Distr.
LIMITED
E/ESCWA/EDGD/2009/Technical Paper.3
8 September 2009
ORIGINAL: ENGLISH

ECONOMIC AND SOCIAL COMMISSION FOR WESTERN ASIA (ESCWA)

THE IMPACTS OF THE INTERNATIONAL FINANCIAL AND ECONOMIC CRISIS ON ESCWA MEMBER COUNTRIES: CHALLENGES AND OPPORTUNITIES

United Nations
New York, 2009

09-0336

CONTENTS

LIST OF TABLES

CONTENTS (*continued*)

Page

LIST OF FIGURES

Executive summary

The unfolding international financial and economic crisis is undoubtedly a foundational historical event. It will shape the structure and ideology of international finance and trade for generations to come. Albeit born in the regulatory failures of the economies of advanced countries, the effects of the crisis are being felt throughout the globe, with devastating financial, economic and social consequences for the countries of the developing world.

The crisis has reverberated throughout the member countries of the Economic and Social Commission for Western Asia (ESCWA) in the form of a sharp decline in stock markets activity, an expected drop in foreign direct investment (FDI) flows and remittances, decreasing oil prices, and losses in the value of investments by Arab Sovereign Wealth Funds (SWFs). The indirect effects of the crisis on ESCWA economies are no less insignificant and will result in changes in monetary liquidity, the valuation of tangible assets, and a general slowdown in the real economy.

The crisis occurred at a time when most ESCWA member countries were enjoying a decade-long period of strong economic performance. This will certainly help them weather the effects of the crisis. Nevertheless, the yet-to-be-determined financial, economic and social costs of the crisis should not be underestimated. Almost all financial, economic and social sectors have been adversely affected by the crisis. But all crises offer opportunities for structural reforms. The current crisis should thus serve as an occasion for bold and decisive policies by ESCWA member countries.

ESCWA member countries need to adopt adequate expansionary fiscal stimulus packages aimed at containing the repercussions of the financial crisis on their real economies, boost economic activity and reduce the period of low economic growth. Expansionary fiscal policies could stem the recent slowdown in economic activity and consequently minimize adverse employment effects. They also need to meet key development goals, in coordination with the private sector and civil society. These policies need to especially target infrastructure, agriculture, industry, health, education, environment, and social protection mechanisms.

The international crisis has underscored the underdevelopment of Arab investments in the real economies of ESCWA member countries. Consequently, more resources need to be invested in the real economy, with a special focus on making credit available for small and medium-sized enterprises (SMEs) and the banking sectors of member countries facing capital reversals and liquidity crises. ESCWA member countries need to also invest in technology, infrastructure, industry, agriculture and research and development (R&D). This will reduce their heavy dependency on the oil sector, open up possibilities for diversifying exports, expand employment opportunities, and help reverse the current brain drain.

ESCWA member countries should take steps to swiftly implement mega-infrastructure projects endorsed during the first Arab Economic Summit held in Kuwait in January 2009. The implementation of such projects will increase domestic demand for goods and services which will, in turn, help to boost economic growth.

The global financial crisis is also an opportunity for many ESCWA member countries to reconsider the investment structures and governance standards of their SWFs. They therefore need to increase their investments in the real economy of ESCWA member countries, and particularly in those countries with comparative advantages and untapped opportunities in agriculture and industry, thus contributing to greater regional FDI flows, long-term growth prospects in the region, and higher living standards for all.

Arab SWFs can also play an instrumental role in the development of the architecture of a new international financial structure. They may be deployed strategically to help finance a new credit facility proposed by the Commission of Experts on Reforms of the International Monetary and Financial System in exchange for ESCWA member countries gaining a greater voice in managing the global economy. This will enable ESCWA member countries to assume a proactive role in global economic decision-making institutions. Arab SWFs could also serve as financial engines for regional integration.

ESCWA member countries could also enhance the efficiency of their regulatory frameworks and improve transparency and governance standards in the financial sector. This would increase the attractiveness of these markets to foreign investors, and help to redirect greater investments toward the real economies of ESCWA member countries. Moreover, the ESCWA region needs a much more transparent and accountable institutional environment. Otherwise, cumbersome bureaucratic and institutional frameworks will impose high entry costs on newly established firms and SMEs in particular. This impedes commercial transactions, deters FDI in export-oriented enterprises, and disrupts development plans.

The current financial crisis should also serve as a reminder to ESCWA member countries that they need to redouble their efforts to achieve greater regional integration. Intraregional flows of trade in goods and services, people and capital among ESCWA member countries should be facilitated. The full implementation of the Greater Arab Free Trade Area (GAFTA) needs to be accelerated. Moreover, Arab development funds could play an instrumental role in promoting greater regional integration. This could be achieved by increasing funds made available for inter-Arab investment and infrastructural projects, relaxing loan granting conditions, and developing transparent procedures to finance major inter-Arab projects. Existing national, regional and international funds should also consider measures that provide long-term financing for low and middle-income countries in the region to meet the Millennium Development Goals (MDGs). The creation of an emergency regional stability fund, financed through the foreign reserves of member countries, also needs to be considered.

The present crisis underscores the need for Arab countries to launch a dual trade diversification strategy: one with respect to exports, and another with regard to partners. ESCWA member countries need to continue to strive to diversify their economies away from oil, and seek to specialize in targeted niches and products with higher added value. The ramifications of the global crisis underscore the risks of excessive geographical concentration of trade relations, especially with developed countries. ESCWA member countries could reduce these risks by strengthening their trade with dynamic developing countries in Asia, Africa and Latin America. This will expand Arab investment opportunities, and promote South-South economic, technical and social cooperation.

The social consequences of the international crisis have been equally detrimental. Significant strides have been made in the ESCWA region over the past decade in education enrolment and female labour force participation, reducing poverty levels and in the share of working poor and those in vulnerable employment. However, recessionary dynamics could swiftly reverse these trends. In other words, rapid employment increases to output growth in the past decade could quickly turn into employment losses in the case of a protracted recession. The recent drop in unemployment could prove to be ephemeral given current population growth rates and rising female labour force participation.

The region has relatively low poverty rates at US$1 per day, but this rate increases rapidly when the poverty line is set at US$2 per day. And despite recent gains, enrolment rates in education remain low, learning outcomes are among the lowest in the world, and the impact of education on regional employment and productivity is not apparent. Finally, formal social safety nets are weak and often do not reach those most in need of them; generous social insurance coverage exists in some countries, but in others it poses challenges to the financial sustainability.

Consequently, the financial crisis is an opportunity to instill a new social security culture in the ESCWA member countries, encouraging the development of integrated solutions to regional economic and social challenges. This can be done by protecting and re-orienting public social spending and targeting the poor and vulnerable. Governments need to finance, deliver and monitor programmes that create jobs, ensure the delivery of core services, and provide adequate social protection. This includes creating appropriate mechanisms that generate employment; encourage pro-poor growth; strengthen social protection mechanisms; promote gender equality and non-discrimination; and focus on human development and decent work. Such mechanisms are most effective if developed through a social dialogue between Governments and strong, independent organizations of workers and employers. Specific opportunities for regionally-integrated solutions include bilateral and multilateral social security agreements which could help provide social protection coverage for migrant workers, a regional labour market information monitoring system, and regional coordination mechanisms for employment and social policies.

A resolution adopted at the 98^{th} session of the International Labour Conference proposed a global coordinated policy response aimed at recovery, stepping up efforts to realize the Decent Work Agenda and, concomitantly, reducing the risk that the crisis spreads further across countries, thus paving the way for a more sustainable, fairer globalization. The resolution Recovering from the Crisis: A Global Jobs Pact not only helps to develop short-term crisis response strategies, but also tackles the transmission mechanisms of the crisis, and creates the foundations for more sustainable economies.

Finally, international experience has shown that employment and social protection policies are most effective if pursued in a coordinated way. Such policies are by nature complex and are interlinked with other policy areas, and it is therefore important to ensure the participation of relevant stakeholders throughout the policy development process. Such coordination mechanisms need to be embedded in national employment and social protection strategies, and linked to appropriate monitoring and planning mechanisms to ensure the effective and efficient allocation of resources.

I. CRISIS AND OPPORTUNITY

The current international financial and economic crisis is undoubtedly a foundational event. The International Monetary Fund (IMF) estimates that by April 2009, the crisis had caused an estimated US$4.05 trillion in losses in the value of the holdings of banks and other financial institutions.[1] Undoubtedly, the crisis will shape the structure and ideology of international finance and trade for generations to come. The recommendations of the United Nations Commission of Experts on Reforms of the International Monetary and Financial System, which was established by the President of the General Assembly, blame the root causes of the crisis on “the failure of regulatory policies in the advanced industrial countries”. However the reverberations of this crisis are being felt throughout the globe, with devastating financial, economic and social consequences for the countries of the developing world.

Triggered by the subprime crisis in the United States, the international financial and economic crisis is characterized by a decline in the terms and availability of credit for consumers and businesses alike, thus adversely affecting consumption and investment spending, and plunging the economies of the United States and other countries into recession. Almost all major developed countries are in recession, and economic activity in emerging and developing countries has slowed down. According to the latest IMF projections, global growth of the gross domestic product (GDP) will contract by 0.5-1.0 per cent in 2009, and global industrial production declined by 20 per cent in the fourth quarter of 2008. In 2009, world trade is expected to experience its largest decline in 80 years. If the consequences of the crisis are not contained and reversed, the International Labour Organization (ILO) expects some 200 million people, most of them from the developing world, to slip into poverty.

As most ESCWA member countries are now more integrated into the global financial system than a decade ago, they are more vulnerable to the reverberations of the crisis. The result is a sharp drop in stock markets activity, an expected drop in FDI flows and remittances, decreasing oil prices, and losses in value investments of SWFs. The indirect effects of the crisis on ESCWA economies are significant and have affected monetary liquidity and the valuation of financial and tangible assets, and lead to a slowdown in the regional and world economy.

Indeed, the ESCWA region has already felt the effects of the liquidity crisis, especially in those countries whose banking sector has a sizeable direct linkage to international money and capital markets; this is particularly the case for the banking sectors of Bahrain, Kuwait, Saudi Arabia and the United Arab Emirates. The liquidity crunch will have a severe impact on the private sector, despite Gulf Cooperation Council (GCC) policy actions aimed at easing interest rates. The real growth rate of the ESCWA region may be about 6 per cent in 2008, and in 2009 it is likely to decline to about 2 per cent. The Saudi economy, the largest economy in the ESCWA region, will probably report a real growth rate of 4.2 per cent in 2008, but may decelerate to about 1 per cent in 2009.

Given the far-reaching implications of the financial crisis, coordination at the level of ESCWA member countries is inescapable. Urgent and coordinated measures and increased regional cooperation are necessary to contain the consequences of the crisis. ESCWA member countries must now shift from crisis mode to crisis management, and realize that crises offer opportunities for long-term structural reform. This report examines the causes of the financial crisis, its multifaceted repercussions on the ESCWA member countries, and immediate Government responses to the crisis. It closes with a series of recommendations designed to underscore the opportunities that can help to transform ESCWA member countries from investment blocs into significant economic blocs.

[1] See Landler, M. “I.M.F. Puts Bank Losses From Global Financial Crisis at $4.1 Trillion”, *New York Times*, 22 April 2009.

II. BACKGROUND TO THE CRISIS IN ESCWA MEMBER COUNTRIES

A. ECONOMIC CONDITIONS IN ESCWA MEMBER COUNTRIES BEFORE THE CRISIS

The ESCWA region, particularly the GCC countries, entered the crisis phase having benefited from soaring oil prices in recent years. Higher oil receipts translated into fiscal and current account surpluses in the GCC region, and the wealth effect and good economic prospects fueled domestic demand in these countries. Moreover, the more diversified economies, albeit suffering from high global commodity prices, managed to capture part of the economic profits of the region through increasing remittances, FDI inflows and tourism revenues.

Underpinned mainly by growing oil revenues and mounting foreign assets, notably in the GCC countries, the availability of high monetary liquidity supported domestic demand in ESCWA member countries in 2007, thereby fueling growth rates.[2] Indeed, strong wealth effects increased consumption rates in the region, and translated into an average regional GDP growth of 5.4 per cent in 2007 and an estimated rate of about 6 per cent in 2008.[3] In the GCC countries, GDP in 2007 rose to an average rate of 5.2 per cent and will grow to an estimated 6 per cent in 2008. The more diversified economies of the ESCWA region grew at 6 per cent in 2007, while estimates suggest a growth rate of nearly 7 per cent in 2008.

In 2007, oil revenues increased by almost 13 per cent compared to 2006, the result of rising oil prices and in spite of a decrease in oil production. Consequently, oil-exporting countries enjoyed healthier fiscal balances; this was notably the case in GCC countries, where fiscal surpluses continued to increase. In addition, higher oil receipts translated into both trade balance and current account surpluses in the GCC countries. The total current account surplus of the GCC countries increased by 12.4 per cent in 2007 compared with 2006. As for the non-oil exporting ESCWA member countries, increases in food staples and energy prices increased their trade balance deficits.

In line with oil export revenues, the ESCWA region witnessed buoyant financial dynamics in 2007. Stock market capitalization in the region grew considerably in 2007. In addition, active financial transactions were observed in GCC countries through large fluctuations in bank deposit flows. The ESCWA region also witnessed a strong and continuous increase in FDI inflows since 2002. Between 2003 and 2006, the share of the ESCWA region of total FDI inflows to developing countries more than doubled, increasing from 6.2 to 14.6 per cent.[4] Several regional factors contributed to this upward trend in FDI inflows: (a) considerable improvements in the business and investment environments; (b) the privatization of many public enterprises; and (c) buoyant economic conditions in the GCC countries, underpinned by soaring oil prices.

Price levels in the ESCWA region registered an increase in 2007 and throughout the first three quarters of 2008. The average inflation rate stood at nearly 6 per cent in 2007, with an average inflation rate in the GCC countries of 6.3 per cent and nearly 11 per cent in the more diversified economies (MDEs).[5] Rising price levels reflected the worldwide trend of high food and energy prices, and the regional trend, notably in GCC countries, of galloping rents and real estate prices.

---

[2] See the Economic and Social Commission for Western Asia (ESCWA). 2008a. *Survey of Economic and Social Developments in the ESCWA Region, 2007-2008.*

[3] Ibid.

[4] See ESCWA. 2008b. *Foreign Direct Investment Report*.

[5] See ESCWA. 2008a. *Survey of Economic and Social Development in the ESCWA Regions 2007-2008.*

B. STRUCTURAL SOCIAL VULNERABILITIES OF ESCWA MEMBER COUNTRIES BEFORE THE CRISIS

The positive economic performance prior to the crisis was also reflected in the improvement of various social indicators. The economic revival that has taken place in the region since 2000 has helped labour markets absorb new entrants, thereby reducing unemployment and social vulnerabilities. This is in contrast to the 1980s and 1990s, when the unemployment rate rose at the same time as the labour force participation rate. However, since 2000, the number of jobs created matched the number of people entering the labour force, leading to a fall in the unemployment rate. Several reasons explain this revival in labour markets.

The positive effect of rising oil revenues and the accumulation of surpluses in oil-exporting economies cannot be overrated. In addition to assisting the oil-exporting economies of the region, oil price increases have benefited other economies of the ESCWA region through increased labour migration, workers' remittances, as well as the transport and delivery of oil and oil-related goods and services. Some countries in the region have undertaken labour market reforms aimed at stimulating private sector employment and reducing the role of Governments as an employer of last resort. Nevertheless, unemployment rates in many countries of the region are still very high, especially for young men and women.[6] Despite increases in female labour force participation ratios in many countries in recent years, the participation of women in economic activity is still low compared with other regions of the world.

A considerable proportion of the employment growth witnessed in recent years has taken place in the informal economy and in segments of the labour market that provide low wages and low levels of protection to workers, often with a high proportion of migrant workers. This implies that the jobs created have had a suboptimal impact on reducing poverty and vulnerability and improving living standards. In addition, a number of countries have faced various types of crises in recent years, including Iraq, Lebanon, Palestine, the Sudan and Yemen, which have had strong repercussions on the socio-economic security of the population.

While much progress has been made over the past two decades in developing more effective institutional frameworks to deal with socio-economic challenges, the region still lags behind other world regions in some sectors. Employment and social protection policies tend to be fragmented and weakly integrated into national economic objectives. The promotion of fundamental workers' rights has not been a policy priority; however, some headway has been achieved. Social dialogue mechanisms are weakly institutionalized, and many organizations of employers and workers are struggling with inherent structural problems, including changing membership and a shrinking traditional base, as well as low capacities. Such weak institutional frameworks create challenges for the development and implementation of effective crisis response strategies.

[6] See International Labour Organization (ILO). 2008e. *Global Employment Trends for Youth*. October. Geneva: ILO.

III. SHORT-TERM CONSEQUENCES OF THE CRISIS ON THE ESCWA REGION

A. FINANCIAL CONSEQUENCES

Financial institutions in the ESCWA region have been adversely affected by the global financial crisis. This section describes the effects of the crisis on these institutions.

1. *Banking sector*

Despite the global financial crisis, most GCC banks remain well capitalized and profitable with limited exposure to sophisticated financial products. Profits remain strong with average return on equity of 21 per cent, and capital adequacy ratio ranges from 13 to 20 per cent, far exceeding the minimum requirements.

However, prospects for 2009 look more ominous as banks face a credit crunch due to the large capital outflows from the region, partly reflecting the repatriation of foreign funds. Thus, financing costs have risen sharply over the past few months. Reduction in bank lending will lead to reduced investment, lower growth and rising unemployment. This will, in turn, lead to a reduction in demand which will reduce economic growth further. In the GCC countries, large capital outflows began in earnest in March 2009.

Banks in other ESCWA member countries have been less exposed to the global financial turmoil, in comparison with their GCC counterparts. In Lebanon, banks have the highest capital adequacy ratio in the region, which stood at 24 per cent in 2007. Lebanese banks have increased their capital to match the increase in their assets. Moreover, a large part of the domestic credit is financed through domestic funds. The ratio of private sector deposits to assets exceeded 70 per cent in 2007, while the ratio of non-resident deposits to assets was about 16.6 per cent. The Lebanese financial system has no direct exposure to distressed financial products or markets and remains very liquid. In fact, Moody's Investors Services estimates the foreign currency reserves of Lebanese banks at US$17.6 billion in January 2009, up from US$9.8 billion at the end of 2007. Moreover, the Bank of Lebanon estimates place foreign liquid assets at a staggering US$22.3 billion at the end April 2009.[7]

The fundamental credit outlook for the Jordanian banking sector is stable, reflecting solid financial fundamentals and a healthy operating environment. Banks in Jordan enjoy a substantial amount of excess liquidity. However, Capital Investments forecasts that Jordanian banks will confront challenges in coming years as the tighter lending regulations adopted by most banks will probably affect their profitability. High domestic inflation and falling demand of goods and services will also affect the asset quality of banks and thus the effectiveness of their credit policies.

In Egypt, a slowdown in economic activity is inevitable in the light of its increased integration into the global economy. The financial sector has so far escaped the worst of the international crisis, reflecting strong bank balance sheets, improved banking supervision, and conservative practices with respect to funding, investments and lending.[8] The Egyptian banking sector is unlikely to face a credit crunch since banks in Egypt have an excess of funds. There is little bank dependence on foreign credit lines and Egyptian banks have little exposure to fluctuations in equity prices and other investments.

2. *Stock markets*

According to the Arab Monetary Fund,[9] Arab stock markets witnessed a sharp decline of nearly 50 per cent in 2008 – one of the worst performances in the world. The Arab Monetary Fund index for Arab stock

---

7 See Cummins, C. "Bank of Lebanon Sees Growth at 6% This Year", *Wall Street Journal*, 8 May 2009.

8 See International Monetary Fund (IMF). 2008. Arab Republic of Egypt – 2008 Article IV Consultation: Preliminary Conclusions of the IMF Mission, 6 November. Washington, DC: IMF.

9 See Arab Monetary Fund. 2009. *AMDB Bulletin*. Abu Dhabi, United Arab Emirates.

markets reached 166.2 points in the end of December 2008, compared with 328.7 points at the end of 2007. Combined Arab market capitalization dropped by 42.5 per cent, from US$1,137 billion at the end of 2007 to about US$769 billion at the end of 2008. Losses in 2008 pushed Arab markets to their lowest levels since December 2004.

The stock exchanges of the GCC countries were hit hardest despite the measures taken by some authorities to support the local financial sector. In terms of capitalization, the markets lost nearly US$368 billion in 2008, plunging to their lowest level in four years. The stock exchange of Saudi Arabia, the largest and most speculative bourse in the region, dropped by 59.2 per cent, 50.9 per cent in Egypt, about 44.6 per cent in Abu Dhabi , and 40.3 per cent in Kuwait. The value of shares traded on Arab stock markets dropped by about 9.9 per cent to US$997.8 billion. The number of listed companies declined to 1,542 from 1,550. The turnover in Kuwait, Saudi Arabia and the United Arab Emirates accounted for nearly 80 per cent of the total value of shares traded on Arab bourses in 2008.

3. *Sovereign Wealth Funds (SWFs)*

The SWFs of ESCWA member countries are setting aside funds for future generations, with the aim of achieving long-term returns on oil revenues and the diversification of local economies. The unfolding crisis underscored two major concerns regarding these funds. First, given the size of their investments in developed countries, SWFs may have suffered substantial losses that could jeopardize their long-term objectives. These concerns are compounded by the relative secrecy surrounding the portfolios managed by SWFs. Second, with the emergence of a new architecture for the regulation of international financial markets, SWFs in ESCWA member countries may be affected by new protectionist measures. These concerns highlight the need to enhance their accountability and transparency, and to reconsider some of their investment strategies.

As shown in table 1, the estimated assets of major regional SWFs ranged somewhere between US$1.3 trillion and almost US$1.6 trillion at the end of 2007. In addition, many ESCWA member countries are home to some of the most prominent SWFs in the world. For instance, the Abu Dhabi Investment Authority (ADIA) is regarded as the biggest SWF in the world, with an estimated foreign portfolio ranging somewhere between US$500 billion and US$875 billion. The United Arab Emirates is thought to manage funds accounting for about 25 per cent of the worldwide assets held by SWFs, while the share of Kuwait and Saudi Arabia is valued at 7 and 11 per cent, respectively.[10]

TABLE 1. ESTIMATED SIZE OF MAJOR REGIONAL SWFS, 2007, OR THE MOST RECENT YEAR AVAILABLE
(*Billions of US dollars*)

Country	Fund name	Date of establishment	Estimated size
Algeria	Revenue Regulation Fund (RRF)	2000	47
Kuwait	Kuwait Investment Authority (KIA)	1953	213
Libyan Arab Jamahiriya	Libyan Investment Authority (LIA)	2006	50
Oman	State General Reserve Fund (SGRF)	1980	13
Qatar	Qatar Investment Authority (QIA)	2005	60
Saudi Arabia	Saudi Arabian Monetary Agency (SAMA)	1952	270
United Arab Emirates (Abu Dhabi)	Abu Dhabi Investment Authority (ADIA)	1976	500-875
	International Petroleum Investment Company (IPIC)	1984	12
	Mubadala Development Company	2002	10
United Arab Emirates (Dubai)	Dubai International Capital (DIC)	2004	13
	Investment Corporation of Dubai (ICD)	2006	82
	Istithmar World	2003	12
Total			1282-1657

Source: Truman, E. 2007. Sovereign Wealth Funds: The Need for Greater Transparency and Accountability. *Policy Brief*. 07-6. Washington, DC: Peterson Institute for International Economics.

[10] See International Financial Services London (IFSL). 2009. *Sovereign Wealth Funds 2009*. March. IFSL Research.

Based on available data reported by Euromoney, the Wall Street Journal, and information published by the Norwegian Government Pension Fund, Setser and Ziemba[11] estimated the currency composition and the asset allocation of several SWFs in ESCWA member countries. Table 2 summarizes their findings.

TABLE 2. ESTIMATED CURRENCY COMPOSITION AND ASSET ALLOCATION OF MAJOR REGIONAL SWFS, 2007
(*Percentage*)

Fund	Currency composition	Asset allocation
Abu Dhabi (ADIA)	USD (50 per cent); EUR, GBP, JPY (36 per cent); other currencies (14 per cent)	equity (50-60 per cent); fixed income (20-25 per cent); private equity (5-10 per cent); alternatives (5-10 per cent)
Abu Dhabi (Mubadala)	USD (40 per cent); EUR (50 per cent); other currencies (10 per cent)	equity (60 per cent); alternatives (20 per cent); bonds (20 per cent)
Dubai (DIC, Istithmar)	USD (35 per cent); EUR, GBP (50 per cent); Asian currencies (15 per cent)	equity (50 per cent); alternatives (40 per cent); deposits, bonds (10 per cent)
Kuwait (KIA)	USD (40 per cent); EUR, GBP, JPY (40 per cent); other currencies (20 per cent)	equity (60 per cent); alternatives (15 per cent); bonds (25 per cent)
Qatar (QIA)	USD (40 per cent); EUR (40 per cent); GBP, Asian currencies (20 per cent)	equity (60 per cent); alternatives (20 per cent); bonds (20 per cent)
Oman (SGRF)	USD (50 per cent); other currencies (50 per cent)	equity (20 per cent); alternatives (50 per cent); bonds (30 per cent)
Saudi Arabia (SAMA)	USD (75 per cent); other currencies (25 per cent)	equity (25 per cent); deposits (10 per cent); fixed income (65 per cent);

Source: Setser and Ziemba, 2007.

As the table above shows, the currency composition of the portfolios is dominated by the US dollar, reflecting the surpluses invested in the United States in recent years. Indeed, US dollar-denominated assets on average accounted for about 47 per cent of the total investments of SWFs. However, investments in emerging countries, especially in Asia, have been growing steadily.

It is still too early to estimate accurately the losses incurred by SWFs as a result of the financial crisis. Nonetheless, in its latest report on SWFs, the International Financial Services London (IFSL) estimates that investments in American, Swiss and British banks since the subprime crisis have resulted in losses of about US$60 billion. The importance of the United States as a recipient of SWF investments from the ESCWA region suggests that they must have experienced significant losses due to the market turmoil. Reports also shed light on several risky investments undertaken recently by some SWFs: The Kuwait Investment Authority (KIA) invested US$3 billion in Citigroup and US$2 billion in Merrill Lynch at the end of 2007 and early 2008, respectively. During the same period, it was reported that the Abu Dhabi Investment Authority (ADIA) acquired an approximate 5 per cent stake in Citigroup.[12] However, given the windfall from large export resources in recent years and the diversified portfolios of SWFs, total losses should be manageable.

B. ECONOMIC CONSEQUENCES

The global financial crisis has had clear economic effects on ESCWA member countries, and several economic sectors in the region have been adversely affected by the crisis.

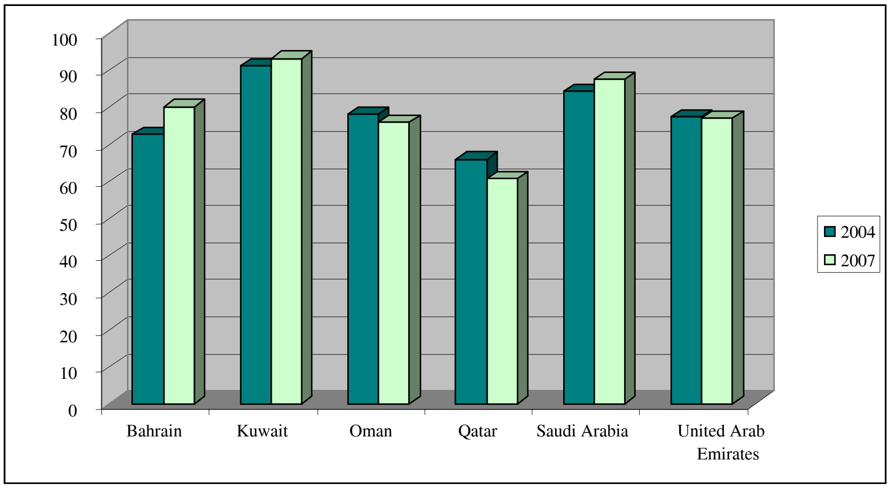
[11] See Setser, B. and Ziemba, R. 2007. Understanding the New Financial Superpower – The Management of GCC Official Foreign Assets. *Roubini Global Economics (RGE) Monitor*.

[12] See Behrendt, S. 2008. When Money Talks: Arab Sovereign Wealth Funds in the Global Public Discourse. *Carnegie Papers*, No. 12. Washington DC: Carnegie Endowment for International Peace.

1. *Oil prices and revenues*

The oil sector remains the key sector in Arab economies, particularly in the GCC countries, where oil revenues exceed 30 per cent of GDP. High oil prices over the past five years have played a significant role in boosting the growth of both GCC economies and non-oil producing countries in the ESCWA region.

Figure I. GCC oil and gas revenues as a percentage of total revenues, 2004 and 2007
(*Percentage*)



Source: Compiled by ESCWA from: Central Bank of Bahrain, Economic Indicators, December 2008; Central Bank of Kuwait, Quarterly Bulletin, July-September 2008; Central Bank of Oman, Annual Report 2007; Qatar Central Bank, 31st Annual Report, 2007; Saudi Arabian Monetary Agency, forty-third and forty-fourth Annual Report, 2007 & 2008 issues; Central Bank of the United Arab Emirates, Statistical Bulletin, July-September 2008; and Economic Bulletin, various issues.

Oil prices increased from US$29 a barrel in 2003 to reach a peak of US$147 a barrel in July 2008. Due to the growing expectations of a global recession in 2009, oil prices fell sharply towards the end of 2008 to US$35 a barrel. Although oil prices averaged about US$94 in 2008, Global Investment House (GIH) predicts that the average oil price will not exceed US$60 in 2009 due to the sharp fall in world oil demand.[13] In 2008, the Organization of the Petroleum Exporting Countries (OPEC) announced a production reduction of 4.2 million barrels per day; Saudi Arabia has already cut production by 5 per cent and is likely to cut it further.[14]

Plummeting world oil demand is largely driven by the fall in consumption in the developed countries. Indeed, preliminary estimates point to a decline in demand for oil of 2.9 per cent in 2008 from Organization for Economic Co-operation and Development (OECD) countries. A further contraction of demand from OECD countries is also foreseen in 2009, as it is expected to drop by 1.8 per cent. Non-OECD demand for oil is expected to grow by 1.4 per cent in 2009 and 2.3 per cent in 2010. Underpinning these estimates is the expected increase in demand from developing countries. However, even if demand increases, it will not be sheltered from the consequences of the global economic turmoil, as it is expected to grow at a slower pace over the short to medium term.

Given the steep fall in oil prices and gloomy global economic prospects, Arab oil-exporting countries are likely to suffer from a marked slowdown in economic growth. This will translate in a reduced demand for oil: Arab oil consumption will grow by 3 per cent in 2009 and 2010 (down from a growth rate of 5.4 per cent

---

[13] See Global Investment House (GIH). 2009. *GCC Real Estate Sector – Changing Time!* Global Research. February. Kuwait: Global Investment House.

[14] See Khan, M. 2008. Managing Domestic and Global Expectations: The Policy Challenges Facing the GCC. *Citi Economic and Market Analysis*. 17 November.

in 2008). The impact of falling prices will be felt less in countries pursuing policies aimed at diversifying their economies.[15]

The decline in oil prices, and the slower than expected demand for oil, will have a significant impact on economic growth in 2009. GIH suggests that lower oil prices, coupled with reduced oil production and demand for goods and services, will lead to ESCWA member countries registering significant losses in export income, trade surplus, current accounts and fiscal surplus. Thus, capital investments in the GCC countries are likely to be affected and plans for new projects may not materialize, while projects in the pipeline may be postponed or cancelled.

2. *Real estate*

Recent buoyant economic growth, largely fueled by high oil prices, has provided an impetus for a vibrant real estate sector in the GCC countries and beyond. The global financial crisis has affected the real estate market in most of the GCC countries. A comprehensive price correction is currently underway, particularly in Dubai. Moreover, declining economic conditions and falling oil prices will significantly reduce economic growth in the ESCWA region and, subsequently, that of the real estate sector.

The recent real estate boom in the GCC countries was the product of several factors, including:

(a) High sustained growth rates fueled by the surge in oil prices;

(b) High influx of expatriates;

(c) Large public investments in real estate projects aimed at diversifying the economy, notably in Bahrain, Oman and Qatar;

(d) Recent enacted laws that extended property ownership to foreigners in Bahrain, Oman and Qatar;[16]

(e) Attractive financing conditions induced by abundant liquidity and negative real interest rates in a number of countries.[17]

These factors have recently driven housing prices to unprecedented heights, as shown in table 3 below.

TABLE 3. HOUSING PRICES IN THE GCC COUNTRIES, 2007-2008
(*Average 2005 = 100*)

Month	Bahrain	Kuwait	Oman	Qatar	United Arab Emirates
October 2007	172	132	336	251	143
March 2008	215	156	381	293	164
June 2008	224	148	438	313	185

Source: Institute of International Finance (IIF). 2008a.

Indeed, the real estate sector has become a major contributor to the GDPs of GCC economies. Table 4 maps out this trend.

[15] Bahrain, Oman and the United Arab Emirates are examples of countries that are diversifying their economics. Machinery and transport equipment exports have grown significantly in these countries.

[16] In 2003, a Royal Decree endorsed a declaration giving foreigners the right to buy a certain type of property in some parts in Bahrain. In 2006, an Omani Royal Decree extended foreign ownership rights to non-GCC nationals. In 2004, the Government of Qatar issued a decree that allowed non-Qataris to own properties in specific housing projects (GIH. 2009).

[17] IIF. 2008a. *Gulf Cooperation Council Countries: Regional Report.*

TABLE 4. REAL ESTATE CONTRIBUTION TO GDP, 2005-2007*
(*Percentage*)

Country	2005	2006	2007
Bahrain	9.2	9.9	9.8
Kuwait	7	6.3	6.1
Oman	5.4	5.1	5.5
Qatar	9.4	10	10.4
United Arab Emirates	15	15	16

Source: GIH. 2009.
* In nominal terms, except for Bahrain.

However, the liquidity crunch generated by the global crisis substantially reduced the credit allocated to the real estate sector in the GCC countries. This has led to lower demand and caused a plunge in real estate prices. These pressures are likely to be compounded by the widespread economic slowdown that is expected to affect both residential and commercial segments of the property sector, as many firms are beginning to downsize their investments and lay off their employees.

Indeed, property prices have been falling in many GCC countries since the last quarter of 2008: for instance, the Bahraini real estate index fell continuously between October and December 2008. In Kuwait, recessionary pressures and the scarcity of financing lowered the prices of property in certain locations between 20 and 40 per cent. The property boom in Qatar has come to a sudden halt, with land prices in Doha dropping by nearly 30 per cent in November 2008.[18] In addition to plunging prices, housing rents have dropped as a result of the current crisis: in Qatar, the media has reported that housing rents have plummeted during November 2008 by as much as 20 per cent.[19]

The real estate sector in the United Arab Emirates, especially in Dubai, experienced the most severe turmoil. For the first time in years, the property market in the United Arab Emirates is slowing down as credit is tightening; projects are downsizing and job cuts have been substantial. This was reflected in October 2008 in the decline in the volume of sales by 35.5 per cent per month, and a decline of 13.3 per cent in the general price index for real estate transactions, relative to September 2008. Off-plan sale prices have been hit most severely in Dubai, a consequence of grossly inflated real estate prices created by unrestrained speculation in the pre-crisis period. In fact, some analysts suggest that by the time the real estate crisis in Dubai reaches its zenith, house prices may have fallen by a staggering 70 per cent.[20]

3. *Trade*

Trade is one of several channels through which the global crisis will affect ESCWA member countries. Energy and commodity prices are expected to fall as developed economies decrease their demand for foreign products. This, in turn, will reduce exports from developing countries. The trade openness[21] of countries in the ESCWA region and their reliance on exports make them especially susceptible to the global crisis.

In 2004, the trade openness index of a number of ESCWA member countries and several other Arab countries stood at an average of about 71.3 per cent. Oil-exporting countries registered the highest indices, reflecting the weight of oil and gas in their exports and the importance of imports to their economies. Among the more diversified economies, high trade openness indices were registered by Jordan, Lebanon, Morocco, the Syrian Arab Republic and Tunisia, and were equal to 110.9, 54.5, 56.2, 51.6 and 77.7 per cent,

[18] See GIH. 2009.

[19] Ibid.

[20] As reported by *Business Intelligence Middle East*, 22 April 2009.

[21] The trade openness index is defined as the ratio of the sum of exports and imports to the GDP.

respectively. Exports also account for a significant part of the GDP of ESCWA member countries. This is especially the case for the oil-exporting countries: exports represented 72.1 per cent of total Bahraini exports, 70.6 per cent of total Qatari exports and 57.7 per cent of Omani exports.

As table 5 suggests, the slowdown in European economies will have a significant impact on non-oil exporting countries. About 50 per cent of total exports from non-oil exporting countries went to the EU-15[22] in 2007.[23] The impact of the slowdown in the United States economy on the ESCWA region will not be substantial. However, as table 5 shows, regional exports to North America accounted for only 10.5 and 14 per cent of its total exports in 2005 and 2006, respectively. They represented a meager 2.3 per cent in 2007. Regional exports to the United States averaged merely 7.8 per cent of total exports between 1997 and 2005.[24] Nevertheless, the United States market is important for a number of specific countries: in 2004, around 19 per cent of total Egyptian and Saudi Arabian exports went to the United States. During the same year, the United States market accounted for 14 per cent and 15.6 per cent of total Algerian and Jordanian exports, respectively.[25]

TABLE 5. GEOGRAPHIC ORIENTATION OF EXPORTS FROM THE ARAB WORLD, 2005-2007
(*Percentage*)

Arab world	2005				2006				2007			
	Asia	EU*	North America	Others	Asia	EU*	North America	Others	Asia	EU*	North America	Others
Oil exporting countries	54.6	14.3	11	20.1	57.6	17.2	15.6	9.6	71.3	3.9	1.2	23.6
Non-oil exporting countries	29.2	48.6	6.2	16	29.3	45.8	6.2	18.7	26.8	50	3.2	20
Arab countries	51.7	18.2	10.5	19.6	53.4	21.5	14.2	10.9	47.6	28.5	2.3	21.6

Source: Calculations derived from the United Nation Comtrade database.

* EU-15. Oil exporting countries include: Algeria, Bahrain, Kuwait, Libyan Arab Jamahiriya, Oman, Qatar, Saudi Arabia, The Sudan and the United Arab Emirates. Non-oil exporting countries include: Comoros, Egypt, Jordan, Lebanon, Mauritania, Morocco, Syrian Arab Republic, Tunisia and Yemen.

Given the geographic orientation of their exports, the situation of major oil exporting countries is more complex. Asian countries are likely to continue to be an important outlet for the energy exports of GCC countries, despite falling oil demand and declining oil prices and revenues. Indeed, even if the current crisis is expected to blunt growth in Asia, many countries in the region are nevertheless expected to maintain high growth rates.[26] Therefore, and at least in the short term, their demand for oil and energy is not expected to

[22] EU-15: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden and the United Kingdom.

[23] Between 1997 and 2005, Tunisian and Moroccan exports to the EU-15 represented 80 and 72.2 per cent of, respectively, of total Tunisian and Moroccan exports. During the same period, Algerian and Syrian exports to the EU-15 averaged around 60 per cent of their respective total exports. The European market is also important for Egyptian and Lebanese exporters: on the average and during the same period, 35 and 18.8 per cent of, respectively, the Egyptian and Lebanese exports went to the EU-15. These figures were computed from the United Nations Comtrade database.

[24] Based on the United Nations Comtrade database.

[25] Ibid.

[26] In particular, China and India are expected to continue growing at high rates in 2009.

decrease dramatically. This is important because Asia constitutes the main destination of GCC oil exports, chemical products and aluminum.[27]

Falling oil prices will significantly reduce the import bill of oil importing countries. This is likely to reduce, and in some cases offset, the negative impact of declining exports on their trade balances.[28] However, a number of countries with diversified economies that export mainly to the European Union will not be immune from falling oil prices. During the period between 1997 and 2005, mineral fuels represented about 39.3, 90.7 and 10.7 per cent of Egyptian, Syrian and Tunisian exports to the EU-15, respectively. On the other hand, the more diversified economies, highly dependent on their main trading partner – the European Union – will most likely witness a decline in their exports to the latter. The bulk of these exports is primarily composed of machinery, transport equipments and manufactured articles.[29]

4. *Foreign direct investment*

The ESCWA region has witnessed a strong and continuous upward trend in FDI inflows since 2002. Between 2003 and 2006, the share of total FDI flows from the region to developing countries has more than doubled, increasing from 6.2 to 14.6 per cent.[30] Several regional factors have contributed to this upward trend of incoming flows: (a) considerable improvements in the business and investment environments; (b) the privatization of many public enterprises; and (c) buoyant economic conditions, underpinned by soaring oil prices, in the GCC countries.

TABLE 6. FDI INFLOWS, 2007-2008
(*In billions of US dollars*)

Region	FDI inflows 2007	2008[a/]	Growth rate
World	1 833.3	1 449.1	-21
Developed economies	1 247.6	840.1	-32.7
Developing economies	499.7	517.7	3.6
Africa	53	61.9	16.8
Latin America and the Caribbean	126.3	142.3	12.7
Asia and Oceania	320.5	313.5	-2.2
West Asia[b/]	71.5	56.3	-21.3
South, East and South-East Asia	247.8	256.1	3.4

Source: United Nations Conference for Trade and Development (UNCTAD). 2009. *Assessing the Impact of the Current Financial and Economic Crisis on Global FDI Flows*. New York and Geneva: UNCTAD.

a/ Preliminary estimates.
b/ Including Arab countries.

However, as table 6 shows, ESCWA member countries have experienced a decrease of no less than 21 per cent in terms of incoming FDI in 2008. Such a decrease chiefly reflects the steep decline in resource-oriented FDI, induced by meager export expenses as oil prices declined. The countries that will be the most affected by this trend are those that hitherto accounted for the dominant share of FDI inflows to the region. As shown in figure II below, three countries have claimed the lion's share of foreign investments in the region in 2006: Saudi Arabia (with 33.1 per cent of total FDI), the United Arab Emirates (23.1 per cent), and Egypt (18.1 per cent). According to ESCWA, the United States and Japan captured the largest shares in

[27] Asia absorbed the bulk of oil and chemicals exported by the GCC countries: in 2006, 70 per cent of GCC oil exports and 46 per cent of their exports of chemical products went to Asia. Conversely, only 13 and 10 percent of the GCC exports of oil and petrochemicals went to the US, respectively; for details, see Woertz, E. 2008. *Impact of the US Financial Crisis on GCC Countries*. Dubai: The Gulf Research Center.

[28] See Economist Intelligence Unit (EIU). 2008a. *Country Report Egypt*. December. London: Economist Intelligence Unit.

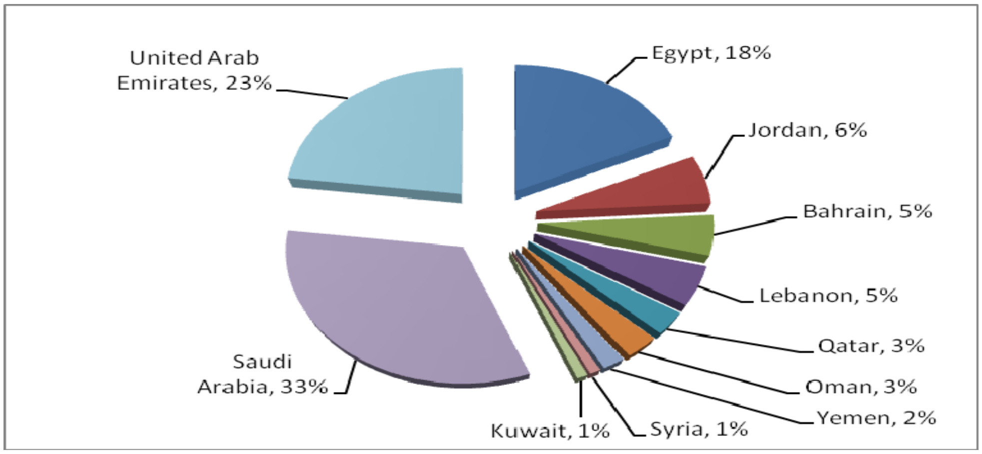
[29] During the period between 1997 and 2005, machinery and transport equipment on average accounted for 14.4 and 15.8 per cent of Moroccan and Tunisian exports to the EU-15, respectively. During the same period, manufactured articles and products accounted for 39.3, 45.4, 43.7 and 52.8 per cent of Egyptian, Lebanese, Moroccan and Tunisian exports to the EU-15, respectively.

[30] See ESCWA. 2008b.

investments in Saudi Arabia in 2006. Moreover, FDI inflows were essentially oriented towards the oil and gas sector. These investments revolved around joint ventures between Saudi Aramco and international energy firms; however, it is likely that these projects will be frozen.

Figure II. Geographical distribution of FDI in the Arab region, 2006

(*Percentage*)



Source: ESCWA. 2008b.

Four sectors have captured the bulk of FDI inflows to the United Arab Emirates: the oil and gas sector; financial services; the construction sector; and wholesale and retail trade.[31] The recent turmoil in the real estate sector in Dubai is thus expected to sharply reduce investments in both the commercial and residential segments of the sector. However, long-term investment prospects in the United Arab Emirates should remain competitive because it has a business-friendly environment and sophisticated infrastructure. Both Saudi Arabia and the United Arab Emirates are thus likely to witness a contraction in mainly greenfield investments; projects pertaining to the oil, gas and construction sectors will also be postponed.

In Egypt prospects are gloomier. Around 60 per cent of inward investment flows in 2006 originated from developed countries, namely the European Union (33 per cent) and the United States (29 per cent). These flows have been invested largely in the energy and construction sectors, but also in the telecommunications and banking industries, where large privatization operations were undertaken recently. Often, such transactions have involved mergers and acquisitions operations, involving large transnational corporations. The ramifications of the global crisis and the expected decrease in cross-border merger and acquisitions operations may delay some of the projected privatizations.

Smaller ESCWA member countries with significant FDIs are also expected to be affected by the decrease in FDI inflows. This would be the case in Oman, a resource-endowed country, where recent FDI – partly originating from the United States and the United Kingdom – targeted primarily the oil and gas sector.[32] Lebanon, with its more diversified economy, could experience a severe fall in investment flows as it is largely dependent on the economic health of a small number of GCC countries that have been affected by the crisis, notably Qatar, Saudi Arabia and the United Arab Emirates.

5. *Tourism sector*

In 2007, the Middle East had the best tourism performance in the world, with a growth rate of 16 per cent and about 48 million tourist arrivals. In the first eight months of 2008, the tourism sector in the Middle East continued to grow at 17 per cent. Egypt, Jordan, Lebanon and Morocco were among the most attractive destination in all regions for 2008. However, the United Nations World Tourism Organization (UNWTO) expects international tourism to grow in the range of -2 to zero per cent in 2009.

[31] See ESCWA. 2008b.

[32] Ibid.

TABLE 7. INTERNATIONAL TOURISM IN SELECTED ESCWA MEMBER COUNTRIES, 2005-2007

	International tourist arrivals					International tourism receipts		
	In millions of US dollars			Change (percentage)		In millions of US dollars		
Destination	2005	2006	2007	2005/06	2006/07	2005	2006	2007
Bahrain	3.914	4.519	-	15.5	-	920	1.048	1.105
Egypt	8.244	8.646	10.610	4.9	22.7	6.851	7.591	9.303
Jordan	2.987	3.547	3.431	18.8	-3.3	1.441	2.060	2.312
Lebanon	1.140	1.063	1.017	-6.7	-4.3	5.532	5.015	-
Qatar	913	946	964	3.6	1.9	760	874	-
Saudi Arabia	8.037	8.620	11.531	7.3	33.8	5.418	4.961	5.228
Syrian Arab Republic	3.368	4.422	4.566	31.3	3.3	1.944	2.025	-
United Arab Emirates	7.126	-	-	-	-	3.218	4.972	-
Yemen	336	382	379	13.8	-0.8	181	181	-

Source: United Nations World Tourism Organization (WTO), *World Tourism Barometer*. Several issues.
Note: (-) denotes unavailable data.

Tourism plays a pivotal role in the economic health of most ESCWA member countries. The tourism sector generated about US$10.6 billion in 2008,[33] and is the major source of foreign currency in the Egyptian economy. Egypt has already felt the impact of the crisis, with a drop of 10-15 per cent in reservations during Christmas 2008, and a decline of more than 30 per cent in January 2009. The Middle Eastern investment bank EFG-Hermes predicts that tourism in Egypt will drop by 18 per cent in 2009 and hotel occupancy will decline from 77 to 58 per cent.

In Jordan, tourism revenues are the second largest source of foreign exchange, and the tourism sector is the fastest growing sector in the economy at a compound annual growth rate of 15.4 per cent during the period 2003-2007.[34]

Saudi Arabia received the largest number of tourists in 2007, with 11.5 million visitors. With the global Muslim population growing at 2 per cent a year, Global Investment House predicts that the number of visitors to the holy sites in Saudi Arabia will continue to increase in coming years, and that Saudi Arabia will maintain plans to invest about US$40 billion in developing tourist sites. This will allow for future growth in the tourism sector. On the other hand, the Saudi Government expects domestic tourism to expand and that it will generate revenues of US$19.5 billion by 2010.

Tourism and the banking sector continue to form the core of the Lebanese economy. In the first eight months of 2008, tourist numbers increased by 33.6 per cent over the same period in 2007, and the Lebanese tourism sector is even expected to grow in 2009.[35] In 2007, tourists from ESCWA member countries made up 39 per cent of total tourism in Lebanon. Prospects for a healthy tourist season in Lebanon in 2009 hinge on whether or not the upcoming June parliamentary elections will take place peacefully.

Dubai, which in recent years emerged as one of the most popular tourist destinations in the Arab region, has started to feel the impact of the global financial crisis. In the third quarter of 2008, and despite a 3 per cent increase in visitors to Dubai, hotel occupancy rates declined from 85 to 73 per cent. Global Investment House expects further drops in future occupancy rates.

The number of tourists visiting Oman increased at a compound annual growth rate of 7.1 per cent during 2005-2007, and the average occupancy rate increased from about 60 to 80 per cent during the same

[33] *Al-Ahram Weekly*. Bolstering Tourism. 5-11 February 2009. Issue No. 933.

[34] See ABC Investments. 2009. *Tourism Sector Report*. January. Amman.

[35] See GIH. 2008. *Lebanon Economic and Strategic Outlook: Climbing up the Cedar*. Global Research. November. Kuwait: Global Investment House.

period. GIH forecasts a decline in tourists visiting Oman between 2009 and 2011 because 44 per cent of the tourists are residents in developed countries.[36]

Tourism in Qatar, and predominantly business tourism, has increased in recent years, coinciding with the economic boom. The average occupancy rate in Qatar was in the range of 70-75 per cent during 2006-2008. Global Investment House expects a contraction in tourism revenue for Qatar in 2009, while 2010 might witness some growth in tourism inflow.

C. SOCIAL CONSEQUENCES

Some of the social consequences of the financial and economic crisis on ESCWA member countries are already visible, yet there are some indications that even more serious repercussions can be expected if the global recession lingers longer. Evidence from other economic crises in recent years suggests that the social impact of the crisis tends to occur with a certain time lag, but that recovery is even slower.[37]

The transmission channels, like the origins, of the crisis are numerous and may vary from country to country, as do the possible social consequences of the crisis. As mentioned earlier in sections 3.1 and 3.2, the crisis had a substantial impact on GCC economies. Labour-exporting countries with strong economic links to the GCC States, such as Egypt, Lebanon, Jordan and Yemen will also be affected through lower remittances, tourism, and FDI from the GCC economies.

GCC economies entering the crisis with very strong fiscal and external balances are best poised to absorb the social consequences of the crisis. However, some mega-infrastructure projects are being delayed – or even cancelled[38] – Government spending in the GCC has been sustained in some cases, even after the decline in international oil prices, as in the case of generous recent increases in public sector salaries. These salary awards could be followed by a long pay freeze that would reduce, if not nullify, their initial benefits for public employees.[39] In the private sector, the economic downturn has exacerbated downward pressures on wages. This transpires at a time when real wages have been decreasing in some countries for some time. It could also lead to the increasing informalization of labour markets if employers attempt to cut the cost of formal employment.

Other oil producing countries, such as Iraq, the Syrian Arab Republic and Yemen, are already experiencing tight fiscal positions and large unmet social needs. This makes it difficult to adjust expenditures and support social sectors during the downturn. Egypt, an oil producer itself, could feel the consequences of the crisis more strongly due to its trade links with the European Union, and through depressed European demand for imports and lower tourism, remittances and FDI. SMEs may be particularly affected to the extent that they would face declining demand from Europe.

1. *Labour markets and employment*

The impact of the global crisis on labour markets and employment in ESCWA countries has compromised some of the recent positive developments.

---

[36] See GIH. 2009.

[37] See ILO. 2009b. *The Financial and Economic Crisis: A Decent Work Response*. Geneva: ILO.

[38] For example, more than 50 per cent of residential and commercial projects in Dubai that are due for completion between 2009 and 2012 are on hold or have been cancelled (see Byblos Bank. 2009b. *Country Risk Weakly Bulletin*. April. (110). Beirut: Byblos Bank.). Similarly, Kuwaiti plans to construct a fourth refinery, to be followed by refurbishment or closure of existing refineries, has been called off for now.

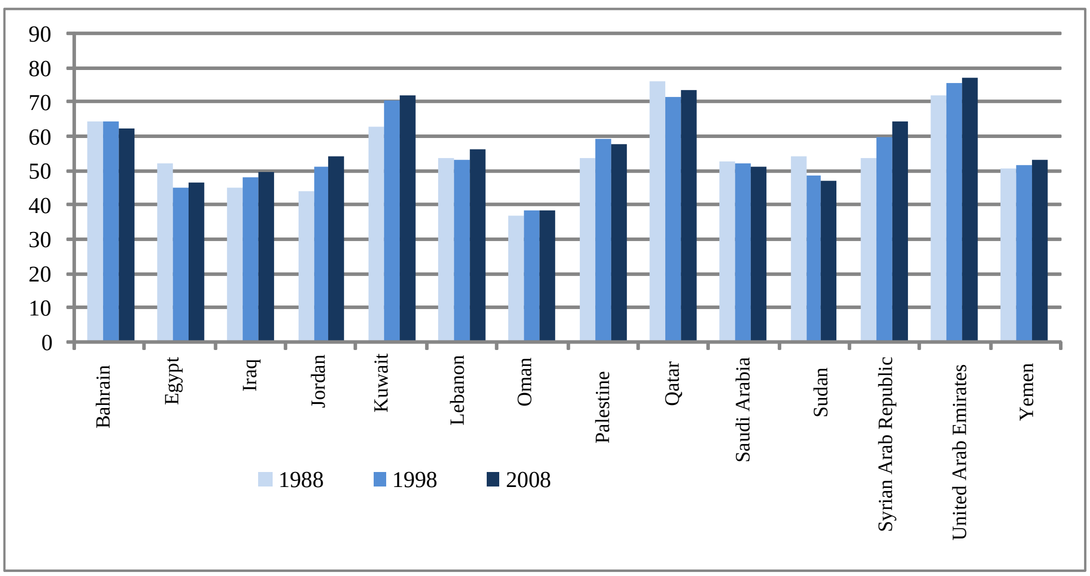
[39] There can be significant variations, even within the GCC economies. The GCC economies will be affected differently depending on their exposure on real estate booms, foreign bank financing, fiscal and monetary policy responses, etc. For example, Qatar is expected to grow by double digits, while the United Arab Emirates may be the most affected by the crisis.

Prior to the crisis, employment increased by about 4.5 per cent per annum on average, while regional GDP increased by 5.1 per cent. This implies an employment-output elasticity of about 0.9 per cent, which is high by any standard. Should this numerical relationship hold during a decline of output growth, the employment effects may be very severe. In addition, past experience from previous financial crises suggests that labour markets tend to recover with a time lag of four to five years after the start of economic recovery.[40] This would further exacerbate the already high levels of unemployment and informality in some ESCWA member countries.

Despite improvements prior to the crisis, regional unemployment rates in the Middle East and North Africa remain the highest in the world. Projected regional unemployment rates for 2008 stood at 9.0 per cent in the Middle East and 10.0 per cent in North Africa, against a world average of 6.0 per cent. Unemployment rates for women are particularly high with 12.3 per cent in the Middle East and 15.0 per cent in North Africa, while the world average stands at 6.2 per cent.[41] Country-level data, as far as they are available, reflect large regional variations in unemployment rates. While unemployment rates are rather moderate in the GCC countries, unemployment rates are much higher in the middle-income countries of the ESCWA region.

The pre-crisis fall in unemployment took place amidst conditions of rising female labour force participation. As can be seen in figures III and IV, ILO estimates of total and female labour force participation rates have increased dramatically in some countries over the past two decades. The influx of migrant workers in some GCC countries largely explains the increase in employment rates.

Figure III. Total labour force participation rate estimates, 1988, 1998, 2008
(*Percentage of population*)



Source: ILO total and economically active population estimates and projections (EAPEP) database.

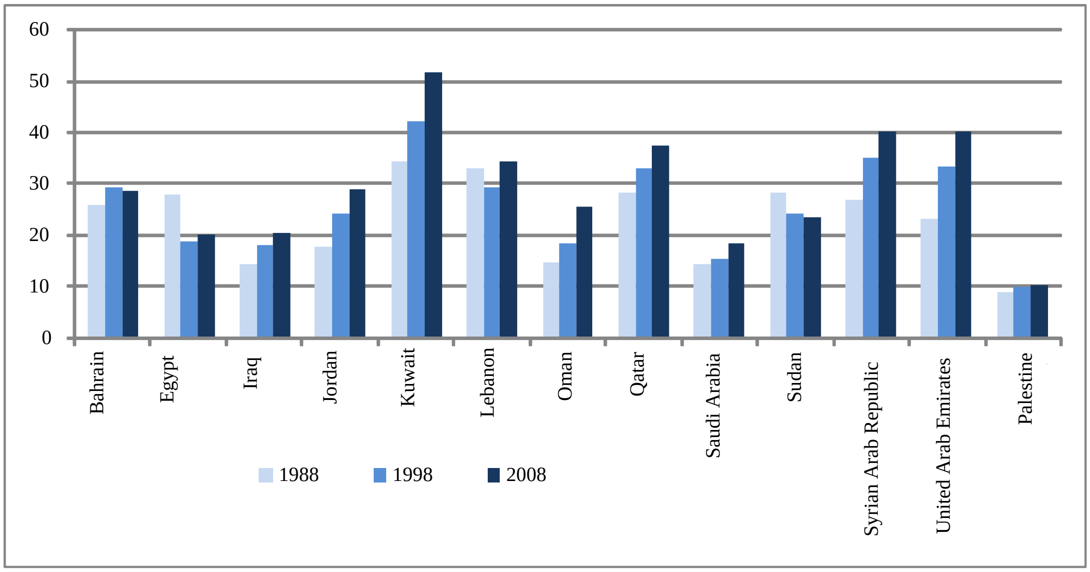
The increase in female labour participation is associated with significant gains in female education. In some cases, female enrolment in education is higher than male enrolment, which is especially true at the higher education level. This is the case in Bahrain, Jordan, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia and the United Arab Emirates. Educational attainment has been increasing faster in the ESCWA region than

[40] See ILO. 2009b.

[41] See ILO. 2009a. *Global Employment Trends for Women 2009*. March. Geneva: ILO.

in other regions of the world. Yet, while public expenditure on education still lags behind other regions, learning outcomes and the link between the level of education and earning have been relatively weak.[42]

Figure IV. Female labour force participation rate estimates, 1988-2008
(*Percentage of female population*)



Source: ILO total and economically active population estimates and projections (EAPEP) database.

Despite fast population growth and increasing female labour force participation rates, the employment response to improving economic conditions was also positive (figure IV). The employed to total population ratio increased, thereby decreasing the dependency rate. However, much of the increase in employment came from the services sector.

Moreover, the share of workers in vulnerable employment[43] decreased at faster rates than in other parts of the world. In 2008 close to one in two workers was in vulnerable employment in the Middle East and North Africa, whereas in 2007, this was the case for only one in three workers. Women were much more likely to be in vulnerable employment than men – one in two working women were employed under these conditions in 2007, despite major improvements during the previous decade.[44] However, the share of working poor in total employment declined, although not as rapidly as in other regions. In 2007, 22 per cent of workers in the Middle East and 31 per cent of workers in North Africa were classified as working poor, based on a poverty line of US$2 per day.[45] While statistics are not yet available, it is likely that the global financial and economic crisis has increased the proportion of workers in vulnerable employment in some parts of the region.

[42] Gonzales, P., Williams, T., Jocelyn, L., Roey, S., et al. 2008. Highlights From TIMSS 2007: Mathematics and Science Achievement of U.S. Fourth- and Eighth-Grade Students in *An International Context* (NCES 2009-001). National Center for Education Statistics, Institute of Education Sciences. Washington, DC: U.S. Department of Education.

[43] Vulnerable employment is defined as the sum of own account workers and contributing family workers as a share of total employment. While vulnerable employment is used for informal employment, the two concepts do not fully overlap (see ILO. 2009a, 2007b).

[44] See ILO. 2009d. *Global Employment Trends – Update 2009*. Geneva: ILO.

[45] See ILO. 2009a; and ILO. 2009d.

2. *Migration and remittances*

While statistical information is difficult to obtain, media reports suggest that crisis-related redundancies have affected migrant workers. For example, the workforce in the construction and real estate sector in Dubai is expected to fall by 20 per cent in 2009 and 10 per cent in 2010, leading to an overall population decline of 8 per cent in 2009 alone, almost exclusively because of repatriating emigrants. A recent survey of more than 22,000 workers in the GCC indicated that 28 per cent of respondents felt they may have no choice but to return home as a result of deteriorating employment conditions. The same survey indicated that labour turnover (workers changing jobs) has decreased: 30 per cent of respondents indicated they would stay in the same job for more than 36 months, if they could, compared with only 22 per cent who said they would consider moving to another job in the next three months.

Even if the number of crisis-related redundancies remains low, it is likely that women and young people could face increased difficulties in entering the labour market. This may further increase the already high levels of youth unemployment rates; increase their willingness to accept precarious employment; and may cancel out or even reverse some of the recent successes in integrating them into the labour market.[46]

Remittances, a major source of foreign exchange for many regional economies and an important source of income support for many households, are expected to contract in 2009 due to rising unemployment and falling real wages. The World Bank estimates that the level of remittances from GCC countries may decrease by 3 per cent in 2009, while remittances received in the Middle East and North Africa (MENA) region are expected to continue to grow in 2009, but at a slower pace than before.[47]

Remittances have been affected because the crisis has had an impact on the economies of both remittance-sending countries and recipient countries. The GCC had attracted large numbers of labour migrants from other Arab countries and other regions, notably South-East Asia. The crisis has started to affect employment prospects for labour migrants in the GCC, and has resulted in terminations of contracts and reductions in wages, which are both likely to affect remittances levels. Similarly, labour migrants from ESCWA countries in other parts of the world, including OECD countries, have also been affected. Table 8 traces these patterns. Either way, latest estimates indicate that the remittances of the Arab diaspora in GCC countries or in Europe will decline by between 5 and 10 per cent in 2009 in the base-case scenario.[48] Since remittances traditionally help finance consumption and SME investment in recipient countries, the concomitant deceleration in growth and possible decline is of significant concern.

[46] See ILO. 2009b.

[47] Ratha, D., Mohapadra, S. and Xu. Z. 2008. Outlook for Remittance Flows 2008-2010: Growth expected to moderate significantly, but flows to remain resilient. *Migration and Development Brief.* 11 November. Washington, DC: World Bank; and Ratha, D. and Mohapatra, S. 2009. Revised Outlook for Remittance Flows 2009-2011: Remittances expected to fall by 5 to 8 per cent in 2009. *Migration and Development Brief.* 13 March. Washington, DC: World Bank.

[48] Standard and Poors quoted in Byblos Bank. 2009b.

TABLE 8. EMIGRATION RATES FROM SELECTED ESCWA COUNTRIES TO OECD COUNTRIES, BY EDUCATIONAL LEVEL, 2000
(*Percentage*)

Educational level	Low	Intermediate	High	Total
Egypt	0.2	0.8	4.6	0.9
Jordan	1.0	2.4	7.2	2.8
Lebanon	9.4	11.1	38.6	15
Syrian Arab Republic	0.9	2.3	6.1	1.9
Yemen	0.1	1.2	6.0	1.4

Source: Docquier, F. and Marfouk, A. 2004. International Migration by Educational Attainment, 1990-2000 in International Migration, Remittances and the Brain Drain. *Trade and Development Series*. Edited by Schiff, M. and Özden, C. Palgrave Macmillan.

3. *Social security*

The crisis has affected social security by reducing the value of pension fund reserves, and might further lead to a reduction in the contribution revenue of social insurance schemes and higher expenditures, both for contributory and non-contributory benefits. According to World Bank estimates, the value of mandatory pension fund reserves in a sample of countries fell by between 8 and 48 per cent between the autumn of 2007 and the autumn of 2008.[49] Pension funds in the ESCWA region are also likely to have been affected by the financial crisis; however, relatively conservative investment strategies may have limited the exposure of some funds to the impact of the crisis.[50]

The crisis also underscores the fact that in many ESCWA member countries only a small proportion of the population enjoys adequate social security. Social expenditure levels in the ESCWA region are unimpressive when compared with similar levels in other developing regions. Pension coverage in the regional economies remains modest, and on average only about 10 per cent of the elderly in ESCWA member countries receive a pension. Only 30 per cent of the labour force in the ESCWA region is currently enrolled in some pension scheme.[51] This suggests that in 20-30 years from now, the vast majority of the then elderly population will not have access to any insurance benefits.

Even before the current financial crisis began, pension schemes in the region faced serious financial sustainability, equity, efficiency and governance challenges. While pension schemes currently benefit from a favourable demographic structure, rapid population ageing will further increase pension liabilities and is likely to put considerable pressure on public budgets.

Few formal social security mechanisms exist to cover the risk of unemployment. Bahrain is the only country in the region that has an unemployment insurance scheme covering unemployed workers, including first-time job seekers.

The global crisis further highlights the need to strengthen non-contributory benefits. Existing programmes, including social assistance schemes and other safety nets, tend to be fragmented and weakly coordinated. Formal schemes are limited and capacity constraints and fiscal pressures make it difficult to scale up these schemes. Informal social security mechanisms, on the other hand, including support provided

[49] See World Bank. 2008. *The Financial Crisis and Mandatory Pension Systems in Developing Countries: Short- and medium-term responses for retirement income systems*. Washington, DC: World Bank.

[50] See Behrendt, C., Haq, T. and Kamel, N. 2009. *The Impact of the Financial and Economic Crisis on Arab States: Considerations on Employment and Social Protection Policy Responses*. Beirut: ILO Regional Office for Arab States.

[51] See Robalino, D. 2005. Pensions in the Middle East and North Africa: Time for Change. *Orientation in Development Series*. Washington, DC: World Bank.

by families and communities, are deemed to be very strong in the region. Nevertheless, in some parts of the region, these mechanisms have been weakened by migration, conflict and increased socio-economic vulnerability of some social groups.

4. *Inequality and poverty*

In most Arab countries, as elsewhere, economic crises exacerbate socio-economic inequalities.[52] This is particularly true for the ESCWA region where population pressures make it difficult to reduce poverty levels, despite positive economic growth. Overall, Arab economies may need to achieve the high economic growth rates that prevailed in the earlier part of the decade (about 5 per cent or more annually) to ensure a sustained reduction in the number of the poor. This rate of growth is well below the latest IMF regional growth forecast of 2.5 per cent for 2009. Under this scenario of slower, but not negative, growth, the region as a whole may be on course to reduce poverty rates over time. However, this still leaves the region in danger of stagnation with respect to the number of the poor.

As shown in table 9, the ESCWA region has made some progress in reducing absolute poverty levels over the past few decades. Comparable household income surveys, when they exist, indicate that poverty has declined: The poverty rate fell by nearly 7 per cent in Egypt since 2005, and by nearly 2 per cent in Jordan since 2002 and Yemen since 1998. Recent studies have established extreme poverty rates at 8 per cent of the population in Lebanon,[53] 14 per cent in Jordan,[54] 11 per cent in Syrian Arab Republic,[55] 28 per cent in Palestine,[56] and 35 per cent in Yemen.[57]

TABLE 9. POVERTY RATES IN THE MENA REGION, 1981-2005
(*Percentage of the population living below various poverty lines*)

	1981	1990	1999	2005
$1/day	3.6	2.3	2.6	2.0
$1.25/day	8.6	5.4	5.8	4.6
$2/day	28.7	22.0	23.7	19.0

Source: Chen, S. and Ravallion, M. 2008. The Developing World Is Poorer Than We Thought, But No Less Successful in the Fight against Poverty. *Policy Research Working Paper.* 4703. Washington, DC: World Bank.

Note: The table covers the Middle East and North Africa, according to the World Bank classification.

Given the limited availability of poverty statistics, the Human Development Index (HDI) figures depicted in figure V best illustrate the varying standards of living conditions in the region.

[52] See ILO. 2008a. *World of Work Report 2008: Income Inequalities in the Age of Financial Globalization*. Geneva: ILO.

[53] See El Laithy, H., Abu-Ismail, K. and Hamdan, K. 2008. *Poverty, Growth and Income Distribution in Lebanon. Country Study*. 13. Brasilia: UNDP – International Poverty Centre

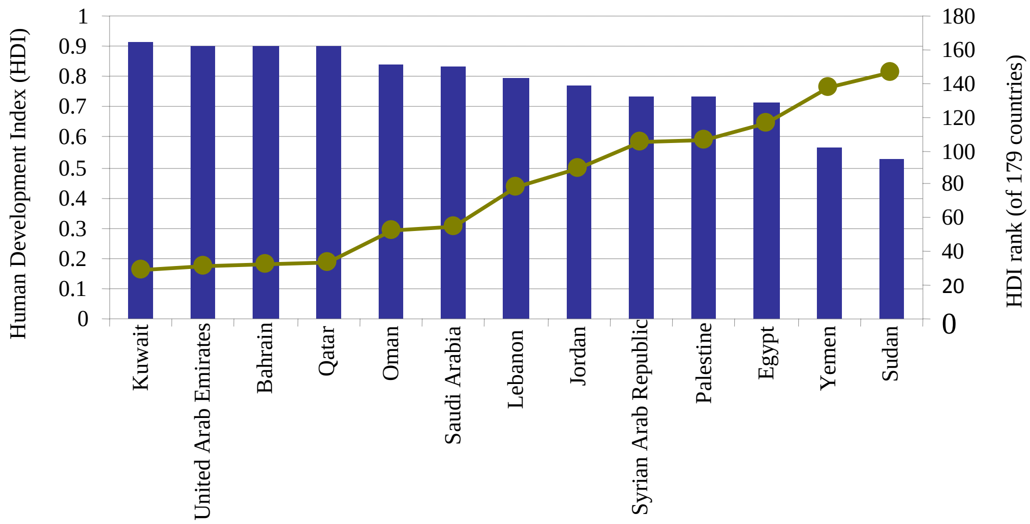
[54] See World Bank. 2004. *Jordan Poverty Assessment*. Washington, DC: World Bank.

[55] See El Laithy, H. and Abu-Ismail, K. 2005. *Poverty in Syria: 1996-2004 – Diagnosis and Pro-Poor Policy Considerations*. Damascus: UNDP.

[56] See United Nations Development Programme (UNDP). 2007. Poverty in the occupied Palestinian territory. *Development Times*. Jerusalem: UNDP.

[57] Government of Yemen, World Bank and UNDP. 2007. *Yemen Poverty Assessment*.

Figure V. HDI (columns) and HDI ranking (line)
(*Most recent data*)



Source: UNDP. December 2009. *Human Development Report 2009 – Overcoming Barriers: Human Mobility and Development*. New York: UNDP.

In conclusion, notwithstanding recent employment gains and the success in poverty reduction, the financial crisis could reverse the progress that has been achieved. Given that the revival of regional economies only started after the year 2000, recent gains have consequently had little time to develop deeper roots. Reforms that have been initiated are still at an early stage of implementation, and those reforms that are at the conceptual stage still need to be designed. In both cases, they run the risk of stalling or even being reversed under political pressure, including the possibility of increased protectionism. Either way, many structural economic social vulnerabilities remain that could complicate the response to the crisis.

IV. IMMEDIATE RESPONSES TO THE CRISIS

Governments in the ESCWA region reacted swiftly to the repercussions of the global financial crisis. A number of monetary and economic steps were taken to contain the spillover effects of the global crisis on local economies.

A. FINANCIAL RESPONSES

According to the Institute of International Finance[58], large capital outflows from GCC countries began as early as March 2008. Central banks in the region reacted by injecting fresh capital, securing liabilities, and providing credit facilities to maintain the liquidity of the banking sector. They also cut interest rates and reduced reserve requirements to ease funding pressures.

The United Arab Emirates was the first GCC country to provide bank deposit guarantees and offer a credit facility of US$13 billion in October 2008, supplemented by a Government deposit of US$18.7 billion in banks. Dubai plans to raise another US$10 billion in 2009 through bond sales to repay loans for property companies.

The Saudi Arabian Monetary Authority reduced reserve requirements on current account from 13 to 7 per cent, lowered the repo (repurchase) rate by 150 basis points, and made US$36 billion available to local banks. Furthermore, the Saudi Government announced plans to spend US$400 billion on development projects over the next five years.

The Central Bank of Bahrain reduced the one-week deposit rate by 25 basis points in October 2008 and dropped the overnight repo rate by 125 basis points; it also plans to raise the guarantee on bank deposits for commercial banks from 15,000 dinars to 20,000 dinars, which comes to about US$53,200.

The Qatar Investment Authority (QIA) bought 20 per cent shareholdings in local banks, valued at US$5.3 billion. The Qatar Central Bank (QCB) took a number of measures to contain the crisis and regulate bank transactions and activities. These include new corporate governance regulations, promulgated by the QCB in February 2008, endorsing sound banking principles and guidelines; reducing interest rates; issuing certificates of deposits; granting special credit facilities to Qatari banks with suitable interest rates; and cancelling the deposit limit at the QCB.

The Central Bank of Kuwait (CBK) reduced the repo rate by 100 basis points and the discount rate by 125 basis points in October 2008. A further reduction of 50 basis points to the repo rate was introduced in December of the same year. The CBK also allowed banks to raise the loan to deposit ratio from 80 to 85 per cent, and injected about US$1.87 billion into local banks. In May 2009, the CBK announced that it was offering US$345 million in one-year treasury bonds with a coupon of 2 per cent to absorb excess liquidity. Moreover, the Kuwait Investment Authority (KIA) made available US$1.37 billion to its investment arm, the Kuwait Investment Corporation, in an attempt to shore up the local stock market and boost investor confidence.

The Central Bank of Oman reduced its repo rate by 220 basis points in November 2008 to ease liquidity in the financial sector. It also reduced the reserve ratio from 8 to 5 per cent, and loosened the loan-to-deposit ratio from 85.0 to 87.5 per cent. The Omani Government also placed US$2 billion at the discretion of the Central Bank to ensure that sufficient credit was available for local banks.

In Jordan, the Central Bank of Jordan (CBJ) took a number of monetary steps to support the domestic money market: it reduced the rediscount rate from 5.75 per cent to 5.25 per cent and the repo rate from 5.50

[58] See ESCWA. 2008a and 2008b.

per cent to 5.00 per cent. All bank deposits were guaranteed until the end of 2009, without a ceiling. Moreover, and in an attempt to alleviate the credit crunch, the CBJ dropped the reserve requirements rate from 9 to 7 per cent. Similarly, the Central Bank of Yemen reduced the reserve requirements rate from 10 to 7 per cent.

With respect to stock markets, the Government of Oman created a US$391 million fund, in partnership with the private sector, to act as market maker for the Muscat Securities Market. Other bourses in the region should think of duplicating this measure because it helps to reduce high market volatility and, in consequence, affects the confidence levels of investors.

SWFs reacted swiftly to the global crisis, bailing out a number of Western financial banks,[59] and injecting liquidity and propping up their local economies. For instance, KIA invested around US$1 billion in the local stock market to stem further declines in equity prices. In the same vein, QIA announced its decision to buy a 10-20 per cent shareholding in local banks to boost their share prices.[60] However, despite the current crisis, it is unlikely that GCC funds will retreat substantially from the US market for three principal reasons: (a) in times of crisis, major markets are perceived as ‘safe havens’; (b) the depth of the United States market makes it possible for investors to move up the risk curve without having to turn away from the US dollar; and (c) since the majority of GCC countries have currencies pegged to the US dollar, a massive sell-off of the US currency would significantly affect the value of their own currencies.[61]

B. ECONOMIC RESPONSES

Many ESCWA member countries responded to the economic effects of the financial crisis by announcing fiscal stimuli packages geared toward job creation. The Saudi Government promulgated an aggressive US$49.6 billion expansionary economic stimulus plan, roughly equal to 9.4 per cent of GDP in 2008. Government expenditure in Saudi Arabia is thus expected to increase in 2009 by 16 per cent. Infrastructure spending, however, will increase by 36 per cent in 2009, the largest increase in the history of the country.[62]

On 26 March 2009, the caretaker Government of Kuwait approved an economic stimulus package estimated at US$5.142 billion aimed at reversing the contraction of the Kuwaiti economy and extending monetary support to investment banks that had been hit hard by the financial crisis.

In Egypt, the Government announced a fiscal package worth 30 billion Egyptian pounds aimed at stimulating economic growth and offsetting declining FDI. The package combines infrastructure projects with tax exemptions and tariff cuts. The increase in Government spending aims at maintaining the economic growth rate at 5.5 per cent. The planned increase in spending includes a 16 per cent increase in education spending and an 18 per cent increase in healthcare expenditures.[63]

The Omani Government plans to increase Government expenditures for 2009 by 11 per cent compared to 2008, and resources earmarked for infrastructural and developmental plans have been increased. Similarly, and despite the drop in oil prices, the Government of Qatar plans to proceed with the execution of mega-infrastructural projects in the gas, petrochemical and other sectors.

---

[59] These included Citigroup, UBS, Morgan Stanley and Merrill Lynch. See Behrendt. 2008: 15.

[60] See Institute of International Finance (IIF). 2008b. *Update: Gulf Cooperation Council Countries*. 4 December.

[61] See Sturm, M., Strasky, J., Adolf, P. and Peschel, D. 2008. The Gulf Cooperation Council countries – economic structures, recent developments and role in the global economy. *Occasional Paper Series*. 92. European Central Bank.

[62] See Prasad, E. and Sorkin, I. 2009. *Assessing the G-20 Economic Stimulus Plan: A Deeper Look*, March, and *Business Intelligence – Middle East,* 6 May 2009.

[63] See the *Daily News*, 1 April 2009. Rising Tax Revenues Not Enough to Cope with Egypt Deficit, available at: http://www.thedailynewsegypt.com/article.aspx?ArticleID=20785.

In the Syrian Arab Republic, the Government took a strategic decision to protect the public sector from the ramifications of the financial crisis. This means that 1,400,000 public sector workers will be immune from the global unemployment wave wrought by the international financial crisis.[64] The Syrian Government also plans to offset the effects of the financial crisis by launching major construction projects. These include the creation of 180 hectares (400 acres) of farmland at Hassake in the north-east of the country, and the transfer of water from the Euphrates to the central Syrian Arab Republic to allow for the creation of petrochemical industries.

Government responses to the real estate crisis were part of the aforementioned monetary measures undertaken by many ESCWA member countries to ease credit conditions. However, given the severity of the real estate crisis in the United Arab Emirates, its Government assumed a proactive stance on the real estate crisis. It introduced a number of policies aimed at regulating and stabilizing the market, and ultimately restoring confidence in the real estate sector. Two types of measures were introduced: (a) those aimed at offsetting the liquidity trap; and (b) those aimed at deleveraging speculation activity in the real estate market. Consequently, short-term facilities to banks were introduced in October 2008 to ease liquidity bottlenecks.[65] The Government promised to guarantee bank deposits, protect national banks from credit risks, and pledged funds to the newly established real estate finance company, Emirates Development Bank (EDB), which is the outcome of a merger between the two largest mortgage providers in Dubai (Amlak and Tamweel) and two Abu Dhabi-based banks (Real Estate Bank and Emirates Industrial Bank). In a similar vein, Abu Dhabi launched a mortgage company, Abu Dhabi Finance, that will offer mortgages with loan-to-value ratios as high as 85 per cent. Finally, the Dubai Land Department, along with the Real Estate Regulatory Agency, introduced measures aimed at stabilizing the market and reducing speculation.

C. Labour market and social policy responses

Many countries around the world are developing and implementing policies aimed at stabilization, employment and social protection. The success of efforts to address the social impact of the crisis depends on their ability to increase public social spending, or redirect existing budgetary outlays to meet new social priorities. This is more pertinent for the ESCWA member countries than elsewhere, given that vulnerabilities pose multiple policy challenges in view of the fragile social and political regional balances.

There is a need to address the short-term social costs of the crisis given their long-term effects. Though hard to quantify, falling real wages and employment (domestically and abroad) is bound to impede the capacity of households to make ends meet. The financial crisis occurred after the food and energy crisis of 2008, which had already stretched coping mechanisms of households. Under these circumstances, households may be forced to liquidate assets on which their livelihoods depend; withdraw their children from school; make less use of health services; or adopt inadequate diets and risk malnutrition. In fact, the long-run consequences of the crisis may be more severe than those observed in the short run.

Compounding the situation is the limited scope of institutional capacities offering adequate social protection measures, including social protection in the case of unemployment. A notable exception is Bahrain, which introduced an unemployment insurance scheme immediately before the crisis (see box 1). There are few effective social safety net measures in place, such as social assistance programmes, to deploy or scale up targeted support to the poor. Moreover, there is evidence from many countries in the ESCWA region that public spending favours the non-poor instead of targeting those who are in greatest need. Research on past crises also reveals that the shift in public spending necessary to compensate the poor need not be large. Prioritizing the poor and vulnerable does not happen automatically, however. Indeed, there is

[64] The number was mentioned by Syrian officials during deliberations at the Regional High-Level Consultative Forum on the Impacts of the International Financial Crisis on the ESCWA member countries.

[65] The amount injected was 120 billion United Arab Emirates dirham (see GIH. 2009).

evidence from some contexts that, in times of crisis, spending that benefits the non-poor tends to be most protected.[66] This creates an escapable political economy dilemma.

Box 1. Unemployment insurance in Bahrain: A pioneering scheme in the ESCWA region

In 2006, Bahrain became the first country in the Economic and Social Commission for Western Asia (ESCWA) region to implement an unemployment insurance scheme, within the context of broader labour market reforms. The International Labour Organization (ILO) provided technical assistance with respect to the assessment of the feasibility of such a scheme, helped to draft the legislation and supported its implementation. The scheme covers all workers, nationals and foreigners alike, and is financed by contributions of 3 per cent of the total wage bill – 1 per cent paid respectively by workers, employers and the Government. The unemployment insurance scheme provides two types of benefits to jobseekers who are actively searching for employment: (a) unemployment compensation, which is paid to jobseekers who have fulfilled the minimum contribution period, and replaces 60 per cent of the average wage earned during the past 12 months of employment up to a maximum of 500 Bahraini dinars (BD) (US$1,326) for a maximum period of six months; and (b) unemployment aid, which is paid for first-time jobseekers and those jobseekers who have not fulfilled the minimum contribution period, amounting to BD150 (US$398) for university graduates, or BD120 (US$318) for others, up to a maximum period of six months.

In December 2008, the unemployment insurance scheme paid unemployment assistance benefits to 2,555 jobseekers, 47 per cent of whom are in possession of a university degree. Since the implementation of the scheme, more than 6,000 registered jobseekers have found new jobs. Reflecting their higher unemployment risks, women are more strongly represented among registered jobseekers and make up 78 per cent of recipients of unemployment benefits, yet only 49 per cent of these who have found a job.

Owing to the low number of redundancies until late 2008, the scheme has hitherto had to deal with few cases of unemployment compensation. However, if the number of redundancies increases in the future as a result of the financial and economic crisis, a system is in place to provide income security for jobseekers, while actively supporting their return to employment by linking cash benefits to participation in training, job matching and career guidance provided by employment offices.

Source: Behrendt, S. 2008. *When Money Talks: Arab Sovereign Wealth Funds in the Global Public Discourse*. Carnegie Paper. (12). Washington, DC: Carnegie Endowment for International Peace.

The immediate responses to the crisis in ESCWA member countries have focused on protecting employment in the public sector and stimulating private sector employment through public investments. In some ESCWA member countries, fiscal stimulus packages have included increased spending on education and health. It is expected that, as the social repercussions of the crisis become more obvious, more measures will be adopted to protect jobs and provide effective social protection to the populations of ESCWA member countries.

---

[66] See Ravallion, M. 2008. Bailing Out the World's Poorest. *World Bank Policy Research Working Paper*. 4763. Washington, DC: World Bank.

V. FUTURE CHALLENGES AND OPPORTUNITIES

MEDIUM AND LONG-TERM RISKS AND OPPORTUNITIES

1. *Medium- to long-term risks*

Given the direct or indirect role played by oil rents in the economies of almost all ESCWA member countries, the substantial drop in oil prices as a result of the international financial crisis will have significant effects on economic prospects in the medium term. Three scenarios may be contemplated to map out future oil price trends and their concomitant effects:

Scenario 1: Two turbulent years followed by moderate growth, starting in 2011.

The global slowdown caused by the financial crisis and the subsequent decline in aggregate demand and employment will cause a severe global recession throughout 2009. The loss of confidence in stock markets, bank failures, further tightening of financial capital, and declining housing prices will inevitably lead to a contraction in world GDP. As table 10 shows, the Economic Intelligence Unit (EIU) estimates that the drop will be about 0.4 per cent in 2009 (at market exchange rates).

TABLE 10. GLOBAL OUTLOOK, 2005-2010

	2005	2006	2007	2008	2009	2010
Real GDP growth (per cent)						
United States	2.9	2.8	2.0	1.1	-2.0	0.7
Japan	1.9	2.4	2.1	0.3	-0.5	0.7
Euro area	2.0	2.9	2.6	1.1	-1.2	0.5
World (market exchange rates)	3.5	4.0	3.8	2.3	-0.4	1.5
World (PPP* exchange rate)	4.4	5.0	4.9	3.4	0.7	2.5
World trade growth (per cent)						
Goods	7.5	9.1	7.4	4.9	-1.5	2.5
Consumer price inflation (per cent)						
United States	3.4	3.2	2.9	4.0	0.3	1.0
Japan	-0.3	0.2	0.1	1.6	0.0	0.3
Euro area	2.0	2.0	2.1	3.4	1.7	1.5
World oil prices (Brent; US$/barrel)	54.4	65.4	72.7	97.0	35.0	50.0

Source: EIU 2008b.
* PPP stands for purchasing power parity.

This scenario also relies on an assumed failure of the OPEC cut of 4.2 million barrels per day in 2008 to prevent a slide in oil prices. This projected decline in oil prices points to a much stronger upward trajectory for oil prices starting in 2011, and increased oil demand at the bottom of the global recession will overlap with less supply. Based on this scenario, the EIU forecasts for the global economy in table 10 and oil market dynamics will probably result in an average price of US$35 (WTI) for 2009 and US$50 for 2010.

Scenario 2: Six turbulent months followed by moderate growth, starting in late 2009.

This scenario assumes that the economic policies by the new United States administration will create new faith in the ability of the United States economy to recover. This will also benefit from low oil prices and a stronger US dollar. Such effects could shorten the severity and the duration of the downturn in the United States economy. Recovery in Europe and other countries would follow thereafter. This would result in world GDP (at market exchange rates) declining by half the amount anticipated in scenario 1. Consequently, this would lead to greater demand for oil as China and India begin reacting to the recovery of the United States economy. According to this scenario, average oil prices could be estimated at US$45 (WTI) for 2009 and US$60 for 2010.

Scenario 3: Three turbulent months followed by moderate growth, starting in the second half of 2009.

This scenario is similar to scenario 2, except that the decline in aggregate demand and employment associated with it is less severe. Moreover, the positive impacts of scenario 2 are expected to work at a faster rate. This suggests that fundamental changes in the financial system can restore confidence in the ability of the United States economy to recover more rapidly. Based on this scenario, the average price of oil would reach US$50 (WTI) for 2009 and US$65 for 2010.

The aforementioned scenarios for future oil price trends have significant implications for the GCC economies, but also for the economies of other ESCWA member countries more generally. This does not mean that any of these scenarios could materialize, but rather that a comparison of the main macroeconomic variables under such scenarios could assist policymakers to quantitatively evaluate the impacts of the financial crisis on their countries. GCC countries are very dependent on oil revenues as the major driving force of their economies.

It appears that scenario 1 is the most realistic scenario given the depth and breadth of the financial crisis. What are then some possible effects of the financial crisis on the economies of the GCC countries given such an assumption? The following analysis examines these effects on the budget balance, economic growth, current accounts and inflation rates.

(a) *Fiscal balance*

As shown in table 11, GCC countries are expected to experience a steep decrease in their fiscal surpluses in 2009 and 2010.

TABLE 11. BUDGET BALANCE, 2005-2010
(*Percentage of GDP*)

	2005	2006	2007	2008	2009	2010
Bahrain	7.5	4.3	3.4	6.4	-1.6	-1.0
Kuwait	39.4	29.1	42.4	31.5	4.0	5.6
Oman[a/]	2.0	3.7	3.0	6.1	3.4	5.0
Qatar[b/]	9.2	9.7	8.0	10.9	2.3	3.6
Saudi Arabia	18.4	21.0	12.3	11.6	-2.8	-3.1
United Arab Emirates	8.1	11.6	14.2	13.8	1.7	1.1

Source: EIU. 2008b.

a/ Net official balance; excludes State General Reserve Fund operations and grants.
b/ Excludes earnings from liquefied natural gas.

Falling surpluses would result from two overlapping dynamics: (a) a severe decrease in export receipts induced by falling oil prices; and (b) an anticipated high level of public expenditures as Governments are forced to boost domestic demand. The sharpest decrease in surpluses will likely be in Bahrain (with a decline of 125 per cent in 2009), Saudi Arabia (124.1 per cent), the United Arab Emirates (87.7 per cent) and Kuwait (87.3 per cent).

Bahrain and Saudi Arabia are expected to record a fiscal deficit in 2009 for the first time since 2002. The fiscal health of Bahrain is dependent largely on oil and will therefore be severely hit by declining oil prices. Moreover, Bahraini authorities have maintained high spending levels since 2005, increasing by an annual average of 18 per cent.[67] Thus, it is assumed that it will be rather difficult for the Government to significantly cut its expenditures, notably in times of crisis. As for Saudi Arabia, it will also face two

[67] See EIU. 2008b.

simultaneous pressures: dwindling oil prices will bite into its receipts; and populist social considerations will militate against the Saudi authorities reducing spending.

In 2010, the expected recovery in world oil demand will likely stimulate GCC oil production and lead to an increase of oil receipts. This will translate into budget surpluses in four GCC countries, albeit at lower levels than those before 2008.

(b) *Economic growth*

The combination of falling oil prices and reduced oil production will have a negative impact on growth prospects in the ESCWA region over the projected period. As table 12 makes clear, the region is expected to grow at 2.1 per cent in 2009, down from a growth rate of 6.1 per cent the previous year. However, growth is expected to gain steam again in 2010, with a estimated rate of 6 per cent.

TABLE 12. REAL GDP GROWTH RATES, 2005-2009
(*Annual percentage change*)

	Real GDP growth rate				
Country/Subregion	2005	2006	2007	2008	2009
Bahrain	7.9	6.5	8.1	6.3	2.0
Kuwait	11.4	6.3	4.6	6.1	0.7
Oman	6.0	7.2	6.1	6.0	1.5
Qatar	6.1	12.2	9.5	16.0	7.0
Saudi Arabia	5.6	3.2	3.4	4.2	0.7
United Arab Emirates	10.5	9.4	5.2	7.4	0.5
GCC	7.3	5.6	4.5	5.8	1.1
Egypt	6.8	7.1	7.2	6.5	4.5
Jordan	7.1	6.3	6.0	6.0	3.6
Lebanon	1.1	0.0	4.0	5.5	3.0
Sudan	8.6	11.3	10.0	8.5	4.2
Syrian Arab Republic	4.5	5.1	6.6	6.5	3.2
Yemen	5.8	4.5	4.7	4.5	2.0
More diversified economies	5.0	5.8	6.4	6.6	4.0
Total ESCWA	6.5	5.7	5.2	6.1	2.1

Source: ESCWA 2008a.

The United Arab Emirates is arguably the country that will be most affected. This is due to a severe contraction in domestic demand, notably in Dubai. As mentioned earlier in this report, the real estate sector has been hard hit by the crisis, and now faces tightened credit conditions and a gloomy economic outlook. Thus, capital investment is likely to diminish in the coming years. In addition, it seems likely that consumption will fall sharply. Around 80 per cent of the workforce in Dubai is composed of expatriates;[68] as firms start downsizing their projects and laying off some of their employees, a significant reduction in consumption is expected. The GDP of the United Arab Emirates will also suffer from the projected decrease in the oil receipts of Abu Dhabi. All in all, it is assumed that the United Arab Emirates will grow at 0.5 per cent in 2009, down from a growth rate of 7.4 per cent in 2008. In 2010, growth is expected to recover due to increased public investment in Abu Dhabi.

Growth in Saudi Arabia will also run out of steam, as a result of lower oil prices and production cuts. Saudi Arabia is expected to register a growth rate of only 0.7 per cent in 2009. However, assuming a gradual

[68] See GIH. 2009.

increase in oil production in 2010, Saudi Arabia should resume its economic growth at an expected rate of 4.6 per cent.

Qatar is likely to be the notable exception among GCC countries: starting in 2009, liquefied natural gas production in Qatar is expected to increase significantly and, consequently, to bolster its GDP, resulting in an average annual growth rate of 7 per cent for the period under consideration.

GDP growth for the MDEs in the ESCWA region is estimated to have averaged 6.6 per cent in 2008, a small increase from 6.4 per cent in 2007. Despite precarious external balances due to weak current account positions, domestic demand continued to grow with firmly resilient capital account balances. Moreover, oil exporters in this subregion have benefited from strong gross oil export revenues. In 2008, the MDEs experienced increased investment activity in the construction, telecommunications, financial and service sectors. Despite consistent efforts in industrial development, the subregion has yet to establish itself as a strong manufacturing base for export-led growth. However, the reduced reliance on manufacturing exports has insulated the subregion from the impact of the rapid decline in global demand since the fourth quarter of 2008.

In 2009, the MDE subregion is projected to experience a moderate average growth rate of 4.0 per cent. A weakened capital account position is expected, and the risk of balance of payments difficulties remains. However, this risk is expected to remain relatively low due to the solid position of foreign reserves held by the Central Banks of MDE countries. Business and consumer confidence is projected to be relatively stable in spite of the increasing uncertainty about such chronic structural issues as unemployment, since a substantial share of economic activity is associated with rents, as opposed to a dynamic rise in productivity. For Iraq and the Sudan, the impact of investment activity on their growth potential is expected to continue in parallel with an improvement in the political situation. Iraq and the Sudan are projected to grow at 5.0 and 4.2 per cent, respectively.

Estimates for Egypt, Jordan, Lebanon and the Syrian Arab Republic mainly reflect their weakened capital account positions, despite strong foreign reserves held by their respective central banks. Export earnings in both goods and services are expected to decline in 2009, but the capital account position should be sufficient to cover the weak current account position during the year. GDP in Egypt is projected to grow at 4.5 per cent, in Jordan at 3.6 per cent, in Lebanon at 3.0 per cent and in the Syrian Arab Republic at 3.2 per cent.

A rapid decline in gross oil export revenues is expected to affect growth prospects in Yemen. However, the deteriorating current account position is likely to be covered by accumulated central bank foreign reserves and international support. Moderate growth in domestic demand is projected to lead GDP growth to 2.0 per cent in 2009.

Recently revised official figures confirm that Palestine continues to experience depressed economic activity. Physical blockades, continuing insecurity and hostilities have imposed a severe constraint on economic activities. Unpredictable flows of international development aid have precluded fiscal efforts at reconstruction and development. Moreover, the intensity of Israeli military actions in the Gaza Strip over 22 days, from December 2008 to January 2009, destroyed human and physical capital. In 2009, Palestine is projected to register its second year of negative economic growth at the rate of minus 1.0 per cent.

(c) *Inflation*

As table 13 suggests, consumer inflation rates in both the GCC and MDE countries are expected to fall substantially in 2009, in some cases dropping by half.

TABLE 13. CONSUMER INFLATION RATES, 2005-2009
(*Annual percentage change*)

Country/Sub-region	Consumer inflation rate				
	2005	2006	2007	2008	2009
Bahrain	2.6	2.1	3.3	3.5	3.5
Kuwait	4.1	3.1	5.5	10.4	5.7
Oman	1.9	3.4	5.9	12.4	6.0
Qatar	8.8	11.8	13.8	15.0	11.2
Saudi Arabia	0.7	2.2	4.1	9.9	4.5
United Arab Emirates	6.2	9.3	11.1	18.6	5.2
GCC	2.8	4.3	6.3	12.0	5.2
Egypt	4.9	7.6	9.5	17.1	9.7
Jordan	3.5	6.3	5.4	14.0	6.5
Lebanon	2.6	1.5	6.7	11.7	5.7
Sudan	8.4	7.2	8.0	15.0	11.0
Syrian Arab Republic	7.4	10.0	4.5	14.7	6.0
Yemen	11.8	10.8	7.9	19.0	12.7
More diversified economies	9.8	14.2	11.5	13.9	8.2
Total ESCWA	5.3	7.9	8.2	12.7	6.3

Source: ESCWA 2008a.

Some economic determinants, as scarce liquidity, lower demand, lower commodity prices, lower housing prices and rents, contribute to lowering inflation rates; however, this will not affect regional inflation levels which are expected to reach 6.3 per cent. This is because Governments are expected to maintain their expenditures at current rates. Moreover, recent increases in public sector wages and oil subsidies will continue to exert some pressure on prices.

(d) *Current account*

Table 14 indicates a surplus in the combined current account balance of the GCC countries; however, as can be seen from this table, this surplus will decrease sharply in 2009-2010.

TABLE 14. CURRENT ACCOUNT
(*Percentage of GDP*)

	2005	2006	2007	2008	2009	2010
Gulf Cooperation Council	27.1	27.9	22.7	25.6	8.1	10.1
Bahrain	11.0	13.8	17.2	11.3	1.1	1.9
Kuwait	42.5	50.7	42.3	39.7	19.0	19.4
Oman	16.0	14.2	5.1	12.0	0.2	2.1
Qatar	17.6	17.9	16.0	21.3	13.1	21.3
Saudi Arabia	28.8	28.0	22.5	29.1	4.3	5.3
United Arab Emirates	20.9	21.4	18.3	13.9	3.7	5.1

Source: EIU. 2008b.

Indeed, after several years of massive current account surpluses, fueled largely by significant trade account surpluses, the GCC economies are expected to register a current account surplus of only 8.1 per cent of GDP, down from an average of 25.8 per cent between 2005 and 2008. The countries that will be the hardest hit are Oman and Bahrain, with expected surpluses accounting for as low as 0.2 per cent and 1.1 per cent of their respective GDP. The current accounts of individual countries will mainly be affected by their trade accounts. The latter will, in fact, suffer from a sharp decrease in oil exports (both in terms of prices and volumes); this decrease will be marginally offset by the expected contraction in imports induced by lower growth and commodity prices.

2. *Opportunities*

The global crisis is also an opportunity for some ESCWA member countries to reconsider the structure of their SWF investments. SWF would greatly benefit from widening the array of their portfolios in developed countries. In particular, investing in the real economy would reduce their risk exposure and decrease fears expressed concerning investments in developed countries. They should also expand their geographical scope, as opportunities in emerging markets need to be seized in order enhance South-South investments and cooperation. This could strengthen South-South economic ties and help shape a unified position vis-à-vis such issues at stake in international finance as the restructuring of the international financial system.

SWF also need to increase their regional investments. Indeed, they can invest in sectors in which many ESCWA member countries have a comparative advantage, such as agriculture, clothing and footwear, textile fibers and chemical products. They may also invest in research and training centers, thus contributing to long-term regional growth prospects. Increased SWF regional investments could offset the effects of the looming economic slowdown, especially when inflationary pressures are no longer a threat. The current financial crisis could thus present an opportunity for SWFs to improve their governance standards toward greater accountability, and to recompose some of their investments in both structural and geographic terms.

International financial institutions have been critical of SWFs because of their opaque governance standards. It is in the interest of Governments and their SWFs to implement measures that would enhance existing governance standards. This would allow funds to address the fears of some developed countries and to fully participate in shaping a new global financial architecture. Governance reforms could also enhance the accountability of SWFs before their own Governments and citizens, in turn buttressing their role as savings funds and agents of social and economic development.

The global crisis will impact ESCWA member countries trade directly via a dry trade finance. Imports could drop substantially if the credit crunch reduces available trade credit. A valuable option for ESCWA member countries would be to strengthen and expand the role of some regional institutions, such as the Arab Monetary Fund’s Arab Trade Financing Program (ATFP) to further facilitate trade credit.

The present crisis underscores the need for ESCWA member countries to embark on a dual diversification strategy in the medium to long-term future: one with respect to exports, and another with regard to trading partners. With respect to the former strategy, ESCWA member countries need to continue to diversify their economies away from oil, and seek to specialize in targeted niches and products with higher added value. Accomplishing such targets extends beyond trade policies and involves the creation of measures to promote a business and investment-friendly environment. The global crisis and its ramifications have also underscored the risks of having excessive geographical concentration of trade relations, especially with developed countries. ESCWA member countries could reduce such risks by strengthening their trade with dynamic developing regions, for example Asian countries. With the multilateral trade negotiations currently on hold, ESCWA member countries could benefit from triggering a series of bilateral trade agreements with these countries.

Intraregional trade prospects are likely to be boosted by the economic crisis as some ESCWA member countries will decrease their exports to world markets, notably in terms of manufactured products. In order to facilitate the eventual increase in intraregional trade, countries should tackle such key issues still hampering the full implementation of the GAFTA as the harmonization of production standards; the facilitation of trans-border transit; the computerization of customs services; and the streamlining of inspection/control methods. ESCWA member countries will also gain from facilitating trade finance for intraregional trade. This could be achieved through a number of such regional institutions as the ATFP, the projected Maghreb Bank for Investment and Foreign Trade, and the trade financing operations of the Islamic Development Bank.

ESCWA member countries could also design strategies to contain the adverse effects of the global economic crisis on their tourism industry. Some countries, notably Egypt, have reacted rapidly to the crisis, cutting taxes on charges incurred by charter flights in order to lure more tourists. In Jordan, in an attempt to stimulate the tourism sector, the Government decided to reduce the sales tax on hotel rates from 14 per cent to 8 per cent for the duration of 2009; the Government also waived visa requirements for Romanian citizens, and streamlined entry procedures for Indian and Chinese citizens.

ESCWA member countries, such as Egypt and Oman, whose tourist industry is heavily dependent on tourists from European countries, could design and launch public relations campaigns to attract Asian tourists, especially from China, Malaysia, the Republic of Korea and Singapore. This would help compensate for lost European tourists. Countries in the Levant, especially Jordan, Lebanon and the Syrian Arab Republic, could coordinate their tourism policies and introduce package tours enabling tourists to visit multiple countries in the region as part of a package holiday. Governments could also adopt immediate measures to avoid unreasonable charges and taxes on tourism-related sectors. Ministries of the Interior in ESCWA member countries may also want to explore strategies to synchronize visa requirements for tourists coming from outside the region.

It is not possible at this early stage to forecast accurately the social impact of the global financial crisis on ESCWA member countries. While some of the effects occur only with a time lag, few of these countries have effective and transparent statistical mechanisms to monitor employment, labour markets and poverty in a comprehensive and timely manner. Nevertheless, some indicative forecasts are included in table 15. Under the more conservative scenarios (i.e. scenarios 1 and 2),[69] the increase in unemployment would be small, while the share of vulnerable employment to total employment is expected to continue to decline.[70] However, if the global crisis were to take a turn for the worse, and given existing weak institutional safeguards, the region is expected to be hit much harder (scenario 3). Policy responses to the crisis therefore need to find ways to address short-term needs, while at the same time developing more effective institutional frameworks to face medium to long-term challenges.

---

[69] For a methodological description of the three scenarios, see ILO. 2009a.

[70] See ILO. 2009d. It should be noted that the scenarios are based on growth estimates from the IMF's World Economic Outlook Update from January 2009. It is possible that these more pessimistic regional growth estimates (dating April 2009) might lead to slightly higher unemployment and vulnerable employment rates in the next update of the ILO Trends Model.

TABLE 15. UNEMPLOYMENT AND VULNERABLE EMPLOYMENT SCENARIOS

	2007	2008	Change in 2009 Scenario 1	Scenario 2	Scenario 3
UNEMPLOYMENT					
Unemployment rate (%)					
World	5.7	5.9	6.5	6.8	7.4
Middle East	9.5	9.0	8.8	9.3	11.0
North Africa	10.6	10.0	9.8	10.9	11.1
People (million)					
World	180.2	188.6	209.6	219.6	239.0
Middle East	6.4	6.3	6.4	6.7	7.9
North Africa	7.4	7.2	7.2	8.0	8.1
VULNERABLE EMPLOYMENT					
Share in total employment (%)					
World	50.4	49.4	48.9	50.5	52.8
Middle East	33.4	32.8	32.6	33.7	39.3
North Africa	37.6	36.8	36.4	40.7	42.4
People (million)					
World	1 495.6	1 488.0	1 486.8	1 535.6	1 603.4
Middle East	20.5	21.0	21.5	22.2	25.9
North Africa	23.4	23.6	24.0	26.8	27.9

Source: Calculated from ILO. 2009d.

Note: The Middle East region includes Western Asian ESCWA member countries in addition to the Islamic Republic of Iran; North Africa includes the ESCWA member countries Egypt and The Sudan, in addition to Algeria, the Libyan Arab Jamahiriya, Morocco and Tunisia.

The current financial crisis presents an opportunity to bring about much needed social sector reforms. Domestic political considerations have hitherto encouraged Governments to protect public-sector employment and wages at the expense of pro-poor policies. More efforts are required to ensure that the current crisis does not endanger past achievements in decent and productive employment, the protection of workers' rights, labour standards and adequate social protection.

The 98th session of the International Labour Conference, which included the high-level ILO Summit on the Global Jobs Crisis, Geneva, 15-17 June 2009, adopted a resolution entitled Recovering from the crisis: A Global Jobs Pact on 19 June 2009.[71] This resolution reflects the joint commitment of Governments, employers' and workers' organizations to work together to achieve a rapid recovery from the crisis through policies aimed at realizing the Decent Work Agenda, thus reducing the risk that the crisis further spreads across countries, and paving the way for a more sustainable, fairer globalization.[72] Building upon the global mandate of the ILO, which has recently been called upon by the Group of 20 (G-20)[73], the Global Jobs Pact contains recommended short-term crisis response strategies, tackles the transmission mechanisms of the crisis, and lays the foundation for more sustainable economies. The Global Jobs Pact commits to crisis response strategies aimed at achieving fairer globalization; a greener economy; development that more effectively creates jobs and sustainable enterprises; respects workers' rights; promotes gender equality; protects vulnerable people; assists countries in the provision of quality public services; and enables countries to achieve the Millennium Development Goals. The Global Jobs Pact is firmly anchored in the Decent Work Agenda, with its pillars of rights at work, employment opportunities for men and women, social protection,

[71] The resolution is available on the following website: http://www.ilo.org/global/What_we_do/Officialmeetings/ilc/ILCSessions/98thSession/lang--en/.

[72] See ILO. 2009b: 37-58. *The Financial and Economic Crisis: A Decent Work Response*. Geneva: ILO; and ILO. 2009c. *Tackling the global jobs crisis: Recovery through decent work policies*. Report of the Director-General. Geneva: ILO.

[73] G-20 London Summit – Leaders' Statement, 2 April 2009, available at: http://www.g20.org/Documents/g20_communique_020409.pdf.

and social dialogue, and the commitments made by the ILO and its constituents in the 2008 Declaration on Social Justice for a Fair Globalization.[74] Based on a set of basic principles, the Global Jobs Pact proposes a set of specific policy options focusing on accelerating employment creation and sustaining enterprises; building social protection systems and protecting people; strengthening respect for international labour standards; social dialogue, collective bargaining, identifying priorities and stimulating action; and shaping a fair and sustainable globalization.

International experience has shown that social dialogue has an important role to play in developing more effective social and economic policies and speeding up crisis recovery. For example, agreements developed in tripartite commissions helped to develop coordinated policy responses during the Asian Financial Crisis in 1997-1998 in the Republic of Korea and Singapore, as well as in Argentina.[75] Such tripartite social dialogue mechanisms may help addressing issues related to wage levels, labour inspection, workers' rights, and broader employment and social policies, thus contributing to maintaining social peace.

Crisis responses should ensure that workers' rights and international labour standards are maintained and, where necessary, strengthened. Observing fundamental principles and rights at work is a critical element in efforts to foster social justice and peace. The ILO has identified a comprehensive set of instruments to protect workers' rights that are particularly relevant in the context of the current crisis, including conventions pertaining to the protection of workers' rights, migrant workers, social security, occupational safety and health, social dialogue and employment policy.[76] Compared to other regions of the world with similar levels of development, levels of ratification of international labour standards in ESCWA member countries are rather low. Recognizing the value and importance of international labour standards, especially in the current crisis context, ESCWA member countries are encouraged to consider ratification of relevant instruments, and to step up national efforts to implement these standards.

The repercussions of the global crisis demonstrate that there is a stronger need than ever before for ESCWA member countries to develop coherent economic, employment and labour market policies, ones that would institutionalize employment as an integral element of socio-economic development, and revitalize economic growth, social integration and poverty reduction.[77] This includes restoring the financial markets and the availability of credit, particularly for SMEs, counter-cyclical fiscal stimuli, and further public and private investment in infrastructure, housing and social services through employment-intensive techniques. Such measures could generate employment, upgrade human capital and facilitate access to quality infrastructure and services. Strengthening employment services and active labour market policies, including wage subsidies and training, is a further key component of an integrated response strategy, as is the introduction of unemployment insurance.[78]

The ESCWA region could also benefit from enhancing employment services, including job placement, career guidance, training and job creation, and improving labour market information systems. Some countries of the region, such as Bahrain and Oman, have recently accelerated their public employment services and are increasingly recognized as examples of good practice in the region.[79] Examples from other regions show that a number of countries, including France, Mexico and the Philippines, augmented their

---

[74] See ILO. 2008c. *ILO Declaration on Social Justice for a Fair Globalization and Resolution on Strengthening the ILO's Capacity to Assist its Members' Efforts to Reach Its Objectives in the Context of Globalization*. Geneva: ILO; and ILO. 2008d. *A Global Policy Package to Address the Global Crisis*. International Institute for Labour Studies. Geneva: ILO.

[75] See ILO. 2009b.

[76] Ibid. ILO. 2009c.

[77] See Behrendt et al. 2009.

[78] See ILO. 2009b.

[79] See Behrendt et al. 2009.

public employment services in reaction to the global financial and economic crisis to provide jobseekers with appropriate support to upgrade their skills and find new employment.[80]

Moreover, the current crisis has revealed shortcomings in existing labour market monitoring mechanisms in some countries. Few ESCWA member countries dispose of adequate labour market monitoring mechanisms to produce, analyse and disseminate labour market data in a timely, regular and consistent way.[81] Such labour market monitoring mechanisms are not only essential to better understand the emergence, magnitude, causalities and implications of the employment effects of the current crisis, but also constitute one of the key policy tools to inform national economic and social policies and render them more responsive to employment concerns.

Public works or employment guarantee schemes are another form of crisis support for some countries. Such programmes, which involve working in a community project in return for cash or food, are already in operation in Yemen in the context of the Social Fund for Development and the Public Works Project. In general, employment-intensive infrastructure projects can help put people back to work while, at the same time, help to build valuable civic trust and community infrastructure. A comparison of different fiscal crisis response measures has shown that employment-oriented measures have a significantly more effective impact on employment creation than other such fiscal measures as hiring subsidies, lower direct and indirect taxation and debt-financed spending increase.[82]

Unemployment insurance has a key role to play during an economic crisis, as it acts as an automatic stabilizer, which is more effective than discretionary increases of fiscal expenditure during economic downturns.[83] Unemployment insurance functions best if combined with measures promoting a swift (re-)integration into the labour market, including job placement and training services, and help to maintain and upgrade the skills of jobseekers. Such measures also contribute to preventing jobseekers from slipping into informal employment during periods of economic crisis.[84] As mentioned above, Bahrain is the only country in the ESCWA region that has introduced an unemployment insurance scheme providing an effective crisis response mechanism should the need arise.

In the area of pensions, ESCWA member countries need to address concerns related to the value of accumulated pension funds, and the more long-term issues of limited coverage and financial sustainability.[85] Some countries have made important progress in improving the operation of pension funds, and reforms are currently being discussed or are under way in Egypt, Jordan, Lebanon, the Syrian Arab Republic and Yemen. The critical factor for a further extension of coverage is the rate of job creation in the formal private sector, which is not likely to dramatically improve in the short run. Other solutions are necessary to improve social protection coverage for those who are not able to build up sufficient social insurance entitlements through employment in the formal sector. This could include opening social insurance schemes for the self-employed and own-account workers, and consider the introduction of non-contributory basic old age and disability pensions which would guarantee at least a minimum standard of living for older and disabled people.[86]

[80] See ILO. 2009b: 37-58.

[81] See Behrendt et al. 2009.

[82] See ILO. 2009b: 42-47.

[83] See IMF. 2008: 160-195.

[84] See Behrendt et al. 2009.

[85] See ILO. 2009b: 18-20, 48-52.

[86] See ILO. 2009e. Social Security for All: Investing in social justice and economic development. *Social Security Policy Briefings*, Paper 7. Geneva: ILO; and ILO. 2008b. Report on the Interregional Tripartite Meeting on the Future of Social Security in Arab States, Amman, 6-8 May 2008. *Social Security Policy Briefings*, Paper 5. Geneva: ILO.

Where adequate social protection mechanisms exist, they should be buttressed to protect the poor and the vulnerable from the effects of the crisis. Where such mechanisms do not exist, or are not functioning adequately, a crisis may well create the political space for creating it – like the New Deal in the United States in the 1930s. But creating new social security programmes under economic and political pressure is not an easy task. At times, generalized food and fuel subsidies have been introduced at a huge fiscal and economic cost and have, for the most part, only had a modest impact on poverty. However, the crisis also offers an opportunity to create good safety net programmes as, for example, in the case of the Republic of Korea, which introduced public works and activated an unemployment insurance scheme after the 1997 financial crisis.[87] Some countries have been able to turn a crisis into an opportunity for dismantling inefficient measures in favour of more effective social security programmes. Such measures could include the reform and extension of existing social insurance programmes to larger social groups, and the strengthening of minimum benefit guarantees and the introduction of indexation mechanisms. Coupled with non-contributory benefit guarantees, for example in the form of universal basic old age and disability pensions or child benefits, and access to (at least) essential health services, such a set of programmes would provide for a decent basic level of social security for all, and higher levels of social security for those with sufficient contributory capacity. Similarly, conditional cash transfers are potent measures for providing quick support based on desirable outcomes where a sufficient level and quality of social services are available. For example, such a transfer could be granted on the condition that a family sends its children to school and the children progress to the next grade.[88]

A welcome development is that the reform of social assistance programmes and targeting mechanisms has been on the agenda in some countries for some time now. Such reforms have recently been introduced, or are currently being considered, in Jordan, Lebanon, Palestine, the Syrian Arab Republic and Yemen. Some of the targeting mechanisms under consideration include geographic targeting (in the larger and more diverse regional economies) and "proxy means tests", which use, in the absence of information on household incomes, a composite index to evaluate the welfare position of a household by taking into account family size, housing conditions and so on. Regional experiences will show the effectiveness of these mechanisms and their impact on the reduction of poverty and the realization of social rights. The response to the crisis should be aimed at protecting the poor, preventing the near poor and vulnerable from falling below the poverty line, and promoting longer-term recovery and development for both the poor and the vulnerable. Ideally, the crisis needs to be seen as an opportunity for not only offering some emergency employment and social protection programmes, but also for building permanent programmes dealing simultaneously with chronic and transient poverty and vulnerability. The synergies between emergency interventions and longer-term human development can be reinforced by adopting comprehensive policies rather than individual programmes. For example, encouraging the children of poor families to stay in school through the attribution of scholarships and conditional cash transfers can serve the dual objective of income support and human development. Similarly, public works can provide employment opportunities along with useful local infrastructure, especially in poor communities.

The response to the crisis needs to also take note of the position and needs of women. Gender equality needs to be a key principle in any policy response: "The crisis is an opportunity to drive new ways of thinking on economic and social policies, since women are much more integrated into the world of work than ever before. When Governments design and implement fiscal stimulus packages, it is important to recognize the labour market disadvantages that women face through the equity challenge, and to consider explicit employment growth targets for women. The impact on the unpaid family care work that women are mostly responsible for, which may expand as the crisis worsens, is another fundamental dimension to address".[89] Moreover, maternity rights, unemployment and old age insurance are essential measures helping

[87] See Kwon, H. 2004. The Economic Crisis and the Politics of Welfare Reform in Korea in Mkandawire, T. (ed.) *Social Policy in a Development Context*. Basingstoke: Palgrave Macmillan: 262-383.

[88] See ILO. 2009b: 48-51.

[89] See ILO. 2009a: 32.

women survive the crisis; they also serve the long-term reduction of gender inequality. The introduction of maternity insurance, as currently considered in Jordan,[90] could further contribute to enhancing income security for women and their families, and help remove obstacles to female employment by pooling maternity risks for both workers and their employers. Strengthening employment placement services for women and investing in training women for non-traditional occupations are among some of the other supportive measures that are available. Most importantly, and given the advanced education levels women are attaining and the consequent higher productivity of female workers, increased levels of female labour force participation should be encouraged, especially as the educational achievements of women in certain ESCWA member countries exceeds those of men, especially at the higher education level.

Finally, international experience has shown that employment and social protection policies are more effective when pursued in a coordinated way. This reflects their complexities and interlinkages with related policy areas, involving stakeholders throughout the policy development process.[91] Appropriate coordination mechanisms between different national actors, including the concerned ministries, statistical agencies, social security institutions, social partners and other institutions, need to be established or strengthened. Possible institutional frameworks for such coordination mechanisms could include economic and social councils, or national employment and social protection observatories. Such coordination mechanisms could be embedded in national employment and social protection strategies and linked to appropriate monitoring and planning mechanisms to ensure that resources are allocated in the most effective and efficient way.

[90] See ILO. 2007. *Report to the Government of the Hashemite Kingdom of Jordan: Feasibility Study on the Implementation of a Maternity Cash Benefits Scheme*. Geneva and Beirut: ILO.

[91] See ILO. 2009b and 2009e; ESCWA. 2005. *Towards Integrated Social Policies in Arab Countries: Framework and Comparative Analysis*. New York: United Nations; and Behrendt et al., 2009.

VI. TOWARDS REGIONAL INTEGRATED SOLUTIONS: POLICY RECOMMENDATIONS

The regional repercussions of the international financial crisis provide an opportunity for ESCWA member countries to implement a number of relevant policies including some of the recommendations adopted at the ESCWA Regional High-level Consultative Forum on the Impacts of the International Financial Crisis on ESCWA Member Countries, which was held in Damascus, 5-7 May 2009:

1. ESCWA member countries need to continue implementing proactive fiscal measures to offset the repercussions of the international financial crisis on their real economies, in particular to mitigate its impacts on economic growth, development and employment. Invariably, these measures will differ from one country to another depending on whether it is an oil-exporting country, or if it is classified as a more diversified economy or least developed country, or is under occupation.

2. ESCWA member countries need to coordinate expansionary fiscal policies to boost domestic demand and shorten periods of low economic growth. These policies could be used to meet key development goals and be coordinated and implemented in cooperation with the private sector and civil society. These policies need to especially target infrastructure, agriculture, industry, health, education, environment and social protection mechanisms.

3. ESCWA member countries could consider establishing a new regional stability fund, financed from the foreign reserves of member countries. This fund could be only activated during economic and social crisis. Such a fund would enhance regional integration and mitigate the negative consequences of future economic and financial crises.

4. In line with the resolutions adopted during the 2009 Arab Economic Summit in Kuwait, Arab financial institutions need to play an instrumental role in promoting greater regional integration, particularly in monetary and financial affairs. This could be achieved by increasing funds made available for inter-Arab investment and infrastructural projects, relaxing loan granting conditions, and developing transparent procedures to finance major inter-Arab projects.

5. ESCWA member countries need to support the private sector, investing more resources in the real economy, with a special focus on making credit available for SMEs and the banking sector of member countries facing capital reversals and liquidity crises.

6. Arab SWFs need to increase their investments in the regional real economy, particularly in those member countries with comparative advantages and untapped opportunities in agriculture and industry. Egypt, Iraq, Lebanon, The Sudan, the Syrian Arab Republic and Yemen offer potential investment opportunities in the areas of food products and processed seafood. Countries endowed with high-skilled labour could become large recipients of FDI in business services (R&D centres and providers of outsourced logistics). Finally, countries enjoying a comparative advantage in textile fibers and clothing, such as Egypt, Jordan and the Syrian Arab Republic, could attract FDI in textiles. By investing in such sectors, SWFs could contribute to intra-Arab FDI flows and to the long-term growth prospects in the region.

7. ESCWA member countries need to invest in technology, infrastructure and R&D. This will reduce their heavy dependency on the oil sector; open up possibilities for diversifying exports; expand employment opportunities; and help reverse the current brain drain.

8. ESCWA member countries need to reinvigorate efforts to achieve regional integration in order to attract market-seeking FDI. Consequently, intraregional flows of trade in goods and services, people and capital among ESCWA member countries needs to be facilitated, and the full implementation of the GAFTA should be accelerated.

9. In line with the recommendations of the Commission of Experts on Reforms of the International Monetary and Financial System, ESCWA member countries need to enhance the efficiency of their regulatory frameworks and improve transparency and governance standards in the financial sector in order to better serve the real economy. Such measures could enhance the attractiveness of ESCWA member country markets to foreign investors.

10. ESCWA member countries need to create a more transparent and accountable institutional environment. This can be achieved by adopting best practices in order to streamline administrative procedures and computerize strategic services. This is needed as cumbersome bureaucratic and institutional frameworks impose high entry costs to newly-established firms and SMEs, impede commercial transactions and deter FDI in export-oriented enterprises.

11. ESCWA member countries need to explore opportunities for greater South-South cooperation as part of their efforts to promote economic and technical cooperation among developing countries. As emerging countries become the main driving force behind FDI flows, ESCWA member countries need to develop economic partnerships with countries, such as Brazil, China, India and the Russian Federation. In addition, these countries offer investment opportunities that could prove rewarding for Arab savings. South-South tourism could also be explored to promote similar objectives.

12. Arab SWFs can play an instrumental role in the efforts to design a new international financial structure. Furthermore, they could also be strategically used to help finance the new credit facility proposed by the Commission of Experts on Reforms of the International Monetary and Financial System in exchange for a greater voice for ESCWA member countries in managing the global economy. This will enable ESCWA member countries to assume a proactive role in global economic decision-making institutions.

13. The international financial crisis needs to serve as an opportunity to instill a new culture of employment and social protection policies in ESCWA member countries. New regional social dialogue mechanisms therefore need to be developed to help promote the institutional foundations for these policies.

14. The financial and economic crisis presents an opportunity to encourage the design of coordinated and integrated solutions to regional economic and social challenges. This includes the formulation of appropriate mechanisms to generate employment opportunities; invest in skills development; encourage sustainable growth; strengthen social protection mechanisms; support fundamental principles and labour rights; promote gender equality and non-discrimination; and focus on human development and decent work. ESCWA member countries are encouraged to develop coordinated national and regional responses which adapt global instruments, such as the ILO Global Jobs Pact, to national and regional circumstances and requirements.

15. ESCWA member countries need to consider the introduction of bilateral and multilateral social security agreements to ensure social protection coverage for migrant workers; a regional labour market information monitoring system; and regional coordination mechanisms for employment and social policies.

16. ESCWA member countries need to develop coordination mechanisms between different national actors, including ministries, statistical agencies, social security institutions, social partners and other institutions, in order to create effective employment and social policies.

BIBLIOGRAPHY

ABC Investments. 2009. *Tourism Sector Report.* January. Amman.

Al-Ahram Weekly. Bolstering Tourism. 5-11 February 2009. Issue No. 933.

Arab Monetary Fund. 2009. *AMDB Bulletin*. Abu Dhabi, United Arab Emirates.

Behrendt, C., Haq, T. and Kamel, N. 2009. *The Impact of the Financial and Economic Crisis on Arab States: Considerations on Employment and Social Protection Policy Responses*. Beirut: ILO Regional Office for Arab States.

Behrendt, S. 2008. *When Money Talks: Arab Sovereign Wealth Funds in the Global Public Discourse*. Carnegie Paper. (12). Washington, DC: Carnegie Endowment for International Peace.

Business Intelligence – Middle East. 6 May 2009. A third of Dubai's homes may be empty by end of next year.

Byblos Bank. 2009b. *Country Risk Weekly Bulletin*. April. (110). Beirut: Byblos Bank.

Capital Investments. 2009. *Banking Sector Report*. 4 January.

Chen, S. and Ravallion, M. 2008. The Developing World Is Poorer Than We Thought, But No Less Successful in the Fight against Poverty. *Policy Research Working Paper*. 4703. Washington, DC: World Bank.

Cummins, C. 2009. "Bank of Lebanon Sees Growth at 6% This Year", *Wall Street Journal*, 8 May 2009.

Daily News, 1 April 2009. Rising Tax Revenues Not Enough To Cope With Egypt Deficit, available at: http://www.thedailynewsegypt.com/article.aspx?ArticleID=20785.

Docquier, F. and Marfouk, A. 2004. International Migration by Educational Attainment, 1990-2000 in International Migration, Remittances and the Brain Drain. *Trade and Development Series*. Edited by Schiff, M. and Özden, C. Palgrave Macmillan.

Economist Intelligence Unit (EIU). 2008a. *Country Report Egypt*. December. London: Economist Intelligence Unit.

EIU. 2008b. *Middle East and North Africa: regional overview*. London: Economist Intelligence Unit.

El Laithy, H., Abu-Ismail, K. and Hamdan, K. 2008. *Poverty, Growth and Income Distribution in Lebanon. Country Study*. 13. Brasilia: UNDP – International Poverty Centre.

El Laithy, H. and Abu-Ismail, K. 2005. *Poverty in Syria: 1996-2004 – Diagnosis and Pro-Poor Policy Considerations*. Damascus: UNDP.

Economic and Social Commission for Western Asia (ESCWA). 2005. *Towards Integrated Social Policies in Arab Countries: Framework and Comparative Analysis*. New York: United Nations.

ESCWA. 2008a. *Survey of Economic and Social Developments in the ESCWA Region: 2007-2008*. New York: United Nations.

ESCWA. 2008b. *Foreign Direct Investment Report*. New York: United Nations.

Global Investment House (GIH). 2008. *Lebanon Economic and Strategic Outlook: Climbing up the Cedar*. Global Research. November. Kuwait: Global Investment House.

GIH. 2009. *GCC Real Estate Sector – Changing Times!* Global Research. February. Kuwait: Global Investment House.

Gonzalez, P., Williams, T., Jocelyn, L., Roey, S. et al. 2008. Highlights From TIMSS 2007: Mathematics and Science Achievement of U.S. Fourth- and Eighth-Grade Students in *An International Context* (NCES 2009-001). National Center for Education Statistics, Institute of Education Sciences. Washington, DC: U.S. Department of Education.

Government of Yemen, World Bank and United Nations Development Programme (UNDP). 2007. *Yemen Poverty Assessment*.

Hussain, S. 2008. *Challenges in GCC Banks: Impact of the Financial Crisis.* Paper presented at the SMEs Conference, Bahrain, 18 November.

Institute of International Finance (IIF). 2008a. *Gulf Cooperation Council Countries: Regional Report*.

IIF. 2008b. *Update: Gulf Cooperation Council Countries*. 4 December.

International Financial Services London (IFSL). *Sovereign Wealth Funds 2009*. March. IFSL Research.

International Labour Office (ILO). 2007. *Report to the Government of the Hashemite Kingdom of Jordan: Feasibility Study on the Implementation of a Maternity Cash Benefits Scheme*. Geneva and Beirut: ILO.

ILO. 2008a. *World of Work Report 2008: Income Inequalities in the Age of Financial Globalization*. Geneva: ILO.

ILO. 2008b. Report on the Interregional Tripartite Meeting on the Future of Social Security in Arab States, Amman, 6-8 May 2008. *Social Security Policy Briefings*, Paper 5. Geneva: ILO.

ILO. 2008c. *ILO Declaration on Social Justice for a Fair Globalization* and *Resolution on Strengthening the ILO's Capacity to Assist its Members' Efforts to Reach Its Objectives in the Context of Globalization*. Geneva: ILO.

ILO. 2008d. *A Global Policy Package to Address the Global Crisis*. International Institute for Labour Studies. Geneva: ILO.

ILO. 2008e. *Global Employment Trends for Youth*. October. Geneva: ILO.

ILO. 2009a. *Global Employment Trends for Women*. March. Geneva: ILO.

ILO. 2009b. *The Financial and Economic Crisis: A Decent Work Response*. Geneva: ILO.

ILO. 2009c. *Tackling the global jobs crisis: Recovery through decent work policies*. Report of the Director-General. Geneva: ILO.

ILO. 2009d. *Global Employment Trends – Update*. Geneva: ILO.

ILO. 2009e. Social Security for All: Investing in social justice and economic development. *Social Security Policy Briefings*, Paper 7. Geneva: ILO.

International Monetary Fund (IMF). 2008. Arab Republic of Egypt - 2008 Article IV Consultation: Preliminary Conclusions of the IMF Mission. 6 November. Washington, DC: IMF.

IMF. 2009a. Lebanon - 2009 Article IV Consultation Mission: Mission Concluding Statement. 5 March. Washington, DC: IMF.

IMF. 2009b. World Economic Outlook: Crisis and Recovery. *World Economic and Financial* Surveys. Washington, DC: IMF.

Khan, M. 2008. Managing Domestic and Global Expectations: The Policy Challenges Facing the GCC. *Citi Economic and Market Analysis*. 17 November.

Kwon, H. 2004. The Economic Crisis and the Politics of Welfare Reform in Korea in Mkandawire, T. (ed.) *Social Policy in a Development Context*. Basingstoke: Palgrave Macmillan: 262-383.

Landler, M. 2009. "I.M.F. Puts Bank Losses From Global Financial Crisis at $4.1 Trillion", *New York Times*, 22 April 2009.

Prasad, E. and Sorkin, I. 2009. *Assessing the G-20 Economic Stimulus Plan: A Deeper Look*, March, and *Business Intelligence – Middle East*, 6 May 2009.

Ratha, D., Mohapatra, S. and Xu, Z. 2008. Outlook for Remittance Flows 2008-2010: Growth expected to moderate significantly, but flows to remain resilient. *Migration and Development Brief*. 11 November. Washington, DC: World Bank.

Ratha, D. and Mohapatra, S. 2009. Revised Outlook for Remittance Flows 2009-2011: Remittances expected to fall by 5 to 8 per cent in 2009. *Migration and Development Brief*. 13 March. Washington, DC: World Bank.

Ravallion, M. 2008. Bailing Out the World's Poorest. *World Bank Policy Research Working Paper*. 4763. Washington, DC: World Bank.

Robalino, D. 2005. Pensions in the Middle East and North Africa: Time for Change. *Orientation in Development Series*. Washington, DC: World Bank.

Setser, B. and Ziemba, R. 2007. Understanding the New Financial Superpower – The Management of GCC Official Foreign Assets. *Roubini Global Economics (RGE) Monitor*.

Sturm, M., Strasky, J., Adolf, P. and Peschel, D. 2008. The Gulf Cooperation Council countries – economic structures, recent developments and role in the global economy. *Occasional Paper Series*. 92. European Central Bank.

Truman, E. 2007. Sovereign Wealth Funds: The Need for Greater Transparency and Accountability. *Policy Brief*. 07-6. Washington, DC: Peterson Institute for International Economics.

United Nations Conference for Trade and Development (UNCTAD). 2009. *Assessing the Impact of the Current Financial and Economic Crisis on Global FDI Flows*. New York and Geneva: UNCTAD.

United Nations Development Programme (UNDP). 2007. Poverty in the occupied Palestinian territory. *Development Times*. Jerusalem: UNDP.

UNDP. 2009. *Human Development Report 2009 – Overcoming Barriers: Human Mobility and Development*. New York: UNDP.

United Nations World Tourism Organization (WTO). *World Tourism Barometer*. Several issues.

Woertz, E. 2008. *Impact of the US Financial Crisis on GCC Countries*. Dubai: The Gulf Research Center.

World Bank. 2004. *Jordan Poverty Assessment*. Washington, DC: World Bank.

World Bank. 2008. *The Financial Crisis and Mandatory Pension Systems in Developing Countries: Short- and medium-term responses for retirement income systems*. Washington, DC: World Bank.