, it outlines how regional integration has the greatest potential to unlock financial resource mobilization and diversification, and should be utilized as a tool for economic and social transformation across the Arab region.

SURVEY OF ECONOMIC AND SOCIAL DEVELOPMENTS IN THE ARAB REGION

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Abbreviations and explanatory notes

ACU	Arab Customs Union
ADF	Arab Development Fund
AF	Africa
AfDB	African Development Bank
ASEAN	Association of Southeast Asian Nations
AS-PA	Asia and the Pacific
BIS	Bank for International Settlement
BIT	Bilateral Investment Treaty
ECB	European Central Bank
EIB	European Investment Bank
ESCWA	Economic and Social Commission for Western Asia
EU	European Union
FDI	foreign direct investment
GAFTA	Greater Arab Free Trade Area
GCC	Gulf Cooperation Council
GDP	gross domestic product
GII	Gender Inequality Index
IFA	International Fertilizer Industry Association
ILO	International Labour Organization
IPU	Inter-Parliamentary Union
IMF	International Monetary Fund
ITC	International Trade Centre
LAC	Latin America and the Caribbean
LDC	least developed country
LIBOR	London Interbank Offered Rate
NA	North America
ODA	official development assistance
OECD	Organisation for Economic Co-operation and Development
OPEC	Organization of the Petroleum Exporting Countries
SADC	Southern African Development Community
TH	Thirlwall-Hussain
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
$	United States dollars

The ISO4217 currency code is used for other currencies, as follows:

CNY	Chinese yuan renminbi
EGP	Egyptian pound
JPY	Japanese yen
SDG	Sudanese pound
SYP	Syrian pound
TND	Tunisian dinar

“Defying pessimistic overviews at the start of 2013 that warned of a possible double-dip recession, the world economy showed that it was on a stable recovery path during 2013”

I. The global context and its implications for the Arab region

A. The global context

Defying pessimistic overviews at the start of 2013 that warned of a possible double-dip recession, the world economy showed that it was on a stable recovery path during 2013, and robust economic recovery was observed in developed countries. The United States of America saw a resilient economic expansion despite a decrease in federal government spending.[1] The active financial sector, recovering from the global financial crisis of 2008, led the growth of the private sector and cushioned the impact of ongoing fiscal tightening. The economic recovery in Europe was also gaining ground. According to an assessment by the European Commission, macroeconomic imbalances, which posed major economic risks to European Union member countries, were gradually receding.[2] The risk premium of the government debts of southern European countries decreased, as the risk of a systemic financial crisis abated after the financial insolvency crisis in Cyprus was resolved without international repercussions. Japan renewed its quantitative easing monetary policy, which buoyed its domestic demand and supported the recovery of economic sentiment that had been significantly weakened by the Tohoku Earthquake in 2011. Improved price competitiveness through a significant devaluation of the Japanese yen led a recovery in corporate earnings. The improvement of economic sentiment in developed countries increasingly

Table 1. Growth and inflation: world and regional averages, 2012-2015 (Percentage)

	Real GDP growth rate				Consumer price inflation rate			
	2012	2013[a]	2014[a]	2015[a]	2012	2013[b]	2014[b]	2015[b]
Arab region	7.7	3.0	3.5	4.3	5.6	6.6	6.1	4.7
World	2.3	2.2	2.8	3.2				
Developed economies	1.3	1.1	2.0	2.4	1.9	1.4	1.7	1.7
United States	2.8	1.9	2.5	3.2	2.1	1.5	1.7	1.6
European Union	-0.4	0.1	1.6	1.9	2.6	1.6	1.6	1.8
Japan	1.4	1.5	1.4	0.9	0.0	0.3	2.0	1.8
Economies in transition	3.2	2.0	1.6	2.3	6.9	6.6	5.9	5.6
Developing economies	4.7	4.6	4.7	5.1	5.5	5.7	5.6	5.3
Africa	5.7	3.7	4.2	5.1	8.2	8.0	7.8	7.2
East and South Asia	5.4	5.6	5.7	5.8	4.8	4.9	4.8	4.5
Latin America and the Caribbean	3.0	2.7	2.6	3.4	5.9	6.7	6.6	5.9

Sources: Figures for the Arab region are Economic and Social Commission for Western Asia (ESCWA) calculations, based on national sources for gross domestic product (GDP) figures for 2011 and 2012 (see ESCWA, 2013c). Other figures are from the United Nations Department of Economic and Social Affairs, 2014a and 2014b.

[a] Project LINK estimations as of May 2014 (with the exception of Arab region data, which are ESCWA estimates).

[b] Project LINK estimations as of December 2013 (with the exception of Arab region data, which are ESCWA estimates).

contributed to the expansion of the world economy in 2013, and this trend is projected to continue in 2014 and 2015 (table 1).

The economic expansion of developing economies, including those in the Arab region,[3] decelerated modestly in 2013. While stable and high international commodity prices contributed to the continuing growth of commodity-exporting countries, the magnitude of economic expansion was narrower owing to the stabilized price level of various commodities. Major developing economies, including those of Brazil, China, India, the Russian Federation and South Africa, continued to grow, albeit with some emerging signs of vulnerability since 2013. Mounting inflationary pressures forced Brazil and India to implement tighter monetary policies. In China, wage levels continued to increase and the price advantage of exports through labour cost started to wane. The announcement by the United States Federal Reserve on tapering its unconventional monetary policy regime in May 2013 shocked the external positions of developing countries, causing their national currencies to depreciate (box 1). The devaluation of national currencies was one of the major causes of inflationary pressure through import price hikes, which may lead more developing countries to implement tighter policy measures to control demand. The situation is worrying and projected to continue well into 2014. While implementing a pro-growth policy mix is essential for developing countries to achieve developmental goals, it could possibly become less affordable for some developing countries, given their weakened external positions resulting from currency devaluations.

While starting its exit from the bond-purchasing programme in the third quarter of 2013, the United States Federal Reserve maintained the policy rate in the target range of 0 to 0.25 per cent of the Federal Funds rate. Nevertheless, the anticipated future change in the monetary stance raised long-term market interest rates, as was shown in 10-year United

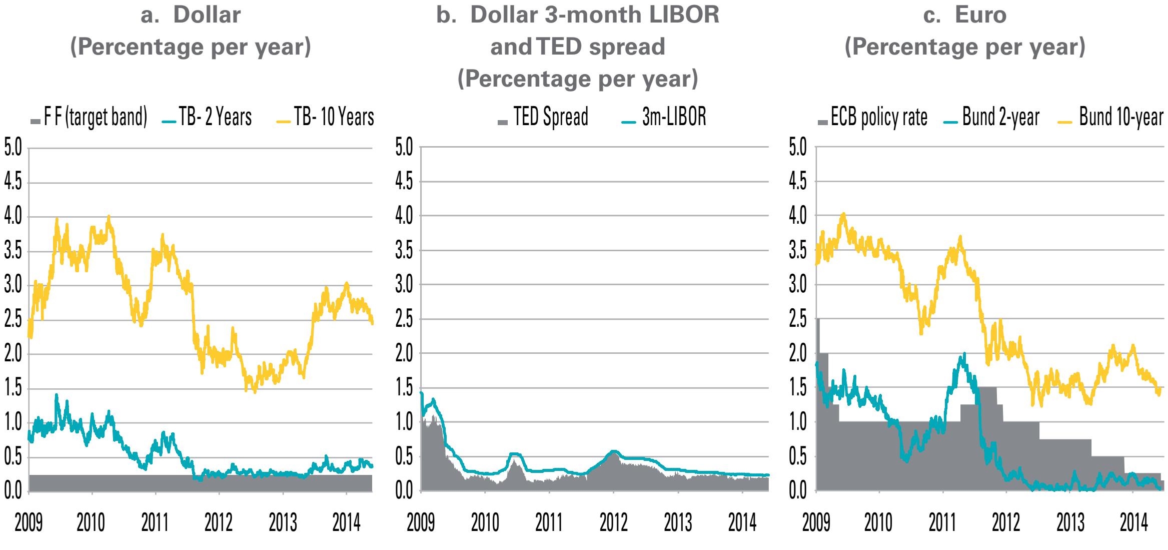
Box 1. The ‘taper tantrum’ of May 2013 and Arab economies

Arab economies were spared the negative impact of the Federal Reserve’s announced plan to exit from quantitative easing in May 2013 for three reasons. Firstly, the shock was not a result of a liquidity squeeze but a result of portfolio adjustments by global investors. The investors adjusted their asset portfolio from long-term bonds to short-term bonds to avoid the interest rate risk, and reduced the share of developing countries’ assets to avoid the exchange rate risk. As long as the value of a country’s national currency was deemed stable, however, the country could weather the negative impact. This is the case for Gulf Cooperation Council (GCC) countries where the national currencies are pegged to the dollar, or to a basket of major currencies, with ample foreign reserves. Secondly, the banking sector in Arab countries was relatively well capitalized, particularly in GCC countries where the balance-sheet adjustment was completed. The active lending stance was not dented in May 2013 in GCC countries and the banking sector of other Arab countries remained conservative. Thirdly, those countries which were vulnerable to the May 2013 shock had already been in a dire situation since 2011. Owing to political instability and social unrest, global investors had already withdrawn from Mashreq and Maghreb countries. In sum, GCC economies were sufficiently strong to fend off the May 2013 shock, while other Arab economies had already been detached from the turmoil in international capital markets.

States Treasury bond yields (figure 1a). Nevertheless, this shock in May 2013 was caused by global investors' shift in their portfolio rather than an actual liquidity squeeze. Financial markets in developed countries have absorbed the tapering of the monetary easing stance by the United States Federal Reserve, which had started in the third quarter of 2013. The stable TED spread implied a stable funding condition for financial institutions in United States dollars ($) (figure 1b).[4] The value of the dollar weakened against the euro and strengthened against the Japanese yen in 2013 (figures 2a and 2b). The dollar is expected to be marginally stronger against both currencies in 2014, reflecting the expected robust recovery of the United States over 2014 and 2015.

The economies of the European Union (EU-28) are recovering from the recession, but the momentum stayed weak. While the European Union area witnessed a smooth banking sector restructuring after the financial crisis in Cyprus, credit growth has stagnated at a level insufficient to support a robust economic recovery. The European Central Bank (ECB) has been attempting to revive credit growth by lowering its policy rate further in May and November 2013 and June 2014 to the lowest possible range (figure 1c). At the same time, ECB was in the final stage of preparation for a system of common bank supervision in the European Union, which is known as the Single Supervisory Mechanism. Specifically, ECB is set to use the Mechanism to supervise banks in the euro currency zone as of November 2014. Most of the economies of the European Union have been facing the combination of high unemployment, weak growth and weak inflation pressures, which requires a strong stimulus policy mix to prevent domestic demand from implosion. The scope of further stimulus from the monetary policy side became limited as ECB lowered its policy rates to the lowest

Figure 1. Interest rates: United States dollar and euro, 2009-2014



Abbreviations: FF, federal funds; TB, Treasury bills.
Source: Board of Governors of the Federal Reserve System. Available from http://www.federalreserve.gov (last accessed 1 September 2014).

Abbreviations: LIBOR, London Interbank Offered Rate; 3m, three months.
Sources: Board of Governors of the Federal Reserve System; and British Bankers Association. Available from http://www.bbalibor.com (last accessed 1 September 2014).

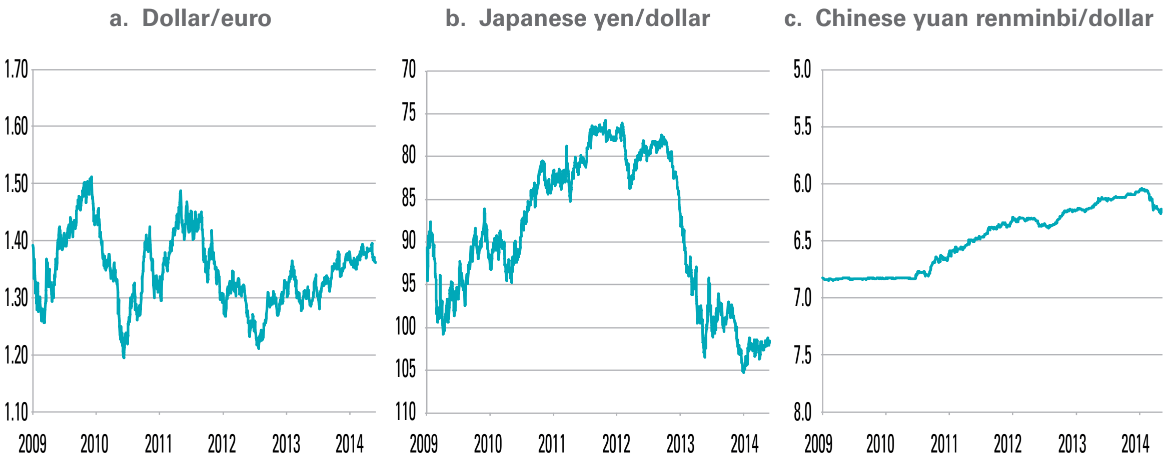
Source: Deutsche Bundesbank. Available from http://www.bundesbank.de (last accessed 1 September 2014).

possible range. The latitude of fiscal policy is limited as a new treaty on fiscal discipline, namely the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union, came into force in January 2013.[5] This well-disciplined policy mix is expected to put the economies of the European Union on a stable albeit relatively weak recovery path for 2014 and 2015.

East and South Asia, including Japan, remained the strongest growth centres. The robust recovery of the United States benefited export industries in East and South Asia, which masked the structural weakness of the region's economies, such as Japan's mounting fiscal deficits and China's overheating property markets. Policymakers in both countries were aware of the immediate structural issues: Japan raised its general sales tax rate from 5.0 to 8.0 per cent in April 2014; and the monetary authority in China actively managed monetary liquidity through open-market operations. The value of the Japanese yen (JPY) has stabilized around JPY100 to the dollar (figure 2b). While the value of the Chinese yuan renminbi (CNY) had been guided to be on a course of gradual appreciation during 2013 (figure 2c), this trend was temporarily reversed in the first half of 2014. The internationalization of CNY as a settlement currency has progressed in 2013 as the Chinese monetary authority simplified the cross-border CNY business procedures under the current account in July 2013.

One noticeable characteristic of developing economies in 2013 is continuing high inflationary pressures at the time of stable international commodity prices (table 1). This phenomenon revealed the sustained supply constraints in developing economies that were caused by weak financial flows from developed economies, consistently expanding domestic demand, and insufficient infrastructure. The recent stable economic growth of developing economies, not only in East and South Asia, but also in Africa, Latin America and the Caribbean, became more noticeable despite continuing reports of political instability and social unrest in some of these developing economies. However, the current growth path of developing economies is deemed fragile, owing to the expected rise in the funding cost in parallel with the rise in

Figure 2. Foreign exchange rates of major world currencies, 2009-2014



Source: Board of Governors of the Federal Reserve System. Available from http://www.federalreserve.gov (last accessed 1 September 2014).

Box 2. Internationalizing CNY and the Arab region

The national currency of China, CNY, has been expanding its presence in international capital markets and trade finances. Since 2008, the People's Bank of China has signed bilateral currency swap agreements with various countries to promote trade and investment facilitation with the use of the Chinese national currency. Among Arab countries, the United Arab Emirates signed the bilateral currency swap agreement with China in January 2012;[a] and Abu Dhabi and Dubai expressed their intention to be a regional clearance centre for the Chinese currency.[b] China's presence among Arab countries' partners in trade and investment has been increasing. As a major importer of energy and natural resources, China has grown as one of the largest export destinations of GCC countries as well as of Mauritania, the Sudan and Yemen. Recently, GCC countries resumed a strategic dialogue with China in January 2014, which is expected to result in a GCC-China free trade agreement.[c] With the growing economic linkage between China and Arab countries, the exchange rate of CNY/$ is expected to weigh heavily on economic activities of the Arab region.

[a] United Arab Emirates, Central Bank of the United Arab Emirates, 2012b.

[b] Arnold, 2013.

[c] Aluwaisheq, 2014.

United States Treasury bond yields and to the remaining supply bottlenecks and resulting inflation.

In terms of social dynamics, however, the current pattern of economic recovery is not equally accommodative to all social groups. Weak employment creation persisted globally, with an indication of widening income and wealth inequality between social groups, including gender (table 2). Unemployment rates in the United States and European Union member countries stayed above the pre-crisis level of 2008. It was observed that the global jobs gap created by the global financial crisis of 2008 was slightly widened despite the current world economic recovery.[6] Weak employment prospects for both developed and developing economies are expected to impact developing economies more, given that stagnating job markets in developed economies discourage emigration for job-seeking purposes. Both developed and developing economies have become cautious in taking expansionary fiscal measures after implementing a series of stimulus packages during the global financial crisis of 2008. This fiscal stance will limit the latitude of global employment recovery.

The gender gap persisted in the global context with various regional varieties, despite the fact that recent research and studies proved without any doubt the importance of women's participation in the economy and the effect of this participation on a country's growth and productivity. Many women continued to face gender-based disadvantages in their daily lives to attain their full rights in participating in the economic life as their male counterparts. Moreover, a recent study by the International Labour Organization (ILO) showed that women were more vulnerable than men in terms of being in occupations that are less likely to be covered by social protection schemes.[7] Workers in the category of "vulnerable employment" were also compelled to take low remuneration and less likely to afford the sufficient spending on education and health. The likelihood of being in vulnerable employment in 2014 is estimated to be higher by 25 per cent in North Africa, and 5.9 per cent in the Middle East.[8]

With the approaching closing date of the Millennium Development Goals, progress has been relatively slow towards achieving the target of gender equality in decision-making, both in the public and private spheres and across all countries. In 2012, there was a percentage point difference of 24.8 in the employment-to-population ratio between men and women, mostly in Northern Africa, Southern Asia and Western Asia.[9] The gender gap increases in lower secondary education school attendance and, according to The Millennium Development Goals Report 2013, gender parity is closest to being achieved at the primary level; however, only 2 out of 130 countries have achieved that target at all levels of education. Globally, 40 out of 100 wage-earning jobs in the non-agricultural sector are held by women.

However, there have been many positive developments, with the growth of women's participation in the labour force since 1960 stemming from expanding market opportunities, changes in education and family structure, especially delays in the timing for marriage and childbearing and lower fertility rates. Global gender gap in employment narrowed from 32 per cent in 1980 to 26 per cent in 2008.[10] While labour force participation increased markedly for women with more education, it declined among women aged 15-24 given that they now tend to remain in school longer, thereby slowing the growth in overall participation since 1990. Female labour force in very poor countries is alarmingly high, reflecting a labour-intensive agricultural sector and significant numbers of poor households.

Table 2. Unemployment rate by sex: world and regional averages, 2010-2013 (Percentage)

	2010		2011		2012		2013[a]	
	Males	Females	Males	Females	Males	Females	Males	Females
Middle East[b]	8.8	21.6	8.5	21.3	8.6	21.4	8.7	21.1
North Africa[c]	7.8	18.3	9.0	20.6	9.2	21.2	9.2	21.3
World	5.8	6.5	5.7	6.4	5.7	6.4	5.8	6.4
Developed economies and European Union	9.1	8.4	8.5	8.3	8.6	8.5	8.6	8.6
Central and Eastern Europe (non-EU) and Commonwealth of Independent States	9.6	8.7	8.8	8.2	8.2	7.7	8.5	7.9
East Asia	4.8	3.5	4.9	3.6	5.0	3.6	5.2	3.7
South-East Asia and the Pacific	4.4	5.0	4.2	4.6	4.0	4.3	4.1	4.4
South Asia	3.5	4.9	3.5	4.8	3.6	4.7	3.7	4.7
Latin America and the Caribbean	6.0	9.1	5.5	8.4	5.4	8.2	5.4	8.1
Sub-Saharan Africa	7.0	8.3	6.9	8.4	6.9	8.3	6.9	8.4

Source: ILO, 2014a, table A2.
[a] Preliminary estimates.
[b] Bahrain, Iran, Iraq, Jordan, Kuwait, Lebanon, Oman, Palestine, Qatar, Saudi Arabia, Syrian Arab Republic, United Arab Emirates and Yemen.
[c] Algeria, Egypt, Libya, Morocco, the Sudan and Tunisia.

Box 3. Gender issues in the global context

The world has witnessed consistent progress in gender equality in several spheres during the past decades. The pace of the progress was particularly evident in developing countries. Education and labour force participation rates are in a continuous increase. Institutional gains have been achieved in health and equal rights before the law in such areas as property ownership, inheritance and marriage. According to a 2011 study by the World Bank, 136 countries have stipulated guarantees for the equality of all citizens explicitly in their constitutions, which reasonably implied non-discrimination between men and women.[a] Progress has not come easily and has not come evenly to all countries or to all women or across all economic and social dimensions. Some gender gaps are still resistant to economic and social progress, especially for severely disadvantaged populations across countries and within the poorest ones, given that poor women face multiple forms of discrimination.

Even though gender gaps in health and education have been reduced in much of the world, the status of women in some low-income countries has not improved significantly, particularly in Sub-Saharan Africa and South Asia where poor girls are at a disadvantage. In Eritrea, for example, the primary net enrolment rate of girls rose from 16 per cent in 1990 to 36 per cent in 2008; and in Afghanistan, Chad and the Central African Republic, there are fewer than 70 girls per 100 boys in primary schools.[b] The maternal mortality rate in Arab countries reached an average of 270 deaths per 100,000 live births between 1985 and 2003, with a maximum of more than 1,000 deaths in the poorest Arab countries (Mauritania and Somalia) and a minimum of 7 for every 100,000 births in Qatar.[c] The enrolment rate of girls at the primary level in the Arab region is reported to be at least 90 per cent that of boys, with the exception of the Comoros and Morocco.[d]

The gender gap in political office representation remains wide across the world. In most Arab countries, women gained rights to vote or run for candidacy in parliamentary elections during the 1950s and 1960s, with Lebanon being the first Arab country to grant women these rights in 1952. Later, the adoption of quota systems increased women's parliamentary participation. Despite these favourable changes, the proportion of women representatives in Arab parliaments remains the lowest in the world. Out of the 33 countries in the world with 30 per cent or more women in parliament today, 26 have quotas in place.[e] The highest percentage of women elected with quota measures is in Rwanda, where women constituted 56.3 per cent of the lower house after the 2008 elections and 38.5 per cent of the upper house after the 2011 elections.[f] Several Arab countries have adopted the quota system, including Egypt, Iraq, Jordan, Morocco, Palestine, the Sudan and Tunisia.[g] However, in most cases, the system was not maintained with a permanent legal mandate. Two types of quotas are observed in the region, namely legal candidate quotas and reserved seats.[h]

[a] World Bank, 2011, p. 2. For the updated latest state of gender equity approaches in national constitutions, see https://worldpolicyforum.org/global-maps/do-constitutions-take-at-least-one-approach-to-gender-equity (accessed 5 September 2014).
[b] Ibid., chap. 2.
[c] United Nations Development Programme (UNDP), 2006.
[d] Ibid.
[e] United Nations Office of the High Commissioner for Human Rights, 2012.
[f] Inter-Parliamentary Union, 2011.
[g] ESCWA, 2013c.
[h] Voluntary political party quotas are not in use. For a list of countries that use this type of quota, see http:/www.quotaproject.org/systemParty.cfm (accessed 5 September 2014).

As incomes grow, female participation rates fall; and as countries continue to develop, further increases in women's education and wages are observed and moves back into the labour market are made. Female participation rates now exceed 50 per cent in sub-Saharan Africa, East Asia and the Pacific, Europe, Central Asia, and Latin America and the Caribbean. However, more than 60 per cent of women remain inactive in South Asia and in the Middle East and North Africa.[11] It is important to point out that advances in gender equality are dynamic. Specifically, changes in gender equality have been quick in the developing world as a result of changes in women's rights, education, health and labour force interacting with one another to bring about more gain. Moreover, improvement in one area can bring improvements to other areas as well. In Sri Lanka, for example, the decline in maternal mortality caused a sharp rise in life expectancy and boosted female literacy and education. Conversely, the lack of improvements in one area, such as women's rights, can hold back improvements in employment or health.

In addition to facing challenges with regard to economic opportunities, women continue to be denied their economic rights. A case in point is domestic workers. In 2010, it was estimated that at least 52.6 million people were employed as domestic workers and 83 per cent of them were women.[12] Those who clean homes and take care of their employers' children, increasingly being employed away from their home countries, are prone to physical and economic abuses. Owing to their social status, shadowing the dominant prejudice against domestic works, the rights of domestic workers were often neglected. On 5 September 2013, the ILO Domestic Workers Convention 2011 (No. 289) came into force as binding international law, ensuring basic labour rights to domestic workers.[13] This paves the way to extending legal protection to domestic workers who have traditionally been without such protection. While challenges for women and men in both economic rights and opportunities still mount high, a steady institutional effort for gender mainstreaming has continued.

B. Developments in the natural resources sector

1. Oil sector

Hydrocarbon products, particularly crude oil, remain the most influential commodity for the Arab region, given that they are the key economic linkage between the region and the global economy. Global demand for crude oil in 2013 was estimated at 90 million barrels per day on average, up by 1.18 per cent from the previous year, while the total supply of crude oil was 91.6 million barrels per day on average according to the Organization of the Petroleum Exporting Countries (OPEC).[14] The United States witnessed increased demand for crude oil in the last quarter of 2013, associated with its economic recovery. Chinese crude oil demand continued to rise in 2013, while Latin American countries, led by Brazil, also recorded substantial increases in crude oil demand. Shrinking crude oil consumption in Europe and Japan subdues increased oil demand in other regions. Total crude oil production of OPEC member countries dropped, particularly in the fourth quarter of 2013, following a significant decline in Libyan crude oil production. While many non-members of OPEC experienced stagnant or slightly decreased crude oil production, the United States and Canada recorded remarkable increases in crude oil production, sufficient to cover global demand increases.

Volatility of crude oil prices decreased in 2013. OPEC basket prices were maintained between $96.35 per barrel and $114.94 per barrel in 2013, with a yearly average of $105.87 per barrel (figure 3a and table 3). The first quarter of 2014 witnessed very stable crude oil prices despite ongoing geopolitical instability in several major oil-exporting countries. The price floor was firm owing to the constant demand growth in the context of stable global economic recovery, but weakened speculative buying in oil futures markets prevented significant price spikes of crude oil. The correlation between crude oil prices and global liquidity growth, which had been seen before the global financial crisis of 2008, has been absent for the past few years (figure 3b), indicating that speculators have become less influential in determining market prices. Moreover, commodity investors in oil futures markets were cautious in taking "long" positions because of an expected increase in borrowing costs. On the supply side, increased crude oil production capacity and the existing excess capacity in refining accommodated supply stoppage in several oil-exporting countries.

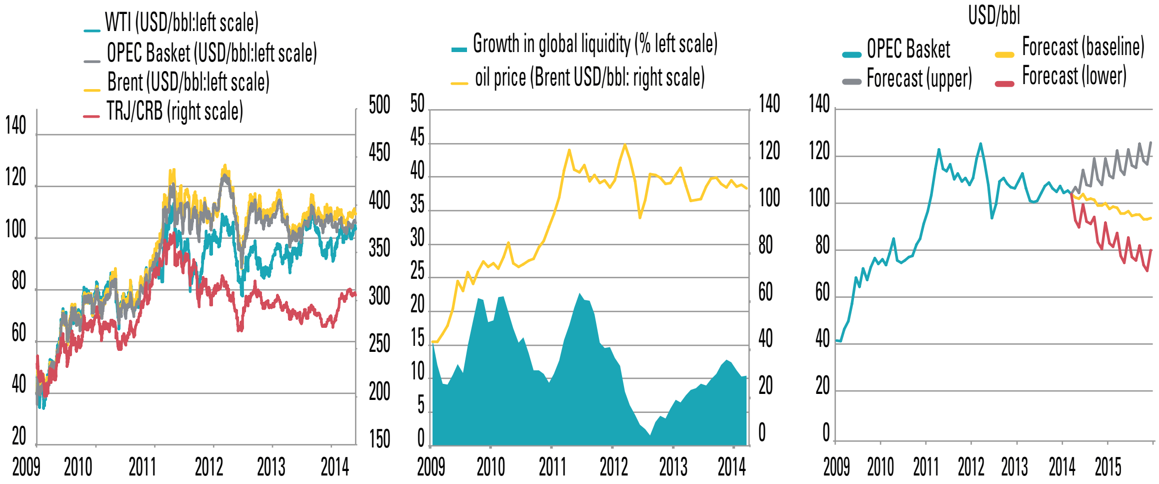
Crude oil prices are projected to edge down in 2014, following the trend of 2013. Crude oil prices are expected to stay less volatile, as the projected demand increase for crude oil is expected to be well accommodated by continuously increasing crude oil production capacity. According to OPEC, demand is expected to stand at 91.14 million barrels per day in 2014, representing an increase of 1.27 per cent from the previous year, which is expected to be covered by sufficient production capacity. OPEC is expected to continue its present production target of 30 million barrels per day and is not likely to reinstall country-specific production quotas in 2014. The trend of narrowing refining margins due to the relatively weak demand for fuel products is likely to impact crude oil prices. The spread between crude oil and gasoline has rapidly narrowed in the third quarter of 2013

Figure 3. Oil prices

a. Crude oil prices and Commodity Index

b. Global liquidity and crude oil prices

c. Crude oil price forecast for 2012-2013



Abbreviations: WTI, West Texas Intermediate; TRJ/CRB, Thomson Reuters Jefferies/Commodity Research Bureau.
Sources: Data from the Energy Information Administration, OPEC and Bloomberg.

Abbreviations: USD, United States dollar; bbl, barrel.
Source: ESCWA estimations based on data by from the Energy Information Administration, the Federal Reserve Bank of St. Louis, and the International Monetary Fund (IMF) International Financial Statistics.

Sources: OPEC and ESCWA forecasts.

Table 3. Crude oil price estimation and forecast (OPEC Reference Basket: dollar per barrel)

Year	Minimum	Maximum	Annual average	Forecasted annual average		
				Lower	Baseline	Higher
2011	89.81	120.91	107.46			
2012	88.74	124.64	109.45			
2013	96.35	114.94	105.87			
2014				94.1	102.3	110.4
2015				79.2	95.8	117.8

Source: OPEC data for 2011-2013.
Note: Figures for 2014 and 2015 are forecasts as of May 2014.

before it started widening in the first quarter of 2014. Having taken these factors into consideration, the OPEC Reference Basket price is forecast to average at $102.3 per barrel in 2014, in the forecast range of $94.1 to $110.4 (figure 3c and table 3).

However, several risk factors remain, which may hamper the projected supply-demand balance. The tapering of the United States monetary stance and economic performance of China may influence the global economic atmosphere, thereby affecting crude oil demand and speculation on crude oil prices. Geopolitical risks persist in the Arab region. Lingering conflicts in Libya effectively limited Libyan crude oil production and export. The ongoing crisis in the Syrian Arab Republic may expand geographically to impact crude oil production in Iraq. Owing to the uncertainty surrounding the status of economic sanctions against Iran, the growth of Iranian crude oil export level is highly uncertain. Moreover, the influence of geopolitical turbulences, such as the unstable political condition in Venezuela and the ongoing conflicts between the Russian Federation and Ukraine, cannot be ruled out.

The total crude oil production of the Arab region averaged an estimated 23.3 million barrels per day in 2013, which is slightly lower than the production level of the previous year (table 4). A gradual reduction in total production is projected over 2014 and 2015. The total crude oil production of GCC countries averaged an estimated 17.1 million barrels per day in 2013, edging down from the level of the previous year. The production of crude oil stayed stable during 2013, with the exception of Libya and Saudi Arabia. The Libyan crude oil production plummeted in the second half of 2013 to between 20 and 30 per cent of full capacity level, owing to the closure of production and port facilities by armed groups. The situation is projected to stay uncertain and no immediate recovery is expected. Saudi Arabia used its ample spare capacity in producing crude oil to adjust its production level in order to maintain stable crude oil prices. Saudi Arabia’s crude oil production reduced in the first quarter to some 9.1 million barrels per day, and then increased to a level between 9.7 and 10.0 million barrels per day from the third quarter. As has been pledged on many occasions, Saudi Arabia is expected to act to adjust its crude oil production, aiming to maintain a stable supply condition. The growth in the production capacity of Iraq decelerated in 2013. An increasingly uncertain political situation is likely to hamper the planned capacity growth, but a stable production is projected from the relatively stable south of the country.

The Arab region’s total gross oil export revenues were estimated at $787 billion in 2013 (table 5), representing a decline by

Table 4. Oil production in the Arab region, 2010-2015 (Thousands of barrels per day)

Country/subregion	2010	2011	2012	2013[a]	2014[b]	2015[b]
Bahrain	32	43	46	48	49	49
Kuwait	2 312	2 659	2 977	2 922	2 900	2 800
Oman	869	891	923	947	950	960
Qatar	733	733	734	724	730	730
Saudi Arabia	8 165	9 311	9 765	9 634	9 500	9 300
United Arab Emirates	2 323	2 564	2 657	2 797	2 700	2 650
GCC countries	14 434	16 021	17 102	17 072	16 829	16 489
Egypt	671	668	672	613	620	620
Iraq	2 381	2 653	2 950	2 980	2 850	2 900
Syrian Arab Republic	383	340	145	20	20	20
Mashreq countries	3 436	3 660	3 767	3 613	3 490	3 540
Algeria	1 204	1 180	1 113	1 217	1 200	1 250
Libya	1 487	283	1 450	993	550	800
Morocco	1	1	1	1	1	1
Tunisia	75	64	63	63	63	63
Maghreb countries	2 766	1 528	2 627	2 273	1 814	2 114
Mauritania	8	8	7	7	7	7
Sudan	486	453	112	140	150	150
Yemen	280	216	169	152	160	160
Arab LDCs	774	677	288	299	317	317
Arab region total	21 411	22 067	23 783	23 257	22 450	22 460

Abbreviation: LDCs, least developed countries.
Sources: Joint Organizations Data Initiative (JODI) database, with the exception of Mauritania, Morocco, the Sudan, the Syrian Arab Republic and Yemen. For those countries, data were retrieved from the International Energy Statistics database of the Energy Information Administration.
[a] ESCWA estimates as of May 2014.
[b] ESCWA projections as of May 2014.

4.7 per cent from the previous year. These revenues are forecast to decline further by 6.5 per cent to $736 billion in 2014. In parallel with the expected gradual decline in both production and prices, gross oil export revenues are expected to be tapered. This suggests the end of a booming oil sector cycle since 2010. However, it is unlikely that there would be a significant downward adjustment in 2014 and 2015, particularly in the Arab region. The most recent addition of global crude oil supply was from relatively expensive extraction methods, including those for tight oil (or shale oil). Consequently, a possible supply glut, when it becomes apparent, would likely be provoked to cause a downward adjustment in supply rather than prices. In such a contingency, the Arab region is projected to be less affected than others, given that most of the countries' oil sectors hold a cost advantage in extraction over crude oil producers of other regions.

2. Phosphate sector

In the light of the increasing policy priority of food security, the indispensability of phosphate for agricultural productivity has been recognized. Given that the Arab region has the largest phosphate reserves in the world, policymakers have become

Table 5. Gross oil export revenues in the Arab region, 2010-2015 (Billions of United States dollars)

Country/subregion	2010	2011	2012	2013[a]	2014[b]	2015[b]
Bahrain	10.1	15.3	15.0	14.4	13.5	12.5
Kuwait	61.8	96.7	112.5	108.8	102.0	99.0
Oman	21.9	29.1	31.7	32.8	31.0	29.5
Qatar	25.7	33.7	34.3	29.6	27.0	26.0
Saudi Arabia	189.4	285.0	305.2	299.2	287.2	280.0
United Arab Emirates	66.8	99.6	103.7	105.1	102.0	102.0
GCC countries	375.7	559.4	602.4	589.8	562.5	549.0
Egypt	10.7	13.4	10.0	11.1	10.5	10.5
Iraq	51.5	79.4	93.8	90.1	85.0	80.0
Syrian Arab Republic	5.6	3.0	..	..	..	..
Mashreq countries	67.8	95.8	103.8	101.2	95.5	90.5
Algeria	38.2	51.4	48.3	46.7	41.2	38.0
Libya	47.2	18.6	60.2	36.5	24.5	48.0
Morocco	0.2	0.6	0.9	1.1	0.8	0.8
Tunisia	2.3	2.6	2.9	2.6	2.4	2.5
Maghreb countries	88.0	73.2	112.2	86.9	68.9	89.3
Mauritania	0.3	0.2	0.1	0.1	0.1	0.1
Sudan	9.7	7.3	0.2	4.0	3.8	3.7
Yemen	6.3	7.7	6.3	4.9	5.2	5.5
Arab LDCs	16.3	15.3	7.3	9.0	9.1	9.2
Arab region total	547.7	743.7	825.6	786.9	736.0	738.0

Sources: National sources, as follows: Bank of Algeria, 2014; Central Bank of Bahrain, 2014; Central Bank of Egypt, 2014; Central Bank of Iraq, n.d.a, Balance of Payments; Central Bank of Kuwait, 2013; Central Bank of Libya, 2013; Central Bank of Mauritania, n.d., Balance of Payments; Morocco, Bank Al-Maghrib, 2013; Central Bank of Oman, 2014, and National Centre for Statistics and Information, 2014; Qatar, Ministry of Development Planning and Statistics, n.d.b, Qatar Information Exchange – Foreign Trade System; Saudi Arabian Monetary Agency, n.d., Annual Statistics; Central Bank of the Sudan, 2013; Central Bank of the Syrian Arab Republic, 2011; Tunisia, n.d., National Institute of Statistics data; Central Bank of the United Arab Emirates, 2013, 2012a, 2011 and 2010; and Central Bank of Yemen, 2014.

[a] ESCWA estimates as of May 2014.

[b] ESCWA projections as of May 2014.

Note: Two dots (..) indicate that data are not available.

increasingly aware of phosphate as a strategic natural resource and, therefore, as another crucial economic linkage to the global economy. According to estimates by the International Fertilizer Industry Association (IFA), consumption of phosphorus nutrients (phosphorus pentoxide, P_2O_5) for fertilizer was 40.4 million tonnes in 2013, slightly lower than in the previous year, while it is expected to increase by 1.8 per cent in 2014.[15] While fertilizer consumption increased in almost all regions, South Asia and India in particular, which was the largest importer of phosphate, witnessed a substantial decrease resulting in a slight fall in global phosphate consumption.[16]

China, followed by the United States and Morocco, was the world's largest producer of phosphate rock. However, production from China and the United States has been largely consumed domestically, and China's export tax imposed in 2008 has also limited phosphate exports from that country. This leaves Arab countries as the major exporters

Table 6. Phosphate trade, 2010-2013

	Export							Import						
	2010		2011		2012		2013	2010		2011		2012		2013
	Millions of $	% of world total	Millions of $	% of world total	Millions of $	% of world total	Millions of $	Millions of $	% of world total	Millions of $	% of world total	Millions of $	% of world total	Millions of $
Algeria	44	0.6	128	1.3	153	1.5	97	18	0.3	16	0.2	21	0.2	12
Egypt	133	1.9	276	2.7	305	3.0	..	25	0.4	16	0.2	23	0.3	..
Jordan	481	6.9	737	7.3	1 231	12.0	..	1	0.0	3	0.0	0	0.0	..
Morocco	2 700	38.6	3 677	36.6	3 193	31.0	2 536	2	0.0	3	0.0	4	0.0	11
Syrian Arab Republic	203	2.9	333	3.3	194	1.9	..	1	0.0	2	0.0	1	0.0	..
Tunisia	419	6.0	256	2.6	264	2.6	..	7	0.1	48	0.5	1	0.0	..
Arab region total	4 066	58.2	5 518	54.9	5 422	52.7	..	177	2.6	272	2.9	202	2.2	..
China	468	6.7	565	5.6	541	5.3	514	16	0.2	17	0.2	20	0.2	23
India	8	0.1	9	0.1	31	0.3	..	2 054	30.5	3 211	34.4	3 543	37.8	..
Russia	220	3.2	279	2.8	386	3.8	454	8	0.1	9	0.1	28	0.3	39
United States	388	5.6	598	6.0	564	5.5	601	254	3.8	512	5.5	523	5.6	429
World total (Millions of $)	6 989		10 051		10 295		..	6 733		9 346		9 372		..

Source: International Trade Centre (ITC), Trade Map Database.
Notes: Phosphate trade represents total trade of the following: (a) calcium and aluminium calcium phosphates, natural and phosphatic chalk; and (b) diphosphorus pentaoxide, phosphoric acid and polyphosphoric acids. Two dots (..) indicate that data are not available or are not separately reported.

of phosphate. In 2012, Arab countries exported some $5.4 billion of phosphate-based products (or 52.7 per cent of total world phosphate export) mainly in the form of phosphate rock, P_2O_5 and phosphoric acid. Morocco was the world's largest exporter, providing almost one-third of total world exports (or $3.2 billion). This was followed by Jordan that accounted for 12 per cent of the world total (or $1.2 billion); and Algeria, Egypt, the Syrian Arab Republic and Tunisia were also among the major exporters of phosphate. The Arab region as a whole enjoyed over $5.2 billion of trade surplus from the phosphate trade in 2012.

The regional production capacity, and thus export volume, is likely to increase in the coming few years with considerable investment in the industry. Saudi Arabia is investing heavily in building an industrial complex dedicated to the production and processing of phosphate through the Waad al-Shamal project near its border with Jordan, with total investments of more than $9 billion. In Morocco, the Office Chérifien des Phosphates, the world's largest exporter of phosphate, was also expanding its production capacity, with a loan amounting to $271 million agreed with a German bank in the last quarter of 2013. However, the region's share of global phosphate exports has decreased considerably over the past three years, from 38.6 per cent in 2010 to 31.0 per cent in 2012, while China, the United States and the Russian Federation remained major exporters of phosphate and were responsible for approximately 15 per cent of total trade (table 6).

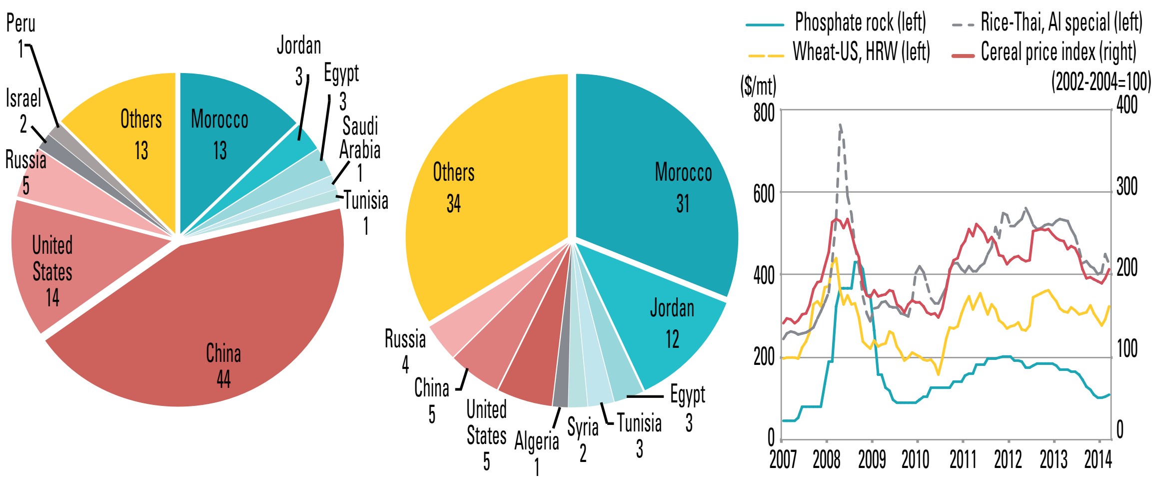
From the import side, India was the major player accounting for approximately 38 per cent of total world phosphate imports.

Figure 4. Phosphate production, trade and prices

a. Share of phosphate production, 2012 (Percentage)

b. Share of phosphate export value, 2012 (Percentage)

c. Phosphate rock, wheat and rice prices, 2007- March 2014



Source: ITC, Trade Map Database.

Source: ITC, Trade Map Database.

Abbreviation: HRW, hard red winter wheat.
Sources: World Bank, Global Economic Monitor Commodities for phosphate rock, wheat and rice; and Food and Agriculture Organization of the United Nations, Food Price Index for cereal.

Box 4. The position of the Arab region in phosphate developments

Phosphate rock is a finite mineral resource that deserves greater attention for socioeconomic development in the Arab region. It is the base material for phosphorus, which is essential for plant growth, and it is non-renewable like oil. Although certain levels of phosphorus reside in the soil, these are absorbed by plants and thus decrease over time. Accordingly, in order to sustain (or to improve) agricultural productivity to support rapidly growing global population with shifts in diet, the use of phosphorus-based fertilizers is essential. However, the global reserve of phosphate rock is highly skewed to a few countries, and thus it has huge strategic importance.

The Arab region contains more than four fifths of total world phosphate reserves, and it supplies around a quarter of global production. Morocco and Western Sahara alone are known to hold some 70 per cent of the global reserves and supply 14 per cent of the global production. Algeria, Egypt, Jordan, the Syrian Arab Republic and Tunisia are also important suppliers in the global phosphate market, while Saudi Arabia is investing heavily in developing a phosphate industry.

Phosphate rock is a price inelastic commodity and the production is not flexible in the short term, yet there is no international organization to coordinate demand and supply of phosphate, and the price of phosphate rock is quite volatile and vulnerable to unexpected shocks. Close monitoring of global and regional market developments is thus crucial for the stable development of the phosphate industry in the Arab region.

World phosphate rock reserves

Arab region	Reserves		Rest of the world	Reserves	
	Thousands of metric tonnes	% of world total		Thousands of metric tonnes	% of world total
Morocco[a]	50 000 000	70.40	**China**	3 700 000	5.21
Iraq	5 800 000	8.17	**South Africa**	1 500 000	2.11
Algeria	2 200 000	3.10	**United States**	1 400 000	1.97
Syrian Arab Republic	1 800 000	2.54	**Russia**	1 300 000	1.83
Jordan	1 500 000	2.11	**Brazil**	310 000	0.44
Tunisia	100 000	0.14	**Australia**	250 000	0.35
Egypt	100 000	0.14	**Peru**	240 000	0.34
Arab region total	61 500 000	86.60	**Other countries**	958 100	1.33

Source: United States Geological Survey, Mineral Commodity Summaries, January 2012.

[a] Including Western Sahara.

The dominance of India in the phosphate import market further strengthened in 2011 and 2012; but data from IFA on 2013 seem to indicate that fertilizer consumption has somewhat reduced in the country with the revision of government subsidy on fertilizer.

In 2013, the price of phosphate rock fell substantially. After the historical price hike and collapse in 2008 and 2009, the price of phosphate rock had been relatively stable from mid-2011 to end 2012 at around $180-$200 per tonne.[17] However, during 2013, the price plummeted to around $100 per tonne. The demand for phosphate could slightly increase in 2014, but this increase would be sufficiently supported by the production capacity of major phosphate-exporting countries. Thus, a supply shortage is not expected, and the price of phosphate rock is likely to remain bearish. While slow price recovery during 2014 is possible if demand from China and India recovers, the financial capacity of the Government of India to provide planned fertilizer subsidies is questioned. Moreover, Thailand's decision to push its rice exports up and its huge amount of accumulated reserves have already retreated back global rice prices.

The possible reduction of India's subsidy on fertilizers, the revision of China's export tax on phosphate rock, and political developments in such major rice- and wheat-exporting countries as Thailand and Ukraine are important factors to look at in 2014. From the supply side, the recovery of the Tunisian production of phosphate, which had decreased by 50 per cent in the second half of 2013 owing to domestic protests, and the implementation of planned investments on phosphate production capacity, including those in Saudi Arabia and Morocco, should be carefully monitored. Weather conditions should also be closely monitored, given that droughts and other extreme weather events can have major impacts on the price of phosphate rock.

C. Implications for the Arab region

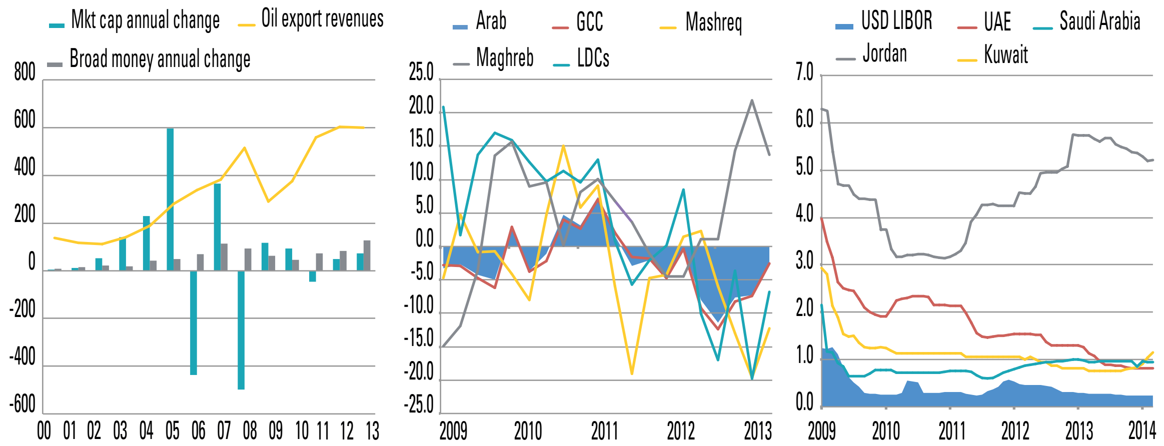
In the area of international finance, GCC countries have been increasing their presence in international capital flows as major providers of funds. This trend differs from that of the previous boom period of 2003-2008, when GCC countries were among major destinations of international capital. As international capital flows have grown only moderately due to the rising expected yields of United States Treasury bonds, GCC countries are becoming a more important source of funds at both the regional and global levels. Figure 5a shows that in the present recovery path, both the growth in money stock and stock market capitalization stayed at a much lower level compared to oil export revenues. During the previous boom, there were two occasions of significant downward adjustments in stock markets in 2006 and 2008, but the present period of boom has been led by high oil export revenues. As oil export revenues are usually distributed through fiscal channels, the present recovery owes more to the public sector than the previous boom. Moreover, as figure 5b shows, Bank for International Settlement (BIS) reportings on banks' claims on GCC countries were in decline in 2012 and 2013. For the period leading up to 2008, BIS reportings on banks claims on GCC countries recorded a rapid growth. Figure 5c shows that the three-month money market rates of Kuwait, Saudi Arabia and the United Arab Emirates converged around 1.0 percentage point during 2013, thereby indicating that GCC countries as a whole regained financial stability. However, figures 5b and 5c show continuing difficult financing conditions for non-GCC Arab countries. Figure 5b shows that BIS reportings on banks' claims on Mashreq countries and Arab least developed countries (LDCs) are in decline. International banks' exposures to Maghreb countries have been increasing to relatively stable in Algeria and Morocco. Figure 5c shows that the funding cost of Jordan decreased in 2013

Figure 5. Oil-financial markets nexus

a. Financial asset growth and oil export revenue: GCC countries (Billions of United States dollars)

b. Year-on-year changes of BIS reporting on banks' claims on Arab countries (Percentage)

c. Three-month money market rates and dollar three-month LIBOR (Percentage)



Abbreviations: Mkt, market; cap, capitalization.
Sources: Compiled by ESCWA based on Arab Monetary Fund data for stock market capitalization; and national sources for oil export revenues.

Source: Data from BIS.

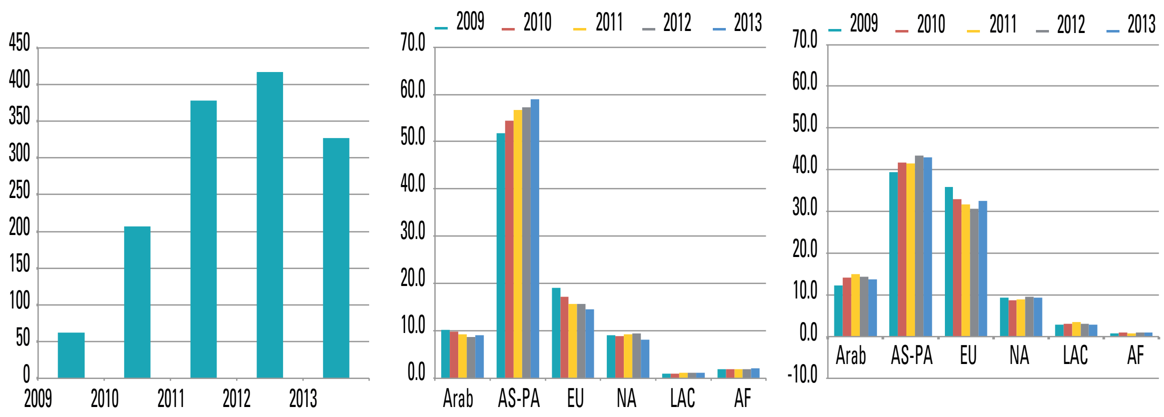
Abbreviations: UAE, United Arab Emirates.
Sources: Compiled by ESCWA based on data on the Federal Reserve Bank of St. Louis (USD LIBOR); Association of Banks in Jordan; Central Bank of the United Arab Emirates; Central Bank of Kuwait; and Saudi Arabian Monetary Agency.

Figure 6. Global trade linkages of the Arab region, 2009-2013

a. Net export of Arab countries: gross total (Billions of United States dollars)

b. Regional destinations of Arab exports (Percentage of gross total values)

c. Regional origins of Arab imports (Percentage of gross total values)



Abbreviations: Arab, Arab countries; AS-PA, Asia and the Pacific; EU, Europe; NA, North America; LAC, Latin America and the Caribbean; AF, Africa (excluding Arab African countries).
Source: IMF, Directions of Trade Statistics.

for the first time since 2011. While the spread of funding cost between Jordan and GCC countries stayed at a historically wide level, it shows that Jordan regained its financial stability as well. This observation implies that the Arab region did not attract international capital flows in 2013 as indicated by the decline in BIS reportings on banks' loan exposures to GCC countries and the Arab region in total; and that the Arab region as a whole, despite the high oil export revenues and the regained financial stability of GCC countries, became increasingly more reliant on financial sources within the region in 2013.

In international trade, the Arab region has continued to strengthen its tie with the Asia-Pacific region (figures 6b and 6c). In terms of gross total, 58.9 per cent of goods exported by the Arab region were destined to the Asia-Pacific region in 2013. The share of the Asia-Pacific region as a key export destination has continued to grow, filling the declining share of Europe. Most exports to the Asia-Pacific region remain energy-related. The share of intraregional trade is estimated at 9.2 per cent of total gross exports and 13.7 per cent of total gross imports. Imports from the Asia-Pacific region to the Arab region grew to 42.9 per cent of gross total imports in 2013. A long-running decreasing trend of imports from Europe reverted in 2013, as the share was estimated to have increased to 32.6 per cent from 30.6 per cent of the previous year.

Net exports of Arab economies in total were estimated at $327 billion in 2013, marking a 21 per cent decrease from the previous year (figure 6a). This decline is not a negative sign for the region. Rather, it indicates a robust growth of domestic demand, mainly of GCC countries, which contributed to the increase in imports in a year when oil exports declined moderately. Within the Arab region, only the subregion of GCC countries remained as net exporter in 2013. Owing to the rapid decline of the oil exports of Libya, the subregion of Maghreb countries turned into a net importer in 2013. Mashreq countries and Arab LDCs remained net importers.

This description of the international finance and trade situation shows an increasing reliance on oil export revenues in the Arab region. The stable and high oil export revenues of the major oil-exporting countries in the region did not contribute to the region's wealth creation to the extent of the boom years of the mid-2000s. In terms of stock market capitalization, the growth in 2013 remained much less than in the mid-2000s, even in GCC countries. The Arab intraregional trade, which could have compensated the lost markets in Europe for non-oil exporters in the region, remained subdued. The majority of Arab countries became net importers that needed to finance trade deficits. However, weak financial inflows to the region, with the exception of some Maghreb countries, put more Arab countries under foreign exchange constraints.

D. Concluding remarks

In this global context of economic and social developments, the main challenges to the world economy can be summarized as follows: (a) the extent to which possible negative impacts of the change in the Federal Reserve policy stance will affect international capital markets, the external positions of developing countries and the value of their national currencies; (b) the extent to which fiscal policy stances can be expansionary in both developed and developing countries; (c) innovative employment creation to prevent an even wider global jobs gap; and (d) the extent to which the gender gap can be narrowed in terms of economic opportunities and participation and supportive frameworks to claim economic rights.

The position of the Arab region in this global picture of economic and social developments over 2013 to June 2014 can be described as unbalanced in various aspects, compared to that of other regions. The Arab region as a whole, even considering its diversity in natural resources endowment and in developmental stages among countries, is not on a balanced development path. The economic and trade structure remains heavily influenced by the oil sector. Compared to other regions, the Arab region also has the highest unemployment rates and the largest gender gap, as indicated by high female unemployment rates.

The region's role as the provider of funds in international capital markets has re-emerged, unlike during the previous boom period from 2003 to 2008, where non-Arab funds played the role of attractor. The Arab region's interregional trade with East and South Asia has grown, and other regions of geographical proximity, namely Europe and Africa, have been subdued. These features of the current global context reflect an ongoing polarization within the Arab region. In other words, the global economic environment has not been sufficiently supportive to the major economic and social development goals of the Arab region, such as economic diversification, employment creation and bridging the gender gap. As a decline in oil export revenues over 2014 and 2015 is projected, it is urgent for the Arab region to establish a robust growth of non-oil exports to take advantage of the global economic recovery.

"Employment creation remains the most important item on the policy agenda of the region"

II. Socioeconomic trends and developments in the Arab region

A. Economic situation and prospects

1. Overview

The Arab region saw slower economic growth in 2013 compared to 2012, owing mainly to the moderate oil revenues growth of major oil-exporting countries, namely GCC countries. While these countries are on a stable recovery path, the polarization of economic performance among Arab countries continues between GCC countries and other Arab countries. Moderate recovery has been witnessed in only a few countries in the Mashreq and Maghreb subregions, as well as in Arab LDCs. Most countries in these subregional groups suffer from stagnating economic activities resulting from continued political instability and social unrest. The crisis in the Syrian Arab Republic continues to have negative spillover effects on neighbouring countries, particularly with regards to subdued cross-border economic activities, including trade, investment and tourism. The insufficient speed of economic recovery in Europe is affecting the non-oil exports of the Mashreq and Maghreb subregions. High unemployment continues to be a pressing issue in Arab countries, including GCC countries, where labour force nationalization policies continue. Employment creation remains the most important item on the policy agenda of the region.

In 2013, the average growth rate in gross domestic product (GDP) in real terms was estimated to be 3.0 per cent for the Arab region, compared to 7.7 per cent in 2012 (table 7). This fluctuation, also observed in 2011, is the result of unstable economic performance in Libya. The average regional GDP growth rate without the influence of the Libyan economy stood at 4.1 per cent in 2012 and 3.2 per cent in 2013. GCC countries remain the growth centre of the region; in the rest of the Arab region, political instability, social unrest, armed conflict and a general sentiment of uncertainty continue to hamper economic activities. However, a few signs of improvement have been observed. For example, non-oil exports saw a moderate increase as the uncertainty over global economic recovery has partially lifted. The region's stock-market capitalization also marked a positive growth. Moreover, Egypt, Jordan, the Sudan, Tunisia and Yemen halted the depletion of foreign reserves and avoided a balance of payments crisis. Nevertheless, a significant financing gap persists in those Arab countries that are undergoing sociopolitical transitions.[1] The market mechanism that produced significant economic linkages, which enabled those countries to benefit from the positive spillover from GCC countries in the past decade, has not yet recovered. The inflow of external bilateral and multilateral financial support became ever more crucial in 2013 for Mashreq and Maghreb countries and Arab LDCs to alleviate foreign exchange constraints and inflationary pressures, and to establish a renewed policy platform for sustainable economic and social development.

Over 2014 and 2015, a strong non-oil sector growth in GCC countries is projected. However, energy export revenues of major energy-exporting countries are projected to decline at a modest rate. Further stagnation of net energy-importing countries is

Table 7. Real GDP growth rate and consumer price inflation rate, 2011-2015
(Annual percentage changes)

	Real GDP growth rate					Consumer price inflation rate				
Country/subregion	2011	2012[a]	2013[b]	2014[c]	2015[c]	2011	2012	2013	2014[c]	2015[c]
Bahrain	1.9	3.4	5.3	4.0	3.8	-0.4	2.8	3.5	3.1	3.0
Kuwait	10.2	8.3	4.0	3.8	3.6	4.8	2.9	2.6	3.2	3.7
Oman	0.9	5.8	3.0	3.8	3.2	4.1	2.9	1.3	2.1	2.9
Qatar	13.0	6.2	6.5	5.5	6.0	1.9	1.9	3.1	4.2	4.6
Saudi Arabia	8.6	5.8	3.8	4.0	4.0	3.7	2.9	3.5	3.3	3.5
United Arab Emirates	3.9	4.4	5.0	5.2	4.8	0.9	0.7	1.1	2.4	2.7
GCC countries	7.3	5.7	4.3	4.4	4.3	2.9	2.2	2.6	3.0	3.3
Egypt[d]	1.8	2.2	2.1	2.4	3.3	10.5	7.3	9.5	13.5	8.5
Iraq	9.5	9.0	6.1	6.8	7.9	5.6	6.1	1.9	5.1	5.8
Jordan	2.6	2.7	2.8	3.0	3.2	4.4	4.8	5.6	3.0	3.4
Lebanon	2.0	1.2	1.7	2.5	3.2	5.1	6.4	5.7	3.0	3.9
Palestine	12.2	5.9	1.8	2.6	3.0	2.9	2.7	1.8	2.6	3.0
Syrian Arab Republic[e]	-3.4	-21.8	-22.5	..	..	4.8	37.4	87.3	42.7	12.0
Mashreq	2.7	0.1	-0.6	2.9	3.6	7.7	10.9	18.1	14.2	7.7
Algeria	2.8	3.3	3.0	3.6	3.5	4.5	8.9	3.3	4.0	4.1
Libya	-61.3	98.2	-3.0	-5.0	12.0	15.5	6.1	2.6	3.5	4.0
Morocco	5.0	2.7	4.6	3.6	4.9	0.9	1.3	1.9	2.4	2.5
Tunisia	-0.2	4.1	2.8	3.0	3.7	3.6	5.6	6.1	5.2	4.5
Maghreb	-9.2	21.2	2.2	1.9	5.5	5.6	6.0	3.2	3.7	3.7
Comoros	2.6	3.0	3.4	3.8	4.1	1.8	6.3	1.6	2.0	2.0
Djibouti	4.5	4.8	5.3	5.8	6.4	5.1	3.7	3.5	2.2	2.5
Mauritania	3.7	7.0	6.1	5.9	6.2	5.6	4.9	4.6	5.0	5.2
Somalia	..	..	..	..	..	..	..	..	..	..
Sudan	1.9	1.1	3.2	2.5	3.3	18.1	35.6	37.1	32.0	15.0
Yemen	-12.8	2.0	3.5	2.6	2.5	19.3	10.1	11.0	11.7	12.6
Arab LDCs	-2.8	1.6	3.4	2.7	3.2	17.8	25.4	26.6	23.7	13.6
Total Arab region[f]	2.7	7.7	3.0	3.5	4.3	5.0	5.6	6.6	6.1	4.7

Sources: ESCWA, 2013c; and national sources for Algeria; the Comoros; Djibouti; and Mauritania. Consumer price inflation rates are also based on national sources obtained in April 2014. (These national sources are all listed in the bibliography, pp. 96-99.)
[a] Figures for 2012 are preliminary releases from national sources, which are subject to revisions. The estimated figures for Lebanon, the Sudan, the Syrian Arab Republic and Yemen are as of April 2014.
[b] March 2014 estimations.
[c] May 2014 forecasts.
[d] For the GDP growth rate of Egypt, data are for the country's fiscal year, which ends in the month of June.
[e] For the GDP growth rate of the Syrian Arab Republic, figures are estimates for 2011 to 2013. Owing to the lack of sufficient data, the forecast values for the Syrian Arab Republic are not included for 2014 and 2015.
[f] Figures for country groups are weighted averages, where weights for each year are based on GDP in 2005 constant prices.
Note: Two dots (..) indicate that data are not available or are not separately reported.

projected, given the lack of significant improvement in non-economic risk factors in this near-future forecasting range. On average, Arab economies are forecast to grow by 3.5 per cent in 2014.

The average consumer price inflation in the Arab region was estimated to be 6.6 per cent in 2013, compared to 5.6 per cent in 2012 (table 7). The price of energy, metal and food items remained high and increased slightly towards the end of 2013. Nevertheless, international commodity prices did not noticeably impact domestic price levels in the region's economies. Following the 2012 trend, each country's consumer price inflation level was determined by country-specific factors. The deflationary pressure on housing-related items in Bahrain, Qatar and the United Arab Emirates since the time of the global financial crisis of 2008-2009 has completely lifted. In turn, housing-related items in GCC countries, particularly property rent, started to become the main contributor of inflationary pressures. Nevertheless, the consumer price inflation rate of GCC countries edged up to 2.6 per cent in 2013

Box 5. Emerging conflicts and forecast updates*

1. The Gaza Strip of the State of Palestine

The Gaza Strip has incurred serious humanitarian and economic costs since the onset of the latest Israeli military operation on 7 July 2014. Even before the humanitarian crisis was unfolding, the economy of Gaza had already been in a dire situation due to the Israeli blockade since 2007. In terms of per-capita constant price GDP, by 2013 it had just regained the level of 2004. A viable economic independence with an international assurance of the Palestinian's right to development is essential for Palestine. However, the Palestinian economy in general, and the economy of Gaza in particular, remained fragile as Palestine continued to be deprived of that viable economic independence. Given that exports from Gaza have already been significantly retrenched by the blockade, the economy is heavily dependent on various types of resource transfers: foreign aid, workers' remittances and other transfers. The unemployment rate as of the first quarter of 2014 stood at 40.8 per cent, and 56.3 per cent of those employed worked in the services sector, mostly in the public sector. It has risen rapidly from 27.9 per cent in the second quarter of 2013.

The forecast of GDP growth for Palestine set out in table 7 is likely to be changed given the rapidly developing crisis in Palestine (box figure I). In scenario 1 and 2, it is assumed that the impact is limited in Gaza and the hostility came to an end by September 2014. In both scenarios, the economy of the West Bank follows the trend of 2013, which was already weak. Scenario 2 assumes an implementation of reconstruction with an assured freedom to move across the border by Palestinians, while scenario 1 assumes that such movements remain limited. With scenario 1, GDP is contracted by 2.0 per cent in 2014 before registering a positive growth by a mere 0.3 per cent in 2015. With scenario 2, GDP is contracted by 2.0 per cent in 2014, and the growth level could reach 4.2 per cent arising from reconstruction activities. However, if the crisis expanded to the West Bank, the Palestinian economy could contract by 9.0 per cent in 2014 and the stagnation may continue into 2015 with a contraction by 1.1 per cent. The forecast values depend on how the crisis situation develops and cannot be conclusive as of July 2014.

Box 5. Emerging conflicts and forecast updates*

2. Iraq

The security situation in Iraq has rapidly deteriorated since June 2014 in the north and the centre of the country. The continuing armed violence and the deepening sociopolitical uncertainty may entail a variety of economic consequences. In the revised forecasting range, three scenarios were considered (box figure II). Scenario 1 assumes no significant changes in the oil-exporting capacity from Basra. The stoppage of crude oil exports from Kirkuk oil fields has already been considered in the May forecast (table 7) as it was sabotaged in March 2014. The rapidly developing crisis situation would impact on domestic demand in Basra and the territory of the Kurdish Regional Government, as well as the suspension of construction projects around Baghdad which would impact the Iraqi GDP. In this scenario, GDP growth in 2014 is forecast at 4.0 per cent in 2014 and at 4.1 per cent in 2015. Scenario 2 assumes a negative impact on the oil-export capacity in Basra that would reduce the level of exports by 20 per cent, in addition to the assumption made in scenario 1. In this scenario, GDP growth is forecast at 3.3 per cent in 2014 and at 1.2 per cent in 2015. Scenario 3 assumes a negative impact on the oil-export capacity in Basra that would reduce the level of crude oil exports by 50 per cent, in addition to the assumption made in scenario 1. In this scenario, GDP is expected to grow by 2.1 per cent in 2014 before contracting by 0.3 per cent in 2015.

3. Libya

The fighting between rival militias intensified in Libya in July 2014, which led to a mass evacuation of foreigners, including United Nations staff, diplomats, businesspeople and non-skilled workers. The May forecast was based on a pessimistic projection on the oil-sector recovery, which remains the same in this update. However, it is the implosion of domestic demand that is expected to have a significantly negative impact on the Libyan economy. Despite the fluctuation in oil exports and political instability, the economy had observed a consistent expansion of domestic demand. This expansion has come to an end owing to the ongoing armed violence. The emerging private sector will not be able to sustain the losses incurred by the deteriorating security situation. Both business sentiment and consumer confidence have crashed, which are not expected to recover in a short period of time. In all scenarios, the forecast for 2014 is revised down to a contraction of 27.5 per cent. For 2015, in the most optimistic ‘reconstruction’ scenario, GDP growth could reach 21.4 per cent. In the mid-range scenario, it is expected to be at 3.4 per cent. In the worst case scenario, the Libyan economy could suffer another contraction by 17.7 per cent.

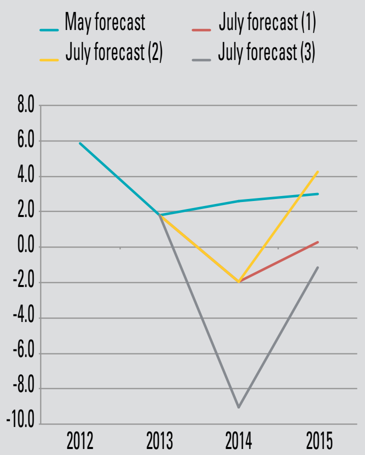
4. Impact on other forecast values as of July 2014

The crisis in Iraq is expected to impact the Jordanian economy given that Iraq constitutes the largest export destination for Jordanian exporters. Moreover, the crisis in Gaza is expected to negatively impact the tourism sector in Jordan. However, other factors, such as recent recovery in domestic demand and accelerating credit growth, could still offset the negative impact of these crises. As of July 2014, the situation has not substantiated yet to revise the forecast range for Jordan from the May 2014 forecast set forth in table 7. The crisis in Libya is expected to impact the economies of Egypt and Tunisia negatively through returning businesspeople and workers from Libya, the loss of investment income and workers’ remittances, and the adverse effect on business confidence from the geographical proximity of the events in Libya. However, as of July 2014, the situation has not substantiated yet to revise the forecast range for Egypt and Tunisia from the May 2014 forecasts (table 7). The forecast range of crude oil price

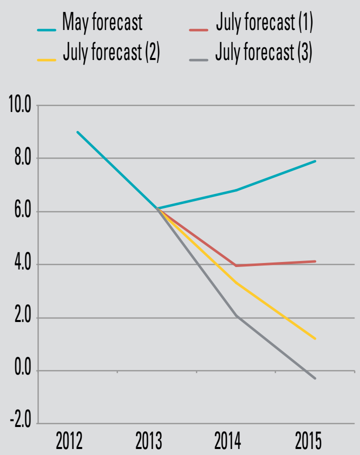
Box 5. Emerging conflicts and forecast updates*

remains unchanged (table 3 in chapter I). This owes mainly to the fact that the crisis in Iraq has not impacted the global supply capacity of crude oil as of July 2014. The geopolitical premium on crude oil prices quickly decreased in energy markets in early July 2014.

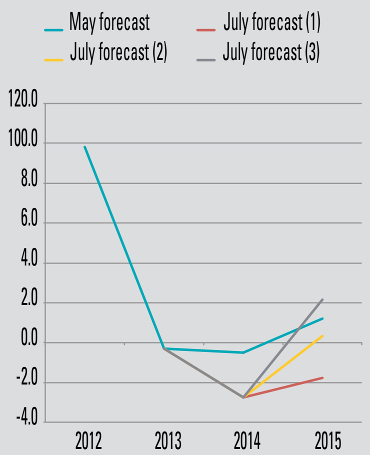
Box Figure I. Palestine: revised forcasts for 2014-2015 (Percentage)



Box figure II. Iraq: revised forecasts for 2014-2015 (Percentage)



Box figure III. Libya: revised forecasts for 2014-2015 (Percentage)



Source: ESCWA calculations.
* Box 5 highlights emerging issues after the monitoring period of this chapter (January 2013 to June 2014). It was added because these issues could change a variety of parameters of the region's socioeconomic developments in the future. ESCWA is closely monitoring the ongoing situation (see, for example, ESCWA, 2014a and 2014b).

and remained the lowest compared to that of other subregions. A low inflation level was also observed in the Comoros, Iraq, Palestine, Libya and Morocco in 2013. However, the structural supply bottleneck raised price levels in the rest of the region's economies. Foreign exchange constraints continued to affect the Sudan and the Syrian Arab Republic, causing the state of hyperinflation. The level of inflation of Egypt and Yemen remained high, in parallel with the growing government debt.

The consumer price inflation rate of the Arab region is forecast to average 6.1 per cent in 2014. The impact of international commodity prices is expected to be limited, although a moderate increase in food prices is projected. GCC countries will be under more inflationary pressure from housing-related items. Exceptionally high inflation rates seen in the Sudan and the Syrian Arab Republic in 2013 are expected to taper off. However, seriously binding foreign exchange constraints are anticipated to remain for non-economic reasons, and the level of inflation is not projected to drop rapidly in both countries in 2014. Egypt and Yemen are projected to experience a higher inflation, owing to rapid monetary expansion under severely binding structural supply constraints. The planned fiscal reforms, if implemented, will influence the price levels, especially in Egypt and Tunisia.

The exchange rates in Arab countries showed more stability in 2013, compared to the previous year, with the exception of Egypt, the Sudan, the Syrian Arab Republic and Tunisia. GCC countries, with the exception of Kuwait, have kept foreign exchange rates pegged to the dollar. Djibouti, Jordan and Lebanon have also kept their national currencies pegged to the dollar. Kuwait has maintained the pegging of the national currency to a basket of foreign currencies. Monetary authorities in Algeria, the Comoros, Iraq, Libya, Mauritania, Morocco, Tunisia and Yemen maintained the managed float regime of foreign exchange rates. The rapid depreciation of the Egyptian pound (EGP) was halted in June 2013, and the value of the currency was stabilized at around EGP 7.0 to the dollar. The Tunisian dinar (TND) gradually depreciated throughout 2013 from TND 1.55 to TND 1.67 to the dollar. However, this trend was reversed after the political transition was completed in the first quarter of 2014, when the rate recovered to TND 1.58 to the dollar.[2] Regarding the Sudan and the Syrian Arab Republic, the value of their national currencies continued to slide against the dollar until they were stabilized in the fourth quarter of 2013. The official rate of the Sudanese pound (SDG) was changed in September 2013 to SDG 5.7 from SDG 4.42 to the dollar, and the value was further cut to SDG 5.71 to the dollar. The value of the Syrian pound (SYP) rapidly dropped from SYP 95 to the dollar in January 2013 to SYP 280 in August 2013 in parallel markets. However, the value of the Syrian national currency recovered and has stabilized at around SYP 155 to the dollar in parallel markets during the first quarter of 2014. The fragile balance of the payments situation is expected to continue in Egypt, the Sudan, the Syrian Arab Republic and Yemen in 2014. Weak external positions are expected to remain in other countries in the Mashreq and Maghreb subregions and in Arab LDCs.

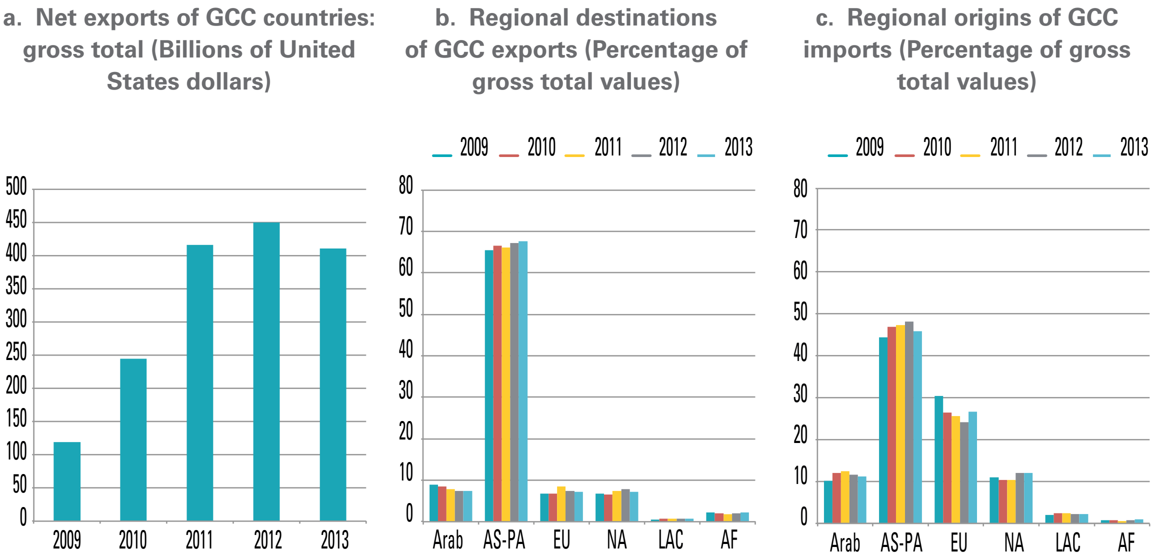
2. GCC countries

The growth of GDP in the GCC subregion was estimated at 4.3 per cent in 2013, after registering 5.7 per cent in 2012. The proportional contribution of the oil sector to that growth decreased as oil export revenues dropped from their historical high in 2012. Activities in the non-oil sector became an engine of growth, a phenomenon most notably represented by the recovery of Dubai in the United Arab Emirates. Robust economic sentiment and confidence were observed in GCC countries, which continued to push up the value of financial and property assets. By the first quarter of 2014, share-price indices surpassed the pre-crisis level of 2008 in stock markets in Qatar and Saudi Arabia. The subregion's financial institutions have completed balance sheet adjustments. In addition to an active fiscal stance, the observed monetary expansion indicated an increasing financial leverage in economic activities that has been supporting the growth of domestic demand.

In 2013, GCC exports to the Asia-Pacific region increased, while the share of imports from the Asia-Pacific region decreased as imports from Europe rebounded (figure 7). The share of intraregional trade in goods stagnated. It was estimated at 7.5 per cent of exports and 11.2 per cent of imports in 2013, indicating no significant change from the previous year. All GCC countries were net exporters in 2013, reflecting the stable and high crude oil prices of recent years, and thus these countries are not under foreign exchange constraints (figure 8). The current account surpluses of GCC countries were estimated to drop at a modest rate in 2013, albeit to varying extents. While the accumulation of foreign reserves decelerated as a result, GCC countries had already accumulated a comfortable level of foreign reserves (figure 9).

In 2013, the sizes of government expenditures in terms of GDP of GCC

Figure 7. Geographical trade structure in GCC countries



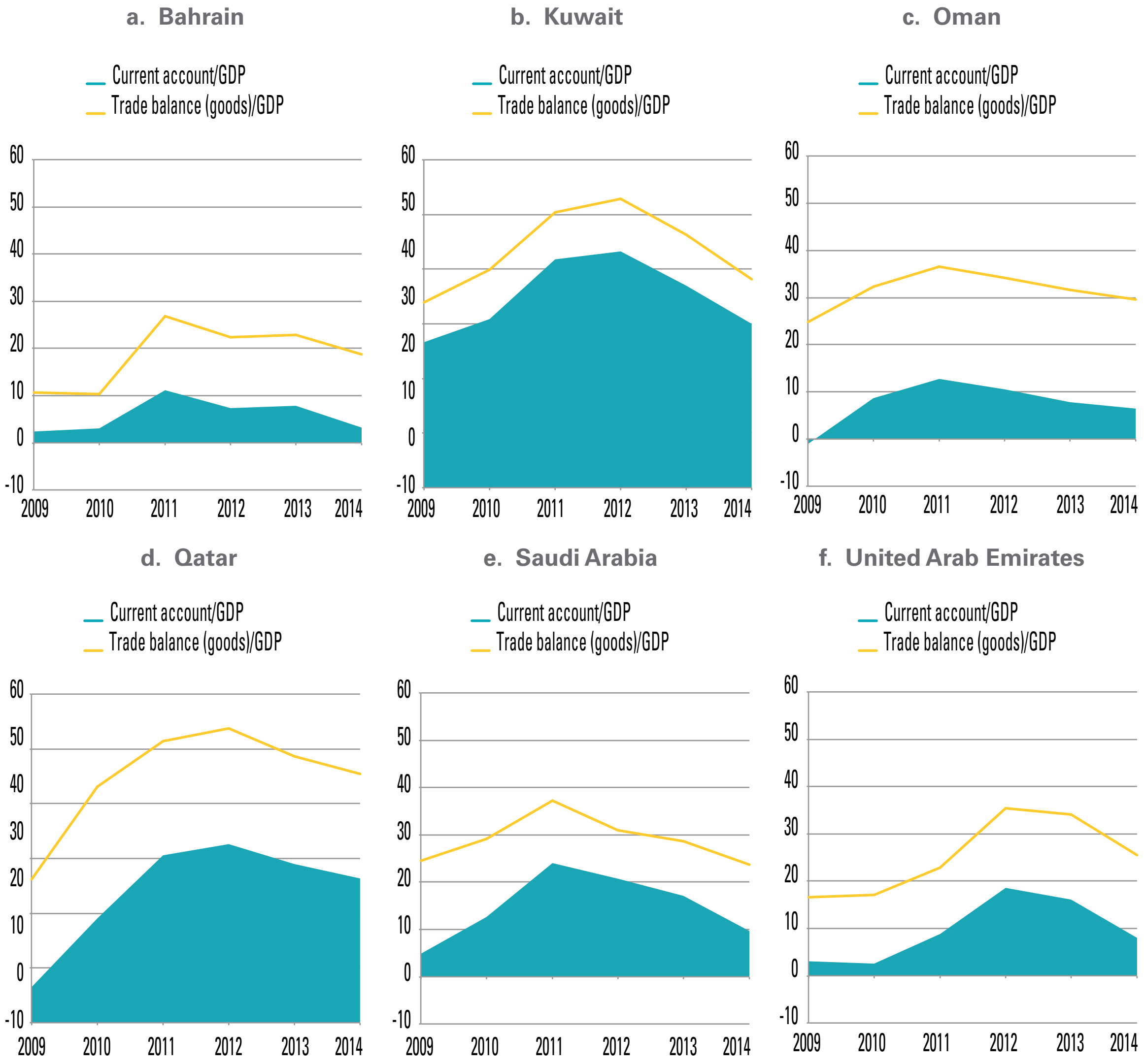
Source: IMF, Directions of Trade Statistics.

countries were estimated to change only marginally, with the exception of the United Arab Emirates (figure 10). The share of government expenditure to GDP was estimated to drop from 24 per cent in 2012 to 21.5 per cent in 2013 in the United Arab Emirates, following the trend after the adoption of countercyclical fiscal measures in 2009 and 2010. Oman and Saudi Arabia were estimated to maintain high capital expenditures in 2013, indicating active government support for infrastructure building. With the exception of Bahrain, GCC countries were estimated to mark budget surpluses in their fiscal year covering 2013. Bahrain's budget deficit, however, was estimated to stay at a manageable level as it was projected to be less than the planned level in Bahrain's 2013-2014 budget.

GCC countries are expected to face little financial constraints for their domestic demand expansion. One remaining constraint could be the demand for and access to credit, which is reflected in the growth of broad money stock (figure 9). In 2013, the growth of broad money stock saw a rapid recovery in Qatar and the United Arab Emirates. The recovery was particularly steep in the United Arab Emirates after the broad money stock growth came to a halt in mid-2012. Despite the lack of acceleration, the broad money stock growth stayed at relatively high levels in other GCC countries. Given this pattern of broad money stock growth, which still remained lower than its recent peak in 2008, the present economic recovery in GCC countries is assessed as robust because no sign of over-leverage has yet been observed.

The growth rate of GDP is projected to stay around the same level in GCC countries in 2014. Declining oil-export revenues are expected to be counterbalanced by the growth of the non-oil sector, which would result in a stable growth of domestic demand. Other factors to consider are fiscal stances, the proportion of non-oil sector activities and robustness from the financial sector associated with monetary expansion. The average real GDP growth rate of the subregion is projected at 4.4 per cent for 2014. Among GCC countries, Qatar and the United Arab Emirates are projected to witness a growth above the subregional average in the context of their rapid non-oil sector expansion. Saudi Arabia is also projected to see a consistent domestic demand expansion with continuing active fiscal policy. However, the shortage of construction workers caused by the deportation of illegal foreign workers is expected to affect the implementation of planned construction projects. Consistent albeit modest growth is projected for Bahrain, Kuwait and Oman in line with the level of domestic demand expansion of these countries. As shown in table 7, the forecast growth rate for 2014 is 4.0 per cent for Bahrain; 3.8 per cent for Kuwait; 3.8 per cent for Oman; 5.5 per cent for Qatar; 4.0 per cent

Figure 8. Trade balance and current account balance in GCC countries, 2009-2014



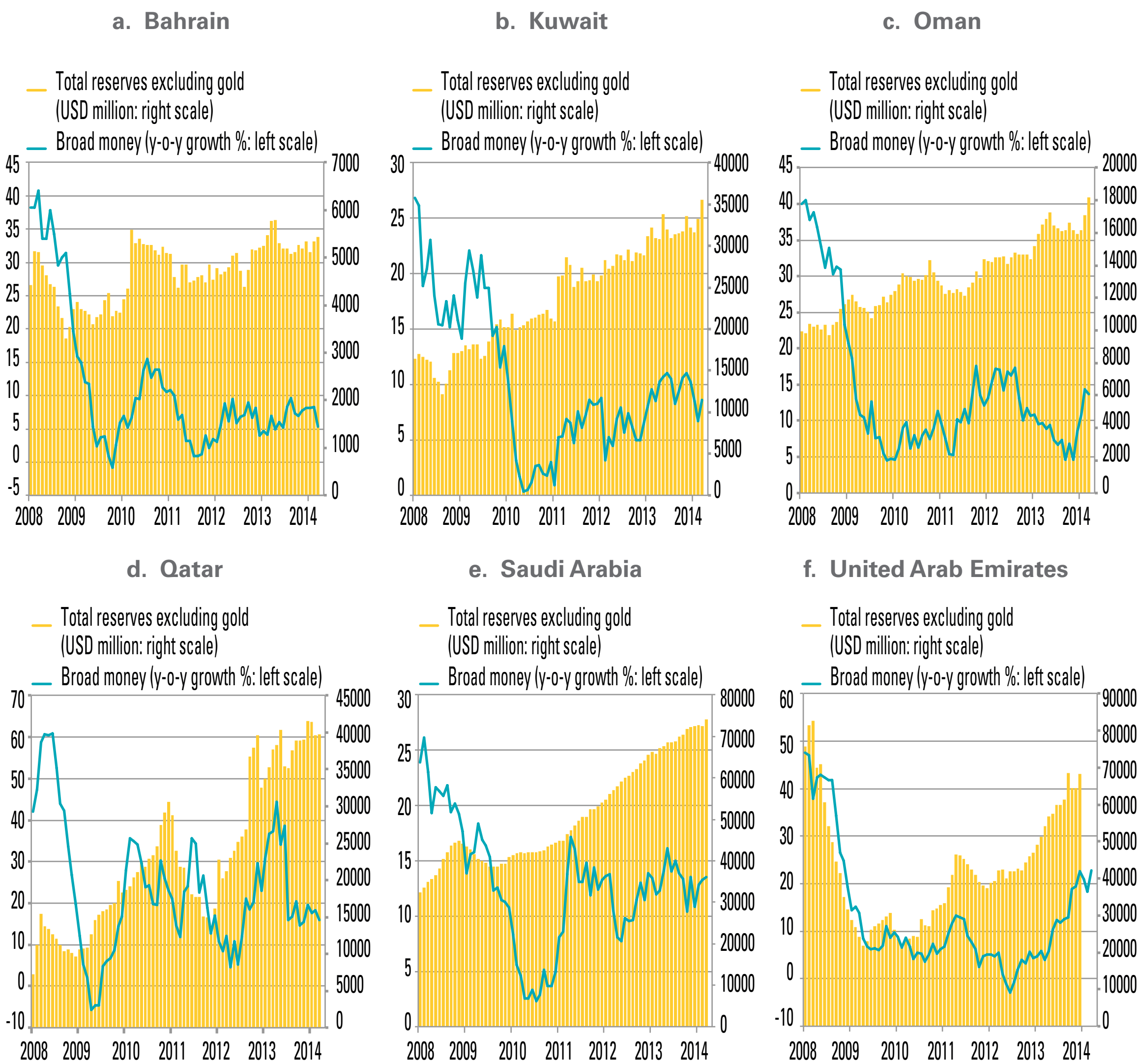
Source: ESCWA calculations based on the following national sources: Central Bank of Bahrain, 2014; Central Bank of Kuwait, 2013; Central Bank of Oman, 2014; Central Bank of Qatar, n.d., Balance of Payments; Saudi Arabian Monetary Agency, Annual Statistics 2010-2013; and Central Bank of the United Arab Emirates, 2010, 2011, 2012a, 2013.
Note: Figures for 2013 and 2014 are ESCWA estimates and/or projections.

for Saudi Arabia; and 5.2 per cent for the United Arab Emirates.

3. Mashreq countries

The economies in the Mashreq subregion are, on average, estimated to have contracted by 0.6 per cent in 2013, after registering 0.1 per cent growth in 2012. The crisis in the Syrian Arab Republic and its repercussion on neighbouring countries has continued to affect the economy. This subregion has been the most affected by political instability and social unrest, which are hampering forward-looking economic activities, such as physical investments. Lower energy prices helped to stabilize current account deficits and a few signs of improved economic sentiment have been observed. For example, the stock market index in Egypt recovered in the first quarter of 2014 to surpass the level at the start of the sociopolitical transition of

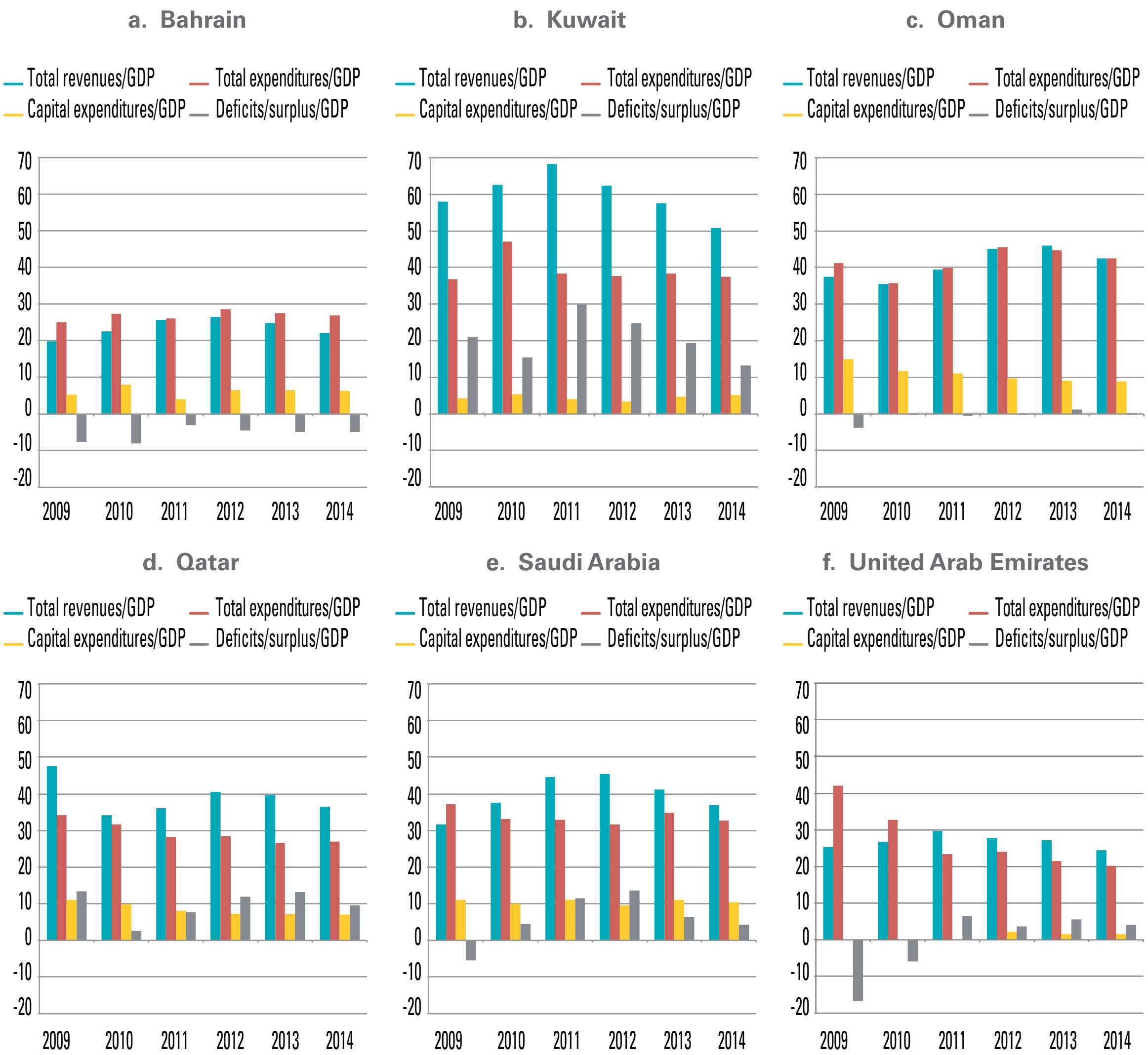
Figure 9. Monetary indicators in GCC countries, 2008-2014



Abbreviation: y-o-y, year-on-year.
Source: ESCWA calculations based on IMF, International Financial Statistics.

January 2011. However, subdued tourism and the lack of foreign direct investment (FDI) inflows have forced countries to rely on bilateral financial support to finance the current account deficits. With the increased level of foreign reserves, Egypt and Jordan could change their monetary policy stance from tightening to easing. While Jordan and Lebanon were estimated to mark a positive growth in 2013, the magnitude was insufficient to improve the standard of living of their citizens owing to the influx of refugees from the Syrian Arab Republic. The fiscal shortfall to support the refugees impacted Jordan and Lebanon, resulting in the deterioration of the living standard of refugees and in insufficient levels of domestic economic activities to sustain the suddenly increasing number of residents. The growth of GDP in Iraq continued to be led by crude oil production, oil sector related activities in the south of the country and a consistent

Figure 10. Fiscal positions in GCC countries, 2009-2014



Source: ESCWA calculations based on the following national sources: Central Bank of Bahrain, 2013; Central Bank of Kuwait, 2013; Central Bank of Oman, 2014, and Oman, National Centre for Statistics and Information, 2013a; Central Bank of Qatar, 2014; Saudi Arabian Monetary Agency, n.d., Annual Statistics; and United Arab Emirates, Ministry of Finance, 2012 and 2013, and National Bureau of Statistics, 2012.

Note: Figures for 2013 and 2014 are ESCWA estimates and/or projections.

economic expansion in the region controlled by the Kurdish Regional Government. The subnational gap in Iraq has widened, with activities in the central region stalling as a result of rapidly growing security risks. The destruction of the Syrian economy continues to severely hamper economic activities. The rising cost of domestic transport paralysed the economy, even in areas not directly suffering from violence and conflict. The real GDP growth of Palestine decelerated. Subdued construction activities, which were the core of domestic demand expansion for the reconstruction of the Gaza Strip, stalled. Hostilities, physical blockades and security risks continue to hamper the Palestinian economy.

In 2013, exports by Mashreq countries to the Asia and Pacific region continued to grow to reach an estimated share of 44.4 per cent of gross total exports, reflecting the growing value of energy and natural resources exports from this subregion (figure 11). The subregion's imports from the Asia and Pacific region also increased to reach an estimated share of 52.4 per cent of gross total imports of Mashreq countries. The estimated share of intraregional trade stagnated in 2013, with a share of 20.2 per cent in exports and 20.9 per cent in imports. Nevertheless, the share of intraregional trade stayed much higher than for GCC countries and Maghreb countries. The Mashreq subregion remained a net importer and, with the exception of Iraq, Mashreq countries ran substantial trade deficits that were financed by surpluses in the service account (transport and tourism) and income account, current transfers including workers' remittances and capital inflows (figure 12). Given that the trade balance is structurally far from becoming positive and that current accounts are chronically in deficit in those countries, the extent of foreign exchange constraints was determined more by capital inflows. Before 2011, none of the Mashreq countries were under foreign exchange constraints as sufficient capital inflows resulted in the accumulation of foreign reserves in addition to financing current account deficits (figure 13). After 2011, Egypt, Jordan and the Syrian Arab Republic experienced the depletion of foreign reserves, but the situation was stabilized in Egypt and Jordan by the end of 2013.

The size of government expenditures in terms of a percentage of GDP in 2013 were estimated to change only marginally in Mashreq countries, except for Egypt where government expenditure was estimated to increase from 33.1 per cent of GDP in the 2011/2012 fiscal year to 38.3 per cent of GDP in the 2012/2013 fiscal year (figure 14). As a result, Egypt's budget deficits expanded to 14.3 per cent of GDP in 2012/2013, up from 10.8 per cent of GDP in 2011/2012. High budget deficits were observed in Lebanon and Palestine in 2013, where they were estimated at 9.2 per cent of GDP and 10.1 per cent of GDP, respectively. Jordan managed to reduce the deficit to 5.5 per cent of GDP in 2013 from 8.3 per cent of GDP in the previous year. Iraq was estimated to record a budget surplus in 2013, but this is projected to fall to a budget deficit in 2014 because of declining oil revenues.

Regarding the domestic demand expansion, Mashreq countries are assessed to be under financial constraints in terms of fiscal expenditures. Foreign exchange constrains mildly pressured the economy of Egypt and severely pressured that of the Syrian Arab Republic. Under these constraints, however, substantial acceleration of broad money stock was observed in Egypt, Iraq, Jordan and Palestine (figure 13). For Iraq, Jordan and Palestine, the broad money growth was paralleled with the accumulation of foreign reserves, indicating that the broad money growth was supported by the inflows of external funds. However, the broad money growth in Egypt was not supported by external funds inflows, indicating a possible monetary cause of recent high consumer price inflation. In spite of the ample foreign reserves accumulated over the past decade,

Box 6. Regional economic repercussions of the crises in Iraq and the Syrian Arab Republic

In early September 2013, the world economy felt the economic impact of the crisis in the Syrian Arab Republic, albeit temporarily, in terms of a geopolitical premium in international commodity and financial markets when the escalation of armed conflicts was speculated. This episode exemplified an economic risk that the crisis could pose by triggering a negative shock through global commodity and financial markets. The negative impact on economic actors' risk appetite has been felt in neighbouring countries in the Arab region, namely Iraq, Jordan and Lebanon. With the exception of Iraq, the positions of the balance of payments in those countries have been weakened. This was also partly following the general trend in developing countries, mostly due to the expected near-future tapering of United States monetary policy, and the declining risk appetite in these countries has exacerbated external vulnerability. The perception of deteriorating risk continued to impact economic activities in the neighbouring countries of the Syrian Arab Republic. In dollar-adjusted terms, all GCC countries stock price indices rose significantly from 2013 to the end of the first quarter of 2014, while those of the Syrian Arab Republic and its neighbouring countries declined. The weakened business confidence resulted in a decline in investment and other forward-looking economic activities in those countries.

As was widely reported, the influx of Syrian refugees to the neighbouring countries, particularly to Jordan and Lebanon, is a major concern with economic and social consequences.[*] Both Governments in these countries repeatedly requested financial aid as their public services and infrastructure were struggling to accommodate the refugees. Moreover, the presence of refugees in these countries has a large impact on labour markets. In Lebanon, for example, a 2013 estimation shows that the population that was living in the country before the crisis could lose out a significant amount of household revenues due to a decline in wages of up to 50 per cent, as a consequence of the significantly increased labour supply. It should be noted that at the baseline, the unemployment rate could reach 29 per cent even if none of the refugees are absorbed in the labour markets. This impact is expected to be felt more in the informal sector and by both high- and low-skilled categories in Lebanon's highly segmented labour markets. Even before the crisis, Syrian and other migrant workers were competing with Lebanese workers for low-skilled jobs. As Lebanese labour law stipulates workers' entitlements in the formal sector, including wages, work hours and social security, migrant workers in the informal sector possess a significant cost advantage for employers over Lebanese workers. Consequently, as the low-skilled category is mostly in the informal sector, the increasing availability of workers with the excessively low reservation wage in effect eliminated the employability of Lebanese workers in this category. In addition, a large inflow of skilled Syrian migrants started competing with Lebanese skilled workers, mostly in the informal sector. In the context of continuing economic stagnation, a strong incentive exists for Lebanese employers to resort to cost-cutting by using the ample informal pool of migrant workers.

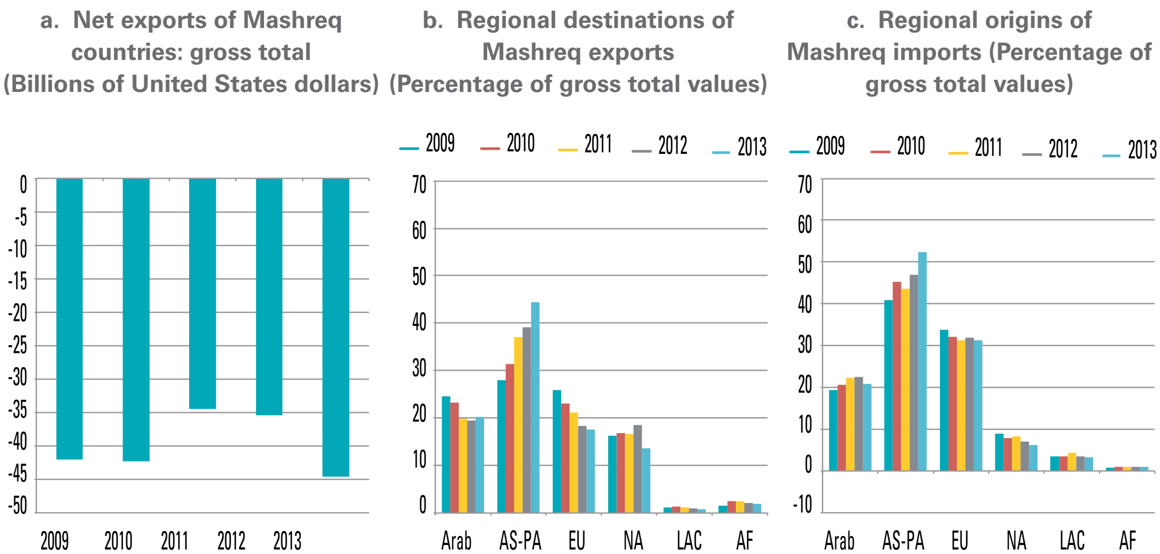
As the security situation rapidly deteriorated in Iraq in 2014, further negative repercussions are anticipated. The intense armed violence in Iraq and the Syrian Arab Republic is affecting one of the major intraregional trade routes, and impacting Jordan and Lebanon for which Iraq has been the major export destination. Moreover, the crisis in Iraq is expected to impact the Iraqi business community in Jordan that brought

Box 6. Regional economic repercussions of the crises in Iraq and the Syrian Arab Republic

positive spillovers from the once booming oil-related business in Iraq. The Iraqi crisis may impact the humanitarian situation in the Syrian Arab Republic given the closure of informal trading routes with Iraq, on which part of population rely in order to conduct informal economic activities for survival. As economic institutions in Iraq and the Syrian Arab Republic were increasingly weakened, the crises are not only impacting the Iraqi and Syrian economic, social and humanitarian situations, but also eroding intraregional linkages, which are vital for the economic and social development of Mashreq countries.

* The most recently published detailed analysis for the case of Lebanon is World Bank, 2013d.

Figure 11. Geographical trade structure in Mashreq countries

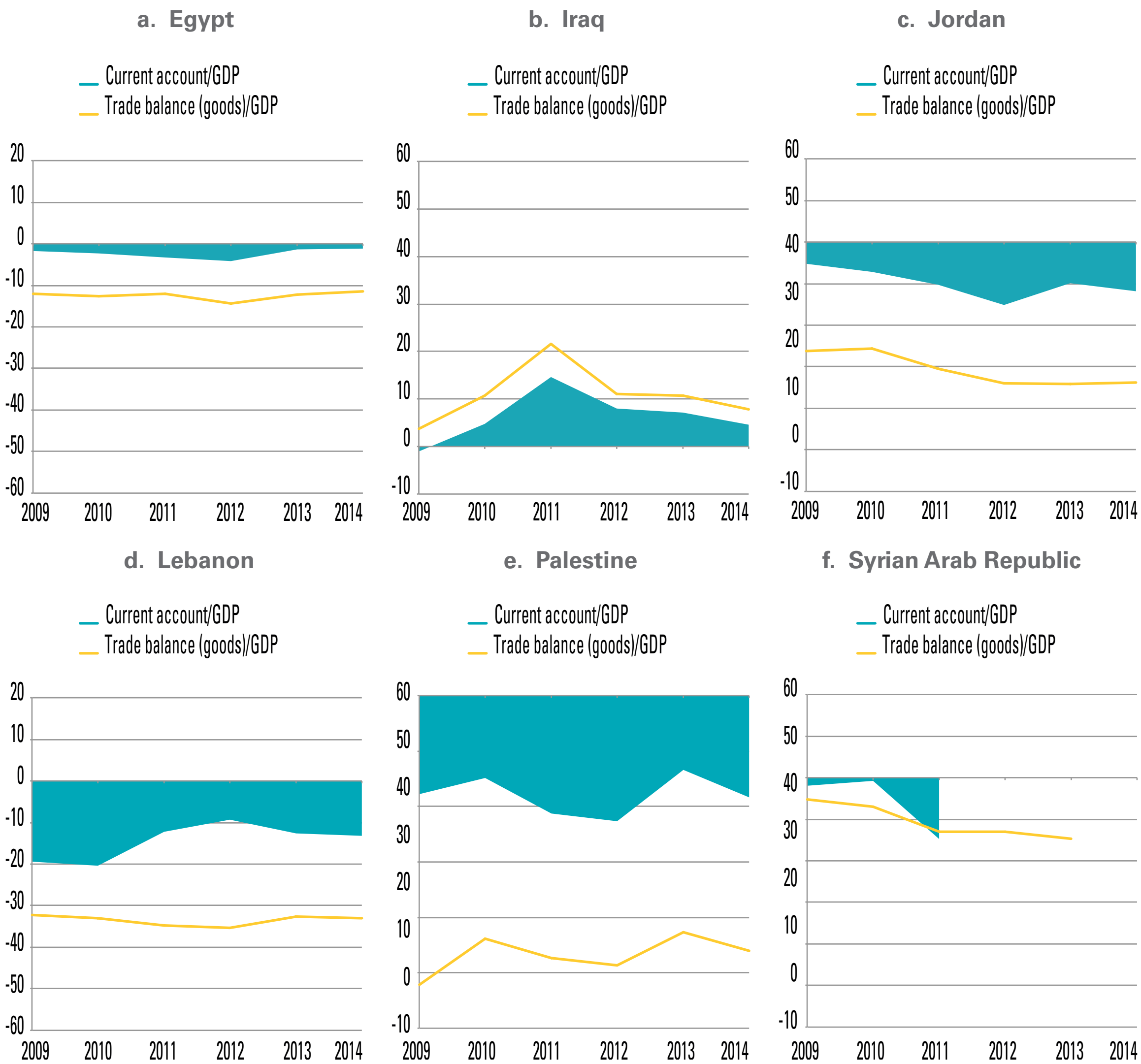


Source: IMF, Directions of Trade Statistics.

the broad money growth in Lebanon stagnated, implying weak domestic demand and economic activities.

In 2014, the Mashreq subregion is projected to stay stagnated, with a growth of 2.9 per cent. The forecast value for the Syrian Arab Republic is not included owing to a lack of data. The perceived uncertainty and political and geopolitical risks have overwhelmed a few positive factors for economic growth by continuing to hamper investments. Weak growth in domestic demand and non-energy exports are projected in all countries in the subregion. However, Mashreq countries, with the exception of the Syrian Arab Republic, are expected to be spared from a balance of payments crisis, given the availability of intraregional support for those countries with current account deficits. As the tight fiscal stance continues, countries continue to rely on monetary policy for pro-growth measures. The forecast growth rate for 2014 is 2.4 per cent for Egypt; 6.8 per cent

Figure 12. Trade balance and current account balance in Mashreq countries, 2009-2014



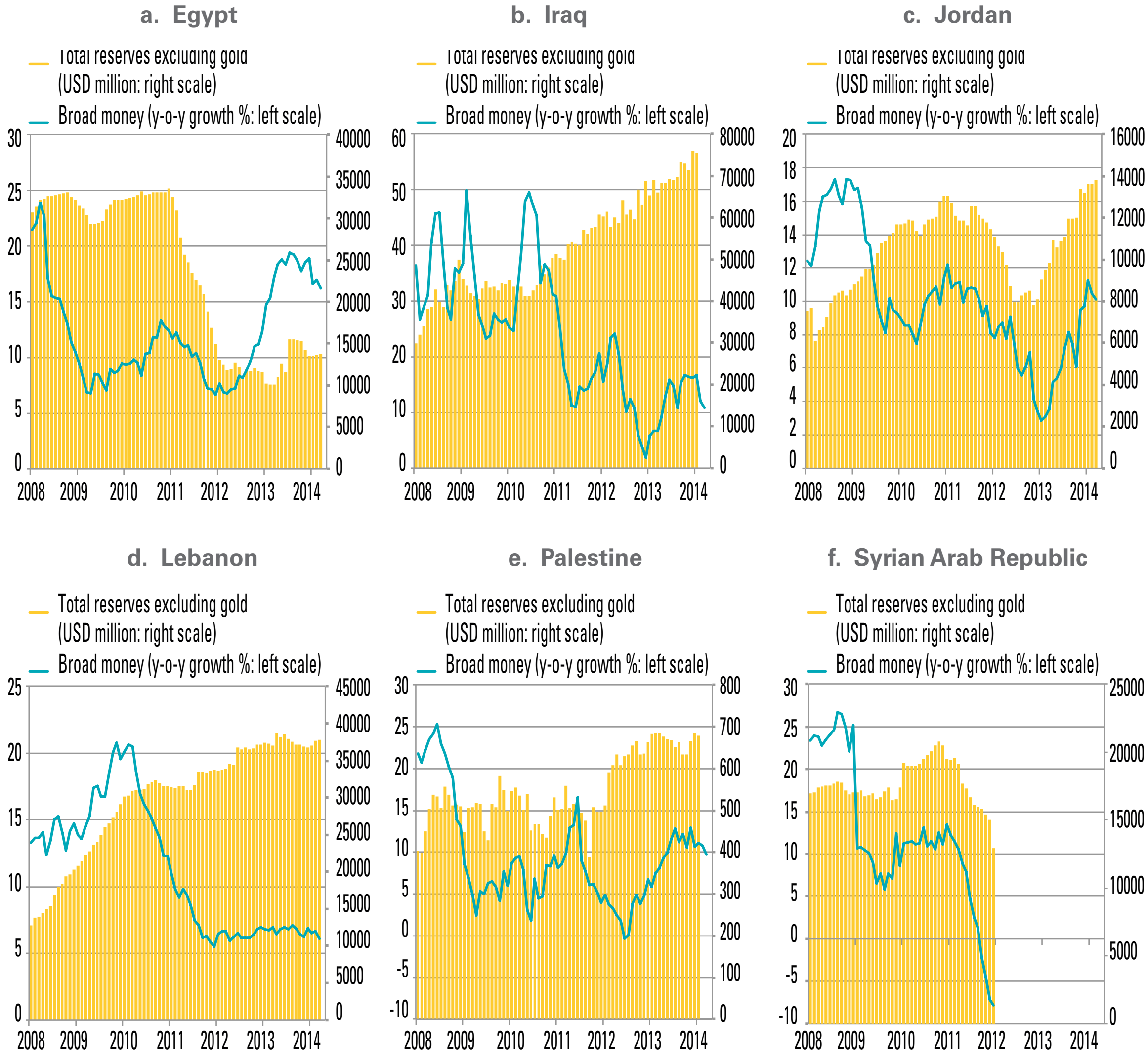
Source: ESCWA calculations based on the following national sources: Central Bank of Egypt, 2014; Central Bank of Iraq, n.d.a, Balance of Payments; Central Bank of Jordan, n.d.; Central Bank of Lebanon, n.d., External Sector and Balance of Payments Statistics and Research – Main series; Palestine Monetary Authority, n.d.b; and Central Bank of the Syrian Arab Republic, 2011.
Note: Figures for 2013 and 2014 are ESCWA projections. Figures for Lebanon are ESCWA estimates, as are figures for the Syrian Arab Republic for 2011, 2012 and 2013.

for Iraq; 3.0 per cent for Jordan; 2.5 per cent for Lebanon; and 2.6 per cent for Palestine.

4. Maghreb countries

The Maghreb subregion is estimated to have grown by 2.2 per cent in 2013, down from 21.2 per cent in 2012. The average growth of this subregion was affected by Libya, whose economy experienced another contraction after the recovery in 2012. Libya's oil and gas production and exports collapsed again in the second half of 2013 as opposition groups occupied facilities. While several efforts led to the temporary resumptions of crude oil production and exports, the level stood at just above half of the pre-2011 level at best. Recovery in the

Figure 13. Monetary indicators in Mashreq countries, 2008-2014

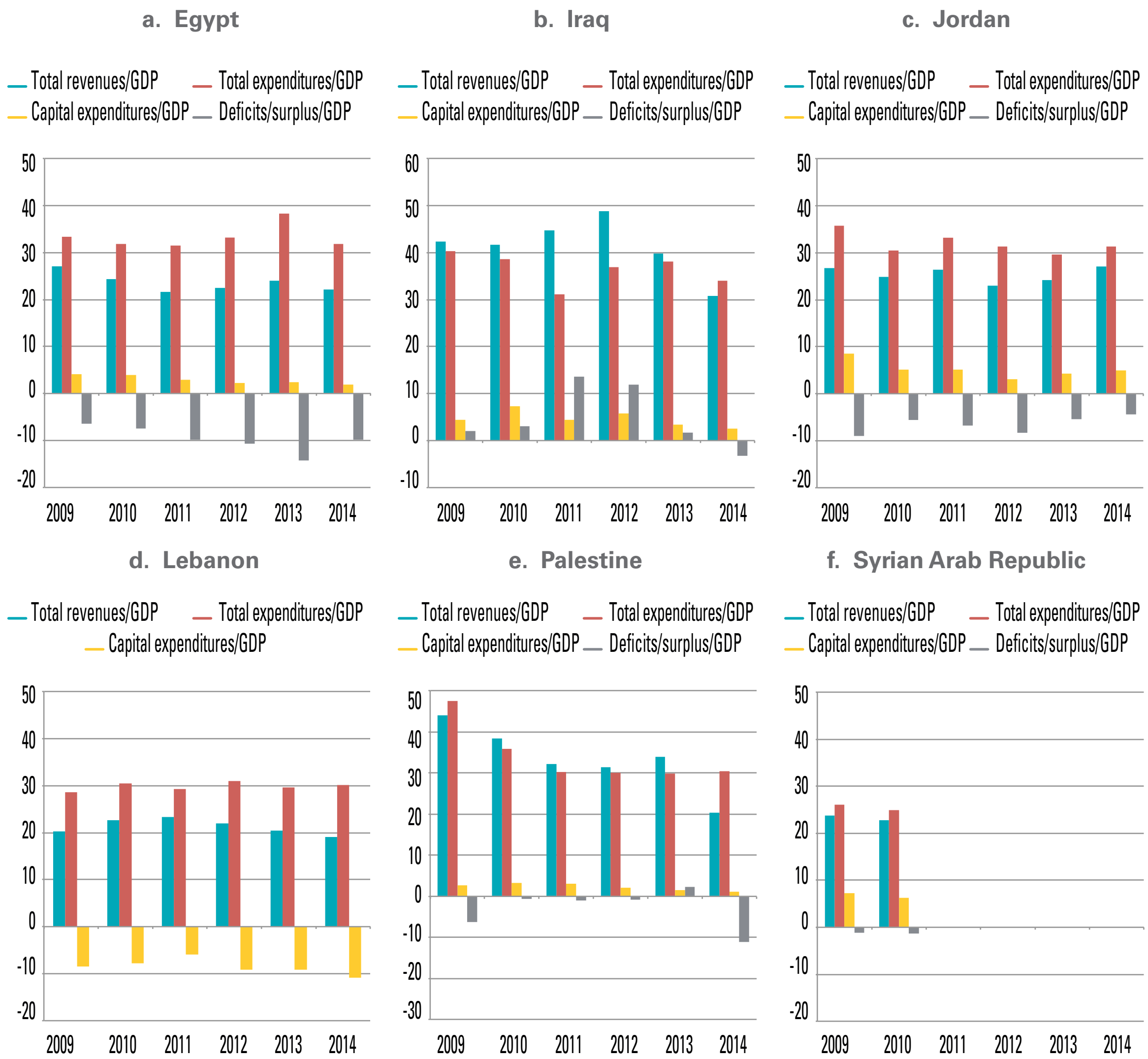


Source: ESCWA calculations based on IMF, International Financial Statistics.

agricultural sector buoyed the Moroccan economy in 2013 and, given its relative political stability, Morocco enjoyed constant industrial development. The availability of foreign funds, both for the public and private sectors, supported domestic demand expansion. Stable energy export revenues maintained the Algerian economy in line with its medium-term trend; however, it stayed below potential owing to the lack of economic diversification in non-energy sectors. Tunisia became the first Arab country to complete its political transition process. However, before the completion, the country's economic activities decelerated in the fourth quarter of 2013. Despite the availability of foreign funds, the low level of FDI and tourism put the Tunisian economy under further foreign exchange constraints in 2013.

The Maghreb subregion maintained a strong trade linkage with Europe in 2013 and this trend did not show any sign of

Figure 14. Fiscal positions in Mashreq countries, 2009-2014



Source: ESCWA calculations based on the following national sources: Central Bank of Egypt, 2014; Central Bank of Iraq, 2012, 2011 and 2010; Jordan, Ministry of Finance, 2014; Lebanon, Ministry of Finance, n.d., Fiscal Performance Reports; Palestine Monetary Authority, n.d.c; and Central Bank of the Syrian Arab Republic, 2011.
Notes: Figures for 2013 and 2014 are ESCWA estimates and/or projections. Total revenues for Jordan and Palestine include foreign grants.

change (figure 15). Naturally, the Maghreb subregion was impacted the most by a stagnating growth of the European economy. The share of intraregional trade in gross total of Maghreb exports and imports stayed low in 2013, at 6.7 per cent of exports and 10.7 per cent of imports. Given current economic uncertainties, it may be beneficial for the subregion to diversify its geographical economic linkage from Europe to Arab and non-Arab African countries. The Maghreb subregion becomes a net exporter when energy export revenues are sufficiently high and it becomes a net importer when they plunge. The subregion's two main energy-exporting countries, namely Algeria and Libya, saw a decline in their export revenues in 2013 due to marginally declining energy prices and, in the case of Libya, to a significant disruption in crude-oil exports stemming from political instability (figure 16). As imports were estimated to grow consistently in Algeria and Libya, the current account surplus is projected to shrink in 2013. Morocco and Tunisia remained in need to attract service trade, such as tourism, transfers including workers' remittances and capital inflows to finance trade balance deficits in 2013. Private and public capital inflows were estimated to have moderately recovered as foreign reserves started accumulating again, albeit at a slow pace, despite no observably substantial decline in current account deficits (figure 17).

In 2013, the sizes of government expenditures in terms of a percentage of GDP were estimated to decline in Algeria and Morocco due to the reduction in capital expenditures (figure 18). By contrast, government expenditures as a percentage of GDP were estimated to have marginally increased in Libya and Tunisia. Algeria and Libya are expected to take active fiscal stances, using reserved financial resources to cope with the declining revenues from energy exports. Morocco and Tunisia are expected to continue fiscal austerity stances, implementing further fiscal consolidation measures.

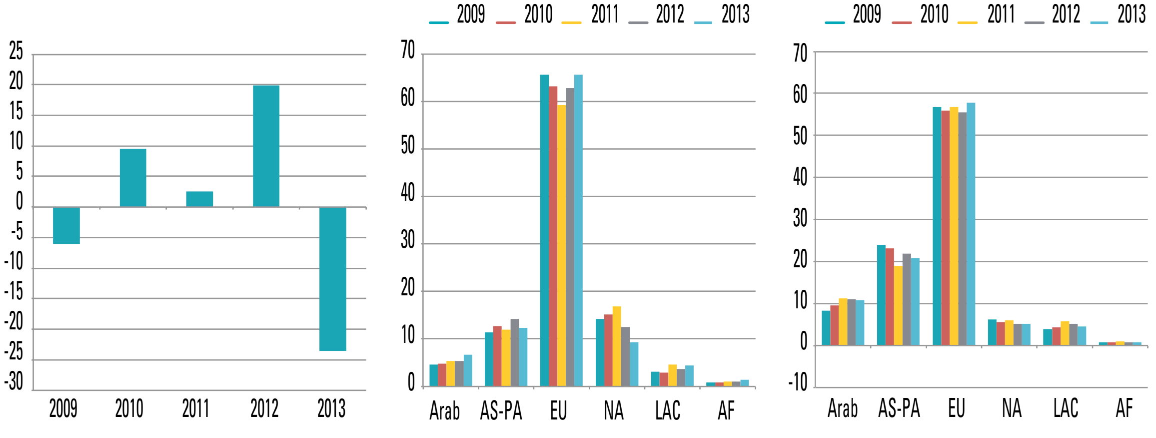
Regarding domestic demand expansion, Algeria and Libya are assessed to be under no financial constraints in terms of foreign exchange and fiscal expenditures. However, domestic demand expansions did not achieve their potential levels in both countries, as seen in the weak growth of broad money stock. Morocco and Tunisia are assessed to be under constraints in terms of fiscal expenditures, as both Governments are actively engaged in fiscal consolidation, including subsidy reform. Tunisia is also assessed to be facing moderate foreign exchange constraints; however, policy measures, such as monetary tightening, have been taken to alleviate the impact of these constraints (figure 17). This monetary tightening resulted in a weak growth of broad money stock in Tunisia. Broad money growth is also weak in Morocco, thereby

Figure 15. Geographical trade structure in Maghreb countries

a. Net exports of Maghreb countries: gross total (Billions of United States dollars)

b. Regional destinations of Maghreb exports (Percentage of gross total values)

c. Regional origins of Maghreb imports (Percentage of gross total values)

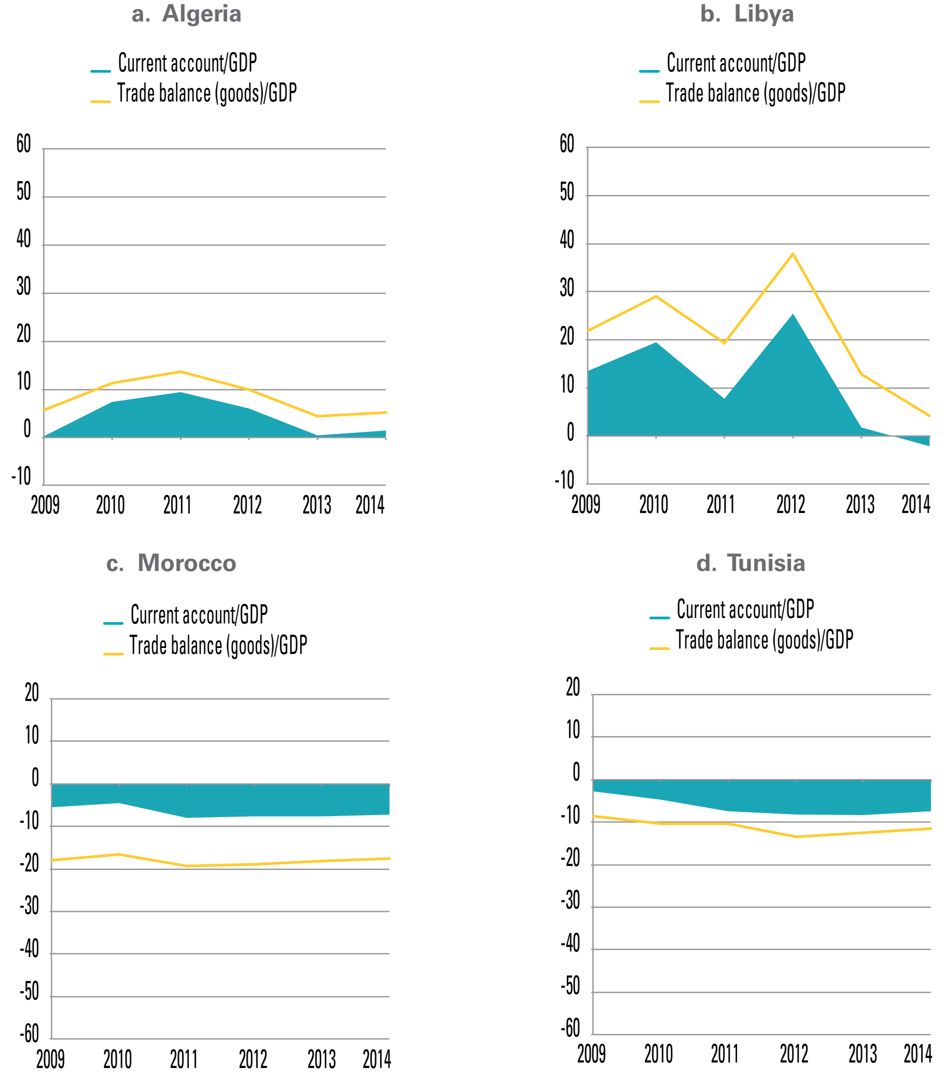


Source: IMF, Directions of Trade Statistics.

indicating subdued economic sentiment despite the country's political and social stability.

In 2014, the Maghreb subregion is projected to continue to grow by 1.9 per cent. The contraction of the Libyan economy is also projected to continue, given that its oil-exporting capacity is set to be reduced due to political instability. Other Maghreb countries are expected to witness a calmer non-economic environment, allowing them to attract FDI and enhance bilateral and multilateral international cooperation. An increased number of pledges were made among GCC countries to support Morocco and Tunisia. Nevertheless, weak industrial development and hovering unemployment remain structural risk factors for the subregion. The forecast growth rate for 2014 is 3.6 per cent for Algeria; 3.6 per cent for Morocco; and 3.0 per cent for Tunisia. The

Figure 16. Trade balance and current account balance in Maghreb countries, 2009-2014



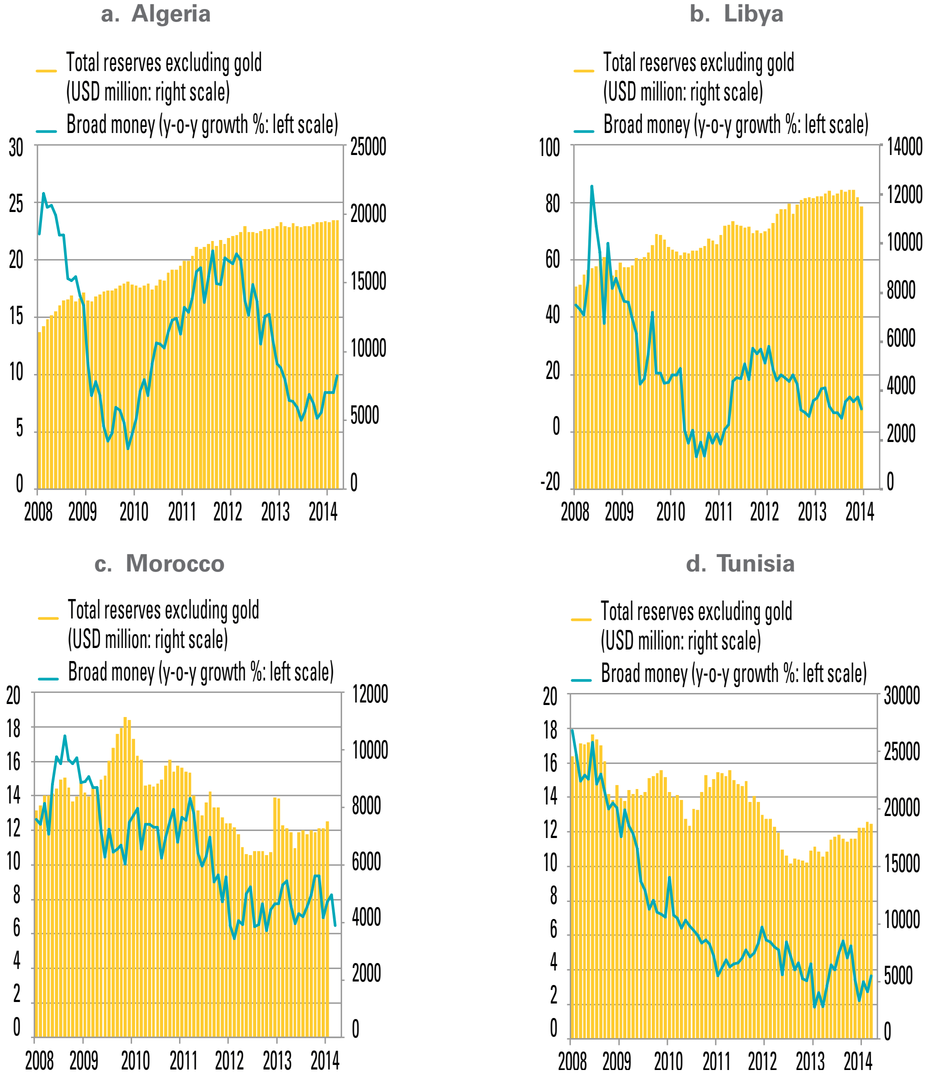
Source: ESCWA calculations based on the following national sources: Bank of Algeria, 2014; Central Bank of Libya, 2013; Morocco, Bank Al-Maghrib, 2013; and Central Bank of Tunisia, n.d., Monetary, Economic and Financial Statistics.
Note: Figures for 2013 and 2014 are ESCWA projections.

Libyan economy is projected to contract by 5.0 per cent.

5. Arab least developed countries

The economies of Arab LDCs are, on average, estimated to have grown by 3.4 per cent in 2013, following a growth of 1.6 per cent in 2012. In 2013, the struggle to stabilize the domestic economy of the Sudan after the secession of South Sudan continued. While the Sudan remained under severe foreign exchange constraints, the recovery of both oil and non-oil exports led to a modest acceleration in economic growth. The 2013 agreement with South Sudan on the terms of oil production and transportation improved external economic environment, in spite of the deteriorating political situation in South Sudan. Despite frequent attacks on oil pipelines, the recovery in oil export revenues buoyed the Yemeni economy in terms of GDP growth. Financial support for Yemeni political

Figure 17. Monetary indicators in Maghreb countries, 2008-2014

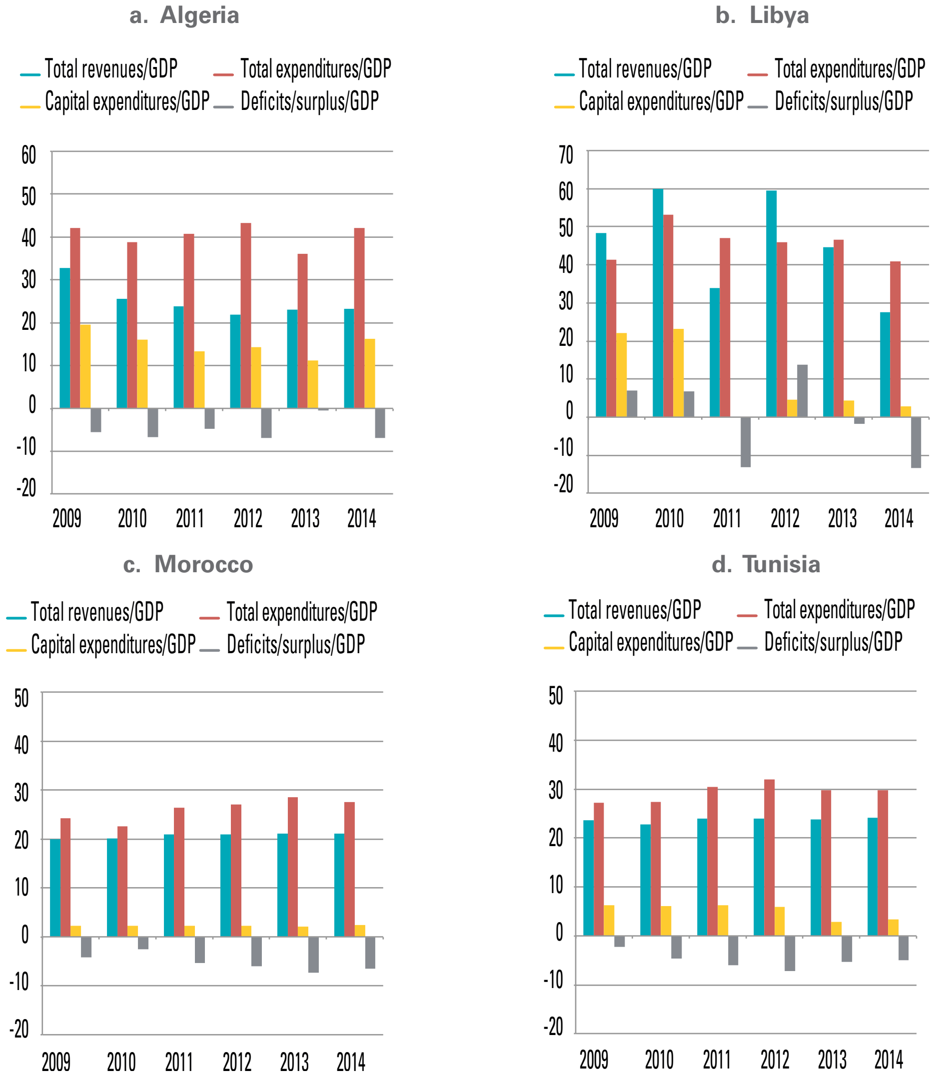


Source: ESCWA calculations based on IMF, International Financial Statistics.

transition was actively pledged at both the regional and international levels. However, the growth of domestic demand remained weak, owing to a rapidly growing level of public debt. Other Arab LDCs, namely the Comoros, Djibouti and Mauritania, marked a higher GDP growth in 2013. Political stabilization in Somalia brought more economic activities and a better-functioning public sector. Anecdotal evidence suggests that the economy of Somalia was experiencing a rapid expansion owing to reconstruction activities, although no official data are available to show the exact magnitude of the expansion.

As the main exporting items for Arab LDCs are energy and natural resources,

Figure 18. Fiscal positions in Maghreb countries, 2009-2014

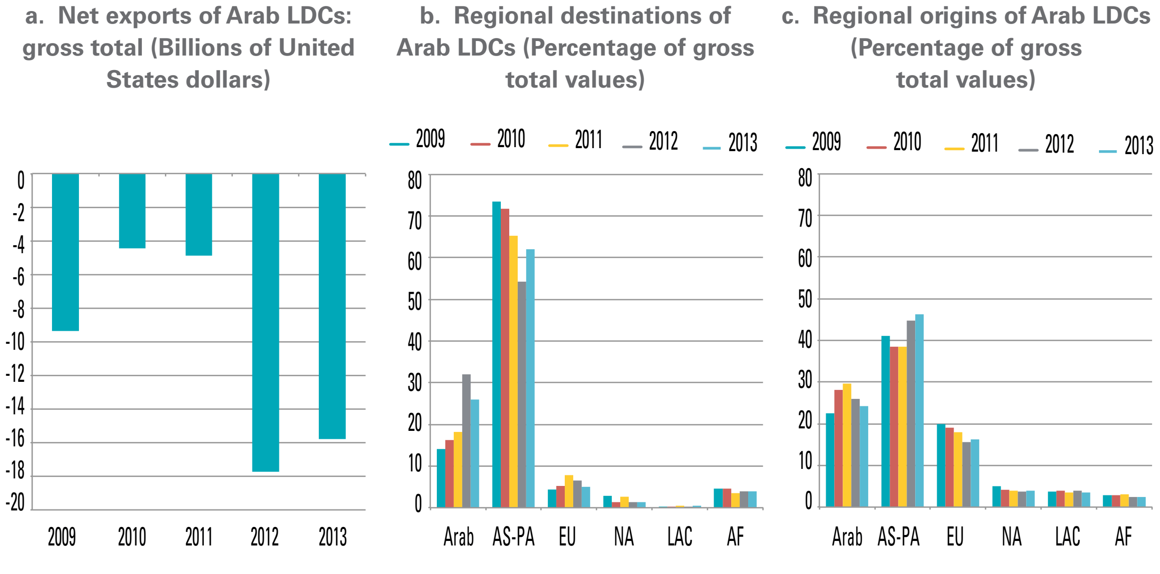


Source: ESCWA calculations based on the following national sources: Algeria, Ministry of Finance, 2014 and 2013; Central Bank of Libya, 2013; Morocco, Bank Al-Maghrib, 2013, and *Revue Mensuelle de la Conjoncture économique, monétaire et financière*; Central Bank of Tunisia, n.d., Monetary, Economic and Financial Statistics, and Ministry of Finance and Economy, n.d., *Synthèse des résultats des finances publiques*.
Note: Figures for 2013 and 2014 are ESCWA estimates and/or projections.

the Asia and Pacific region remained the largest export destination in 2013 (figure 19). Nevertheless, the share of intraregional trade in the exports and imports of this group remained relatively high, compared to GCC countries and Maghreb countries: the estimated share in exports stood at 25.9 per cent and that in imports stood at 24.3 per cent in 2013. While all Arab LDCs are estimated to have been net importers in 2013, Mauritania saw growing exports of natural resources. Arab LDCs were facing both foreign exchange and fiscal constraints in 2013, and the latitude for stable domestic demand expansion was limited. Foreign aid inflows are essential to alleviate those constraints. Nevertheless, Djibouti and Mauritania increased foreign reserves while their current accounts stayed in deficit (figures 21 and 20, respectively), thereby indicating significant growth in capital inflows and improving external positions. Both countries maintained relatively high capital expenditures in government spending (figure 22), and managed fiscal deficits at relatively low levels. The Comoros depends to a great degree on foreign aid to finance trade deficits and the government budget, given that such potential growth sectors as tourism have yet to be developed. The Sudan and Yemen saw narrowing trade deficits, but their current accounts remained in deficit in 2013. Tight fiscal condition continued in both countries as government debt increased. The broad money stock grew fast in the Sudan and Yemen, albeit decelerating towards the end of 2013. Those rapid broad money stock growths were not supported by external funds inflows, indicating a possible monetary cause of recent high consumer price inflation.

In 2014, real GDP growth of Arab LDCs is projected to average 2.7 per cent. As the growth in energy and natural resource exports slows, the growth in Mauritania and Yemen is expected to taper off. The Comoros is expected to be on a constant growth path, provided that there is no significant change in the inflow of external funds, including aid. The economic prospects of Djibouti remain influenced by Ethiopia's economy, which is expected to be stable. The expansion of port activities

Figure 19. Geographical trade structure in Arab LDCs



Source: IMF, Directions of Trade Statistics.

Figure 20. Trade balance and current account balance in Arab LDCs, 2009-2014

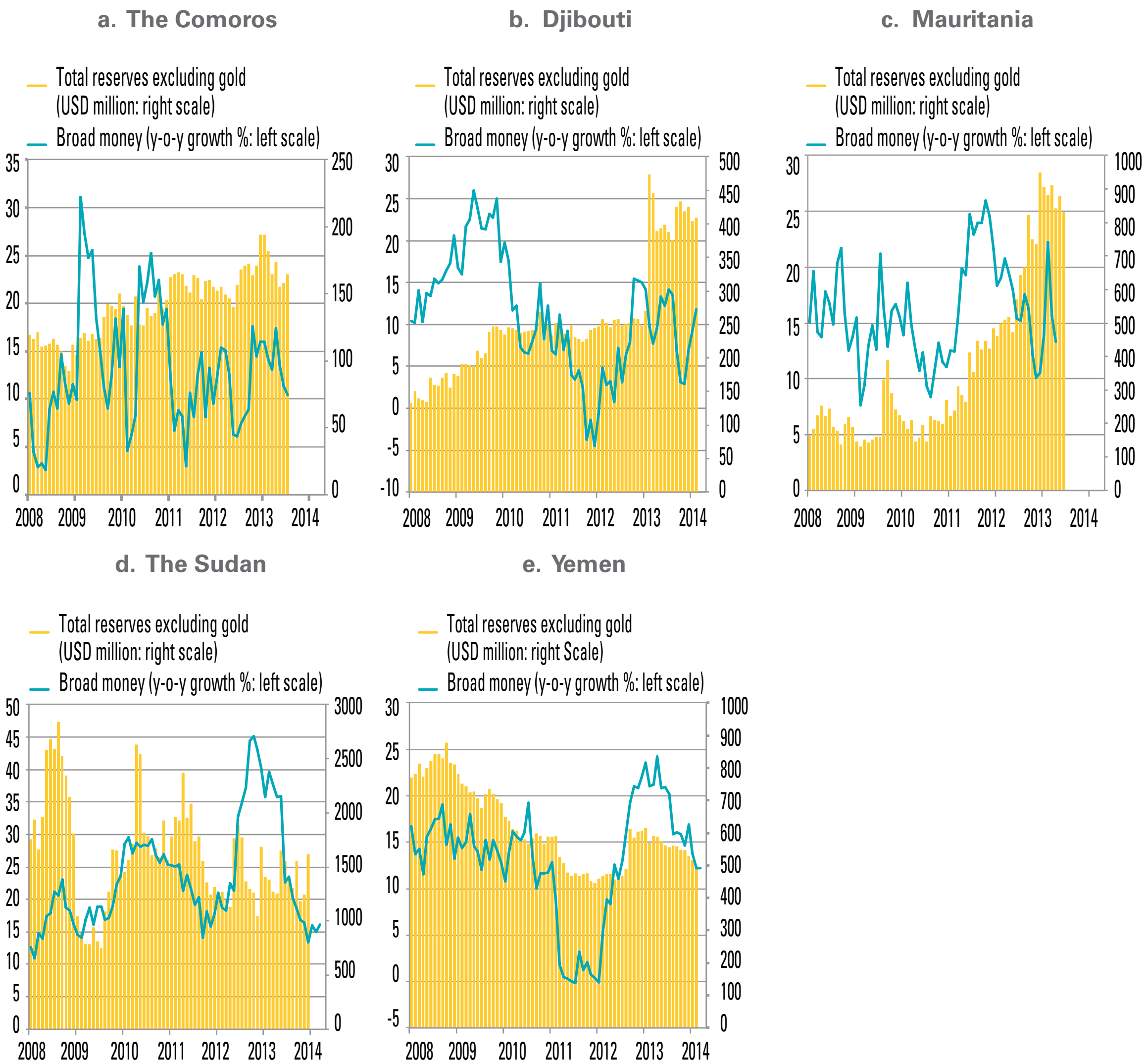
Source: ESCWA calculations based on the following national sources: Central Bank of the Comoros, 2012, Balance of Payments; Central Bank of Djibouti, n.d., Balance of Payments; Central Bank of Mauritania, n.d., Balance of Payments; Central Bank of the Sudan, n.d., Economic and Financial Statistics Review; and Central Bank of Yemen, 2014.
Note: Figures for 2013 and 2014 are ESCWA projections.

in Djibouti is projected to accelerate the Djiboutian economy. The Sudan is expected to mark a stable growth with a stable level of oil export revenues. However, severe foreign exchange constraints will prevent the country from achieving a higher level of growth. In general, the growth prospects of Arab LDCs remain insufficient for poverty alleviation. The forecast growth rate for 2014 is 3.8 per cent for the Comoros; 5.8 per cent for Djibouti; 5.9 per cent for Mauritania; 2.5 per cent for the Sudan; and 2.6 per cent for Yemen.

B. Economic policy developments

In 2013, policymakers of the region had to balance various policy priorities. For major energy exporters of GCC countries, the growing fiscal outlays related to capital spending, education and health sector

Figure 21. Monetary indicators in Arab LDCs, 2008-2014

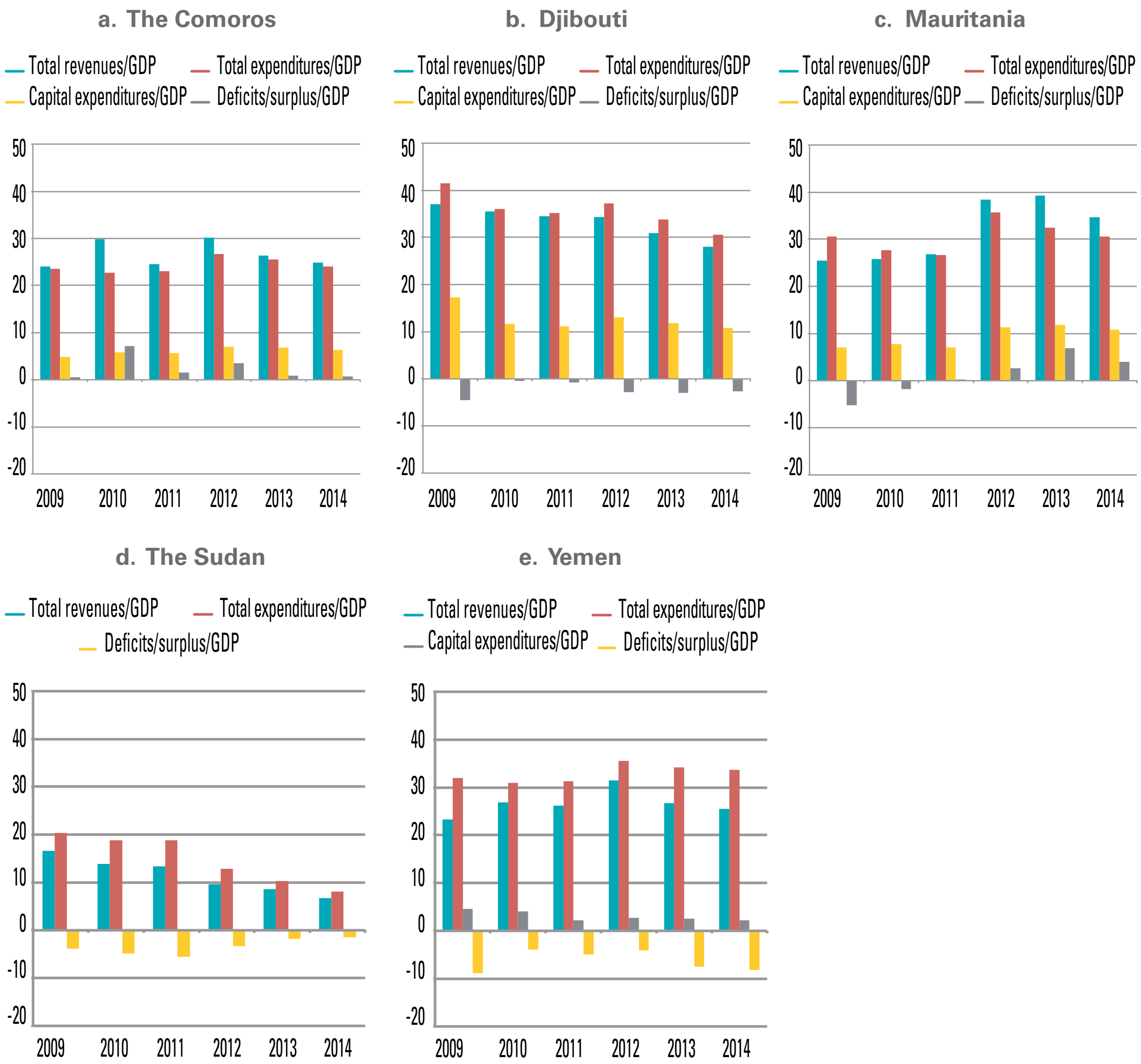


Sources: ESCWA calculations based on IMF, International Financial Statistics. Total reserves excluding gold for the Sudan were estimated based on the Central Bank of the Sudan's balance sheet.

development had to be balanced. A growth-supporting monetary policy regime with a historically low interest rate level continued throughout 2013, mirroring the monetary stance of the United States. Governments in other subregions remained under tighter fiscal and foreign exchange constraints, and the implementation of an expansionary economic policy mix was difficult without external financial support. Fiscal austerity has continued in Morocco, Tunisia, the Sudan and Yemen. The improving foreign exchange constraints allowed Egypt and Jordan to take a limited expansionary policy stance. Lebanon relied on monetary measures with the intention of stimulating domestic demand.

Regarding monetary policy, GCC countries did not change their easing stance in parallel with the United States monetary policy. A series of implicit and explicit announcements from the Federal Reserve on the planned normalization of monetary policy during 2013 did not significantly

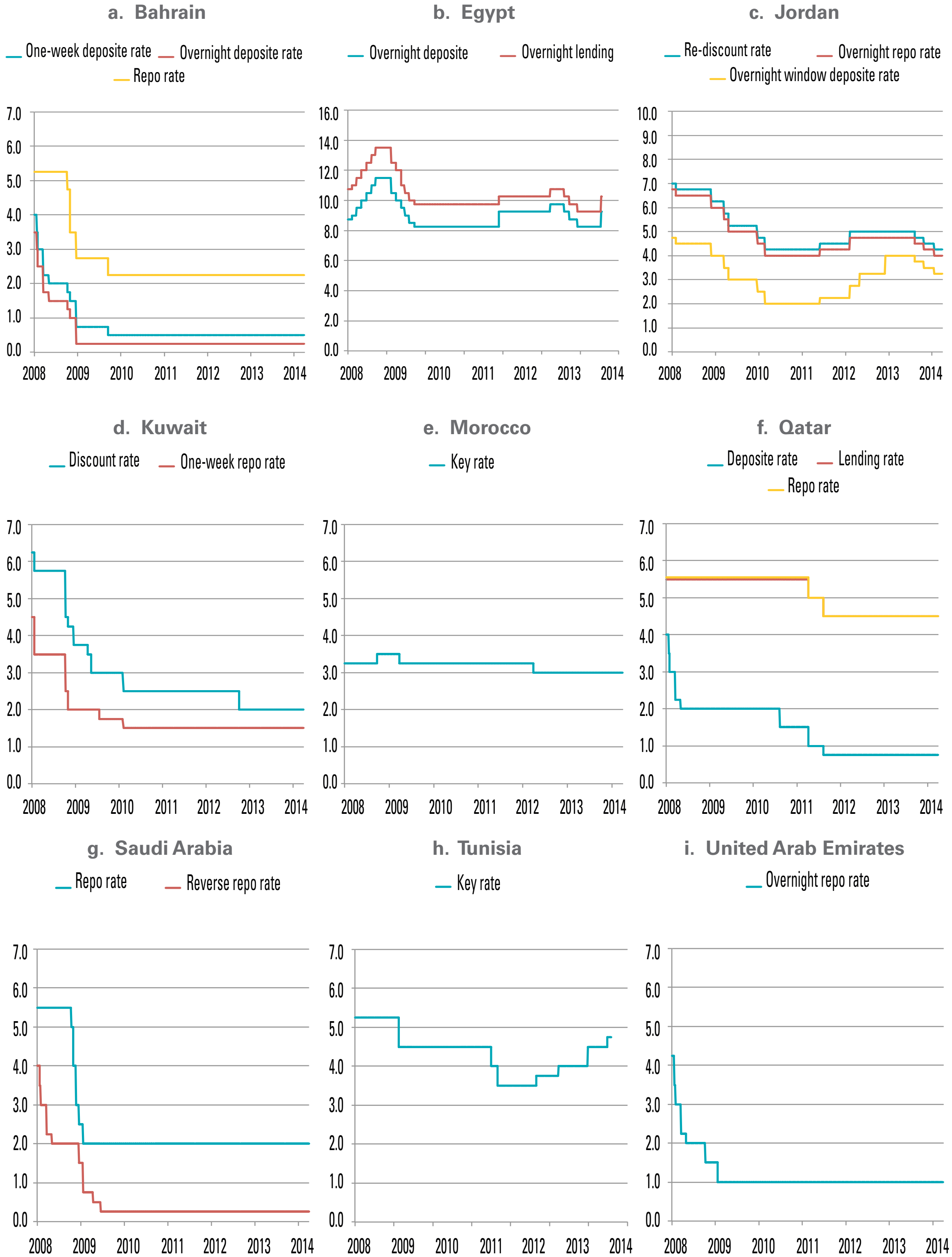
Figure 22. Fiscal positions in Arab LDCs, 2009-2014



Source: ESCWA calculations based on the following national sources: Central Bank of the Comoros, 2012; Central Bank of Djibouti, 2012; Central Bank of Mauritania, 2013; Central Bank of the Sudan, n.d., Economic and Financial Statistics Review; and Yemen, Central Statistical Organization, 2013.
Notes: Figures include foreign grants. Those for 2013 and 2014 are ESCWA estimates and/or projections.

affect the cost of funding in GCC countries. The funding cost in terms of the three-month interbank money market rate in GCC countries remained at around 1.0 per cent in 2013, about 75 basis points higher than the three-month dollar London Interbank Offered Rate (LIBOR). The three-month Emirates Interbank Offered Rate edged down to 0.78 per cent at the end of the first quarter of 2014, while the three-month Kuwait Interbank Offered Rate edged up to 1.19 per cent. Monetary authorities in GCC countries focused on routine liquidity management and on guiding commercial banks in their lending portfolios. Monetary policy was further tightened in Tunisia to fight inflationary pressure. The Central Bank of Tunisia raised its main policy interest rate in March and December in 2013 to 4.5 per cent.[3] Meanwhile, the improved level of

Figure 23. Interest rates in selected Arab countries, 2008-2014



Sources: National monetary authorities.

foreign reserves allowed the Central Banks of Egypt and Jordan to cut respective policy interest rates. After raising policy interest rates in March 2013, the Egyptian monetary authority cut policy interest rates three times in August, September and December 2013. Overnight lending rates in Egypt came down from 10.75 per cent to 9.25 per cent.[4] The Central Bank of Jordan lowered its policy rates in August 2013, October 2013 and January 2014, and the rediscount rate dropped to 4.25 per cent from a peak of 5.00 per cent. The proportion of foreign assets in balance sheets remained low in the monetary authorities of Egypt, the Sudan and Yemen, which indicated difficulties that those countries were facing in managing price levels and domestic demands.

In the fiscal year covering 2013, the fiscal stance of GCC countries remained expansionary at various levels.[5] The priority on infrastructure investments, health, education and social affairs continued to be emphasized. However, given the stagnation of revenue growth from declining oil export revenues, some GCC countries started to take a more conservative precautionary fiscal stance in planning. A contrasting fiscal policy environment remained in energy-importing countries of the Mashreq and Maghreb subregions and Arab LCDs, where rising government debt levels had already resulted in higher interest payments in budget expenditures. A fiscal austerity stance was principally kept in place in the energy-importing countries of these subregions. The main policy item of austerity measures was subsidy reform. Morocco and the Sudan cut fuel subsidies in 2013. Egypt, Jordan and Tunisia were also undergoing subsidy reform.[6] Nevertheless, Egypt and Jordan managed to take additional fiscal measures in 2013 through funding from GCC countries. Jordan increased capital spending in 2013 and Egypt launched two fiscal stimulus packages during its 2013/2014 fiscal year, which also emphasized capital spending. External financial support became even more crucial for energy-importing countries in the region to fill external and fiscal financing gaps and keep economies afloat.

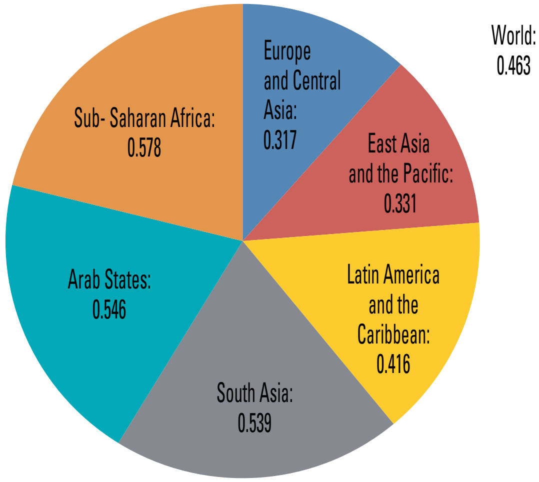
Unemployment rates remained high in 2013. Available data for the fourth quarter of 2013 indicate that unemployment stood at 13.4 per cent in Egypt; 11.0 per cent in Jordan; 10.0 per cent in Morocco; 11.5 per cent in Saudi Arabia among Saudi nationals; and 15.3 per cent in Tunisia. The labour nationalization policy of GCC countries has long been in operation to create employment opportunities for each country's nationals, particularly in the private sector. Dependency on foreign workers in the private sector had increased in most GCC countries and while the idea of a more stringent labour nationalization policy had been discussed, it had not been effectively implemented in the past. In 2013, however, Saudi Arabia shifted to a stricter policy regime to promote the employment of Saudi nationals. The Government granted an amnesty period for foreign expatriates to rectify their sponsorship status or voluntarily leave the country. Until November 2013, a significant number of foreign workers left the country voluntarily. The economic impacts of the new labour policy of Saudi Arabia are yet to be assessed; however, this policy change has enhanced female employment indirectly. Indeed, in parallel with the exit of illegal foreign workers, Saudi female employment was rigorously promoted, and foreign workforce was partially replaced by Saudi female workers in the areas of administration, education and retail. The role of the government in employment creation, skill-matching and knowledge-sharing to tackle unemployment issues remains crucial in the Arab region.

C. Socioeconomic and political developments for women in the Arab region

1. Overview

There are several methods for analysing and reporting the situation of women in the Arab region. One method involves the Gender Inequality Index (GII), which is one of the Human Development Indicators that are reported annually by the United Nations Development Programme (UNDP). The Human Development Index is a comparative measure of life expectancy, literacy, education, standards of living and quality of life that ranks countries worldwide in terms of human development. Moreover, it can be used to measure the impact of economic policies on the quality of life. GII, which reflects gender-based inequalities, is a composite measure that captures the loss of achievement within a country due to gender inequality, and uses three dimensions to do so,

Figure 24. GII by region, 2013



Source: UNDP, 2014.
Note: The higher the GII value is, the more disparities there are between males and females.

namely reproductive health, empowerment and labour market participation.[7]

The Arab region scored a GII value of 0.546, ranking fifth or before last of the six world regions, with Europe and Central Asia having the highest rank and Sub-Saharan Africa having the lowest (figure 24).[8]

The Sudan and Yemen came at the bottom of the 16 ranked Arab countries in terms of gender equality, with Yemen scoring the highest GII value, at 0.733, thereby ranking last out of the 152 countries assessed worldwide in 2013. Libya scored the lowest GII value among Arab countries, at 0.215, ranking 40 worldwide (table 8).

In Yemen, 0.7 per cent of parliamentary seats are held by women, and 7.6 per cent of adult women have reached at least a secondary level of education, compared to 24.4 per cent for their male counterparts. For every 100,000 live births, 200.0 women die from pregnancy-related causes; and the adolescent birth rate is 47.0 births per 1000 live births. Female participation in the labour market is 25.2 per cent, compared to 71.8 for men.[9]

The Sudan has a GII value of 0.628 and ranks 138 out of 152 countries in the 2013 Index. In the Sudan, 24.1 per cent of parliamentary seats are held by women, and 12.8 per cent of adult women have reached at least a secondary level of education, compared to 18.2 per cent of their male counterparts. For every 100,000 live births, 730.0 women die from pregnancy-related causes; and the adolescent birth rate is 84.0 births per 1000 live births. Female participation in the labour market is 31.2 per cent compared to 76.0 for men.[10]

The Global Gender Gap Index is another global index that provides different indicators for inequality, and its rating confirms the lagging status of Arab women in terms of gender equality. That Index, which was introduced by the World Economic Forum, measures gender gaps in four fundamental categories, namely health, education, economy and politics. It measures these gaps in 136 countries, representing 90 per cent of the world's population, and offers country ranking to allow comparisons among regions and different income groups.[11] Three approaches are used in calculating the gaps: (a) gaps in access to resources are measured versus the level of available resources; (b) countries are evaluated based on outcomes rather than inputs; and (c) countries are ranked according to their proximity to gender equality rather than women empowerment. As indicated in figure 25, results for 2013 reveal that the Middle East and North Africa came last in the overall index score, having closed 59 per cent of their gender gap compared to North America, which occupied the highest rank and had closed 74 per cent of its gender gap. The Middle East and North Africa was also ranked lowest in terms of closing the political gender gap (7 per cent) as well as the economic gender gap (39 per cent). The Middle East and North Africa had shown improvement in closing the education gender gap, with the United Arab Emirates being the only country that

Table 8. Rank and value of GII for Arab countries, 2013

Country	2013 GII rank	2013 GII value
Libya	40	0.215
United Arab Emirates	41	0.244
Bahrain	46	0.253
Tunisia	48	0.265
Kuwait	50	0.288
Saudi Arabia	56	0.321
Oman	64	0.348
Lebanon	80	0.506
Morocco	92	0.46
Jordan	101	0.488
Qatar	113	0.524
Iraq	120	0.542
Syrian Arab Republic	125	0.556
Egypt	130	0.58
Sudan	138	0.628
Yemen	152	0.733
Palestine	..	..
Arab region		0.546

Source: UNDP, 2014.
Note: Two dots (..) indicate that data are not available or are not separately reported.

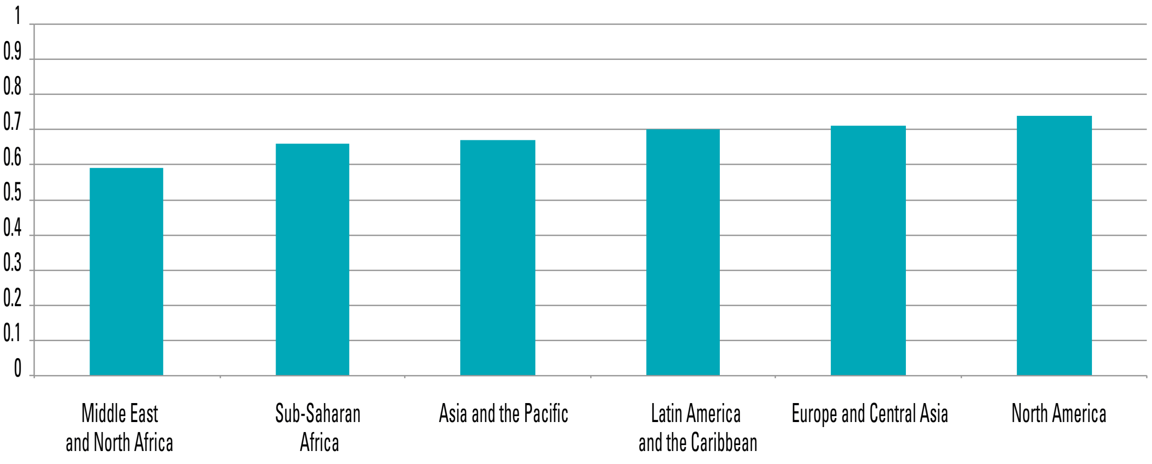
fully closed its educational attainment gap. Similar progress was also indicated in closing the health gender gap.[12]

2. Women's political role and representation

As of February 2014, an average of 21.9 per cent of global parliamentary seats were occupied by women, both at the single and upper levels, representing an increase from 20.4 per cent in 2013, according to the Inter-Parliamentary Union (IPU). Arab States witnessed a slight improvement in the participation rate, increasing from 13.8 per cent in 2013 to 15.9 per cent in 2014; however, this increase was not enough to pull the Arab region from the lowest rank among other regions (figure 26).[13] Despite ranking last, the Arab region scored the highest percentage point increase in women's participation rate between 2013 and 2014, achieving an increase of 2.10 percentage points that confirms the commitment and persistence of some Arab Governments towards the active inclusion of women in the political arena and decision-making processes.

This progress, however, has not come even among all countries. In Tunisia, an additional three seats were occupied by women in 2014, raising the participation rate of women from 26.7 per cent in 2013 to 28.1 per cent of the lower house in 2014. The recent parliamentary elections in 2013 have lost two seats for women in Djibouti. In addition, women's share of the national Parliament in Egypt dropped

Figure 25. Global Gender Gap Index 2013: regional performance

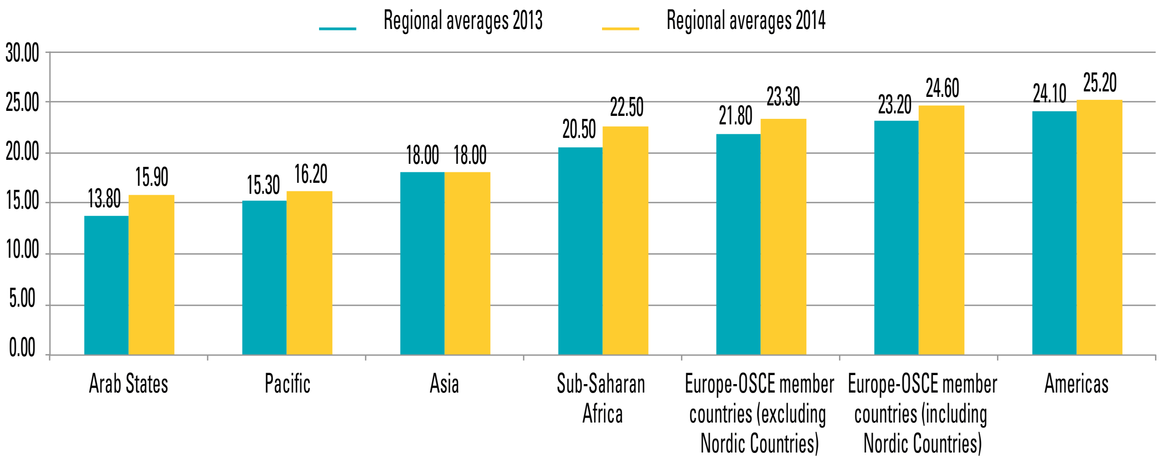


Source: World Economic Forum, 2013, fig. 2, p. 22.
Note: Middle East and North Africa here comprises Algeria, Bahrain, Egypt, Israel, Jordan, Kuwait, Lebanon, Mauritania, Morocco, Oman, Qatar, Saudi Arabia, Syrian Arab Republic, United Arab Emirates and Yemen.

from 12 per cent before the popular uprising to 2 per cent following it. This alarming reduction in the representation of women in Egypt was due to complex factors, among which were the abolishment of the quota system and the flawed electoral law decreed by the Military Council. The 2011 electoral law adopted a proportional system that favours a party agenda over a candidate profile. Tunisia scored an increase of 1.4 percentage points between 2013 and 2014 even without any new elections. Article 46 of the Constitution clearly defines the political role of women and stipulates that the State seeks to achieve equality of representation between men and women in elected assemblies. The elections in October 2011 to the National Constituent Assembly were the first to be held after the popular uprising that ousted President Zine el-Abidine Ben Ali in January 2011. A closed party-list proportional representation system was applied to all 217 seats. All parties had to ensure that at least half of their lists were filled by women, alternating men and women candidates throughout the lists. More than 11,000 candidates ran in the 27 constituencies in Tunisia and 474 candidates were vying for seats from six out-of-country constituencies. The results gave 58 out of 217 seats for women in 2013.[14] In 2014, an additional three seats were given by default after the placed elected men withdrew, increasing the number of seats occupied by women to 61 out of 217.[15] This can be attributed mainly to the vertical equality principle that exists in Tunisia's electoral law. The approved Constitution of January 2014 recognizes equality between men and women in terms of rights and duties. Women in Tunisia have a unique situation compared to other Arab countries, mainly because of the Code of Personal Status, which was issued in 1956.[16] This law, still in place, withdrew repudiation rights from men, or the unilateral right of husbands to end marriages at will; criminalized forced marriages to girls; revoked polygamy; gave mothers the right to have custody of their children; set the minimum marriage age to 18 for both men and women;[17] and generated many other reforms in family laws that assisted in reducing gender inequality before the law.

In January 2013, 30 Saudi women were appointed members of the Shura Council, constituting up to 19.9 per cent of the

Figure 26. Women's political representation: regional averages, 2013-2014 (Percentage)



Abbreviation: OSCE, Organization for Security and Co-operation in Europe.
Source: IPU. Data available from http://www.ipu.org/wmn-e/world.htm (last accessed 1 September 2014).
Note: The averages reflect both single/lower and upper houses combined.

total number of its members, at 151.[18] This appointment represents a fundamental evolution in women's participation in public and political life in Saudi Arabia. New parliamentary elections in Egypt are expected at the end of 2014, noting that in the previous system, the quota for women in the Parliament was 64 seats out of 518, accounting for around 12 per cent of seats.[19] Recent elections completed in 2013 in Djibouti resulted in a decrease in female political representation from 13.8 per cent in 2008 elections to 12.7 per cent. Kuwait witnessed a dramatic drop in the percentage of female representation in the lower house from 6.2 per cent (4 out of 65 seats) in December 2012 to 1.7 per cent (1 out of 60 seats) in the elections of July 2013.

Since Beijing +15, the follow up to Beijing Platform for Action in the Arab countries after 15 years, Kuwait has been committed to the implementation of the decisions taken, particularly those related to women's political representation. Kuwaiti women have a long history of political activity, even though they were not granted the right to vote until May 2005 and voted for the first time in 2006. Four years later the first four women were elected to the Parliament. Despite the fact that half of the electors in the 2012 elections in Kuwait were women, women lost one of these seats. According to Masoma Mobarak, the first female minister in the history of Kuwait and current deputy in the Parliament, some of the reasons of the drawback were the unbalanced proportion of women to male candidates due to a discrepancy in the convictions of society, culture and faith in the role of women, and their ability to participate in political life, as women face more difficulties when running for parliamentary candidature without the support of their family. Kuwait still has a long way to go with regards to political participation and the call for a quota system on the number of seats in the parliaments for women is on the rise.

3. Socioeconomic developments for women

a. Participation in the labour force

According to World Bank data, the representation of Arab women in the labour market did not exceed 27 per cent

Box 7. Gender and development: subregional highlights

1. GCC countries

A decrease in the political participation of women was recorded in this region after the recent parliamentary elections in 2013, compared to early 2012. GCC countries are still characterized by having the highest female labour force participation rates among all other Arab regions, owing mainly to the presence of large expatriate female workers. There recently has been a slight increase in those rates, particularly in the United Arab Emirates, compared to previous years. Female unemployment in the GCC region also witnessed a slight increase between 2012 and 2013: in Saudi Arabia the rate rose from 18.6 per cent to 20.1 per cent, and in the United Arab Emirates from 10.8 per cent to 11.6 per cent, with Saudi Arabia having the highest male-to-female unemployment gap; while the same rate decreased in Kuwait and Bahrain compared to previous years.

2. Mashreq countries

There was no change in the political participation rates of women in the Mashreq subregion, as there were no new elections held in 2013 and 2014. Labour force participation improvements vary from one country to another in this group, recording a decrease in Jordan from 14 per cent in 2012 to 12.1 per cent in 2013 and in Egypt from 23.9 per cent in 2012 to 22.1 per cent in 2013, and an increase in Palestine from 15.4 per cent in 2012 to 18.3 per cent in 2013. The highest unemployment rates for women were recorded in this subregion, with Palestine recording the highest for the group, at 39.6 per cent.[*] There was an increase in women's unemployment rates in 2014 in Egypt, Iraq and Lebanon; and a decrease in Jordan and the Syrian Arab Republic compared to previous years.

3. Maghreb countries

An increase in women's political participation for this subregion was advocated by Tunisia, translating into an additional three seats occupied by women in 2014 and raising the participation rate of women in Parliament from 26.7 per cent in 2013 to 28.10 per cent in 2014. An increase in the female labour force participation rate was recorded, particularly in Libya (from 29.7 per cent in 2011 to 30 per cent in 2012), accompanied with a decrease in women's unemployment rate from 24.2 per cent in Tunisia in 2012 to 21.9 per cent in 2013, and from 10.2 per cent in Morocco in 2012 to 9.6 per cent in 2013.

4. Arab LDCs

A decrease in the political participation of women was recorded for this group after the recent parliamentary elections in 2013 in Djibouti, which lost two seats for women. While data on the progress in female labour force participation rates in the Sudan and Yemen for 2013 and 2014 were unavailable, a significant improvement in female unemployment in those two countries was recorded in 2012 compared to previous years, with a decrease in female unemployment rates from 54.6 per cent in Yemen in 2010 to 27.1 per cent in 2012, and from 20 per cent in 2009 to 19.8 per cent in 2012 in the Sudan.

[*] Palestine, Central Bureau of Statistics, 2014.

in 2011, which is the lowest rate in the world, compared to 56 per cent in low- and middle-income countries and 68 per cent in countries of the Organisation for Economic Co-operation and Development (OECD), which is the world's highest rate.[20] Despite the discrepancies in distribution from one country to another, the total average rate of the Arab region remains below half the global average.

During the past 30 years, the participation of women in the labour force has increased at rates that merely exceed 1 per cent. If growth continues at this weak pace, according to the World Banks' *World Development Report 2012*, it would take Arab women some 150 years to catch up with their counterparts in the West in terms of rights. The gap between men and women in many countries has been steadily narrowing; not in Arab countries,

Table 9. Women in national parliaments, February 2013 versus June 2014

Classification	February 2013				June 2014			
	Lower or single House				Lower or single House			
			Women				Women	
Country	Elections	Seats[a]	Number	Share (%)	Elections	Seats[a]	Number	Share (%)
Algeria	5 2012	462	146	31.60	5 2012	462	146	31.60
Tunisia	10 2011	217	58	26.70	10 2011	217	61	28.10
Iraq	3 2010	325	82	25.20	3 2010	328	83	25.30
Sudan	4 2010	354	87	24.60	4 2010	354	86	24.30
Saudi Arabia	1 2013	151	30	19.90	1 2013	151	30	19.90
United Arab Emirates	9 2011	40	7	17.50	9 2011	40	7	17.50
Morocco	11 2011	395	67	17.00	11 2011	395	67	17.00
Libya	7 2012	200	33	16.50	7 2012	200	33	16.50
Djibouti	2 2008	65	9	13.80	2 2013	55	7	12.70
Jordan	1 2013	150	18	12.00	1 2013	150	18	12.00
Syrian Arab Republic	5 2012	250	30	12.00	5 2012	250	30	12.00
Bahrain	10 2010	40	4	10.00	10 2010	40	4	10.00
Kuwait	12 2012	65	4	6.20	7 2013	60	1	1.7
Lebanon	6 2009	128	4	3.10	6 2009	128	4	3.10
Comoros	12 2009	33	1	3.00	12 2009	33	1	3.00
Egypt	11 2011	508	10	2.00	Parliamentary election expected end 2014			
Oman	10 2011	84	1	1.20	10 2011	84	1	1.20
Yemen	4 2003	301	1	0.30	4 2003	301	1	0.30
Qatar	7 2010	35	0	0.00	7 2013	35	0	0.00

Source: IPU. Data available from http://www.ipu.org/wmn-e/arc/classif010614.htm (last accessed 1 September 2014).
[a] Number of seats currently filled in national parliaments.

however, due to several legal, structural and cultural factors, in addition to unemployment and the mismatch between educational attainment and market needs.

The low participation of women in the labour market and the discrepancies between countries in the region reflect the complexity of the legislative, economic, cultural and social norms that are faced by women in the region, thereby creating many pressures that limit and narrow down further the choices for women. In addition, several business owners in Arab countries still perceive women as less productive and more expensive to hire; these constraints lead to reducing their opportunities to move and choose their working positions, and make them less attractive to employers. Studies in a number of Arab countries have shown that many women voluntarily choose not to participate in the labour market, while others find it difficult to find work. In addition, most of the women entering the market prefer the public sector, especially education and health jobs. In the informal sector, mainly agriculture, the majority of workers and labourers are women.

While women in Saudi Arabia have attained relative progress with regard to political rights and participation in decision-making, the barriers that they face to get jobs remain intact. The labour force participation rate in Saudi Arabia reached 18.2 per cent in 2012, compared to 75.5 per cent for men (figure 27). One of the major barriers facing female jobseekers in Saudi Arabia is the prohibition of women and men mingling in the job market. Gender segregation at the workplace is a great obstacle facing women's participation in the labour force. In addition, some legislation hinders women's participation, including article 149 that requires women to participate in all fields "suitable to their nature". This excludes women from many fields and keeps it open to interpretation. It also limits women's work to such fields as education, administrative jobs and selling women clothes in shops and factories.[21]

This situation leaves Saudi educated women with few choices to consider. Economic studies on Saudi Arabia show that more than 76 per cent of total unemployed women are university graduates, and this reflects the pressures faced by the Government to provide more job opportunities for this segment of society.[22] The Government has stepped up the implementation of programmes aimed at the "Saudization" of the labour market through the imposition of taxes on foreign workers, which are intended to increase their cost and make local employment able to compete for such jobs, usually provided by the private sector. In a country that has around 8 million foreign employees, the Government hopes to shift part of these positions that will vacate thousands of opportunities for women. However, the programme is facing problems in the application phase, given that 90 per cent of these jobs are low-income and may not be appealing to locals, while the remaining others require experience and skills that may not be available in Saudi Arabia.

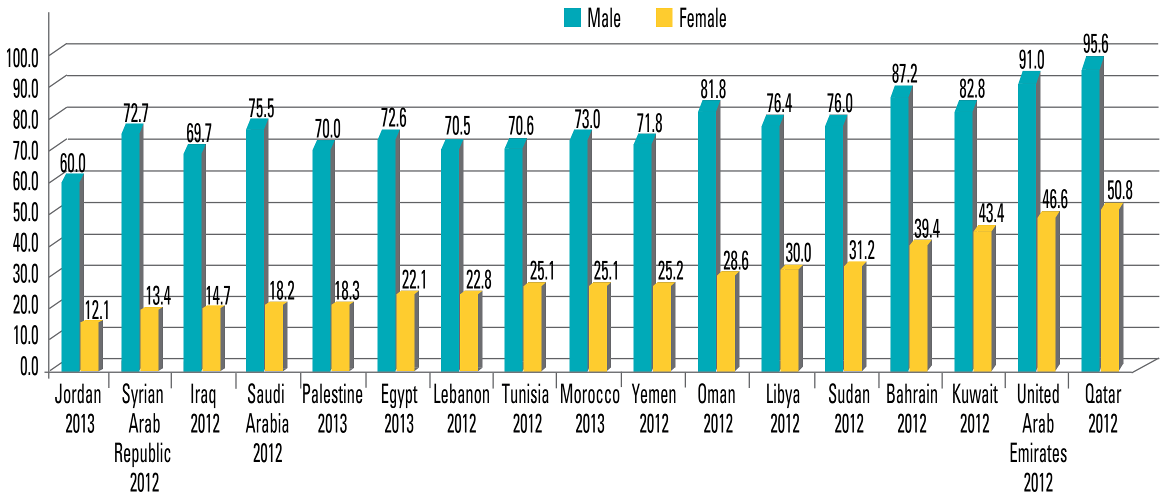
In Egypt, the labour force participation rate among women reached 22.1 per cent in the fourth quarter of 2013, dropping from 22.6 per cent for the same quarter in 2010. According to recent data released by the ILO Office for North Africa, working women represent 23 per cent of the labour market; however, the unemployment rate among women is up to four times that of men.

In Jordan, 60.6 per cent of the total female labour force has a qualification at a bachelor level or higher, compared to 21.2 per cent for males. The labour force participation rate in 2013 was 36.4 per cent for the whole country, at 60.0 per cent for men against 12.1 per cent for women, compared with 37.7 per cent in the fourth quarter of 2012, at 60.6 per cent for men and 14.1 per cent for women. Given the different economic activities, it was noted that more than half of Jordanian women workers were concentrated in education, health and social work, with education being the highest at about 41.7 per cent, while health and social work sectors attracted 14.6 per cent of total female workers. Despite all efforts to support women's economic participation in Jordan, there are still many challenges that adversely affect their ability to participate effectively in economic life. One of the major challenges is the high unemployment rate among women, which reached 22.2 per cent in 2013. In addition, there was a reduction in the proportion of the contribution of married women to the labour force of up to 7.4 per cent of total women in the labour market in 2008.[23]

The female illiteracy rate dropped from 85.4 per cent in 1961 to 10.1 per cent in 2013, with an increase in the percentage of female bachelor degrees or higher from 5.7 per cent in 2000 to 14.2 per cent in 2013, based on data from the Department of Statistics in Jordan. While there are no acute legal or professional obstacles preventing women from establishing or managing companies, working women face obstacles due to the social dimension of religious customs and traditions that make them take subordinate positions in a community that still gives men a priority in the workplace. Such obstacles are compounded with difficult economic conditions and a lack of projects that provide adequate employment opportunities. As for female participation in the diplomatic and judicial spheres, an increase in women's participation in diplomatic corps from 3.8 per cent to 17.9 per cent was registered in the same time period. The proportion of female judges increased as well, from 1.2 per cent in 2000 to 15.5 per cent in 2012.

Despite significant progress, the Arab region still faces significant challenges in adapting policies that can improve the economic participation of women. Serious policy measures should be taken, including encouraging the private sector to create more job opportunities through the provision of investment environments and appropriate incentives to enhance its ability to compete.

Figure 27. Labour force participation rate by sex (Percentage of population aged 15 years and above)



Sources: ILO, 2012, and national data sources for the following countries: Egypt, Central Agency for Public Mobilization and Statistics, 2014; Jordan, Department of Statistics, 2014; Morocco, High Commission for Planning, 2013; Palestine, Central Bureau of Statistics, 2014; Saudi Arabia, Central Department of statistics and Information, 2013c; and Tunisia, National Institute of Statistics, 2013.
Note: The figures reflect the most recent available data.

In addition to supporting and encouraging small enterprises by facilitating access to the needed funding and assistance, there is a need to improve worker productivity by investing in human capital; increasing spending on education, especially higher education and vocational training; and matching the skills to the labour market. It is also important to focus on the development of knowledge capital, such as innovation and technological development and leadership. Moreover, more Arab women could be encouraged to engage actively in the labour market by enhancing the workforce legislations and laws related to maternity leave, as per ILO internationally agreed standards; establishing more convenient transportation systems; providing care places for children in the workplace; and enacting laws to criminalize sexual harassment at the workplace.

In all GCC countries, with the exception of Saudi Arabia, the number of employed female non-nationals is higher than that of the nationals. This is particularly evident in Bahrain, Kuwait, Oman, Qatar and the United Arab Emirates (table 10).

Despite their labour market nationalization policies, GCC countries have achieved little in their objective to substitute foreigners with national workers in their domestic labour markets. It remains very difficult for these countries to increase the participation of nationals in the private labour market, owing to the domination of cheap foreign labour and the deeply rooted social and cultural norms. Female expatriates from various nationalities are still dominating a great part of the service sector in GCC countries, particularly sales. Business owners in general prefer to hire expatriates, given that these are paid half as much as national women and their level of commitment to work conditions and schedules is perceived as much higher compared to that of national women. This is particularly the case where service businesses are apt to suffer from the high labour cost upon the reinforcement of nationalization laws, especially those related to the wages and benefits of local labour force.[24]

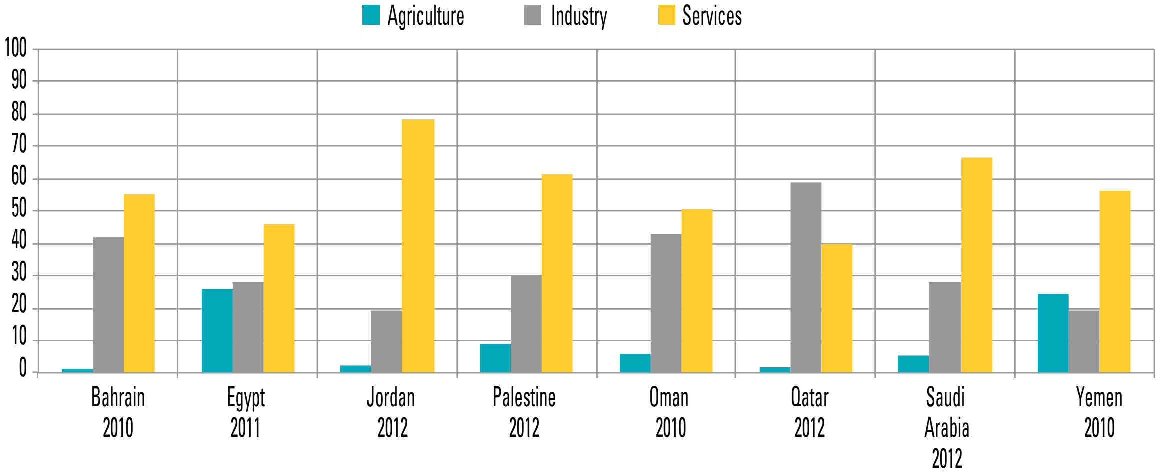
In fact, the urge to increase the participation of nationals in the workforce has worked well for the benefit of women and has enhanced their chances of employment in GCC countries. Nationalization has proved to be an effective approach towards an increased participation of women in the workforce, although it is not the only measure taken by GCC countries. In turn, the participation of female nationals in

Table 10. Number of employed nationals versus non-nationals in GCC countries

Country and data year	Employed nationals		Employed non-nationals	
	Men	Women	Men	Women
Bahrain, 2011	60 604	26 211	387 216	24 572
Kuwait, 2013	216 680	189 481	1 450 794	471 934
Oman, 2012	136 818	35 248	1 187 679	128 503
Saudi Arabia, 2013	3 989 632	727 495	5 342 675	669 321
United Arab Emirates, 2009	170 000	53 000	2 548 000	366 000
Qatar, 2013	63 752	31 000	1 286 829	160 173

Sources: Compiled by ESCWA, based on the following sources: Bahrain, 2013; Gulf Research Centre database; Oman, National Centre for Statistics and Information, 2013b; Saudi Arabia, Central Department for Statistics and Information, 2013a; and United Arab Emirates, National Bureau of Statistics, 2009.

Figure 28. Distribution of female employment by aggregate sector (Percentage)



Source: ILO, 2012.

the workforce could become fundamental to the success of labour nationalization policies. However, there should be further enhancement to the policies and their implementation mechanisms, and institutions should adopt more gender-focused approaches.[25]

Saudi Arabia is increasing its "Saudization" efforts to nationalize more jobs in the private sector and there is a plan to implement 100 initiatives in order to create more opportunities for women to join the labour force in 2014. According to the Ministry of Labour, employment for women in the private sector, including entrepreneurs, doubled between 2012 and 2013, increasing from 70,000 to 160,000.[26]

While women still tend to be more involved in the services sector in most Arab countries, Qatar has a noticeable increase in women's participation in the industrial sector. Businesswomen in that country own some 3,500 companies specialized in different sectors, such as banking, trade, tourism, and energy and industry, which had hitherto been characterized by male dominance. The proportion of women employed in the services support for energy and industry has risen in 2013 to more than 41 per cent. Qatar Petroleum is an outstanding example of the inclusion of women, where the number of Qatari women during the past decade increased to about half of the number of women working in various locations and areas, both technical and non-technical. In addition, half of the shares traded on the Qatari exchange market are owned by women. Within that context, Qatar Investment for Women is a specialized institution that was founded in April 1998 and that aims to provide women with investment opportunities and environments in different areas, with the help of a dedicated team of experienced investment managers who are available locally and globally. In addition, there is no legislation in Qatar that prevents women's ownership of land and assets, and of control on financial assets.

According to recent data, the percentage of Saudi women working in the private health sector increased up to 43.3 per cent in 2013 due to the increased financial support by the Government to the health sector.[27] The majority of Saudi men are still staying away from the private health sector.

Investors are also hesitant to employ Saudi youths, mainly because of the lack of qualified candidates. However, there is still a need for more efforts in implementing the "Saudization" programmes in the health sector, given that it remains highly dependent on foreign skilled labour. This can be addressed by creating more incentives for Saudi students in local and international medical colleges.[28]

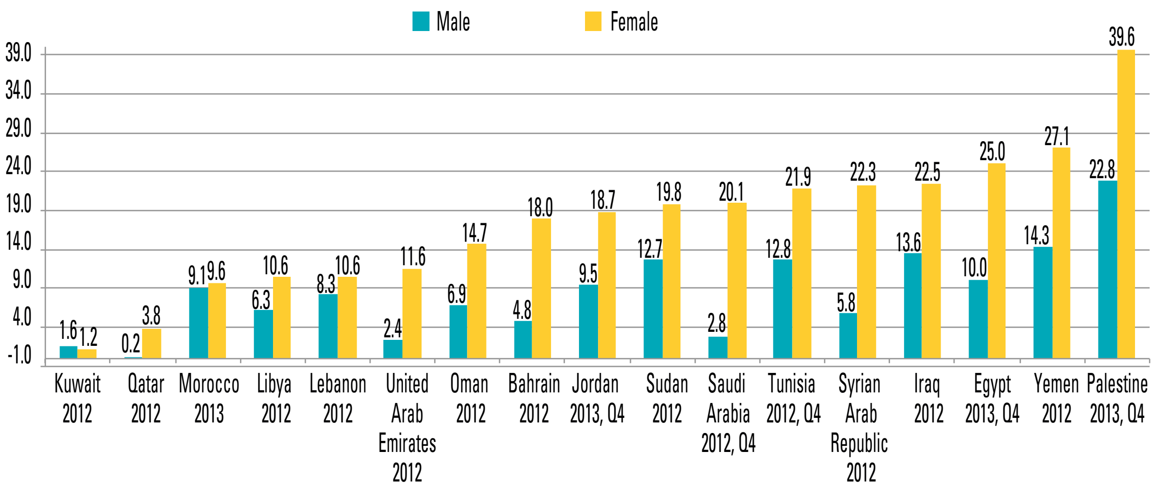
b. Unemployment

There was modest progress in female unemployment across the Arab region in 2013, with an average rate of 17.1 per cent compared to 20.0 per cent in 2012. However, the rate is significantly higher than the male unemployment rate, which stood at 8.5 per cent in 2013.

Unemployment rates for women in the Arab region vary from one country to another. Palestine recorded the highest rate, at 39.6 per cent; and there was an increase in the female unemployment rate in 2013 in Egypt, Iraq and Lebanon (figure 29). A slight increase between 2012 and 2013 was also recorded in Saudi Arabia, from 18.6 per cent to 20.1 per cent; and in the United Arab Emirates, from 10.8 per cent to 11.6 per cent. The highest male to female unemployment gap was found in Saudi Arabia. A decrease in the female unemployment rate was recorded in Jordan, the Syrian Arab Republic and Tunisia, where it stood at 21.9 in 2013 down from 24.2 per cent in 2012. A decrease was also recorded in Morocco, from 10.2 per cent in 2012 to 9.6 per cent in 2013; and in Yemen, from 54.6 per cent in Yemen in 2010 to 27.1 per cent in 2012.

Unemployment among Bahraini nationals is still a concern, with the private sector continuing to depend on expatriate labour. In an effort to boost Bahraini employment in the private sector, the Government is implementing "Bahrainization" policies, such as setting quotas on the number of expatriates who can work in any given sector. In 2008, the Government introduced fees on employers hiring expatriate workers. These fees are to be used to fund trainings for nationals as part of an

Figure 29. Unemployment in Arab countries by sex (Percentage)



Sources: International Labour Office, 2012, and national data sources for the following countries: Egypt, Central Agency for Public Mobilization and Statistics, 2014; Jordan, Department of Statistics, 2014; Morocco, High Commission for Planning, 2013; Palestine, Central Bureau of Statistics, 2014; Saudi Arabia, Central Department for Statistics and Information, 2013c; and Tunisia, National Institute of Statistics, 2013.
Note: The figures reflect the most recent available data.

agreement with ILO aimed at reducing decent work deficits in Bahrain.[29] In January 2013, Bahrain adapted the National Development Plan for the Advancement of Bahraini Women 2013-2022, as a national document jointly owned by all ministries and government organizations, with the aim of contributing to mainstreaming women's needs in development programmes. Some of the plan's main outcomes are enhancing the participation of women in socioeconomic development programmes, and increasing the percentage of financially independent women by designing programmes and activities aimed at encouraging women to join the labour market, in collaboration with the private sector.

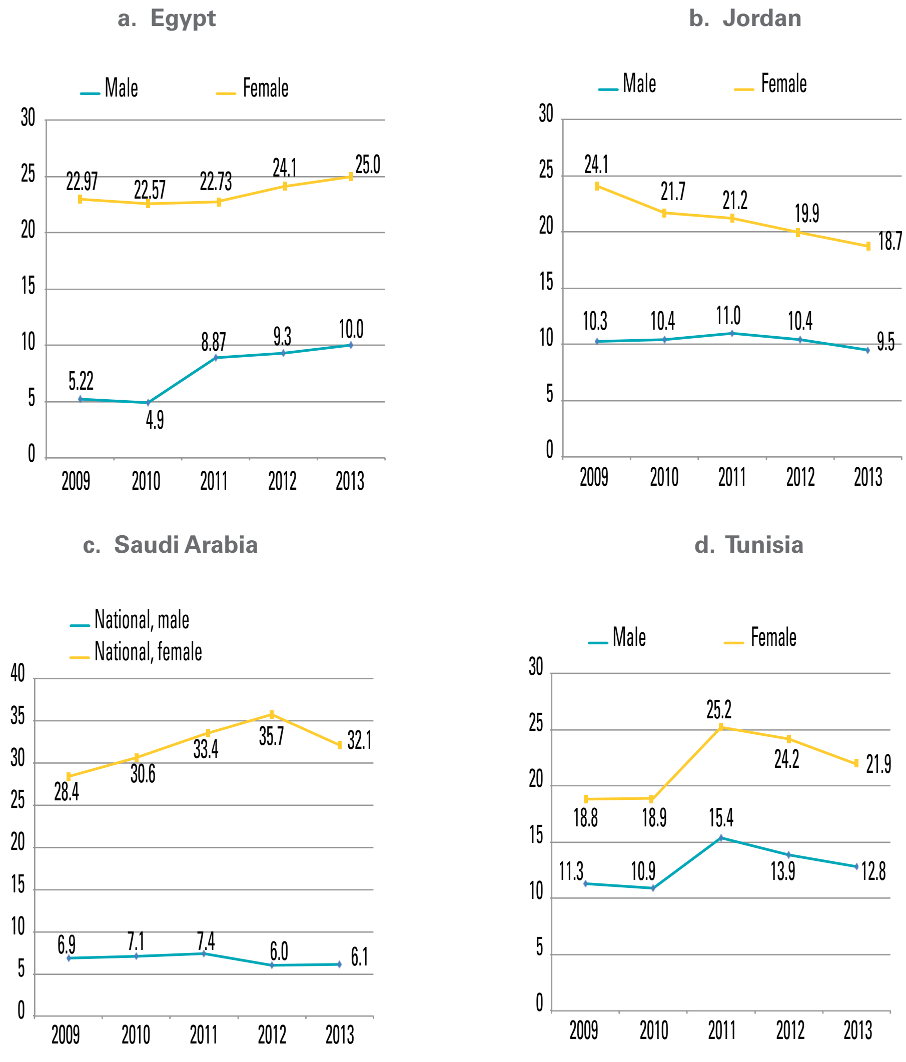
In Jordan, there has been a significant decrease in female unemployment since 2009, tightening the male to female unemployment gap. The Government has taken several measures to lessen unemployment, particularly the National Employment Campaign in collaboration with the private sector, aimed at providing job opportunities to jobseekers in different sectors of the economy. Under the slogan "We are all partners", the campaign involves more than 200 enterprises enabling the Ministry of Labour to establish and maintain a database of more than 18,000 job vacancies that can be matched with jobseeker profiles. In addition, the Ministry took a decision to suspend the recruitment of foreign workers in order to focus on solving the unemployment problem for nationals, particularity with the current situation of more than two million Syrian refugees staying and working in the country, mostly without legal work permits.

According to the latest estimates by the National Institute of Statistics in Tunisia, 27,000 jobs were created in the fourth quarter of 2013, with 17,200 jobs created for women. Unemployment increased particularly for women during the political transition in 2011, to over 25.0 per cent, and remains high at around 21.4 per cent compared to the rate in 2009. Transitional Governments are making increasing efforts to address the problem by initiating public recruitment programmes for both men and women; however, these measures are inflating the budget deficit. In 2013, the Government signed a stand-by arrangement with IMF to the tune of $1.75 billion in an attempt to mitigate this effect, and started to reduce public employment expansions in addition to freezing wages in the public sector.[30]

In Saudi Arabia, the unemployment rate for national women started to come down in 2012. Saudi Arabia has taken radical measures to face the increasing unemployment rates for both men and women, such as introducing an allowance for jobseekers and strengthening "Nitaqat", which is a quota system to increase the employment of nationals. The system monitors organizations in the private sector in terms of Saudi nationals' employment; and penalties are imposed on those that are non-compliant, while incentives are given to those that are. However, the implementation of the quota system and reaching the "Saudization" targets are facing several challenges, particularly due to the high cost of Saudi labour and the preference of companies to hire imported cheap labour or expatriates. Other challenges include work-related social and cultural norms prevailing in Saudi Arabia, such as not taking up certain types of professions that are perceived unacceptable by society, and other issues related to job flexibility and mobility where expatriates might have the upper hand over nationals. If the number of young people entering the labour market continues to rise as expected in Saudi Arabia, it will be more challenging to create appealing jobs for jobseekers in the private sector amid the increasing absence of public sector employment, and this in turn will lead to increasing the rate of unemployment for both men and women in the country.

According to the State-run statistics body in Egypt, namely the Central Agency for Public Mobilization and Statistics, 69 per cent of unemployed males and females are aged between 15 and 29, and more than 82 per cent of them hold university degrees or diplomas. The political disorder and economic shocks that Egypt has undergone since the uprising of January 2011 contributed greatly to increasing unemployment. Women are paying the highest price; the female unemployment rate increased from 23 per cent in 2009 to 25 per cent in 2013, and most of unemployed women are university graduates. The rate of unemployed educated persons reached 82.5 per cent of total unemployed persons, both females and males; 50.4 per cent

Figure 30. Unemployment trends in selected Arab countries, 2009-2013 (Percentage)



Sources: National data sources for the following countries: Egypt, Central Agency for Public Mobilization and Statistics, 2013; Jordan, Department of Statistics, 2014; Saudi Arabia, Central Department of Statistics and Information, 2013b; and Tunisia, National Institute of Statistics, 2013.
Notes: The figures reflect the most recent available data. For Egypt and Jordan, figures for 2013 are those of the fourth quarter. For Saudi Arabia, figures for 2012 and 2013 are those of the fourth quarter of each year, and include only Saudi Arabian nationals. For Tunisia, figures for 2011-2013 are also those of the fourth quarter of each year.

of them have intermediate and above intermediate certificates (53.3 per cent for men, 46.7 per cent for women); 32.1 per cent of them are university graduates (43.8 per cent for men, 56.2 per cent for women).[31]

4. The way forward

With increasing female and male educational attainment and labour force participation, and persistent high unemployment rates for local female citizens, it remains imperative for Arab countries in general to adapt and enforce fiscal and social policies and to provide adequate labour and social protection laws that support working Arab women and mothers in particular, including child support or maternity leave entitlements, especially in the private sector. In addition, given that women across the region play a key role in nationalizing the workforce, particularly in GCC countries, and given their integral role in the development of the economy, labour policies should address the needs of working women and offer them motivational perks that match international standards; encourage women to enter the labour force; and lessen the burdens of household responsibilities within the framework of existing and evolving traditions and social values. Such reforms and laws include educational reforms and promoting vocational training, more flexible working hours, improved maternity and family leaves and allowances, and deploying nurseries and feeding rooms in work premises. In addition, there is need for a "protective umbrella" that shields workers in the informal sector, especially women in agriculture and rural areas. It is also important to promote awareness of women's rights and make provisions to combat gender-based discrimination in the labour market, in addition to designing a legal framework for pursuing discrimination and harassment claims.

D. Concluding remarks

The analytical observations on recent social dynamics with emphasis on gender issues reveal a rigidity of the social sphere in the Arab region. The region witnessed several signs of progress, such as increasing female participation in labour markets and declining female unemployment rates in a few Arab countries. However, female unemployment rates remained significantly higher than male unemployment rates. With a few exceptions, women's political representation is still limited. The rigidity in social progress characterizes the speed at which a society can be changed only through generational changes. In the Arab region, the younger generation is increasingly excluded from employment while political representation is still dominated by the older generation. Political and labour relations, which are major channels for social change, are still remote for young women who are potentially the largest social group that can become a catalyst for change. The stagnation in the developments in the social sphere shadows the structural stagnation in the economic performance of the region.

Understanding the structural stagnation is important to interpreting the cyclical economic performance of the Arab region. The GDP growth rate of the Arab region is likely to increase, albeit marginally, in 2014. However, the source of growth is expected to be limited, in a geographical and sectoral sense. The projected marginal decline in energy export revenues and counterbalancing expansion of the non-oil sector in GCC countries are expected to be visible growth dynamics. Other subregions are set to continue to experience economic stagnation. The unemployment rates in Arab countries are expected to remain high, as the level is already beyond the impact of the best cyclical economic performance.

Another aspect of structural weakness became more apparent. Energy-importing countries in the Mashreq, Maghreb and Arab LDCs subregions are becoming increasingly vulnerable, given their weak external positions. The level of fund inflows remains insufficient to finance trade deficits in most countries of these subregions. Private investment flows, both through portfolio investment and FDI, have already been weakened because of geopolitical factors. The expected weak economic recovery of Europe and the hike of the United States dollar funding cost, stemming from the normalization of the monetary policy of the United States, are not encouraging. The ongoing polarization within Arab economies has become more apparent in terms of funding capability to fill the financing gaps.

Financing gap issues had been masked for many years in the Arab region. Even during the global financial crisis of 2008, Arab economies showed resilience. Governments and monetary authorities in the Arab region could successfully manage their policies to weather the significant international liquidity squeeze at that time. Financing gap questions have only surfaced recently. In 2011, Egypt, Jordan, the Syrian Arab Republic, Tunisia and Yemen suddenly began to experience the depletion of foreign reserves and mounting fiscal deficits. It was recognized that only significant financial support from GCC countries could stabilize the macroeconomic situation of Egypt, Jordan, Tunisia and Yemen, by filling growing financing gaps. The market mechanism of channelling spillover flows from GCC countries to other subregions has stalled in countries that are currently experiencing sociopolitical transition. This failing market mechanism and the emergence of a financing gap may naturally be a result of increasing economic risks associated with political instability and social unrest, which are often part of sociopolitical transition processes. However, the past financing strategy for development might have facilitated the economic, social and political events that led to those transitions. Designing a new financing strategy in this context is therefore crucial to resolve financing gap issues and to plan sustainable socioeconomic development in the post-transition era.

“Regional integration can be the catalyst that
contributes to filling the financing gap
in the Arab region”

III. Integration as a way to fill the Arab financing gap

A. Introduction

Financing development is one of the most important issues in the Arab region, especially after the sociopolitical events of recent years, commonly referred to as the "Arab Spring". However, development finance does not always get all the attention it deserves. The issue can be broken down into two main groups of questions. Firstly, how much funding is required and how much is available? This question evokes the issue of the "financing gap".[1] Secondly, what policies should be implemented to fill this gap?

With regards to the actual assessment of the financing gap in the Arab region, several studies have tackled specific targets, such as the food gap, the provision of infrastructure to sustain growth or the growing demand for electricity. It has been estimated that for Arab countries to have grown at 7 per cent in 2009, they should have received an additional $54.5 to $57.9 billion.[2] The estimates of those financing gaps range from $27 billion to $100 billion a year.

The second question is of an applied nature, namely: what options do policymakers have in order to fill the financing gap? This is a more complex issue because aside from technical aspects, there are political economy considerations to be taken into account, among which are international relations.

To answer these two questions, the main messages of this chapter are set forth below. First, to reduce unemployment by half, the financing gap in the Arab region is estimated at $54.9 billion, a result which is along the lines of similar studies. Clearly it is possible to fill the overall financing gap in the region, although some countries such as the Sudan will face much greater difficulties than others.

Each of the financial flows considered (remittances, FDI and official development assistance (ODA)) is analysed and specific policy measures are suggested, arguing that regional integration can be the catalyst that contributes to filling the financing gap. However, the region will have to make much more progress towards regional integration. This is an aspect that becomes evident when comparing the experience of Arab countries to those of European and even African countries.

B. Geographical scope

In line with previous work,[3] this study examines two types of economies in the Arab region, namely: (a) those countries known as having more diversified economies because they don't have a high percentage of oil rents to GDP (for example, Morocco); and (b) those countries that have a significant percentage of their economy based on oil, but also have low income per capita (for example, Yemen).

Given those criteria and data availability, the final sample of countries considered is composed of Egypt, Jordan, Lebanon, Morocco, the Sudan, the Syrian Arab Republic, Tunisia and Yemen.[4]

On average in the 2000s, these countries show low income per capita levels (the highest being that of Lebanon at $8,552), even though some of their economies rely on oil (table 11). Furthermore, some of these countries exhibited structural deficits (for example, Lebanon) and heavy levels of debt (for example, Yemen) despite rather fair growth rates during the 2000s, such as Jordan, which had an annual average growth rate of 6.1 per cent during the 2000s.

C. A financing gap for employment

This study refers to the financing gap for employment as the additional financial resources required for the sampled countries to reduce by 50 per cent their unemployment rates.[5] To estimate such a gap the analysis follows the same approach as previous work.[6] However, given that it is more concerned with the developmental policy implications to fill the gap than with its actual estimation, the analysis will only focus on remittances, FDI and ODA.[7]

The steps to assess the gap are as follows: (a) the unemployment gap is calculated; based on the current situation of Arab labour markets; (b) the growth rate required to bridge that unemployment gap is assessed using employment-to-output elasticities; (c) the required growth rate of capital associated with that level of GDP growth is calculated using Thirlwall-Hussain's (TH) balance of payments' constrained-growth model;[8] and (d) the financing gap is obtained by comparing the level of capital that a country should have received to the capital that it actually received.

The basic intuition of the TH model is that countries will not be able to grow if they cannot generate enough capital to pay for their imports, and to do that they have to raise their exports. This model is much better suited for oil-importing countries than for oil-exporting countries (for which exports are unlikely to represent a constraint to growth). The main policy implication is that countries should improve their balance of payments position, which can be done in the following ways: (a) exporting more goods or services – in a purely quantitative approach; (b) adding higher value to the goods and services exported – in a qualitative approach; or (c) reducing their imports – either in their number or their added value. These different strategies equate to the traditional development strategies of export promotion and import substitution. However, the international experience on development through import substitution has generally been unsuccessful. Consequently, structural transformation through export promotion would be the underlying philosophy of this model.

A financing gap relating to job creation is very important because in the countries considered, involuntary unemployment is a substantial problem. This is not surprising as the Arab region has quite high unemployment rates (table 12). In fact, unemployment has even been considered one of the issues that triggered the Arab uprisings.[9]

Recent data show that unemployment rates range from 8.3 per cent in the Syrian Arab Republic to 17.6 per cent in Yemen. Considering the target of reducing by half the unemployment level (column 4), the intended reductions of unemployment range from 4.15 to 8.80 percentage points (column 5).

Using data on elasticities between output and employment for Arab countries (column 6), table 12 shows the GDP growth rate required to halve unemployment (column 7). It is worth noting that the required growth rates are larger than the average growth rates during the period 2000-2010 (table 11). Furthermore, those countries that had higher growth rates do not necessarily have to grow less (or vice versa) to meet the intended objective. In other words, there is no statistically significant correlation between these two series.

D. Results

The TH model is composed of several parameters needed to calculate the required growth rate of capital. The inputs required are shown in the annex: the values of the variables for the past decade are set forth in annex table 1 and those of other parameters, such as import and export elasticities, are in annex table 2.

The results can be seen in table 13, which is to be interpreted as follows. Column (a) shows the actual capital received by countries in 2010, defined as the sum of net inflows of remittances, FDI and ODA. Column (b) is the required growth of total capital between 2010 and 2011, calculated according to the TH model. Based on columns (a) and (b), column (c) is the capital

Table 11. Selected economic indicators in sampled countries, average 2000-2010

Country	GDP per capita, 2010 (current $)	Cash surplus/ deficit (% of GDP)	Central government debt (% of GDP)	Oil rents (% of GDP)	Exports of goods and services (% of GDP)	Growth rate (% of GDP)
Egypt	2 803.5	-6.3	85.8	7.6	24.7	4.9
Jordan	4 370.7	-3.7	77.2	0.0	49.3	6.1
Lebanon	8 551.9	-11.2	..	..	19.6	4.8
Morocco	2 822.7	-0.7	52.6	0.0	31.6	4.6
Sudan	1 421.1	..	..	17.5	17.8	6.3
Syrian Arab Republic	2 746.9	..	..	21.2	36.6	4.7
Tunisia	4 206.8	-2.0	50.1	3.5	45.4	4.5
Yemen	1 400.7	..	85.8	31.6	36.5	4.5

Source: World Bank, 2013c.
Notes: All columns refer to the average for the period 2000-2010, with the exception of the first column, which refers to GDP per capita in 2010. Two dots (..) indicate that data are not available.

Table 12. Selected social and employment indicators in sampled countries, 2012

Country	Population (millions) (1)	Labour force, total (millions) (2)	Unemploy-ment (%) (3)	Target unemploy-ment (%) (4)	Employ-ment gap (%) (5)	Elasticity of employ-ment to GDP (6)	Required growth rate (%) (7)
Egypt	79.4	26.6	11.9	5.9	5.95	0.44	14
Jordan	6.2	1.7	12.2	6.1	6.10	0.41	15
Lebanon	4.4	1.6	8.9	4.4	4.45	0.67	7
Morocco	32.1	11.4	9.0	4.5	4.50	0.19	23
Sudan	36.4	11.4	14.8	7.4	7.40	0.69	11
Syrian Arab Republic	21.2	6.0	8.3	4.2	4.15	0.27	16
Tunisia	10.7	3.9	12.8	6.4	6.40	0.33	20
Yemen	23.3	6.6	17.6	8.8	8.80	1.08	8

Sources: Columns 1 and 2: World Bank, 2013b; column 3: World Bank, 2013c, and UNDP and ILO, 2012; and columns 6 and 7: ESCWA calculations.
Note: Data are for 2012 or the closest year for which data are available.

that was required in 2011. When the figures of column (c) are compared with the capital that was actually received in 2011 (column d), the result is the financing gap (column e). Adding all the individual countries' financing gaps, the result obtained is the total financing gap.[10]

In total, the sampled countries required $111,117 billion and received $56,248 billion, which yields a total financing gap of $54,926 billion. There are very significant disparities across countries, however. Specifically, the Sudan's financing gap alone represents 43.5 per cent of the total financing gap, followed by that of Egypt, representing 27.3 per cent of the total gap.

It is worth noting that while the inflows in 2011 were $56.2 billion, $17 billion had been received in 2000, which implies a continuously compounded growth rate of 11.5 per cent a year, a rate much higher than the countries' average growth during that decade.

E. Disaggregation by flows

To better assess the magnitude of the results, table 14 breaks down each country's financing gap into the three flows of interest (remittances, FDI and ODA), assuming the same structure of 2010 in terms of net inflows received. It is worth noting that in 2010, Yemen had negative net FDI flows, which yields a negative figure in table 14, although from a policy viewpoint, it makes little sense to recommend higher capital outflows.

It is necessary to explore the feasibility of filling up each country's financing gap in terms of the flows considered, and to do so, two benchmarks are provided. First, the needs, as highlighted in table 14, are compared to the flows received by countries (what came to the region); and second, to those flows that emanated from the region but did not stay (what left the region).

Table 13. Estimation of required capital flows

Country	Actual capital 2010 (a)	Required growth rate of capital 2010-2011 (b)	Required capital 2011 (c) = (a)*(b)	Actual capital 2011 (d)	Financing gap (e) = (c) – (d)
Egypt	19 431	50.69%	29 280	14 254	15 026
Jordan	6 246	42.19%	8 881	5 900	2 981
Lebanon	12 112	45.99%	17 683	11 270	6 413
Morocco	8 656	29.14%	11 178	11 148	30
Sudan	9 609	207.02%	29 502	5 599	23 903
Syrian Arab Republic	3 227	56.66%	5 055	3 473	1 582
Tunisia	3 948	78.21%	7 036	3 355	3 681
Yemen	2 097	19.36%	2 503	1 193	1 310
Total	65 326	-	111 117	56 248	54 926

Source: World Bank, World Development Indicators database.
Notes: With the exception of column (b), all the figures in this table are expressed in billions of current United States dollars. The total level of capital flows for 2008 and 2009 is the sum of FDI, ODA, remittances and portfolio investments. Of those series, FDI, remittances and portfolio investment data are entered as 'net' = inflows – outflows. In Hussain (2000), it is not specified whether flows are net or total, but in any case, the outflows tend to be small so the total and net inflows are quite similar.

Table 15 can be interpreted as follows. In the case of Jordan, the extra remittances that the country should have received to fill its share of the gap amounted to 50.3 per cent of all the remittances received in 2011. The table gives a quick picture of where the policy efforts should concentrate. Looking at the financial flows across countries, the greatest efforts should concentrate on attracting FDI. Considering countries, the greatest efforts would have to be made by the Sudan and Egypt.[11]

As a possible way to fill the gap, the second benchmark compares the needs to the capital emanating from the region that did not stay in the region. For the countries considered, remittances requirements represent 42 per cent of the total volume of remittances that left the region, while FDI and ODA requirements are higher than those Arab FDI and ODA that went abroad (table 16, row c).

These numbers show that, overall in the Arab region in 2011, there were enough resources to fill the financing gap ($54,926 billion): the total amount of remittances, FDI and ODA that left the region in 2011 was $78,169 billion, representing approximately 1.4 times the gap. In fact, remittances alone ($53,528 billion) would nearly be enough to cover it completely.

1. Remittances

Remittances are the most important flow of the three considered, given that they accounted for 60 per cent of total volume of finance received in 2012. The remittances received in 2012 by the countries considered were approximately $38.9 billion. Furthermore, they are very stable: the standard deviation of the volume received during the 2000s was equivalent to 0.31 times its average.

However, there are also important disparities. Egypt, Lebanon, Morocco and Jordan together received around 78 per cent of total remittances received in the region. While investment in a broad sense does happen (for example, health and education of family members), remittances are more likely to be used for consumption than for investment and, therefore, their capacity to lead to employment opportunities is limited.

The main three sources of remittances in the region are Saudi Arabia, France and Jordan,

Table 14. Requirements to fill the financial gap (Billions of current United States dollars)

Country	Remittances	FDI	ODA	Total financing gap
Egypt	9 630	4 938	458	15 026
Jordan	1 738	788	456	2 981
Lebanon	3 910	2 266	237	6 413
Morocco	22	4	3	30
Sudan	3 531	15 209	5 163	23 903
Syrian Arab Republic	795	720	66	1 582
Tunisia	1 924	1 244	513	3 681
Yemen	953	-58	415	1 310
Total	22 503	25 111	7 311	54 926

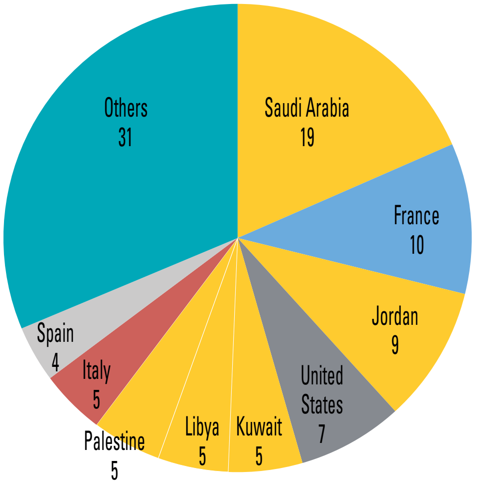
Source: ESCWA calculations.
Note: Assuming the 2010 composition of inflows for each country.

with Saudi Arabia, Jordan, Kuwait, Libya and Palestine originating 43 per cent of all the remittances received in the region (figure 31).

Arab countries (especially GCC countries) are one of the most important remittance corridors in the world. Saudi Arabia, the United Arab Emirates, Kuwait and Jordan are the four largest remittance-sending countries in the region. Remittances from Saudi Arabia and the United Arab Emirates accounted for almost 60 per cent of total remittances ($83 billion) sent from the region in 2012.

While the amount of remittances transferred to such countries as Egypt, Jordan or Lebanon were very significant, intraregional remittances have been relatively small.

Figure 31. Origin of remittances received in the Arab region, 2012 (Percentage)



Source: World Bank, 2013a.

Table 15. Requirements to fill the gap by flow and country, 2011 (Percentage of each country's actual flow)

Country	Remittances	FDI	ODA	Average per country
Egypt	67.2	1 023.0	111.1	400.4
Jordan	50.3	53.6	46.6	50.2
Lebanon	53.4	65.2	50.2	56.3
Morocco	0.3	0.2	0.2	0.2
Sudan	248.7	497.6	459.8	402.0
Syrian Arab Republic	38.2	68.0	19.7	42.0
Tunisia	96.0	287.5	55.9	146.5
Yemen	67.9	8.1	82.8	52.9
Average per flow	77.8	250.4	103.3	-

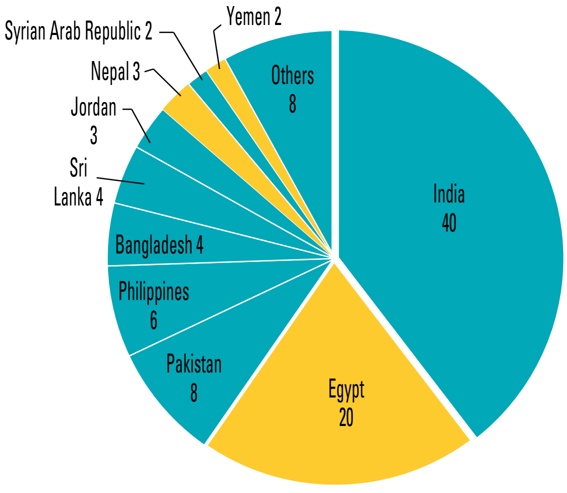
Source: ESCWA calculations.

Table 16. Requirements to fill the gap, 2011

Country	Remittances	FDI	ODA	Total
Total requirements (billions of current $) (a)	22 503	25 111	7 311	54 926
Total from the region to the rest of the world (billions of current $) (b)	53 528	17 798	999.9	78 169
Requirements relative to outgoing flows (percentage) (c) = (a)/(b)	42.0	141.1	731.2	70.3

Source: ESCWA calculations.

Figure 32. Destination of Arab remittances, 2012 (Percentage)



Source: World Bank, 2013a.

Specifically, Arab countries only received 29 per cent of total remittances sent from the region. This phenomenon contrasts with some South Asian countries which received huge amounts of remittances from Gulf countries: India alone received almost $33 billion of remittances, thus exceeding the amount of Arab intraregional remittances; while Pakistan, Philippines, Bangladesh and Sri Lanka also received more remittances from Arab countries than Jordan, the Syrian Arab Republic, Yemen and Lebanon.

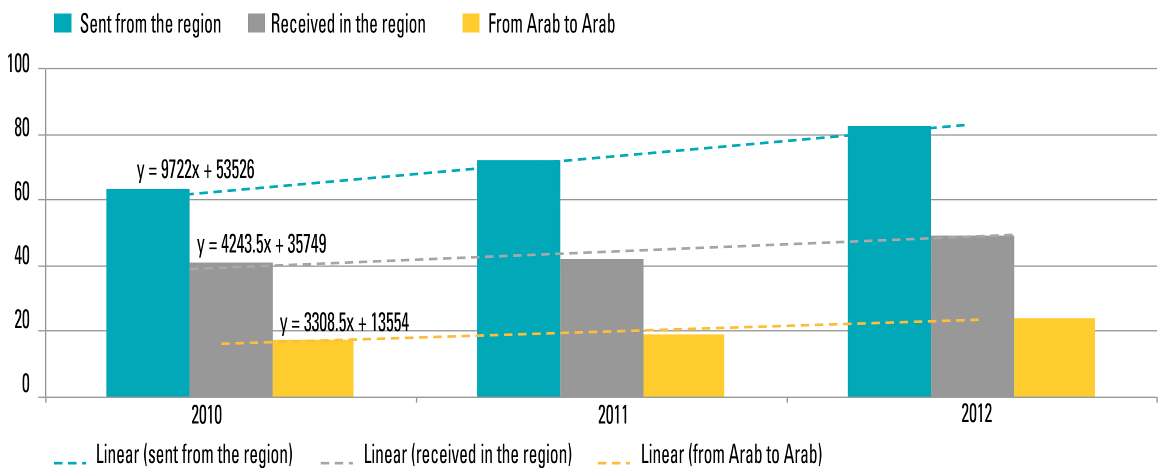
The overall trend in recent years can be illustrated by the pattern of the different slopes representing total remittances sent and received from the region and within the region (figure 33). Between 2010 and 2012, the remittances sent from the region grew at a pace that was almost three times larger than the remittances within the region (intra-Arab). Consequently, the difference increased over time.

To provide some benchmarks, the pattern in the Arab region contrasts with that of other regional economic blocs, which showed substantially higher proportions of intraregional remittances to total remittances sent (figure 34). For instance, 46.3 per cent of the remittances emanating from the European Union stayed in the region. The figure for the Southern African Development Community (SADC) was about twice as large as that of the Arab region, while in the Association of Southeast Asian Nations (ASEAN), 41.4 per cent of all the remittances sent were kept within the region.

What can explain such a low level of remittances within the region? Broadly, remittances are determined by the factors that affect two groups of variables, namely the number of emigrants that a country has abroad, and the amount of money they send. The first component is linked to such factors as migration policies, social networks or poverty in the country of origin. The second component depends, among others, on the cost of sending money and the level of income of emigrants in the host country. Based on available data, two key variables are therefore the number of migrants and the cost of sending money within the region. The proportion of intraregional migration in the Arab region (36.8 per cent) is significantly lower than in other regions, such as SADC or ASEAN, although it is similar to that of the European Union (figure 35). Hence, the low level of intraregional migration seems to be the main driver of the low level of intraregional remittances. This is corroborated by looking at the cost of sending remittances: looking at the cheapest or average cost of sending money from Saudi Arabia and the United Arab Emirates, Arab countries are not systematically disadvantaged relative to South Asian nations (annex table 3).

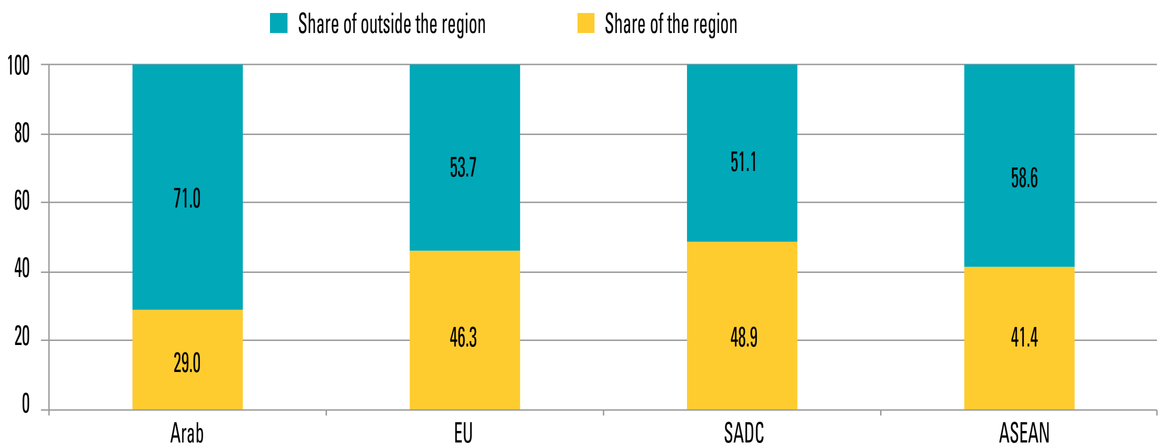
To summarize, available evidence suggests that the relatively low level of intraregional remittances is more associated with migration patterns than with the costs of sending money. While specific measures to reduce the cost of sending money may

Figure 33. Arab remittances (Billions of United States dollars)



Source: World Bank, 2013a.

Figure 34. Destination of regional remittances, 2012 (Percentage)



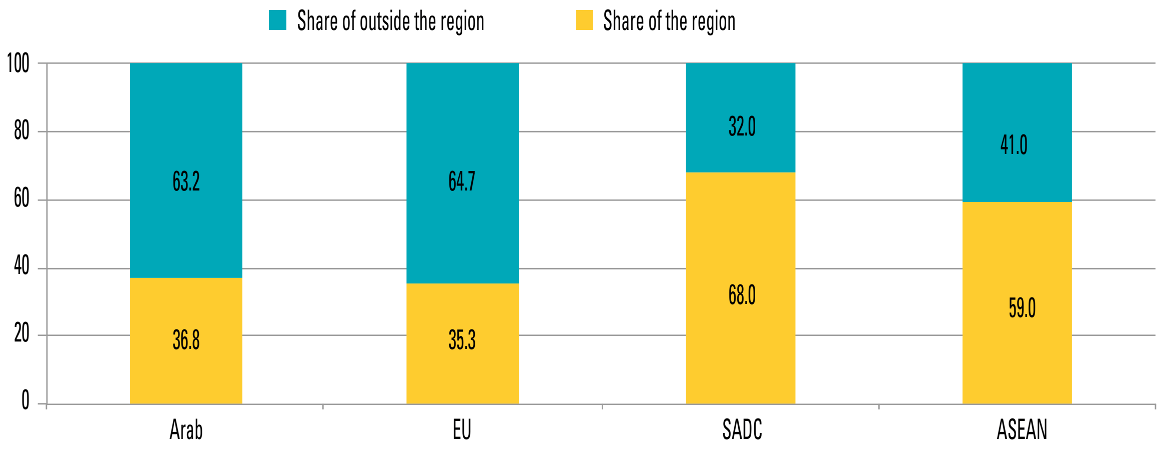
Source: World Bank, 2013a.

encourage remittances, the most effective way to promote intra-Arab remittances would be the promotion of migratory collaboration agreements between Arab countries, which at present are almost non-existent and would encourage the movement of labour where it is more needed. Encouraging intraregional labour movement in this way and pursuing Arab regional economic integration can support not only Arab countries with high unemployment rates, but also those with significant lack of human capital.

2. Foreign direct investment

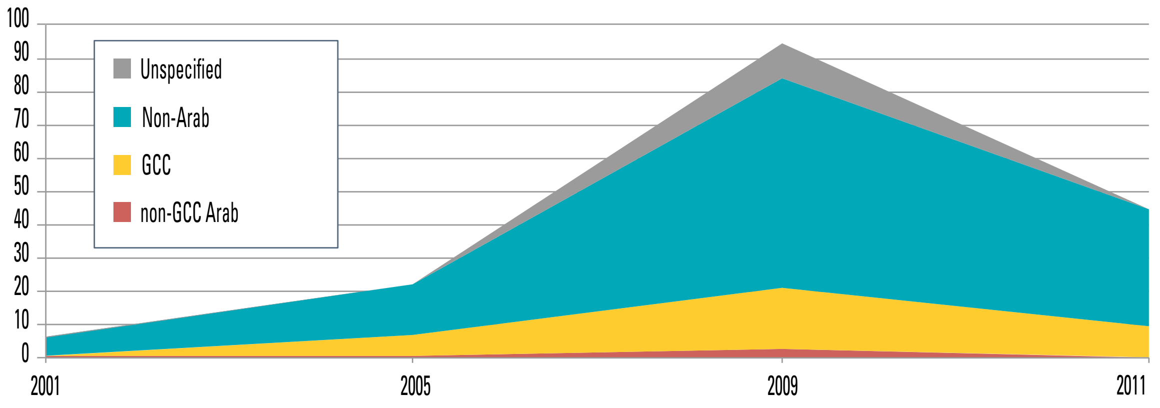
The net FDI inflows for the countries considered were $15.2 billion in 2012, equivalent to 23.5 per cent of all the flows received and 27.7 per cent of the estimated financing gap. FDI inflows increased very substantially between 2000 and 2011; the amount of FDI inflows in 2011 was almost five times that of 2000. However, FDI is the most volatile of the three flows considered – the standard deviation of FDI received during the 2000s is equivalent to 55 per cent of its average.

Figure 35. Origin of migration stock, 2012 (Percentage)



Source: World Bank, 2013a.

Figure 36. Origin of FDI inflows received in the region (Billions of United States dollars)

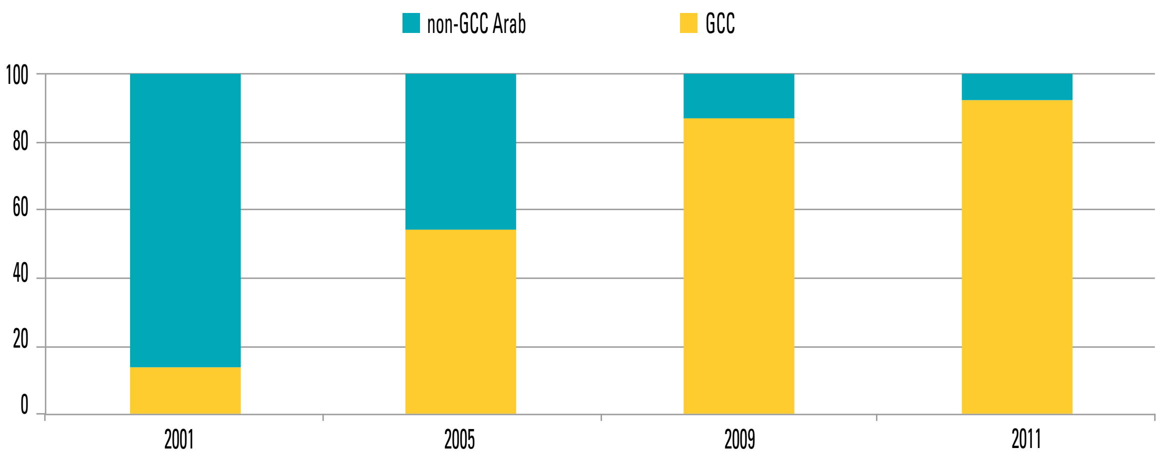


Source: United Nations Conference on Trade and Development (UNCTAD), 2014a.

The foreign direct investments received in the region originated mainly from non-Arab countries, a pattern that showed a spectacular growth from 2001 to 2011 (figure 36). For example, countries in North Africa, including Algeria, Egypt, Tunisia and Morocco, received quite significant FDI in the late 2000s, and most of those inflows were from non-Arab countries. However, most of the growth in FDI to the region headed to GCC countries, a phenomenon that accentuated over time. In 2001, non-GCC Arab countries received over 80 per cent of total FDI inflows to the region, but by 2009 that proportion had dropped to only 13 per cent (figure 37).

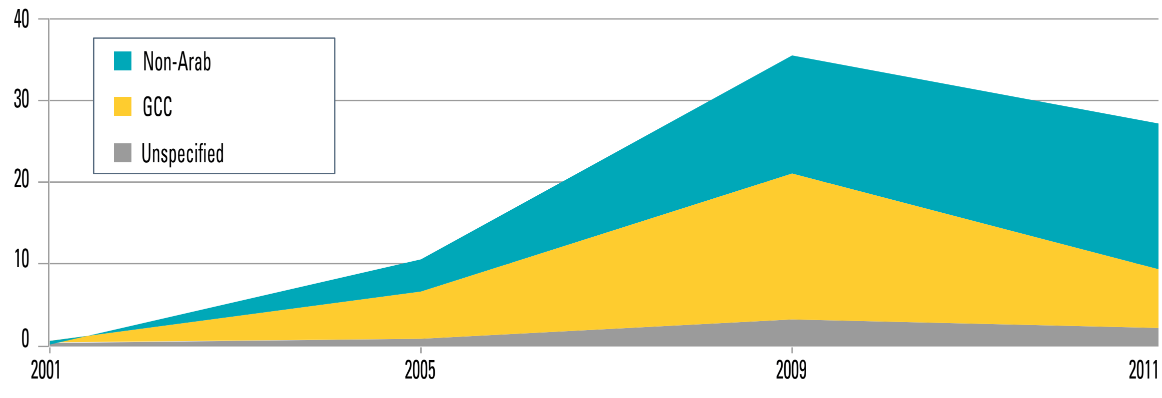
Considering only FDI that originated in the region, the picture is relatively similar. While Arab FDI soared between 2001 and 2011, the recipients were GCC or non-Arab countries. By the late 2000s, non-Arab countries became the destination of most Arab FDI, outweighing FDI to GCC and non-GCC countries combined (figure 38).

Figure 37. Destination of FDI inflows (Percentage)



Source: UNCTAD, 2014a.

Figure 38. Destination of Arab FDI outflows (Billions of United States dollars)



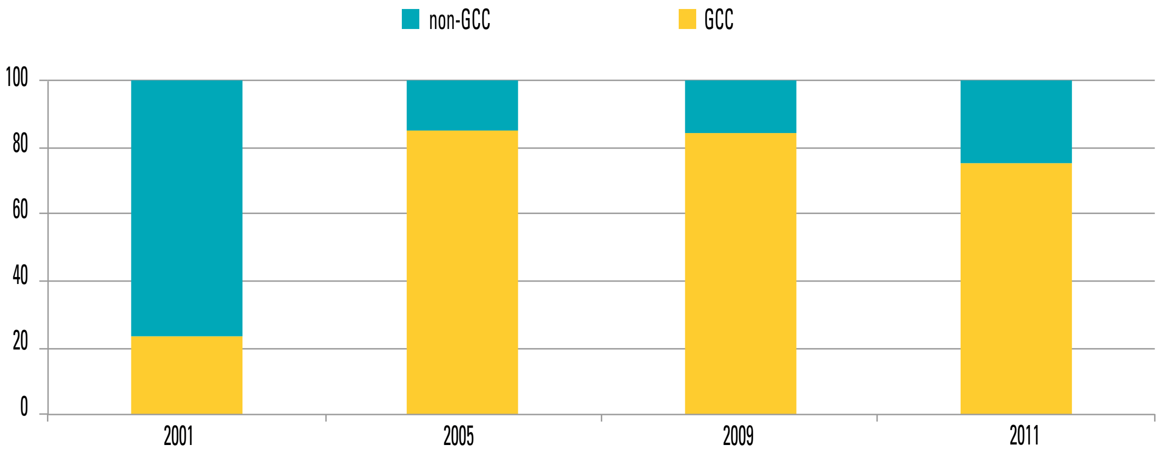
Source: UNCTAD, 2014a.

Looking at the destination of FDI flows that originated in the Arab region, it is also very clear that the weight of investments has switched. While in 2001 non-GCC countries received close to 80 per cent of all investments, in recent years GCC countries have been receiving around 75 to 85 per cent of intraregional FDIs (figure 39).

The determinants of FDI have been considerably analysed. Some of the main features associated with FDI are market size, the rule of law, institutions, agglomeration, trade openness and the prospect of natural resource exploitation, with availability of local skills gaining importance in the past two decades.[12] In the Arab region it has been argued that the key determinants of FDI inflows are the size of the host economy, the government size, natural resources and institutions.[13]

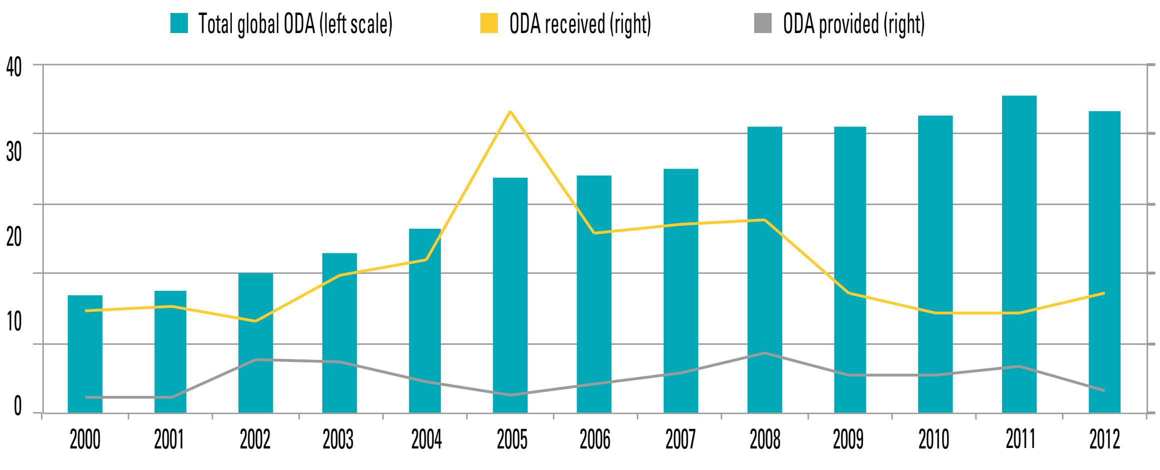
Given that such variables as market size or trade openness are key to attracting FDI, the establishment of regional integration

Figure 39. Distribution of intra-Arab FDI (Percentage)



Source: UNCTAD, 2014a.
Note: Data on Saudi Arabia are not included for 2011.

Figure 40. Total ODA in the Arab region (Billions of United States dollars)

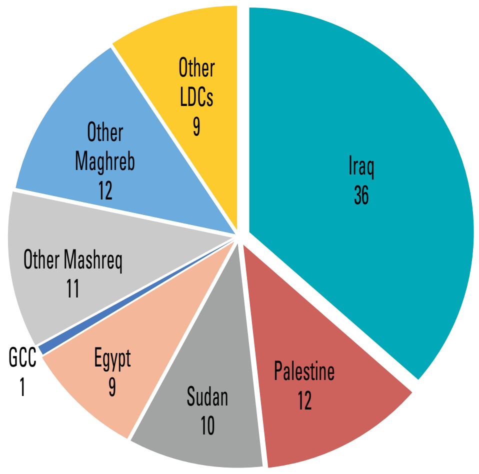


Source: OECD, Development Assistance Committee, 2014.

structures that entail a larger market - size for example, a common market - can greatly contribute to boosting intraregional FDI.

Other determinants of FDI are linked to investors' protection and, more broadly, institutions. In this regard, an additional policy tool that may promote intraregional FDI is bilateral investment treaties (BITs). The effective number of BITs between countries in the region, sometimes even neighbouring nations, is relatively low at 116 (annex table 4).[14] This entails that, in terms of regulatory protection, the coverage that BITs provide to Arab countries amount to 37.9 per cent, which is much lower than the coverage that they have with some key global players (at 63.3 per cent).[15] The table shows that some countries, such as Bahrain, Palestine and Saudi Arabia, still have considerable room for improvement.

Figure 41. Distribution of ODA received in the Arab region, 2000-2012 (Percentage)



Source: OECD, Development Assistance Committee, 2014.

It is clear that when considering intraregional agreements, Arab States sign many BITs that are later not ratified, whereas with the main global powers that does not happen: either a country has few BITs (for example, the United States) or many (for example, Germany), but those that are signed are likely to have entered into force.

Policymakers should promote FDI, and particularly intraregional FDI, to counter the polarization towards GCC countries that has occurred in recent years. New conditions are needed to boost FDI, and these conditions require higher levels of regional integration, which would enlarge the size of the market and include higher investor protection through the further promotion of BITs between Arab countries.

3. Official development assistance

For the sampled countries, the volume of ODA in 2012 was $9.8 billion, which is equivalent to 17.4 per cent of the total volume of flows received in 2011, and 17.9 per cent of the total financing gap. Globally, ODA showed a positive trend between 2000 and 2012, which mirrored in the total ODA disbursed to the countries considered: from $3.5 billion in 2000s to $9.8 billion in 2012. Furthermore, ODA was also a relatively stable source of finance. The standard deviation of ODA received during the 2000s was equivalent to 33 per cent of its average, which is not as stable as remittances, but considerably more stable than FDI.

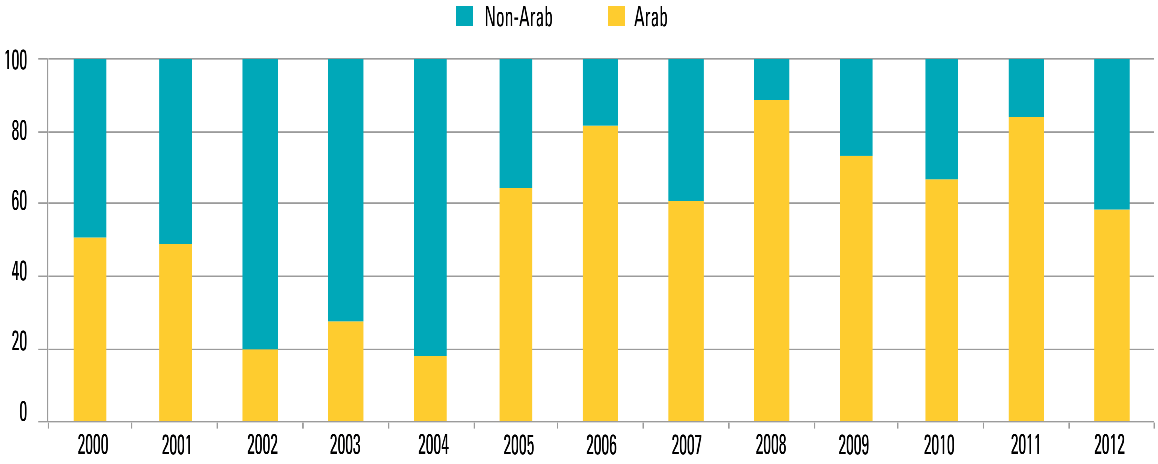
Over the global total, the proportion of ODA headed to the region followed a stationary pattern, hovering between 7 and 10 per cent for most years with the exception of 2005 (figure 40). Similarly, the level of aid provided by Arab donors as a percentage of global aid followed a stationary pattern and hovered around 3 to 4 per cent, which shows that, in absolute numbers, the volumes of aid to and from the region saw a positive trend line.

However, and as with the other financial flows, total ODA received was skewed to a few countries, especially Iraq (figure 41), a country that received over one third of the total ODA for the region between 2000 and 2012. Egypt, Palestine and the Sudan also received significant amounts, while other countries had a relatively limited access to ODA.

Considering Arab ODA provided within the region, aid has had a positive trend since the early 2000s (figure 42). The destination of ODA from the four main Arab donors, namely Kuwait, Saudi Arabia, United Arab Emirates and the Arab Fund for Economic and Social Development, is now Arab countries, which in recent years have received a share hovering around 60 to 80 per cent.

Considering Arab intraregional ODA, Egypt, Morocco, Palestine, Jordan and the Sudan are the top recipients, while it is also remarkable that Iraq receives negligible amounts (figure 43), which could indicate a substitution effect with regards to non-Arab aid.

Figure 42. Destination of ODA from the four main Arab donors, 2000-2012 (Percentage)



Source: OECD, Development Assistance Committee, 2014.
Note: The main four donors are Kuwait, Saudi Arabia, United Arab Emirates and the Arab Fund for Economic and Social Development.

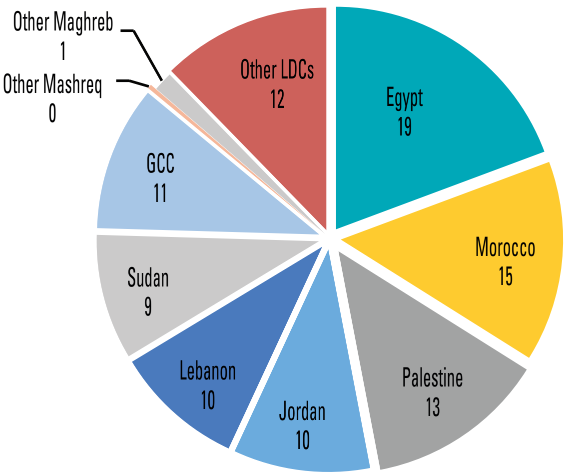
Broadly speaking, the determinants of ODA are the level of development challenges (for example, poverty or humanitarian crises), and other political economy factors such as bilateral relations between partner countries. While in some countries ODA might represent a sizeable share of the foreign capital flowing in, it is unlikely to compensate for the level of challenges. This arises for the following reasons: (a) in the current context of transition in several Arab countries, the challenges are great; (b) most donors are still facing economic challenges themselves, so their financial capacity at the moment is relatively limited; and (c) in the long term, ODA focuses on poverty alleviation and not on wealth generation, and hence is less prone to create jobs. Consequently, while large efforts have to be made towards mobilizing ODA, other sources of finance should complement ODA.

F. Regional integration as the way to go

Drawing from other experiences of regional integration provides a useful hint about how to mobilize the resources needed to fill the financing gap. The most notable and successful experience is that of the European Union, which gives great importance to international cooperation for development. For instance, in 2012 the European Union provided 13.6 billion euros in net ODA.[16] However, aid is insufficient; and that is visible when contrasting the resources allocated to ODA with those allocated by the European Union for regional cooperation: between 2007 and 2013, the European Union allocated 347 billion euros for regional integration, equivalent to about 50 billion euros a year, amounting to 3.7 times more than the European Union's total ODA in 2012.[17]

The European Union realized long ago that, for regional integration to succeed, it has to be between members at similar developmental levels, which is why so much importance is given to convergence in the form of pre-accession assistance. For instance, the policy objectives of the European Union allocations in the period 2007-2013 were the following: 82 per cent of the funds were allocated for convergence, 16 per cent for competitiveness, and the remaining 2 per cent for territorial cooperation. As a result, income disparities between European countries decreased

Figure 43. Distribution of ODA received in the Arab region from the four main Arab donors, 2000-2012 (Percentage)



Source: OECD, Development Assistance Committee, 2014.
Note: The four donors are Kuwait, Saudi Arabia, United Arab Emirates and the Arab Fund for Economic and Social Development.

significantly until the global financial downturn. The cases of Spain and Ireland are most noteworthy.

Would this be a relevant policy choice for Arab policymakers? Two aspects are central when considering this question, namely: the evolution of the sampled countries' capacity to attract financing and the evolution of those countries' incomes.

With regards to the first aspect, the sections above have repeatedly shown that in the 2000s, there has been a polarization tendency. Some countries, such as Egypt, have become much more powerful to attract funds, while others, such as Yemen, have struggled. This evolution can be appreciated by the standard deviation of the financial flows received by countries, which confirms rising inequality in terms of countries' capacity to attract capital (figure 44).

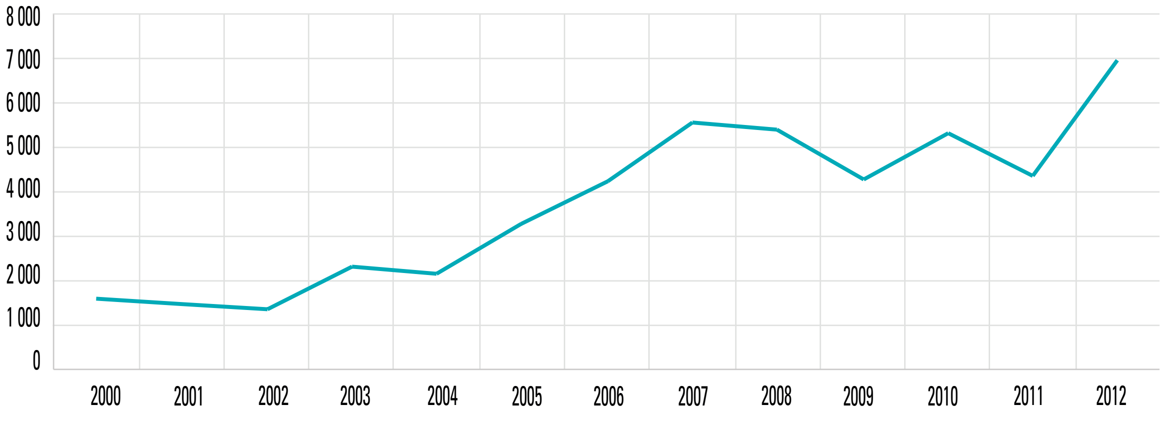
With regards to the evolution of income, divergences have also grown in the Arab region. Given that this is a more structural feature, however, the pattern is visible in the past two decades (figure 45). As can be appreciated, the divergences have been stronger between GCC countries and non-GCC Arab countries than among GCC countries themselves. It seems clear, then, that an overarching strategy to reduce the growing disparities in income within the region would be appropriated, both from an equity viewpoint and from a sociopolitical stability perspective. This is even more evident keeping in mind that, due to the polarization of income, GCC countries are some of the main exporters of capital in the world (annex figure).

In this context, efforts such as the move from the Greater Arab Free Trade Area (GAFTA) to the Arab Customs Union (ACU) are in the right direction. However, a much more ambitious framework to achieve regional integration is needed, which will require a strong dose of political coordination and less dependence on ODA as a tool for political influence.

Two points are remarkable when comparing Arab development funds (ADFs) with similar institutions. Firstly, 53.2 per cent of all aid from ADFs went to countries in their region, while in Europe the European Investment Bank (EIB) allocated 86.7 per cent of all its funds to countries in its region. Secondly, instead of having nine ADFs operating there could be one organization only, which would eliminate a great number of transaction costs, such as those incurred from different reporting policies. There is only one African Development Bank (AfDB) and one EIB, which hires only European nationals. By contrast, there are nine ADFs, each with its own different mechanisms and policies.

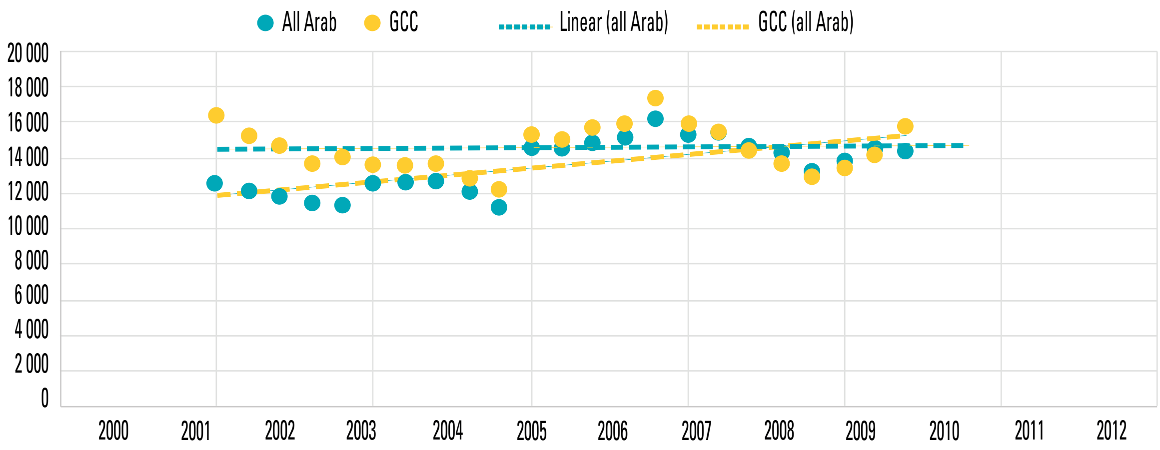
Moreover, when considering the case of Arab countries that also qualify for AfDB aid, such as Egypt, Morocco, the Sudan and Tunisia, the average assistance per country per ADF amounts to $1,739.8 billion, while the average allocation per country by

Figure 44. Standard deviation of the financial flows of Arab countries



Source: ESCWA calculations based on World Bank, 2013c.

Figure 45. Standard deviation of the per capita income of Arab countries



Source: ESCWA calculations based on World Bank, 2013c.

AfDB alone is of $6,346.5 billion. Thus, the merger of all ADFs into one organization is suggested for the medium term; it would be a significant step towards a much deeper regional integration between Arab countries (annex table 5).

G. Concluding remarks

The main drive for integration between Europeans was the will to avoid past conflicts. Europe embraced integration and took it to unprecedented levels. There is nothing that should impede the Arab region from doing something similar, especially in such an important domain as financing development. However, the Arab region remains one of the least integrated in the world.

The spillover effects of the Gulf's wealth could be expanded through higher economic integration; not only between GCC countries (where economic integration is already very high), but within the entire Arab region (where it is very low). High-income countries could support their lower-income neighbours not through traditional aid, but through investments on which to draw future benefits.

The region needs much more investment, both economic and social, to raise the living standards and strengthen social cohesion and stability. The future payback is visible: Arab countries are very interdependent in such key aspects as security and social stability, so it should be seen as an anomaly that the intraregional level of remittances, the most important financial flow, is a paltry 29 per cent.

While there are ongoing initiatives, such as GAFTA and ACU, the pace of progress is too slow. The required higher mobility of capital and labour will only be achieved through higher stages of economic integration, from a level of common market onwards. However, higher integration requires more political coordination and willingness to cooperate towards a common goal. The merger of all ADFs into an Arab development bank would be a clear indicator that such willingness is there, and is therefore suggested for serious consideration in the medium to long term.

Annex

The Thirlwall-Hussain Model

The basis for the TH model is the two-gap model (equation 1), which considers the savings gap (left hand side) or the foreign exchange gap – also known as the external finance gap – (the first term on the right hand side) as the most binding constraints, because the government budget deficit is considered as being driven by one of those gaps.[1]

(1) $S - I = (X - M) + (G - T)$

The TH model is presented in equations (2) to (4):[2]

(2) $\dot{m} = \pi\dot{y} + \varepsilon(\dot{p}_f - \dot{e} - \dot{p}_d)$

(3) $\dot{x} = \sigma\dot{w} + \beta(\dot{p}_d + \dot{e} - \dot{p}_f)$

(4) $\Theta(\dot{p}_d + \dot{e} + \dot{x}) + \tau\dot{k} = \dot{p}_f + \dot{m}$

The dot ($\dot{}$) stands for growth rate, while m denotes imports, x stands for exports, p_f is foreign prices, e is exchange rate, p_d is domestic prices, y is national income and w is income in the rest of the world. Hence, $\dot{m}$, $\dot{x}$, $\dot{p}_f$, $\dot{e}$, $\dot{p}_d$, $\dot{y}$, $\dot{w}$ denote the growth rate of imports, exports, foreign prices, exchange rate, domestic prices, national income and foreign income. The parameters in the model are the following: π is the income

Annex table 1. Parameters of the model, calculated for the period 2000-2010

Country / Variable (%)	Egypt	Jordan	Lebanon	Morocco	Sudan	Syrian Arab Republic	Tunisia	Yemen
Equivalent annual growth rate of real income	0.0494	0.0611	0.048	0.0461	0.0629	0.0456	0.0449	0.0444
Equivalent annual growth rate of the consumer price index	0.0777	0.0376	0.0296	0.0181	0.0905	0.0458	0.0331	0.106
Equivalent annual growth rate of the country's currency exchange rate	0.0499	0	0	-0.0245	0.0033	0.004	0.0024	0.0257
Equivalent annual growth rate of import prices	0.04	0.0642	0.0574[a]	0.0431	0.1157	0.0682	0.0546	0.0965
Equivalent annual growth rate of exports of goods and services	0.0893	0.0817	0.0983	0.0563	0.0967	0.02	0.0353	0.0309

Source: ESCWA calculations based on data from the Economist Intelligence Unit.
[a] This datum is not available. For the calculation, the average of the import prices' growth rates in Egypt, Jordan and the Syrian Arab Republic was used as a proxy.

elasticity of demand for foreign imports *(π>0)*, ε is the price elasticity of demand for imports *(ε<0)*, σ is the income elasticity of demand (of the rest of the world) for the country's exports *(σ>0)*, and β is the price elasticity of demand for exports *(β<0)*, while Θ and τ represent the proportions of total import billed "financed" by exports earnings and capital flows, respectively.

The model equations describe the growth of a country's exports, imports and the share of imports that has to be financed by exports and other capital flows. For instance, the interpretation of equation (4) is that the growth rate of a country's imports is the addition of two effects: the growth rate of its income times the income elasticity of demand for imports, plus the price elasticity of demand for imports times a composite of prices: foreign, domestic and exchange rate.

If income rises, imports will grow *(π>0)*, but if foreign prices increase *($\dot{p}_f$>0)*, imports will decrease because *(ε<0)*, *ceteris paribus*.[3]

Rearranging and solving the model, we can determine the required growth rate of capital from year t to t+1 for a country to grow at a particular growth rate:

(5) $$\dot{k}^* = \frac{\pi y^* - (1+\varepsilon)(\dot{p}_d + \dot{e} - \dot{p}_f) - \Theta \dot{x}}{(1-\Theta)} + (\dot{p}_d + \dot{e})$$

Finally, the financing gap is calculated as the difference between the capital that country i should have received in the year t+1 and the actual amount that it did receive (equation (6)). The total financing gap for a region would be the sum of its countries' financing gaps.

(6) $$FG_{i,t,t+1} = (1+\dot{k}^*)\, K_{it} - K_{it+1}$$

Annex table 2. Inputs to the model

Variable (%) / Country	Income elasticity of demand for imports π	Target GDP growth rate y*	Price elasticity of demand for imports ε	Terms of trade growth Pd+e - Pf	Real exports growth X	q Coefficient
Egypt	4.963258	0.15	*0.042827*	0.0876	0.0893	0.7368
Jordan	1.136259	0.25	*0.018582*	-0.0266	0.0817	0.6172
Lebanon	1.025725	0.15	*0.075724*	-0.0278	0.0983	0.7766
Morocco	*0.039512*	0.15	*0.022714*	-0.0495	0.0563	0.6937
Sudan	*0.304036*	0.15	0.28122	-0.0219	0.0967	1.0208
Syrian Arab Republic	0.38884	0.14	0.03274	-0.0184	0.0200	0.6490
Tunisia	0.40365	0.26	*-0.004873*	-0.0191	0.0353	0.8719
Yemen	2.459153	0.30	*-0.029701*	0.0352	0.0309	0.9698

Source: ESCWA calculations.
Note: Values of π and ε in italics denote that those parameters are not significant at the 10 per cent significance level.

Annex table 3. Cost of sending remittances for selected countries (Percentage of sending amount)

To	From	Saudi Arabia		United Arab Emirates		France		United States	
	Sending amount	$200	$500	$200	$500	$200	$500	$200	$500
Egypt	Lowest	3.21	0.82	2.88	1.66	..	..	..	..
	Highest	5.95	4.19	5.86	3.24	..	..	..	..
	Average	4.80	2.76	4.00	2.41	..	..	..	..
Jordan	Lowest	3.35	1.35	..	..	..	..	2.42	2.42
	Highest	6.33	3.54	..	..	..	..	9.36	6.42
	Average	4.52	2.32	..	..	..	..	6.05	4.65
Lebanon	Lowest	..	..	..	..	..	..	5.00	2.00
	Highest	..	..	..	..	..	..	20.00	8.00
	Average	..	..	..	..	..	..	10.81	5.41
Morocco	Lowest	..	..	..	..	2.23	1.59	..	..
	Highest	..	..	..	..	26.96	10.94	..	..
	Average	..	..	..	..	11.31	7.32	..	..
Tunisia	Lowest	..	..	..	..	0.98	0.35	..	..
	Highest	..	..	..	..	26.96	10.94	..	..
	Average	..	..	..	..	11.48	6.70	..	..
Yemen	Lowest	2.14	1.34	2.34	1.12	..	..	3.30	2.00
	Highest	4.55	2.15	3.91	2.28	..	..	7.30	7.30
	Average	3.36	1.76	3.20	1.83	..	..	5.52	3.60
Average-Arab		2.9	1.17	3.60	2.12	12.20	7.16	7.46	4.55
Bangladesh	Lowest	2.87	1.67	..	..	..	..	..	..
	Highest	5.08	3.80	..	..	..	..	..	..
	Average	4.01	2.42	..	..	..	..	..	..
India	Lowest	3.86	2.58	2.40	1.18	0.71	0.50	0.43	0.43
	Highest	5.48	3.49	3.16	1.94	26.96	10.94	5.43	2.53
	Average	4.67	3.08	2.68	1.46	12.93	6.28	3.18	1.70
Philippines	Lowest	3.19	2.00	2.43	1.21	..	..	1.50	1.00
	Highest	7.68	5.68	4.36	2.32	..	..	9.71	6.88
	Average	5.77	3.99	3.27	1.65	..	..	5.39	3.45
Sri Lanka	Lowest	..	..	2.15	0.93	..	..	..	..
	Highest	..	..	4.35	2.72	..	..	..	..
	Average	..	..	2.87	1.48	..	..	..	..
Average-non Arab		4.05	2.67	4.06	2.82	12.93	6.28	4.35	2.65

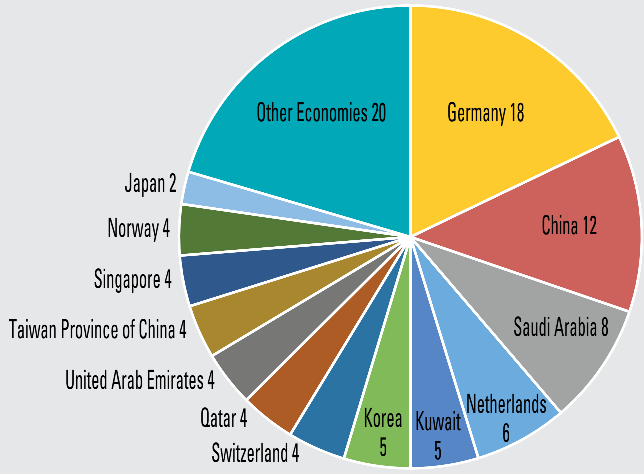
Source: World Bank, 2014.
Note: Two dots (..) indicate that data are not available.

Annex table 4. Bilateral investment treaties

	Arab region																				Selected key economic players						World
Country	Algeria	Bahrain	Egypt	Iraq	Jordan	Kuwait	Lebanon	Libya	Morocco	Oman	Palestine	Qatar	Saudi Arabia	Sudan	Syria	Tunisia	UAE	Yemen	Signed	Active	China	France	Germany	UK	USA	Active	Active
Algeria		A	A	C	A	B	C	B	C	A	C	B	C	B	B	B	A	B	12	5	B	A	A	C	C	2	27
Bahrain	A		A	C	A	C	A	C	A	C	C	C	C	B	A	C	C	B	8	6	A	A	A	A	A	5	20
Egypt	A	A		C	A	A	A	A	A	A	A	A	A	A	A	A	A	A	16	16	A	A	A	A	A	5	72
Iraq	C	C	C		C	A	C	C	B	C	C	C	C	C	B	C	C	C	3	1	C	B	B	C	C	0	1
Jordan	A	A	A	C		B	A	C	A	B	B	B	C	A	A	A	A	A	14	10	B	A	A	A	A	4	41
Kuwait	B	C	A	A	B		A	C	A	C	C	C	C	C	A	B	B	B	10	5	A	A	A	C	C	3	41
Lebanon	C	A	A	C	A	A		C	A	A	C	B	C	A	B	A	A	A	12	10	A	A	A	A	C	4	40
Libya	B	C	A	C	C	C	C		A	C	C	B	C	C	A	B	C	C	6	3	B	A	A	C	C	2	17
Morocco	C	A	A	B	A	A	A	A		A	C	A	C	A	A	A	A	B	14	12	A	A	A	A	A	5	45
Oman	A	C	A	C	B	C	A	C	A		C	C	C	A	B	A	C	A	9	7	A	A	A	A	C	4	24
Palestine	C	C	A	C	B	C	C	C	C	C		C	C	C	C	C	C	C	2	1	C	C	C	C	C	0	2
Qatar	B	C	A	C	B	C	B	B	A	C	C		C	B	B	B	C	B	10	2	A	A	A	C	C	3	18
Saudi Arabia	C	C	A	C	C	C	C	C	C	C	C	C		C	C	C	C	C	1	1	A	A	A	C	C	3	17
Sudan	B	B	A	C	A	C	A	C	A	A	C	B	C		A	B	B	B	12	6	A	A	A	C	C	3	12
Syria	B	A	A	B	A	A	B	A	A	B	C	B	C	A		A	A	A	15	10	A	B	A	C	C	2	32
Tunisia	B	C	A	C	A	B	A	B	A	A	C	B	C	B	A		A	B	13	7	B	A	A	A	A	4	33
UAE	A	C	A	C	A	B	A	C	A	C	C	C	C	B	A	A		A	10	8	A	A	A	A	C	4	31
Yemen	B	B	A	C	A	B	A	C	B	A	C	B	C	B	A	B	A		13	6	A	A	A	A	C	4	23
Active	5	6	16	1	10	5	10	3	12	7	1	2	1	6	10	7	8	6	180	116	12	15	16	9	5	57	496
Coverage	29.4%	35.3%	94.1%	5.9%	58.8%	29.4%	58.8%	17.6%	70.6%	41.2%	5.9%	11.8%	5.9%	35.3%	58.8%	41.2%	47.1%	35.3%	-	37.9%	66.7%	83.3%	88.9%	50.0%	27.8%	63.3%	-

Source: Compiled by ESCWA based on data from UNCTAD, 2014a.
Note: A (yellow): BIT entered into force; B (grey): BIT signed but not entered into force; and C (red): no BIT.

Annex figure. Major net exporters of capital, 2013 (Percentage)



Source: IMF, 2014.
Note: As measured by economies' current account surplus (assuming that errors and omissions are part of the capital and financial accounts).

Annex table 5. Financial assistance provided by ADFs and other selected development banks (Billions of United States dollars)

Country	Abu Dhabi Fund for Develop-ment	Kuwait Fund for Arab Economic Develop-ment	Saudi Fund for Develop-ment	Arab Fund for Economic and Social Develop-ment	Arab Monetary Fund (1978-2012)	Islamic Develop-ment Bank (1976-2012)	Total ADFs	AfDB	EIB (2012)
Egypt	..	2 071	643	4 036	80	4 975	11 806	5 793	..
Jordan	..	556	316	1 942	27	1 715	4 555	0	..
Lebanon	..	639	272	1 454	12	1 125	3 503	0	..
Morocco	..	1 391	595	4 090	86	5 190	11 352	10 705	..
Sudan	..	718	698	2 618	17	1 479	5 529	598	..
Syrian Arab Republic	..	1 181	614	2 485	9	1 139	5 428	0	..
Tunisia	..	495	587	2 484	22	2 520	6 108	8 290	..
Yemen	..	337	571	3 046	59	1 037	5 049	0	..
Total to countries in its region	3 139	9 362	4 296	28 997	422	34 322	80 538	..	74 272
Total	4 056	16 859	10 392	28 997	422	87 226	151 413	..	85 669

Source: Compiled by ESCWA based on data from the banks.
Note: Two dots (..) indicate that data are not available.

Endnotes

Chapter I

[1] United States, Department of Commerce, Bureau of Economic Analysis, 2014.
[2] European Commission, 2014b.
[3] Following the accession of Libya, Morocco and Tunisia to ESCWA in July 2012, it was decided that the territorial coverage of this publication would be expanded to include all countries of the Arab region. Subregional groupings are used in this paper, reflecting a combination of per-capita income level, geographical proximity and similarities in economic and social characteristics and conditions. The subregional groups are as follows: Gulf Cooperation Council (GCC) countries, comprising Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates; Mashreq countries, namely Egypt, Iraq, Jordan, Lebanon, Palestine and Syrian Arab Republic; Maghreb countries, comprising Algeria, Libya, Morocco and Tunisia; and Arab least developed countries (LDCs), namely the Comoros, Djibouti, Mauritania, Somalia, the Sudan and Yemen.
[4] The TED spread is the spread between three-month LIBOR and three-month United States Treasury Bill interest rates. It is a measure of liquidity given that it indicates a relative borrowing cost of private entities to the United States Treasury. Historically it has stood at around 50 basis points (0.5 percentage points). A higher TED spread implies a shortage of dollar liquidity in the private sector, as the funding cost of dollars in the international money market rises more than that of the Treasury.
[5] European Union, 2013.
[6] ILO, 2014a, p. 17.
[7] ILO, 2014b, fig. 1.7, p. 9.
[8] The regional groupings in ILO (2014b) are the same as those in ILO (2014a) and are detailed in notes b and c of table 2.
[9] United Nations, 2013.
[10] World Bank, 2011, chap. 5.
[11] World Bank, 2007.
[12] ILO, 2013a, chap. 3.
[13] ILO, 2013b.
[14] OPEC, 2014.
[15] Heffer and Prud'homme, 2013.
[16] It is reported that 90 per cent of global phosphorus demand is for food production. See Rosmarin, 2004.
[17] World Bank, Global Economic Monitor Commodities database. Available from http://databank.worldbank.org/dataviewsvariableselection/selectvariables.aspx?source=Global-Economic-Monitor-(GEM)-Commodities (last accessed 5 September 2014).

Chapter II

[1] Chapter III of this Survey discusses the issue of the financing gap in detail.
[2] The Tunisian dinar started depreciating again and marked TND 1.72 to the dollar on 23 July 2014.
[3] The Central Bank of Tunisia raised its main policy interest rate again in June 2014 to 4.75 per cent.
[4] The Central Bank of Egypt raised policy interest rates by one percentage point in July 2014.
[5] The fiscal year varies among Arab countries. Some fiscal years end in March of the following year and Egypt's fiscal year ends in June of the following year.
[6] Egypt, Tunisia and Yemen cut fuel subsidy in July 2014 as part of comprehensive fiscal reforms.
[7] This approach has been heavily criticized, given that it overlooks vital elements that are essential to enable women to advance. In particular, GII does not measure the array of rights that women enjoy in society and it also ignores the issue of violence.
[8] In the regional groupings set by UNDP for GII, the Arab region comprises 20 countries, namely Algeria, Bahrain, Djibouti, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Morocco, Palestine, Oman, Qatar, Saudi Arabia, Somalia, the Sudan, the Syrian Arab Republic, Tunisia, United Arab Emirates and Yemen.
[9] UNDP, 2014.
[10] Ibid.
[11] World Economic Forum, 2013.
[12] Ibid.
[13] With respect to single/lower house representation, the Arab region scored a regional average of 17.8 per cent, followed by the Pacific region with a score of 13.4 per cent (as of 1 June 2014). The latter represents the lowest regional average for political representation worldwide.
[14] IPU, 2014.
[15] Ibid.
[16] Tunisia, 1956.
[17] ESCWA, 2013d and 2011.
[18] IPU, 2014.
[19] Aziz, 2013.
[20] Based on data from the World Bank, Gender Equality Data and Statistics, 2011. The labour force participation rate refers to the proportion of the working-age population (15-64) that is either employed or seeking employment. Also see World Economic Forum, 2013.
[21] Doumato, 2010.
[22] Crane and others, 2011.
[23] Data are from the Jordanian Higher Population Council.
[24] Saudi Gazette, 2012.
[25] Rutledge and others, 2011.
[26] Arab News, 2013.
[27] Saudi Gazette, 2013.
[28] Ibid.
[29] Bahrain and ILO, 2010.
[30] Milbert, 2014.
[31] Egypt, Central Agency for Public Mobilization and Statistics, 2014.

Chapter III

[1] On the financing gap, see, for example, ESCWA, 2013b.
[2] ESCWA, 2013a.
[3] Ibid.
[4] Algeria, Iraq and Palestine were dropped from the sample owing to a lack of data.
[5] This target is arbitrary; other targets could have been chosen, such as the natural rate of unemployment. However, natural unemployment is not observable, so the reduction of 50 per cent is taken for convenience.
[6] See, for example, ESCWA, 2013a.
[7] Portfolio investments are not considered in this analysis because of their volatility and unpredictability (they are not geared towards long-term investments), and the lack of data (for example, regarding the flows that stay in the region or not), which is linked to the fact that often such flows are channelled through tax havens and opaque financial centres.
[8] Thirlwall and Hussain, 1982. The model, as detailed in Hussain (2000), is presented in the annex.
[9] See, for example, Pope, 2011.
[10] That is, the total financing gap for the countries considered. Admittedly, this simple sum has the potential inconvenience of ignoring synergies between countries. However, measuring those synergies is difficult and would go beyond the scope of this study.
[11] Net foreign direct investment (FDI) in Egypt was -$483 million, which yields -1,023 per cent. As with Yemen's negative FDI in table 14, negative numbers make little sense because the interest of the study is to investigate how to fill out the financing gap. Hence, table 15 reports the data for Egypt's FDI in absolute terms. In the case of Yemen, net FDI was negative in both 2010 and 2011, so the ratio between requirements and actual flows in 2011 is positive. In terms of

economic policy, both countries should work towards having positive FDI inflows.

[12] See Kinoshita and Campos, 2003; Anyanwu, 2012; and Nunnenkamp, 2002.

[13] Mohamed and Sidiropoulos, 2010.

[14] While the total number of signed BITs is 180, many have not been ratified (some for many years), which means that the effective number of BITs in place is 116.

[15] Calculated as the number of active BITs over the total number of possible investment treaties. For the Arab region, the total number of BITs would be (17x18/2)=153, which yields a coverage of (116/2)/153 = 37.9 per cent, while for the rest of the world, the coverage is 57/(5x18) = 63.3 per cent.

[16] Donor tracker, 2014.

[17] European Commission, 2014b.

Annex

[1] Shimeles and others, 2009.

[2] Taken from Hussain, 2000. The Balance of Payments Constrained Growth model is described here with slight differences in notation. The model's intuition is basic, as it relates to the calculation of the financing gap. For more details, see Hussain, 2000.

[3] Ibid.

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The Arab region witnessed slower economic growth in 2013 compared to 2012, owing mainly to the moderate growth in oil revenues of major oil-exporting countries. While member countries of the Gulf Cooperation Council (GCC) are on a stable recovery path, the polarization of economic performance continues between these countries on the one hand, and all other Arab countries on the other hand. The political, security and humanitarian crisis in Iraq, Libya, Palestine and the Syrian Arab Republic deepened, impacting the neighbouring countries negatively. Political instability remained in Egypt, the Sudan and Yemen. The Arab region is increasingly seen as fragile and chaotic in both socioeconomic and sociopolitical terms, despite its vast energy, and natural and human resources.

One of the most striking structural weaknesses recently revealed in the Arab region is the widening financing gap for development, both in terms of foreign exchange and government budgets, particularly in energy-importing countries. Several Arab countries are compelled to undergo fiscal consolidation under mounting foreign exchange constraints. In the light of the pressing nature of this policy issue, the *Survey of Economic and Social Developments in the Arab Region 2013-2014* addresses the theme of financing gaps in its chapter III. It estimates financing gaps to achieve full employment and concludes with a set of policy recommendations, particularly regarding the potential of regional integration. Indeed, as outlined in this Survey, regional integration has the greatest potential to unlock financial resource mobilization and diversification, and should be used as a tool for economic and social transformation across the Arab region.

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