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FORWARD

(I)

Since its establishment in 1994, the Iraqi Economic Forum (IEF) has been active in organising lectures and seminars in London on economic themes mainly relating to the Iraqi economy. A notable joint effort was the collaboration of the Centre for Arab Gulf Studies at the University of Exeter with IEF in organising an international conference in July 1997 on Iraq's Economy in Peace and War.

Regrettably, the texts of all the lectures, delivered by academic scholars and working economists, were either not kept on file or were not handed by the lecturers to IEF; some of them in fact were not committed to writing. This meant that the selection to be included in this book, the first collection of its kind published by IEF, lacks the comprehensiveness that we have wished. Summaries of some of these lectures were published in IEF's newsletter the *Iraqi Economist*.[1] But these summaries do not do full justice to the papers and for that reason were not included in this collection.

(II)

The IEF apologises to all those economists who have contributed to its lecturing programme or the *Iraqi Economist* for not including their papers in this collection. It is our hope, once necessary financing becomes available, to issue a sequel to this book containing the texts that were not reproduced here, after acquiring them from their authors. Thus, redeeming some of our obligations towards them.

(III)

The themes of war and sanctions and their devastating consequences assume priority in the economic debate on Iraq's present and future economic directions. The immediacy of such concern is understandable. Yet, it is regrettable that this debate among Iraqi economists and those concerned with public affairs has been mainly confined to dealing with the consequences of war and sanctions. This is laudable in itself but insufficient especially when it is shrouded in pessimism, stressing the negative factors: the stupendous cost of the two Gulf wars, the extensive damage to the infrastructure, impact

1 The first issue of this modest bulletin was issued in April 1996.

of sanctions on capital formation and accumulation, the debt burden and the cost of rebuilding the economy, etc.

(IV)

It is hoped that this book venture will stimulate economists to address the fundamental challenges facing the Iraqi economy now and in the long run and not merely listing cost items. Presumably, what is needed, in conjunction with the stock-taking approach of the colossal costs of wars and sanctions, is the elaboration of a model for the Iraqi economy. By way of example, this may commence with ascertaining what model, if any, was used. What lessons can be learned from disregarding 'economic laws'? How the economy and polity interfaced? Should the two be linked or de-linked? Is there a need for an economic model that has the support of the political parties? The almost total silence on the future nature of the Iraqi economy is glaring and the field is therefore open for fundamental research and not mere polemics.

There is, however, consensus on the pivotal role of oil production and the revenues derived from its export. These revenues, and for a long time, have been crucial in both the growth of the economy and distortion of Iraq's economic development apart from their domestic, regional and international dimensions, e.g. underpinning the rentier state and a form of state fascism. Examination of aspects of oil revenues underlies most of the papers in this book [2]but they fall short of a sustained comprehensive critique the use and misuse of oil revenues and the development of the economy.[3]

(V)

The Iraqi economy is, and has indeed been, in acute crisis for well over three decades and it is in great need for more research. A new polity and economy are needed for the transformation of Iraq, and Iraqi economists are called upon to make a substantive contribution to delineating some aspects of the as yet undefined transformation.

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[2] The only exception is Ahmed Jiyad's paper. We were hoping to obtain his study on "The Capacity of the Iraqi Economy to Service Foreign Debts" delivered as a lecture in London at the invitation of IEF on 20 February 1998. For technical reasons we were not able to secure the text of that lecture. The present text is relevant to the prospects of the Iraqi economy under the prevailing globalised environment.

[3] The study by Dr Sabri Al-Saadi: "The Grave Economic Crisis in Iraq and the Dilemma of Development and Democracy in the Arab Countries: Foreign Challenges and Arab Relations in the Economic Project for Change" may answer some of the issues raised here. We are grateful to the author for permitting the inclusion of his study in this book.

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On 28 November 1999, Dr Alnasrawi delivered a lecture in London along the lines of this text at the invitation of the Iraqi Economic Forum.

ABSTRACT *It is a well-known fact, of course, that Iraq has been under a UN Security Council system of comprehensive embargo for the past 10 years. The consequences of the embargo have been catastrophic for the people and the economy of Iraq. Yet our understanding of the humanitarian emergency in Iraq will be enhanced if we examine the impact not only of the embargo but of other factors as well. This paper identifies four such factors: (1) the decision by the Iraqi government to initiate the 1980-88 war against Iran; (2) the miltarisation of the Iraqi economy; (3) Iraq's invasion of Kuwait and the ensuing 1991 Gulf war and (4) the sanctions regime which has been in place since August 1990. The paper argues that, while all the non-sanction factors played their different roles, it is, in the last analysis, the force of the intensity and the open-endedeness of the sanctions regime which bears the major share of the responsibility for the current conditions in Iraq.*

Most of the discourse on Iraq since the ending of the Gulf war on 28 February 1991 has tended to focus on the comprehensive economic embargo, which the United Nations Security Council (UNSC) imposed on Iraq in the aftermath of the invasion of Kuwait on 2 August 1990. This concern with the 11-year-old embargo should not be surprising given the embargo's catastrophic effects on the people of Iraq and their economy.

Yet our understanding of the humanitarian emergency in Iraq and the implications of the sanctions for the future of Iraq would be enhanced if analysed in relation to the consequences of certain major policy decisions taken by the Iraqi government over the past two decades. Such decisions include: (1) the decision to start the 1980-88 war with Iran; (2) the miltarisation of the economy; and (3) Iraq's invasion of Kuwait and the ensuing 1991 Gulf war. In addition to these policy decisions one must add, of course, the decision by the UNSC in 1990 to impose, and retain to this day, a comprehensive system of economic sanctions on Iraq.

Impact of the Iraq-Iran war

When the Government of Iraq decided to launch war against Iran in September 1980 the Iraqi economy was on the threshold of another decade of economic growth. The immense increase in oil revenue, from less than $1 billion in 1970 to $26 billion in 1980, had made it possible for the government to increase spending simultaneously on infrastructure, the bureaucracy, goods producing sectors, social services, imports and the military.

The war-caused destruction of oil facilities led oil output to decline sharply from 3.4 million barrels per day (MBD) in August 1980 to 0.9 MBD in 1981. This in turn resulted in the collapse of Iraq's oil revenue from $26 billion in 1980 to $ 10 billion in 1981, a drop of 60%.

For a country that had grown dependent on a single export these external shocks forced the economy to cope with a number of serious problems, some of which had become structural. Among such problems were the following: (1) Iraq’s major oil exporting capacity was either destroyed, blocked or closed; (2) Iraq's heavy industries were destroyed or in need of major repair; (3) the infrastructure was extensively damaged; (4) a major segment of the labour force (one-fifth) was in the armed forces; (5) agricultural and industrial growth was either stagnant or negative; (6) rural workers had either been drafted into the army or drifted to the city; (7) the large number of foreign workers imported during the war had become a burden on the economy; (8) dependence on food imports increased; (9) inflation had become a structural problem; (10) privatisation was not succeeding according to expectations; (II) Iraq had become a major debtor country; (12) levels of imports had declined; (13) development planning and spending had virtually ceased; and (14) the higher living standards which were promised during the war could not be delivered in the postwar period.

In short, the government’s big gamble of winning a quick victory over Iran led the economy to a dead-end with no prospect for recovery. What staved off total economic collapse was the pumping of funds and credit into the economy by the Gulf states, the OECD and the former Soviet Union (Alnasrawi, 1994: 83-100).

Miltarisation of the economy

One of the most significant changes to take place in the Iraqi economy in the decades of the 1970s and the 1980s was the massive shift of labour from the civilian economy to the military and the sharp increase in military spending and military imports.

In 1975 Iraq had 3% of its labour force in the armed forces. By 1980 the armed forces absorbed more than 13% of the labour force. And by the time the war with Iran ended in 1988 the government was employing more than 21% of the labour force, or one million persons, in the armed forces.

The other side of this expansion in the armed forces was the sharp rise of the military's claim on Iraq's fiscal resources. Thus in 1970 the government spent less than $1 billion on the military, or 19% Of GDP - a high ratio by world standards. By 1975 the government had increased military spending more than fourfold to $3.1 billion. By 1980 the government raised military spending more than six-fold over the 1975 level to $19.8 billion, or nearly 39% Of GDP. The share of military spending of GDP continued to rise to absorb between one-half and two-thirds of GDP in the 1980s.

Another way of looking at the burden of military spending is to relate it to Iraq's oil revenue. Thus, during the five-year period 1981-85, military spending amounted to $120 billion or 256% of the same period's oil revenue of $46.7 billion. The five-year deficit of $73.3 billion was financed by drawing down of Iraq's international reserves, foreign debt, suppliers' credit, grants from Gulf states, abandonment of development plans, and a reduction of imports and social services (Alnasrawi, 1994).

The invasion of Kuwait and the imposition of sanctions

Iraq entered the postwar period with a smaller and more disorganised economy that was overburdened with unemployment, inflation and foreign debt. To cope with the economic crisis, and also to fund an ambitious programme of military industrialisation, Iraq had to rely on a shrinking source of oil revenue which in 1988 generated only $11 billion, compared with $26 billion in 1980.

The exhausted state of the economy was made worse by the 9% decline in GDP in 1989 over 1988 - a decline that constituted a severe blow to the government and forced it to adopt an austerity programme of spending. But to reduce government spending in a period of severe economic crisis had the effect of worsening the crisis. What the economy needed at that particular juncture was an increase in the supply of goods to dampen inflation and restore some of the living standards that had been severely eroded during the war. In order to achieve these objectives Iraq had only one option - to raise oil revenue. And it was in this particular arena that the stage was set for Iraq's conflict with Kuwait.

During the 1980s Iraq witnessed not only the devastation of its economy thanks to the eight-year war with Iran but it and other OPEC member countries suffered from a drastic decline in their oil revenues. The primary explanation for this decline was the oil price collapse of 1986. In order to stabilise their revenue, OPEC member countries agreed in October of that year to return to their system of quotas, which they had abandoned earlier in the year, and to set the price at $18 per barrel, a price that was deemed by all member countries to be necessary for their social and economic development. The significance of the October 1986 accord lay in the linkage it created between economic and social development on the one hand and certain levels of output to be sold on the world market at a given price on the other. This linkage also meant that a country that chose to expand its output above its quota would do so at the expense of fellow producers, causing a decline in their oil revenue and unwanted implications for their development.

Yet several countries, especially Kuwait and the United Arab Emirates, chose not to comply with their quotas, thus forcing the price to decline to $12 per barrel by October 1988. Although market conditions improved, causing the price to reach $20 per barrel in January 1990, Kuwait and other non-compliant OPEC countries, decided to raise their output to such a level that the price had declined by one-third by June of that year - a decline that wiped out a major portion of Iraq's oil income and of that of other OPEC countries. It is important to note that, given Iraq's oil exporting capacity at that time, a drop in price of $1 per barrel meant a loss of $1 billion in oil revenue per year. It is also worth noting that Iraqi president Saddam Hussein gave an ominous warning at the May 1990 meeting of the Arab Emergency Summit Conference when he characterised oil policies leading to the above quota production and lower prices as causing damage to the Iraqi economy similar to the economic damage inflicted by conventional wars (Alnasrawi, 1994: 105-118).

In addition to the issue of production and prices, Iraq accused Kuwait of using diagonal drilling to pump oil from that part of the Rumaila oil field that was located inside Iraqi territory.

On 17 July 1990 the Iraqi president accused the rulers of the Gulf states of being tools in an international campaign waged by imperialists and Zionists to halt Iraq's scientific and technological progress and to impoverish its people. Ten days later and in the shadow of Iraqi troop movements along the Iraq-Kuwait border, OPEC decided to raise the reference price for its oil from $18 to $21 per barrel and adopt new quotas. But on 2 August the government of Iraq decided to invade and occupy Kuwait.

The invasion of Kuwait was looked at as a short-cut solution to Iraq's economic crisis and the regime's failure to improve living standards. This policy decision was articulated by the deputy prime minister for the economy when he stated that Iraq would be able to pay its debt in less than five years; that the 'new Iraq' would have a much higher oil production quota; that its income from oil would rise to $38 billion; and that it would be able to vastly increase spending on development projects and imports (Alnasrawi, 1994: 118).

Iraq's invasion of Kuwait prompted the UN Security Council, under the leadership of' the USA, to vote on 6 August to adopt Resolution 661, which imposed a sweeping and comprehensive system of sanctions which is still in effect.

Impact of sanctions and war: an assessment

To assess the impact of the sanctions one has to deal with four phases of their evolution since August 1990. These are: (1) the embargo which the UNSC imposed on Iraq following the invasion of Kuwait; (2) the six-week Gulf war of 1991; (3) the further sanctions regime under Resolution 687; and (4) the sanctions under the oil-for-food programme.

The UNSC embargo: August 1990-April 1991

The centerpiece of the sanctions system at this phase was UNSC Resolution 661. This resolution and subsequent sanctions resolutions created a set of conditions which virtually cut Iraq off from the world economy. The sanctions included a ban on all trade, an oil embargo, a freezing of Iraqi government financial assets abroad, an arms embargo, suspension of international flights, and banned financial transactions. The UNSC also called upon member states to enforce naval and air blockades against Iraq. All shipping on the Shatt-al-Arab waterway in the south of Iraq was intercepted and all vessels approaching the Jordanian port of Aqaba were boarded and inspected (Cortright & Lopez, 2000: 39-41). In short, the embargo was intended to prevent anything from getting through to Iraq. The embargo appeared to support the contention that the UNSC was using famine and starvation as potential weapons to force Iraq into submission (Freedman & Karsh, 1993: 191-193).

The blockade had an immediate impact on food availability in Iraq, since the country's dependence on imported food was 70%-80% of total caloric intake. The blockade-caused food shortages resulted in sharp increases in food prices ranging from 200% to 1800% between August and November 1990 (Provost, 1992:584-586).

To blunt the double impact of scarcity and inflation the government introduced a food rationing system effective 1 September 1990. The public rationing system saw to it that certain food items - flour, rice, vegetable oil, sugar, tea and baby milk - were provided on a monthly basis at pre-embargo prices. This diet was judged by the Food and Agriculture Organisation (FAO) to supply on per capita basis 37% of the average calorie intake in 1987-89 (FAO, 1993: 3).

The effectiveness of the blockade was so pronounced that in a 5 December 1990 testimony before the US Senate Committee on Foreign Relations it was reported that the embargo had effectively shut off 90% of Iraq's imports and 97% of its exports and produced serious disruptions to the economy and hardships to the people (*New York Times,* 6 December 1990: Al 6).

The air war and the economy

On 16 January 1991 the Coalition forces led by the USA started the six-week Desert Storm campaign, which culminated in the eviction of Iraqi forces from Kuwait by the end of February.
The bombing of Iraq was aimed not only at military targets but also at such assets as civilian infrastructure, power stations, transport and telecommunications networks, fertiliser plants, oil facilities, iron and steel plants, bridges, schools, hospitals, storage facilities, industrial plants and civilian buildings. And the assets that were not bombed were rendered dysfunctional because of the destruction of power generating facilities.

The impact of the intensity and the scale of the bombing was assessed by a special UN mission to Iraq immediately after the war as follows:

> It should, however, be said at once that nothing that we had seen or read had quite prepared us for the particular form of devastation which has now befallen the country. The recent conflict had wrought near-apocalyptic results upon what had been, until January 1991, a rather highly urbanized and mechanized society. Now, most means of modern life support have been destroyed or rendered tenuous. Iraq has, for sometime to come, been relegated to a pre-industrial age, but with the disabilities of post-industrial dependency on an intensive use of energy and technology. (UN, 1996: 186-188)

This vast scale of destruction, which must have set the economy back to 19th century status, should not be surprising in light of the fact that the initial plan of bombing had focused on 84 targets but had been expanded in the course of the war to include 723 targets (House Armed Services Committee, 1992: 86).

In a postwar study of the air campaign it was acknowledged that the strategy went beyond bombing armed forces and military targets. In addition to purely military targets the bombing revealed that: (a) some targets were attacked to destroy or damage valuable facilities which Iraq could not replace or repair without foreign assistance; (b) many of the targets chosen were selected to amplify the economic and psychological impact of sanctions on Iraqi society and (c) targets were selected to do great harm to Iraq's ability to support itself as an industrial society. Thus, the damage to Iraq's electrical facilities reduced the country's output of power to 4% of its prewar level. And nearly four months after the war the national power generation was only 20%-25% of its prewar total, or about the level it was at in 1920 (Hiro, 1992: 354; Gellman, 1991).

The sanctions under Resolution 687

In April 1991 the UNSC adopted Resolution 687, which the former UN Secretary-General described as one of the most complex and far-reaching sets of decisions ever taken by the Council (UN, 1996: 29-33). In this resolution the UNSC affirmed all its previous resolutions and set out in great detail the terms and requirements for the lifting of the sanctions. These requirements included boundary settlement; elimination of Iraq's weapons of mass destruction (WMD); Iraq's unconditional undertaking not to acquire or develop nuclear weapons or nuclear-weapons-usable materials, as well as any subsystems or components or any research, development, support or manufacturing facilities; the adoption of a plan for the future ongoing monitoring and verification of Iraq's compliance with the nuclear ban; the establishment of a compensation fund financed by Iraq to settle claims against Iraq; the demand that Iraq adhere scrupulously to its foreign debt obligations; and repatriation of all Kuwaiti and third country nationals (UN, 1966: 29-33).

The new resolution introduced an important modification in the sanctions by allowing Iraq to import foodstuffs by dropping the reference to 'in humanitarian circumstances' which had been part of Resolution 661/1990. But since Iraq was not allowed to sell oil to pay for imported foodstuffs this modification proved to be of no consequence.

The Council also decided to review Iraq's compliance with the new requirements every 60 days to determine whether to lift or modify the sanctions. In the meantime exceptions to the oil embargo would be approved when needed to assure adequate financial resources to provide for essential civilian needs in Iraq (UN, 1996: 29-33).

As was stated earlier, the Sanctions Committee had refused to recognise the existence of urgent humanitarian needs in Iraq during the period August 1990 - March 1991. This meant that the bulk of the enormous food needs of the Iraqi people - more than 10,000 tons per day of food grain alone - were unmet. The case of medical supplies was not much better (Dreze & Gazdar, 1992: 924).

The humanitarian emergency conditions in Iraq and the pending human catastrophe were highlighted in the 20 March 1991 report by a UN mission led by UN Under Secretary-General Martti Ahtisaari (and representatives of six other UN agencies) (UN, 1996: 186-188). The bleak picture which the report presented regarding living, health and economic conditions in Iraq concluded as follows:

> I, together with all my colleagues, am convinced that there needs to be a major mobilization and movement of resources to deal with aspects of this deep crisis in the field of agriculture and food, water, sanitation and health ... It is unmistakable that the Iraqi people may soon face a further imminent catastrophe, which could include epidemic and famine, if massive life-supporting needs are not rapidly met ... Time is short.

Only two days after the release of this report the Sanctions Committee made the following determination:

> In the light of the new information available to it, the Committee has decided to make, with immediate effect, a general determination that humanitarian circumstances apply with respect to the entire civilian population of Iraq in all parts of Iraq's national territory. (UN, 1996: 189)

But since Iraq's foreign-held assets were frozen and its oil exports were embargoed the Sanctions Committee's determination proved to be of no benefit to the population.

In the meantime another mission led by the Executive Delegate of the UN Secretary-General for Humanitarian Assistance submitted its 15 July 1991 report on humanitarian needs in Iraq. The new mission concentrated its work on four sectors: food supply, water and sanitation systems, the oil sector and power generation.

The mission estimated the cost of returning the systems in each of the four areas to their prewar conditions to be $22.1 billion (UN, 1996: 273-279).

The mission also offered a one-year estimate of the costs based on scaled down goals rather than prewar standards and came up with the figure of $6.8 billion for food imports, power generation, the oil sector, health services, water and sanitation, and essential agricultural inputs. It is worth pointing out that the proposed $1.62 billion for food imports was based on the ration level that the World Food programme provides to sustain disaster-stricken populations (UN, 1996: 273-279).
In addition to the humanitarian merits of the case the mission advanced two other arguments. First, the amount of funds that Iraq required to meet its humanitarian needs was simply beyond what the international community was willing to provide. Only Iraq has the resources to fund its needs, provided, of course, it was allowed to export its oil. Second, at a time when there were other disasters of daunting dimension around the globe, Iraq should not have to compete for scarce aid funds with a famine-ravaged Horn of Africa and a cyclone-hit Bangladesh. The report concluded with this recommendation:

> It is clearly imperative that Iraq's 'essential civilian needs' be met urgently and that rapid agreement be secured on the mechanism whereby Iraq's own resources be used to fund them to the satisfaction of the international community. (The UN, 1996: 273-279)

The UNSC, however, chose not to act on either set of recommendations, thus deepening the crisis of the Iraqi population.

The first oil-for-food UNSC resolutions

The continued humanitarian crisis in Iraq which the UNSC finally had to acknowledge and the need for funds to finance UN operations in Iraq and to provide financial resources to the UN Compensation Fund prompted the UNSC to authorise the export of $1.6 billion of oil over a six-month period under Resolutions 706 and 712 of August and September 1992, respectively.

Although the authorisation was set at $1.6 billion, Iraq was slated to have access to around $1 billion only, with the balance being earmarked to the Compensation Fund (30% of oil sales) and to fund UN operations in Iraq and pay transit fees to Turkey. Funds generated by the oil sales were to be deposited in a special escrow account under the control of the UN. All payments out of this account were to be pre-approved by the UN Secretariat. All transactions with respect to the sale of oil or the purchase of imported goods had to be approved by the Sanctions Committee. And all goods imported into Iraq under this programme were to be distributed to the Iraqi population either by the UN or under its supervision.

It is not clear how the UNSC arrived at the figure of $1.6 billion (actually $1 billion after the deductions) at a time when it acknowledged in the preamble of Resolution 706 that it was 'concerned by the serious nutritional and health situation of the Iraqi civilian population ... and by the risk of a further deterioration of this situation'. In other words if the authorisation was to mitigate deteriorating human conditions, why limit the sale to any fixed amount? For its part the Iraqi government rejected these resolutions, thus passing up an opportunity to activate its oil exports and import desperately needed food and medicine.

The failure to implement Resolutions 706 and 712 meant the continued deterioration of the Iraqi economy and further decline in the living conditions of the people, as attested to by UN agency reports (FAO/WFP, 1993, 1997).

Oil-for-food under Resolution 986

It was not until April 1995 that the UNSC decided to revisit the issue of sanctions when it adopted Resolution 986 allowing Iraq to sell $2 billion-worth of oil every six months to provide funding for the Compensation Fund and for various UNSC mandated operations in Iraq, and to help Iraq purchase food and medicine. Except for the increase in oil income - from $1.6 billion under the 1991 resolutions to $2 billion under this new resolution - the core of the scheme remained the same. The UNSC retained for itself the necessary mechanisms to monitor all sales and purchases, and all funds were to move in and out of a UN-administered escrow account.

With 30% of the proceeds to be diverted to the Compensation Fund and other deductions to pay for UN operations in Iraq, it is estimated that Iraq would get $1.3 billion every six months to finance its imports of food, medical supplies and other essential humanitarian needs.

Although the UNSC-authorised sale of oil was insignificant relative to civilian needs, the income from the sale of oil, however, would have provided much needed relief. Yet the Iraqi government decided to reject Resolution 986, thus plunging the economy into even deeper crisis. One indicator, among many, of the depth of the economic crisis was the collapse of the value of the Iraqi dinar (ID) *vis-à-vis* the dollar; it declined from ID706 in January 1995 to nearly ID3000 in January 1996. The resulting hyperinflation and further collapse of what remained of personal income purchasing power forced the government to reverse its position in January 1996 and agree to enter into negotiations with the

UNSC over the implementation of Resolution 986. An agreement was reached in May 1996 over the implementation of the resolution. But it was not until December 1996 that Iraqi oil finally reached the world market.

Soon after the flow of Iraqi oil to the world market, it became clear that the authorised $2 billion every six months was far from sufficient to meet minimum needs. To increase oil revenue the UNSC decided in February 1998 to raise the ceiling on oil sales to $5.2 billion every six months. And in December 1999 the UNSC decided to remove the ceiling on oil exports altogether but to keep all other parts of the programme.
As to the impact of the oil-for-food programme, its contribution to the well-being of the people of Iraq has been minimal in that it failed to reverse the deterioration in the social and economic conditions of the country. It could not be otherwise since the revenue generated under this programme is too small to meet the basic needs of the population. Indeed, the UN Secretary-General acknowledged that '... resolution 986 (1995) was never intended to meet all the humanitarian needs of the Iraqi people' (El-Bayoumi, 2000: 26).

A quick look at the financial data reveals the inadequacy of the programme. As of 31 July 2000 the cumulative total proceeds from the sale of Iraqi oil under the programme amounted to $32.3 billion. These funds were distributed as follows:

- $16.7 billion or 53% for central and southern Iraq;
- $4.1 billion or 13% for Kurdistan;
- $9.7 billion or 30% for the Compensation Fund;
- $0.9 billion or 2.8% for UN administrative and operational costs;
- $0.9 billion to Turkey for transportation costs of Iraqi oil.

Of the $20.8 billion appropriated to all of Iraq, only $8.4 billion-worth of goods for all sectors of the economy had arrived in Iraq by the end of July 2000 (UN Office of the Iraq Programme, September 2000). Relating Iraq's imports under this programme to the total population of the country we find that the programme enabled Iraq to import $109 per person per year compared with pre-embargo (1980-89) civilian imports of $508 per person.

It is obvious from the data that, while the oil-for-food programme provided some relief, it failed to change the underlying conditions of a deteriorating economy. Moreover, by channeling all transactions through the Government, the programme increased government control over the population. As one of the Security Council panel concluded: the programme does not contribute to the stimulation of the economy, has a negative impact on agriculture and has permitted increased state control over a population whose private initiative is already under severe constraints of an internal and external nature (UN, 1999: para 48). Moreover, the programme did not have a cash component to be spent on domestically produced goods and service.

Impact of the sanctions

The preceding analysis suggests that several factors combined to ensure that the impact of the sanctions regime would be catastrophic. These include the Iraq-Iran war, which bankrupted the economy and turned a creditor country into a country saddled with an enormous amount of foreign debt. The air bombing campaign, which destroyed the country's infrastructure, made the prospects of any economic recovery impossible while the sanctions were still in place. Moreover, the impact of the sanctions on the economy and the people was particularly devastating because of the country's high dependence on the oil sector for its foreign exchange earnings and for imports of essential items such as food, medicines and industrial and agricultural inputs.

Numerous international and non-governmental organisations which visited Iraq over the past decade are in agreement about the extent of the damage inflicted by the sanctions on the people, their economy and their living conditions. The details may vary from one study to another but the magnitudes are similar.

Thus there is a general agreement that infant and child mortality has increased; death rates across the board have increased and life expectancy has declined by several years. Estimates of the number of people who lost their lives because of the sanctions range up to 1.5 million people, including more than 500,000 children. The World Health Organisation (WHO) concluded that the health system had been set back by some 50 years (WHO, 1996: 17). This is not surprising in the light of the fact that per capita GDP in the 1990s was lower than that of 1950.

The impact of these drastic developments can be seen in the changes in some of the social and economic indicators. The decline in nutritional standards, which is a direct outcome of the virtual disappearance of imports led to a sharp rise in infant and child mortality rates. According to UNICEF the infant mortality rate, which had declined from 117 per thousand live births in 1960 to 40 in 1990, increased to 103 in 1998. Similarly, the under-five mortality rate, which had declined from 171 to 50, reversed its trend to rise to 125 by 1998 (Pellet, 2000: 16 1). The rise in mortality rate led Richard Garfield to conclude that this was the only instance of a sustained, large increase in mortality in a stable population of over two million in the past 200 years. Another consequence of the sanctions which affected the children of Iraq was the decline in the number of children attending school, leading the overall literacy rate among adults to decline from 80% to 58% (Garfield, 2000: 36, 47).

The social and economic consequences of the sanctions can be seen also in the loss of more than two-thirds of the country's GDP, the persistence of exorbitant prices, collapse of private incomes, soaring unemployment, large-scale depletion of personal assets, massive school drop-out rates as children were forced to beg or work to add to family income, and the phenomenal rise in the number of skilled workers and professionals leaving the country as economic refugees in search of better economic conditions.

It is important to note also that the regime adopted certain discriminatory policies and measures which had the effect of widening the income gap between various groups, classes and regions. Also, certain elite groups were favoured by giving them access to lucrative foreign trade transactions that were conducted outside the UN-approved trading system. This parallel economy tended to bring quick profits to the privileged and well connected, thus widening the gap in the distribution of income. The gap was further widened as a result of the failure of the government to continue to provide the social services which it had traditionally supplied freely to lower income groups (Graham-Brown, 2000: 11).

Prospects for economic growth and the lamentable oil industry

In the light of the foregoing analysis it is difficult to see how the prospects for growth can be promising. To give an idea of the enormity of the problem suffice it to say that GDP per capita in 1999 was estimated to be $883 in 1990 dollars compared with the $6151 GDP per capita obtained in 1980.

In addition to the decline of the economy through wars and sanctions, Iraq will face a monumental task of reconstruction and development. To begin with, Iraq will enter the post-sanctions era with heavy financial burdens of foreign debt of over $130 billion, Gulf war compensation claims of more than $200 billion and claims by Iran of $ 100 billion for its war losses. If we were to add to this bill of $430 billion the replacement cost of infrastructure and other assets destroyed in the course of the Gulf war we would arrive at an astronomical figure of financial requirements which are simply beyond the capacity of the Iraqi economy to generate. It is clear from these figures that the task of rebuilding becomes an impossible one. The government of Iraq will not be able to do much for its people if foreign creditors and war reparations claimants do not forgive or adjust their claims downward. Oil, while essential, will be of limited assistance because of the magnitude of the financial claims on the oil sector. But what are the prospects for the oil industry in Iraq? A few observations are offered on the prospects for the oil sector in the following paragraphs.

Iraq, it should be noted, has the world's second largest oil reserves, with an endowment of some 113 billion barrels of proven reserves. These are located in 73 structures but only 14 of these structures have actually been developed and are producing. No other reserves-rich country with such a long petroleum history has developed so few fields. It is beyond the scope of this study to analyse the corporate and political considerations - domestic, regional and international - responsible for this state of affairs.

Development of new fields and expansion of existing fields since 1960 pushed Iraq's production capacity to 3.5 MBD in 1979. Major developments in the oil transportation and refining systems were also attained. These important developments in the oil sector, which dominated the 1970s, were first disrupted during the Iraq-Iran war, then came to a halt in 1990 in the aftermath of the invasion of Kuwait, the Gulf war and the UN economic sanctions. In 1991 production declined to a mere 0.3 MBD. By 1996 output reached 0.6 MBD. This was doubled in 1997 to 1.4 MBD under the supervision of the UN Security Council in accordance with the provisions of Resolution 986. By 1999 output reached 2.5 MBD. And by May 2000 output peaked at 3 MBD *(Middle East Economic Survey* (MEES), 9 October 2000: A14).

One of the major problems which has been plaguing the oil industry in Iraq in the 1990s has been the embargo placed on the import of necessary equipment and spare parts. A March 1998 report by a group of oil experts sent by the UN Secretary-General to study the conditions of the oil industry in Iraq concluded that the industry was in a 'lamentable state'. Following this group of experts' report the UNSC adopted Resolution 1175 in June 1998 authorising, for the first time, the import of up to $300 million-worth of equipment and spare parts for the oil sector every six months. In January 2000 another group of experts in yet another report concluded that the lamentable state of the Iraqi oil industry had not improved, the oil transportation sector had not been improved over the previous two years, and insufficient spare parts and equipment had arrived in time to sustain production. In short:

> decline of conditions of all sectors of the oil industry continues, and is accelerating in some cases. This trend will continue, and the ability of the Iraqi oil industry to sustain the current reduced production levels will be seriously compromised, until effective action is taken to reverse the situation. (Group of Experts, 2000: 4)

In response to this new report the UNSC adopted Resolution 1293 in March 2000 which raised the cap on imports for the oil sector to $600 million for each six months. The problem, however, is not with the level of oil sector imports, although that is important; it is with the UNSC Sanctions Committee's refusal to approve all the contracts which the UN Secretary-General has already approved for Iraq's oil sector imports. The disruptive impact of withholding approval of such contracts was expressed by the UN Executive Director of the Iraq Program when he told the Security Council:

> The Council last year doubled the allocation for oil spare parts and equipment. This was most welcome for the sector that is the lifeline of the humanitarian programme. However, that was the end of the good news - we continue to experience serious delays and the number of holds placed on applications has become unacceptably high. On the one hand, everyone is calling on OPEC to increase the export of oil. On the other hand, the spare parts and equipment that are the minimum requirements of Iraq's oil industry, have been facing serious obstacles in the Security Council Committee. (Sevan, 2000: 3)

For its part the government of Iraq believes that the withholding of applications prevented it from reaching its goal of 3.4 MBD in 2000. But should the applications be approved the government expects to reach that level of output in Spring 2001 (MEES, 25 September 2000: A3).

As to the future, the government of Iraq plans to increase capacity to 6 MBD. This planned increase in oil production as well as associated expansion in other parts of the oil sector will be influenced by at least three sets of factors that will determine the course of the future development of the Iraqi oil industry and the economy. These are: the lifting of the UN sanctions; the technical and financial requirements for the development of the oil sector; and the reaction of OPEC member countries to the re-entry of Iraqi oil on the world market.

The lifting of the sanctions is essential for any work on the rehabilitation and development of the oil sector. The sanctions not only prohibit the free export of oil, they also prohibit Iraq from importing the spare parts and equipment needed to perform the task. The country is also prohibited from entering into contracts with foreign firms to carry out the necessary work. This means that none of Iraq's current plans can be implemented before the removal of sanctions.

As to the technical and financial requirements, it is estimated that, in order for Iraq to raise output above the historic peak of 3.5 MBD in 1979, the country will have to develop its new oilfields to increase production. At the moment, Iraq is in a position to raise production capacity to 6 MBD according to Iraqi oil industry experts. But to do so would require up to seven years and some $20 billion to be invested in the production end. In addition to this investment, the country will need to invest in other parts of the oil industry such as transportation, refining and the development of natural gas. The cost of this programme has been estimated to be $30 billion spread over a period of 10 years following the lifting of the sanctions (Haider & Farraj, 1998: 13).

The last important factor to affect the future of the oil industry is how OPEC member countries will act when the sanctions are lifted, allowing Iraq unhindered participation in the world oil market. When Iraq's oil was initially re-introduced to the world market in December 1996 under Resolution 986, OPEC had no policy on the matter. As a matter of fact, OPEC simply watched as Iraq's oil re-entered the world market, contributing to an already existing glut. This glut, which led to the collapse of the OPEC oil price to $10 per barrel in February 1999, forced the organisation to lower production levels in order to put an end to the decline. Since Iraq's production is constrained by the oil sector's own limitation and the ceiling on revenue set by the sanctions OPEC was able to absorb Iraq's output without too many difficulties.

The oil glut conditions which forced OPEC to cut output in 1999, together with the rise in world demand for oil, reversed the price decline to rise to $28 per barrel in July 2000. This change in the world oil market conditions provided a hospitable environment for the absorption of Iraq's oil exports.

Concluding remarks

There is general agreement that the sanctions regime imposed on Iraq was unprecedented in its comprehensiveness, severity and length, and in the enormous human and economic cost which it inflicted on Iraq. Although the severity of the sanctions was made worse by the consequences of the Iraq-Iran war and the destruction of the infrastructure in 1991, the fact remains that the people of Iraq have been suffering for the past 11 years with no prospects on the horizon of an early end to the sanctions, which have transformed Iraq from a country of relative affluence to a country of massive poverty.

The prospects for economic reconstruction, rehabilitation and growth will be sharply compromised by Iraq's external liabilities of debt and war reparations. While the contribution of the oil sector to the growth of the economy will be essential it will be rather limited given the scale of the problem.

In the meantime there are several complicating factors which will continue to accentuate the suffering of the people. In the first place, the very design of the food-for-oil programme was conceived as a substitute for the removal of the sanctions regime. Its intent remains containing the suffering rather than reversing it.

The current system of sanctions has, furthermore, turned economic policy into a one-dimensional exercise determined by how much oil is produced, with the rest of the economy administered by the UN bureaucrats and arms inspectors.

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On 28 November 1999, Dr al-Shabibi delivered a lecture in London along the lines of this text at the invitation of the Iraqi Economic Forum.

The Current Situation

In the nine years since the imposition of United Nations sanctions on Iraq, a range of factors have combined, causing an economic crisis characterized above all by a serious shortage of financial resources. Sanctions reduced the purchasing power of the economy, leading to a shortage in the supply of goods and services.

The introduction of rationing went some way towards meeting the need for food. But the provision of services - in particular those relating to health and education - has been severely undermined.

In any situation, widespread shortages lead, inevitably, to the weakening of the currency. Increasing the supply of money - money printing - makes matters worse. With a foreign exchange shortage, the currency collapses.
This is what happened in Iraq, showing that money printing was not a correct response to the problem. The effect was soaring inflation, with severe social and economic consequences. People were forced to liquidate their assets in order to survive, thus creating enormous disparities in income and wealth between the rich and the poor in Iraq, and causing the middle classes to virtually disappear.

At the same time, it is becoming obvious that the continuing deterioration of basic services will have a detrimental long-term effect on health and education in Iraq. The country's isolation from the outside world has also meant that Iraqis' access to modem technology has been blocked - another factor likely to cause long-term problems.

It is true that the introduction of the UN Oil-for-Food programme helped the supply of basic necessities and lessened the need for money printing. But the improvement was marginal, because even before the imposition of sanctions, Iraq suffered from inflationary pressures and carried a large external debt.

Any future government in Iraq will have to address the problems emanating from sanctions, inflation, debt and reparations, as well as putting the country back on the path of development. Moreover, a host of social problems emanating from displacement, wars and sanctions will have to be tackled.

There is a need, therefore, to find immediate solutions to ensure economic stability and reverse the deterioration of social conditions - with all the implications of its threat to political stability. But while these are the immediate priorities, longer-term macroeconomic policies and a development strategy need to be devised to allow the resumption of growth.([4])

The Agenda Ahead

For Iraq to resume growth it must first restore economic stability and create the conditions to sustain it.

1) Restoring Economic Stability

Top priority must be given to raising the external value of the dinar and controlling high inflation, because of the adverse economic, social and political consequences of this. In other words, the immediate priority is to restore macroeconomic stability.

With high inflation basically engendered by the collapse of the currency, it is almost impossible to implement macroeconomic and development policies effectively. The private non-oil sector will see the resources that it wants to use for imports continuously declining in real terms thereby ruining development prospects. With high inflation, it is

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* The views expressed in this article are those of the author and do not necessarily reflect the opinions of UNCTAD.

4 In the "The World in 1999" of the *Economist Intelligence Unit,* Iraq, GDP is estimated to be $5.7bn, which means that the per capita GDP is $247, almost equal to the average per capita GDP of the Least Developed Countries.

always difficult to maintain a budget surplus (something important in the first stages) because government expenditure is determined by the high rate of increase in the price level, while revenues keep losing their real value.

High inflation also cripples, to a greater or lesser extent, some important tools of monetary policy because the cost of capital is high. This is detrimental to investment in the private sector, which finds the purchasing power of its cash flow being continuously eroded by inflation. High inflation will also make it difficult to establish guidelines for wages because of the indexation problem. Wage levels will contribute to the high cost of production. Needless to say, inflation hurts the poor and fixed-income earners. The high inflation in Iraq at present is causing enormous social problems, such as increased crime and is creating a new social situation under which savings and real assets are being liquidated to meet immediate needs. There is also a widening gap between rich and poor in the distribution of both income and wealth.

If inflation is not reduced, it is likely that political protests will take place. Repressive measures must not be used to quell those protests. A resolute effort to address the question of inflation, as explained below, should help stabilize the situation.

So, what are the actions needed to reduce inflation?

The mobilization of a substantial volume of financial resources. This mobilization has two dimensions: international and regional, and domestic.

(a) On the international and regional level:

- After the lifting of the sanctions, Iraq should be allowed to reach or approach its maximum oil export capacity. Its re-entry into the oil market should be accommodated without adversely affecting the oil price level. This will require maximum cooperation by OPEC members, even though many of them are suffering from budget deficits. These countries are certainly aware of the suffering Iraqis have gone through, and should also be aware that the economic and political stability of Iraq will have favorable repercussions on regional security. Agreement on a new production level in Iraq should be a process of dialogue and negotiation with other OPEC members, a process by which Iraq can reintegrate into the region and the international community.

• A standstill([5]) should be granted to Iraq on the payment of debt and reparations. If this is not done then Iraq may remain in deficit. (While sanctions are currently causing the resource deficit, payments of debt and reparations may later become its principal cause). Experience shows that high debt service payments engender economic instability and fuel inflationary pressures.

• The regional and international community should extend substantial financial assistance to Iraq. This assistance, which should be on concessional terms or preferably in the form of grants, would assume particular importance in the event that the re-entry of Iraq into the oil market was only partially accommodated.

These measures, if undertaken, would indicate goodwill on the part of the international community towards Iraq and would contribute, in an important way, to its stability. Success in the mobilization of resources depends on Iraq's creditors in the region and/or outside the region, the UN and other oil exporting countries.

(b) On the domestic level, Iraq should complement the actions of the international community by refraining from money printing to finance its expenditures, since it does not have at this stage (the short run) the productive capacity to back this additional moony supply. Money printing can, however, be tolerated if foreign exchange flows into the country, but it should be carefully synchronized with the growth in domestic production and foreign exchange.

While government expenditure should be tightly controlled, support for agriculture and other essential services will remain important during this period. Agriculture, for example, is a labor-intensive sector and employment will be a serious problem facing Iraq, especially when a large part of the army is demobilized.

These actions by Iraq, regional states and the international community should be undertaken rapidly in order to arrest any sources of economic or political instability.([6])

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5 A standstill is an agreement between the debtor and its creditors to temporarily defer payment of long-term debt and freeze short-term debt. The agreement normally stipulates that the external payments position does not worsen during negotiation. A moratorium may take the form of unilateral action. In its attempt to reintegrate into the international community, Iraq should opt for a standstill.

6 Some experts, while analysing the potential factors for political instability in Iraq after a political change has taken place, assert that "the political stability of any post-Saddam government will be determined by the economy ... and if the United States, Kuwait and others do not show goodwill towards this government, through generous and immediate economic assistance and relief, we could face a revanchist Iraq" see Parasiliti, Andrew, "Political Risk in Iraq", Middle East Economic Survey, 24 May 1999.

(c) The resources thus accumulated should be used immediately:

- For imports, especially of consumer goods and food as a matter of priority. This is not inconsistent with the aforementioned policy of supporting agriculture. The latent demand for agricultural products and food in Iraq is almost certainly so huge that supply from imports and domestic production will be needed during the short term.

- For the provision of social services, especially in the fields of health and education. UN reports stress the poor state of hospitals, and the shortages of medicine and medical equipment, and school materials.

- For reconstruction and rehabilitation, especially of power and water plants, sanitation, sewage facilities and telecommunications.

- For a new program of human development and technological rehabilitation so that Iraq can bridge the technological gap as far as access to information technology is concerned. This gap has been caused by sanctions and government policies, which prevents access to information in general. Information technology will be an essential prerequisite for growth in the next decade.

Those policies and measures, especially the import of essential goods, should help stabilize the economic and social and political situation, and put the country back on the path of development and growth through the implementation of macroeconomic policies and development strategies.

It is therefore clear that our main concern is to regain stability through economic measures, which are to be implemented as quickly as possible. The package suggested above can indeed be initiated rapidly because it does not depend on production or trade. In correcting their external payments position, many countries resort first to external financing, which provides a breathing space to start adjustment policies.

2) Maintaining Economic Stability

Once the situation is relatively stable, Iraq should exert every effort to maintain this stability. It is therefore essential that it does not slide back into a situation of large deficit in resources-. If the deficit recurs, it will again lead to a lower value of the dinar and inflationary pressures. Maintaining stability will depend more on domestic effort and macroeconomic policies than on financial resources, as in the period of restoring stability. The macroeconomic policies, however, do not need to be excessively restrictive since they can be complemented by infusion of resources from the crude oil sector. Here again the importance, once more, of Iraq's regional and international environment should be emphasized. In other words, for the smooth working of the policies to maintain macroeconomic stability, Iraq needs to avoid external shocks (such as an oil-price collapse), and the purchasing power of its exports must be maintained.

Therefore, a friendly and favourable regional and international environment for Iraq remains essential. In this regard, the following are important:

- Iraq should cooperate with other oil producers to bring about a price level that guarantees it the required level of revenues, but at the same time, does not unfavorably affect the economic prospects of oil-importing countries, developed or developing, whose demand for oil Iraq, like other oil exporters, has every interest in maintaining.

- Having agreed with its creditors and the UN on a temporary standstill on the payment of its obligations, Iraq should propose their renegotiations. Without going into details, many initiatives have been put forward to restructure the external debt of developing countries. These range from forgiveness to mere rescheduling. It is, however, not easy to suggest any specific solution or initiative without having a clear idea about the structure of the debt. What is certain, though, is the need for debt relief, to ensure that high debt service payments do not restore instability and impede growth prospects.([7])

- There are also historical precedents as far as war reparations are concerned. Lessons can be drawn from the German experience after the First World War. Also, the claims on Iraq submitted to the United Nations Compensation Commission amount to more than $300 billion but the vast majority of those claims are those of governments and corporations. According to UN Security Council resolution 687, the payment of reparations should take into account the needs of the Iraqi economy. Germany, after WWI, received financial assistance enabling it to reduce the burden of war reparations.

The last thing Iraqis want to see is the return of a resource deficit. While the deficit at present is the result of sanctions, when sanctions are lifted, it could also result from payment of debt service and reparations. And it should be clear that Iraq's economic problems such as inflation and shortages are directly related to the deficit. In the final analysis, it is the adverse effect on the importing capacity of the country that needs to be addressed. This import capacity can be negatively affected by a shortfall in, or collapse

[7] Iraqi debt is mostly bilateral. It is owed to Governments or guaranteed by Governments. In general bilateral debt is more easily restructured than multilateral debt.

of, export earnings or by claims on those export earnings through payment of debt and reparations.

If a situation of resource deficit returns, then inflation will also return together with macroeconomic instability. History provides many examples of deficits accompanied by inflation. Many Latin American countries experienced hyperinflation because of debt crises in the 1980s. Germany's hyperinflation period in the 1920s was partly the result of its having to lower exchange rates to generate a huge trade surplus to meet reparations payments.

The above shows that a solution to the problem of external obligations of Iraq must be found. It can come through negotiations and agreements with the international community and the UN. It is not in the interest of Iraq to take unilateral action.

Although the immediate objective in the short run is to restore and maintain economic stability, this is not the only goal. A lot of work needs to be done to design policies for implementation at a later period. There should also be an initiative to draft a new constitution and laws to ensure democratic rule, including electoral and press-freedom legislation. Also, work should be done to prepare programmes to ensure the resumption of economic growth and provide solutions to the huge social problems caused by wars, sanctions, displacement and re-allocation of the military workforce to the civilian economy. While these programmes must be vigorously implemented, once economic stability is regained and maintained, this does not preclude the provision, at this stage, of financial resources to agriculture and the social sector, because of their obvious contribution to stability. However, the real, and the most efficient solution to the displaced population and the released military workforce lies in achieving high growth in the civilian economy, since this will determine its capacity to absorb additional labour.

In the short run, therefore, while stability is a priority, designing policies and programs and paving the ground for building institutions is also important.

3) Resumption of Growth

When the economy attains economic stability, is able to maintain it, and gets reintegrated into the world economy and community, Iraq can proceed to implement an orderly development strategy that ensures faster growth. At this stage one can only outline the overall policy prescriptions and the orientation of future development strategy. The recent experience of the Iraqi economy is one of mismanagement, wars and comprehensive economic sanctions.([8]) Therefore, the development strategy should be based on a new orientation.

Development policy in Iraq has always stressed the importance of diversifying the economy by lessening dependence on oil. The achievements in this regard are far from impressive, but this objective now assumes greater relevance and importance. This is due to the fact that there is now doubt that the external sector, especially if relief from external obligations does not come about, will still be able to finance the domestic sector. There is a pressing need to increase the efficiency of the non-oil sector so that its contribution to overall output and growth is increased. Based on this, the emphasis of the new orientation should be:

- On the intensive use of economic policies to mobilize resources for development, not merely to attain and maintain economic stability.

- On redefining the sectoral priorities both in terms of production structure and of ownership.

The use of macroeconomic policies in economic management of the non-oil sector will involve a different relationship between the state and the private sector. In the past, state intervention in Iraq was driven by ideological motivations, giving the public sector the leading role in the development process. This led the state to establish many enterprises in the productive sector and to become involved in small operations in the distribution sector. But the state ended up financing those enterprises because they operated inefficiently and at a loss. The state, therefore, should intervene through microeconomic as much as macroeconomic management. Moreover, because of the ideological nature of the intervention, the state's relationship with the private sector has often been confrontational. Finally, the state was unable to realize the advantages that could be reaped through combining ample resources with good macroeconomic policies. The potential contribution of the availability of financial resources to effective and development-friendly macroeconomic policies was not realized.

Direction of Macroeconomic Policies

The objective of fiscal policy is, in the long run, to diversify the structure of government revenues in order to reduce the dependence on the oil sector. On the revenue side, the government will have to establish an efficient tax system. Without going into detail,

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[8] See al-Shabibi, Sinan "Prospects of Iraq's Economy, Facing the New Reality" in *Future of Iraq*, Calbrese J. (Ed.), Middle East Institute, Washington D.C., 1997.

government expenditure will have to be rationalized and the ratio of military to total expenditure substantially reduced. The development dimension of fiscal policy involves, inter alia, granting incentives to support development in the non-oil sector, especially of the private sector, including policies for regional development. It is, of course, impossible to have a budget surplus or even a balanced budget excluding oil revenues. But the budget deficit must be minimized. This is because the financing ability of the oil sector will, from now on, be weaker, since it will also have to finance debt service and reparations claims. Under these conditions the government will have to resort to deficit financing, thus reducing the latitude for monetary policy.

Monetary policy needs the right infrastructure, in particular reform of the financial and banking system and, more importantly, independence for the Central Bank. Otherwise, the Central Bank will end up financing the budget deficit. But the independence of the Central Bank does not imply a neutral stance vis-à-vis the development process. The Bank's policy should be to ease credit to the non-oil productive sector, especially the private sector. Resources for this purpose can be generated from the reduction of military expenditure and the relief from external obligations, should this materialize. The channelling of resources to society will be through the specialized development banks, which means that these should be assisted for a period by the government.

Exchange-rate policy was never adopted in Iraq before. The exchange rate was historically determined by the surplus created by the oil sector. However, the real economy in Iraq is the non-oil sector, and an oil-dominated, over-valued exchange rate might be detrimental to its prospects. It is very difficult to form an opinion on this issue at this stage, but a realistic exchange rate for the non-oil tradable sector may improve its competitiveness, given that the diversification of sources of foreign exchange will, from now on, assume a high priority. The realistic exchange rate will not affect oil exports because these are all dollar-denominated. As a result, the government's import capacity will not be affected by a change in the exchange-rate policy, as long as imports are paid directly or indirectly through oil revenues. However, the government should use its oil revenues to mitigate the harmful effect on the import capacity of the private sector.

Sectoral Priorities

Sectoral policies have two dimensions, ownership and productive structure:

As far as ownership is concerned, the private sector should play a leading role in the development process. This is one way of developing the non-oil sector. The state should play an important role in the provision of an enabling environment for the private sector so that it can assume a development role through its macroeconomic policies. Apart from efficiency consideration, emphasis on the private sector will be a matter of necessity. The government has limited choices in this respect, since it will be burdened by the payments of debt (which is public in Iraq's case) and of reparations, if relief did not materialize. Privatisation is one way to encouraging and developing the private sector. However, privatisation schemes undertaken in Iraq in the second half of the 1980s were driven by the need to finance the war with Iran, and efficiency considerations were secondary. In addition, many of the state enterprises were sold at book value to the government-linked private sector. The strategy governing the reliance on the privatisation will have to be reconsidered and re-evaluated with a view to putting efficiency considerations first.

With respect to the productive structure, priority should be on human development and agriculture, especially after the economy regains stability. The economy suffered, as mentioned earlier, from isolation because of ideological reasons and international sanctions. It was therefore unable to reap the benefits of new technology, especially in the communication and information sectors. Thus, at present, Iraq is not well placed to reap the benefits of globalization and meet its challenges without serious efforts to enhance its technological base in these areas. Another productive sector that should receive considerable attention is agriculture. Its development should save the country substantial amounts of foreign exchange, a precious resource in a future Iraq. Through agriculture, Iraq can generate foreign exchange through export earning and/or import saving. In addition, reviving this sector does not require substantial foreign exchange in the first place. In the industrial sector, light industry, especially food processing, should receive priority because of existing domestic demand and its export potential. Development of other sectors should be based on careful market studies that take into account domestic and foreign demand conditions and existing supply capacities in the region. The development of these sectors and any other sectors, which can generate in a short time the required foreign exchange, can also be financed by foreign direct investment (FDI) by Arab and multinational corporations because domestic resources may not be sufficient for consumption and development purposes. FDI, which can be undertaken within the development strategy of the country, is a source of finance and technology. Another source of finance is Iraqis resident abroad.

Conclusion

The above proposals indicate that for Iraq to get out of its economic problems, the international community should help, in the provision of financial assistance and relief from external obligations. On the domestic side, Iraq’s economic prospects will depend on the correct economic policies and the relevant sectoral priorities where the private sector is expected to play an important role.

But the implementation of the above package requires the existence of an appropriate political environment for Iraq. Such an environment has external and internal elements. It is inconceivable that Iraq can propose the renegotiation of its external claims while it is isolated regionally and internationally. Also if Iraq wants its citizens and the private sector to generate the necessary resources and shoulder the reconstruction and development efforts, then the rule of' law must prevail under which the economic rights of that sector are protected and its duties are defined. The government, while allocating its expenditure, must also be accountable to legislative bodies. In sum, a precondition for the solution to Iraq's economic problems is to have a political environment that combines democracy and the rule of law domestically and good relations externally.

THE IRAQI ECONOMY BETWEEN SADDAM HUSSAIN AND THE UN SANCTIONS

Muhammad-Ali Zainy

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This is the text of a presentation sponsored by the Iraqi Economic Forum and given by Dr. Muhammad-Ali Zainy at Kufa Gallery, London, on 12 November 1999.

In order to have a feel for and appreciate as to what happened to the Iraqi economy under Saddam Hussain and the sanctions, how bad and how dire the Iraqi economic situation has become, it is necessary that you should be exposed to an overview of the Iraqi economy before the Gulf War and the imposition of economic sanctions. More effectively still, you should be exposed to the Iraqi economic picture before the Iran-Iraq war. Only in that way can you develop a sense of comparison between the Iraqi economic situation now and the one in the not-so-distant past.

The Iraqi economy until 1980

From the beginning when Iraq started receiving oil revenues in the form of royalties in the 1930s, this income was treated as a budgetary surplus to be used for financing various capital projects. The disposition of these revenues, however, was not subject to conscious planning until 1950. Serious Iraqi economic development planning and investments, to cure the state of underdevelopment of the Iraqi economy, started in the early 1950s when oil revenues became relatively abundant.

Iraq's cumulative oil revenues over the period 1951-80 reached about $100 billion. Despite the unstable environment which characterised this period, especially before the Ba'thists assumed power, when the economic plans were postponed, terminated, or modified, the successive regimes were able to allocate about $60 billion of the $100 billion for the economic development plans. However, due to the limited absorptive capacity of the country for investment capital, only about 60% of the allocations were invested.

Golden era

Notwithstanding the shortcomings which remained as characteristics of the economy, it can be said that this period was a golden one as far as the gross domestic product (GDP) and per capita income were concerned (see Table 1 below).

Table 1: Sectoral distribution of Iraqi GDP (1960-80) in constant 1980 prices ($mn)

	1960	**1965**	**1970**	**1975**	**1980**
Agriculture	1408	2112	2474	2122	2374
Petroleum	6743	8521	10459	14973	30872
Manufacturing	264	319	486	802	2269
Other sectors	1727	2905	3632	6428	14557
Total	10142	13857	17051	24325	50072

Source: Zainy, M.A.

According to Table 1, the GDP increased almost five times in real terms over the period 1960-80, with average annual growth rate of 8.3%. But this growth, as in all Arab oil exporting countries, was skewed. Unlike developed economies, or the "tiger" economies, which depend on an active industrial/trade base, it was mainly driven by the oil sector. During 1960-75, the Iraqi economy grew by an average of only 6% per annum; but during the period 1975-80, the average annual growth rate became 15.5 percent!

The non-oil sector grew by an average of 9% per annum during 1960-80 (of course this was allowed by the expenditures and investment moneys generated mostly in the oil sector). This growth rate was slightly higher than the growth rate of the petroleum sector, which caused the GDP share of the oil sector to drop, but not by much. It only dropped from 66% in 1960 to 62% in 1980. This shows that, after 30 years of economic development planning and investment, the Iraqi economy at its best year (1980) was still characterised by dominance of primary production. If we add agriculture to that, the dominance of primary production becomes even worse.

Agriculture's share in 1960 GDP was 14%. It dropped to 4.7% in 1980. Its annual average real growth rate was only 2.6% over the period 1960-80, even less than the population growth rate, causing a widening food gap and increasing dependence on food imports.

The manufacturing sector's real growth was 11.4% during 1960-80, which was a splendid rate. But it started from a very low base of only 2.6% of the GDP in 1960 and thus ended up with a share of only 4.5% of the GDP in 1980.

This serious deficiency in the agricultural and manufacturing sectors did not show up until the sanctions were imposed because, simply, the oil money was used to pay for the imported agricultural products and manufactured goods.

The Iraqi per capita income attained its highest level in 1980 (see Table 2). It can be said with a reasonable amount of fairness that the middle class reached its highest size in 1980 and, therefore, the GDP per capita in that year represented the closest to what can be said about equitable distribution of income in the recent history of Iraq. The per capita income increased (in constant 1980 prices) from $1,470 in 1960 to $3,765 in 1980, implying an average annual growth rate of 4.8%, which was one of the highest in the world, given the very high Iraqi population growth rate of around 3.5%. As a result, the Iraqi people were, in 1980, the recipients of one of the highest incomes among the developing countries of that time.

Table 2 Iraqi per capita income (constant 1980 prices)

	Population (million)	GDP ($million)	GDP per capita ($1000)	Annual Growth (%)
1960	6.9	10142	1470	
1965	8.1	13857	1711	3.1
1970	9.4	17051	1814	1.2
1975	11.1	24325	2191	3.9
1980	13.3	50072	3765	11.4

Again, we have to mention here that this high per capita income was mainly a result of the petroleum sector's rapid expansion. During 1960-75, the average annual growth rate of the per capita income was only 2.7%. This rate jumped to 11.4% per year during the 5-year period 1975-80 due, of course, to the oil price explosion and the concomitant high inflow of oil revenues.

As a result of the country's oil revenues explosion, and despite the dramatic expansion in imports, the current account witnessed a rapid annual increase during the second half of the 1970s. This high positive current account led to the accumulation of foreign reserves of around $35 billion by 1980.

Saddam Hussain in power

Saddam assumed full power in the summer of 1979. Although the economy at that time was relatively strong, and growing at a fast rate, with the foreign reserves building up rapidly, the economy at that time had several shortcomings, including:

1. The role of the agricultural and manufacturing sectors were very small. Their shares in the GDP of 1980 were only 4.7% and 4.5% respectively.

2. The economy was dominated and driven by the oil sector. Its share in the GDP of 1980 was 61%.

3. The economy was dependent on imports, especially food and manufactured consumer products.

4. The economy was dominated by the inefficient public sector, 75-80% of the GDP.

The Iran-Iraq War

Against this economic background, Saddam started his first war, i.e. the Iran-Iraq War. We can aptly claim that this war was the "mother of all wars" as far as the Iraqi economy is concerned. From the outset, the warring parties tried to strangle each other economically, and the first casualty of this policy was the oil industry.

- In September 1980, the War was started, and in the same month the two Iraqi deep-water export terminals in the Gulf, Al-Bakr and Amaya, each with a capacity of 1.6 million bpd, were destroyed. At that time Iraq used to export 3.2 million bpd of which 2.4 million bpd were through Al-Bakr and Amaya. This meant that Iraq immediately lost 75% of its export capacity. In April 1982, Syria closed the oil pipeline to the export outlet in the Mediterranean. The only outlet left was the 0.7 million bpd pipeline to the Mediterranean through Turkey.

Economic losses due to the War:

(1) Around $60 billion in oil revenues due to reduced export capacity during the first few years of the War.
(2) $35 billion depletion of the foreign reserves.
(3) Accumulation of foreign debt of $42 billion to non-Arab countries and about $35 billion to Arab countries.
(4) Additional military expenditures of $105 billion.

(5) Destroyed infrastructure, valued at $30 billion.

In addition to the above, there was a slowdown in the Iraqi economy during the War due to many factors among them were:

(1) Contraction of the oil sector.
(2) Termination of expenditures on economic development.
(3) Contraction of imports of productive raw material and spare parts.
(4) Contraction of the agricultural and industrial labour force due to military recruitment.

Whereas the Iraqi economy grew by 8.3% during 1960-80 and 11.4% during 1970-80, it should have grown by at least 5% per year during the 1980s, in the absence of the War. This assumed growth rate, which is lower than those of the 1960s and 1970s, is due to taking into consideration the deterioration of the oil market during the 1980s (see Table 3).
Instead, the overall GDP declined in real terms during 1980-89 by 1.1% per year. The agricultural sector grew by only 3.2%, annually, a disappointing rate given that Iraq was involved in a long war and revitalising this sector should have been a priority. The manufacturing sector grew by only 2.2%, compared with 11.3% during 1960-80. This slow growth was due to many factors among them: lack of spare parts and raw material inputs, contraction of the labour force because of recruitment to the War,

Table 3 Iraqi GDP over the period 1980-89 ($million constant 1980 prices)

	1980	1985	1988	1989
Agriculture	2374	3206	2906	3141
Petroleum	30872	14186	29019	24830
Manufacturing	2269	2432	3079	2755
Other sectors	14557	15123	15844	14644
Total	50072	34947	50848	45370

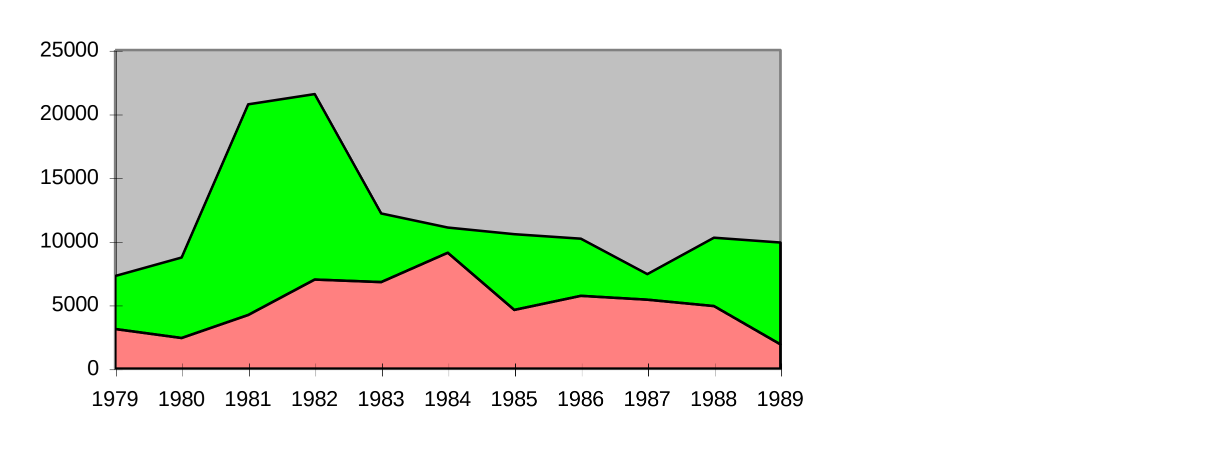
Source: Zainy, M.A.

and lack of investment. The total loss in GDP during the War, according to our estimate, was around $342 billion. Additionally, there were human losses estimated as follows: 150,000 killed, 500,000 wounded, and 70,000 POWs.

Foreign debt legacy

One of the worst legacies of the Iran-Iraq War, which Iraq is still living with and has to address, is the issue of foreign debts. The Iraqi regime, thinking that the War will not last for long, followed for the first few years of the War a "guns and butter" policy to appease the population. Its civilian imports increased tremendously, and so did its military imports throughout the War years (see figure below).

Iraqi civilian and military imports (1979-89)



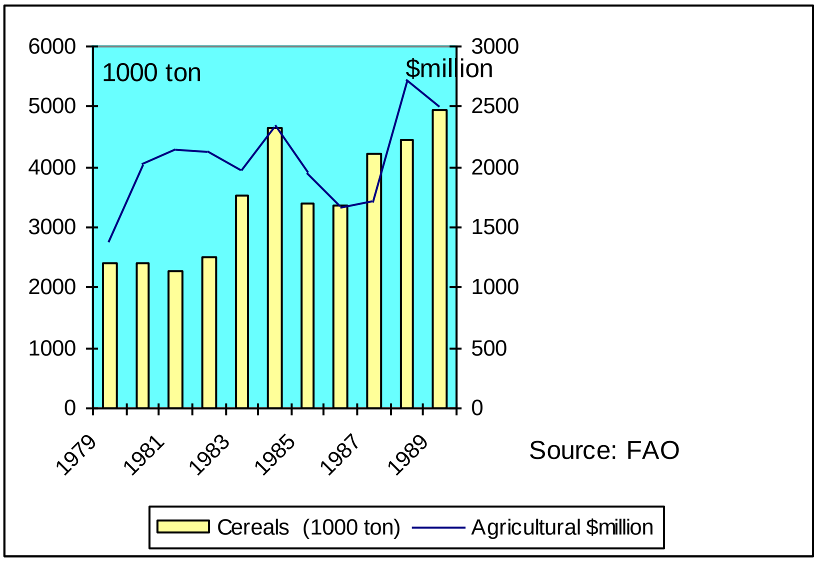
Source: US Arms Control Agency & OPEC

As a result of these huge imports, and the payments for invisibles, Iraq sustained negative current accounts in seven out of the eight years of the war. To cover this shortfall, Iraq started borrowing abroad and accumulated an amount of around $42 billion in foreign (non-Arab) debt at the end of the War. Additionally, Iraq accumulated about $40 billion in debt owed to Arab countries, which it considers partially as grants and partially as interest-free loans.

The Iraqi economy after the Gulf War

Intensive and extensive bombing for 43 days wreaked havoc on the Iraqi economic infrastructure. Electricity, oil export facilities, oil refineries, roads and bridges, railways, airports, industrial plants, etc. were destroyed.

Worse still, UN Security Council Resolution 661 was passed on August 6, 1990, imposing economic sanctions on Iraq. The reality of the sectoral distribution of the Iraqi economy in 1989, the year preceding the Gulf War, showed the glaring dominance of the oil sector and the weakness of the other commodities sectors, namely, agriculture and manufacturing. The GDP's share of the oil sector was 55% compared with 62% in 1980. This is not due to an improvement in the performance of the other sectors. It is simply a result of the deterioration of the oil market in the 1980s. The sector declined by 2.4% annually during 1980-89, while the growth rate of the agricultural and manufacturing sectors was not enough even to catch up with the population growth rate. This meant that Iraq had to produce and export oil in order to earn foreign exchange and import food and manufactured consumer products (see figure below for agricultural imports).



Source: FAO

Iraqi Agriculture

The area of Iraq is 438,000 sq km (170,000 sq miles). One-fifth of the area covers the alluvial plain, which forms the fertile basin of the two rivers, extending from north of Baghdad to the Arabian Gulf. Two-fifth of the area covers the Western Desert plateau. One-fifth covers the area between the two rivers, to the north of Baghdad (Aljazirah). The last fifth covers the mountainous area North and North-East of Iraq. Rainfall happens in Autumn, Winter, and Spring; 400-1000 mm in the north, and 50-100 mm in the southern plain and the desert plateau. The arable land makes around 21% of the total area and only about 50-70% of the arable land is cultivated.

Agriculture in Iraq has been inefficient since the beginning. Problems stemming from the agricultural reforms, soil salinity, and primitive agricultural practices have plagued this sector. Iraqi agricultural land is very plain. Although the distance between Baghdad and the Gulf is 550 km, Baghdad is only 34 meters above sea level. Although this makes irrigation easy, these plains become easy prey to floods on the one hand and drainage becomes difficult on the other hand.

Iraqi soil has a high salt content and the silt the rivers bring is also rich in salt. As the water table rises as a result of floods, rain, and irrigation, salt also rises to the surface and is left on the soil after intense evaporation during the long hot summers. This salinity is converting Iraqi agricultural lands to barren lands. The salt needs to be washed away, and good drainage is badly needed. Efforts in this regard are inadequate.

In performing the agricultural reforms since 1958, the government sequestered the land, which it could not all distribute in time. As a consequence, the government became the biggest landlord in the country, with the farmers getting their land through short-term leases. Feeling insecure as a result of lack of ownership and constant shifts in agricultural policies and land reform legislation, many farmers lost interest in the long-term improvement of the land and turned away from cash cropping towards subsistence farming.

Advanced farming practices are not widespread, and crop rotation remains rare, as there is mostly one crop per year. Also, fallow farming is still used where half of the land is cultivated while the other half is left to accumulate moisture and organic fertilisers. The use of leguminous crops within the cereal rotation is still rare.

Impact of the sanctions on production

The economic sanctions have made matters worse. Lack of machinery, spare parts, fertilisers, pesticides, seeds, electricity, and deterioration of the agricultural infrastructure caused agricultural production to dwindle. The numbers from the Food and Agriculture Organisation (FAO) show that per capita agricultural production in Iraq declined by about 32% during (1986-1997) despite the favourable prices given by the government to farmers and the subsidisation of seeds and pesticides.

The manufacturing sector shrank severely as the sanctions starved this sector of raw materials, spare parts, and investment capital. With the drastic decline in the manufacturing sector, the halt in external trade, and the almost complete vanishing of the petroleum sector, GDP experienced a massive drop (79%) between 1989 and 1993, representing an average decline of 32% per annum during that 4-year period (see Table 4).

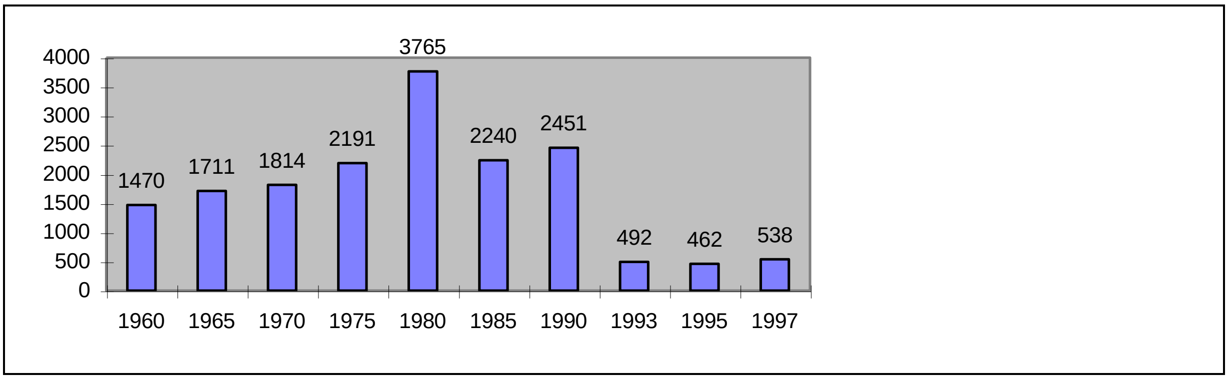
Table 4 Sectoral distribution of Iraqi GDP during 1989-93
($ million 1980 prices)

	1989	1990	1991	1992	1993
Agriculture	3141	3434	2638	3143	3088
Mining	24830	22838	406	-69	-1798
Manufacturing	2755	2303	1252	1299	1200
Others	14644	15786	7117	8657	7052
Total GDP	45370	44361	11413	13030	9542

Source: Central Statistical Organisation

Individual income: With the drastic decline in GDP and the continuous increase in population, the GDP per capita spiralled downward such that in 1995 it was only 12% of the peak reached in 1980, and the 1997 income dropped to about one-third of that of 1960 (see figure below). The effect of the severe decline in per capita income was made much worse by two other factors: inflation and mal-distribution of income.

Iraqi per capita income over the period 1960-97 (constant 1980 prices)

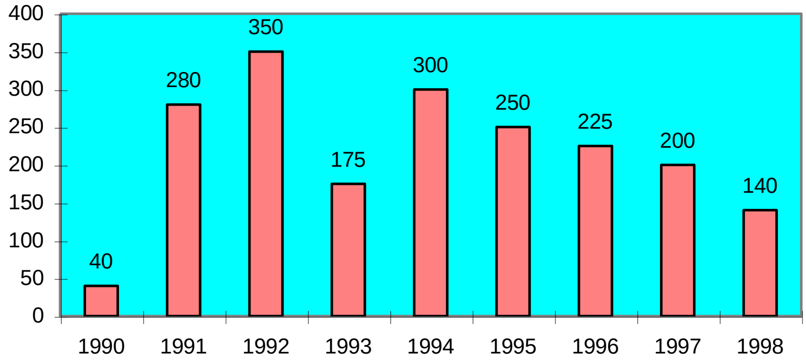


Inflation: The Iraqi agricultural sector does not produce more than one third of the agricultural needs of the Iraqi people. The rest is imported. After imposing the sanctions, the Iraqi government reverted to food rationing at nominal prices. Before the sanctions, the Iraqi individual used to get a little over 3,000 calories. According to the rationing system, the food calorific value per individual dropped to 30-50% of the level before the sanctions. Animal protein is absent and, to supplement the food requirements, people needed to buy food outside the rationing system.

Importers used to get their foreign exchange from the government at the official rate of $3.2 to the Iraqi Dinar. The government stopped providing such foreign exchange even before the Gulf War, due to the severe shortage of foreign exchange it was experiencing. When importers started buying foreign exchange using Iraqi Dinars, its value started declining. What made matters worse was the government reversion to printing money and also buying foreign exchange using local currency. The Iraqi Dinar collapsed as a result, and the spiralling inflation, which started in the late 1980s, became hyperinflation after imposition of the sanctions.

A visiting committee from FAO found that prices of staple foods in mid-1993 compared with prices in mid-1990 (i.e. before the sanctions), increased as follows: flour 355 times, rice 71 times, cooking oil 106 times, and sugar 149 times. The cost of a food basket for six people jumped from ID110 to ID5,400 (49 times) during the same period. The individual income collapsed! (see figure below).

Trend of consumer prices, % change year on year (1990-98)



Income distribution: When we speak of per capita income, being GDP divided by population, the implication of this is that there is 100% equity in income distribution and all the population is middle class. This is never true in any country, and with Iraq the situation has become much worse in the aftermath of the Gulf War and the sanctions, as the middle class has all but disappeared.

The income distribution in the aftermath of the Gulf War, sanctions and hyperinflation has become extremely skewed. A new unique rich society has come into existence - the president and his family, the top Ba'thists and government officials who are considered as Saddam's henchmen and cronies, smugglers, contractors, merchants and industrialists who are well-connected with the regime. This class makes a small percentage of the Iraqi population. The middle class has become poor. The poorer class has sunk down to, or below, the level of subsistence.

Differential impact

There has been a differential impact of the war and sanctions on the Iraqi population:

1. Excluding the three Kurdish governorates, the south has suffered the most. This is because of poorer infrastructure, more economic damage resulting from the Iran-Iraq war, widespread economic damage and discrimination as a result of the uprising after the Gulf War, and the continued struggle in the south.

2. Notwithstanding the few groups who were singled out for favourable treatment, the Shiites in general and the south in particular, have fared worse than the Sunnis in the centre and north of Iraq.

3. The group of salaried employees dependent on the government has collapsed into poverty.

4. The urban poor have fared worse than the rural poor. This is a result of dependence of the Iraqi urban society on government services such as electricity, water, health services and food distribution, which have become crippled as a result of war and sanctions.

Other effects of the sanctions

(1)
Due to breakdown in clean water supplies, sanitation, and electricity, and due to inadequate diet, morbidity and mortality rates have increased dramatically especially among the children and the poor. A 1995 UN report indicated that the level of child nutrition in Iraq approximated those of poor African countries, given that Iraq used to be classed among the upper-middle income band of economies.

An August 1999 survey released by UNICEF, the first to be conducted since 1991, warned of a humanitarian emergency in Iraq. It showed that Iraqi children, under five years of age in the centre and south, where 85% of the 22 million live, were dying at twice the rate of a decade ago. Under age five, mortality increased from 56 deaths in 1000 live births in 1984-89 to 131 deaths in 1000 live births in 1994-98. A similar deterioration was recorded in infant mortality rates.

The director of UNICEF said if the substantial reduction in child mortality throughout Iraq in the 1980s had continued in this decade, there would have been half a million fewer deaths of children under five in the country from 1991 to 1998.

However, in the Kurdistan area, which is outside government control, under-five mortality declined from 80 deaths per 1000 live births in 1984-89 to 72 deaths per 1000 live births in 1994-99, with a similar trend registered in infant mortality. This is where the UN plays a direct role in distributing supplies to the population under the oil-for-food program. In the centre and south, distribution is effected by the government and only monitored by the UN. The adverse results in the centre and the south are due to government policy and also due to the absence of humanitarian NGOs which are present in the north but shun the government's restrictions in the areas under its control.

(2)
Three weeks after the UNICEF report, the UN Secretary General on 23/8/1999, submitted a report to the Security Council about the situation inside Iraq and the

effectiveness of the oil-for-food programme. Although he called upon the UN Sanctions Committee (implying the US) to refrain from putting obstacles, under the pretext of dual use, against exporting vital supplies to Iraq such as those concerning health and water treatment, the essence of his report seems to put the blame of the deteriorating situation on the Iraqi authorities who seem to be misallocating the food and health supplies, and maybe deliberately for political reasons.

As an example, out of the billions of dollars accruing to the programme, especially when oil prices have improved in 1999, only $6.6 million were allocated to improve the nutrition of mothers and infants. This is even a retreat from the $15 million allocated for the same purposes during the first phase of the programme when it began in December 1996, despite the much lesser amount which accrued to that phase (less than half of the $5.3 billion per six months allocated to this one and which may go up to $6.3 million per six months for the next phase).

(3)
Schools in many parts of the country, especially rural, have become poor in their condition due to the lack of financial resources. Furthermore, erosion of family income has pushed students to drop out of schools, seeking early employment. The impoverishment of the professional classes (doctors, professors, engineers, etc.) has reduced the desire among students to seek further education, especially when it has become easier to earn a living by pursuing manual or trade work, or even by committing crimes.

(4)
Due to tyranny, human rights abuses, and economic hardships, thousands are leaving the country, especially the capable professionals, most needed by a poor country such as Iraq.

(5)
Due to economic hardship, the social fabric of the Iraqi society is deteriorating. Divorce and crime are on the increase while the number of marriage is declining.

(6)
A complete generation of Iraqis is growing in isolation from the outside world. This is bound to breed alienation and fanaticism.

Iraq's financial prospects after the sanctions

It is well known that Iraq's oil potential comes second to Saudi Arabia, with its present oil reserves of 112.5 billion barrels, making 10.7% of the world's total reserves. It may even surpass Saudi Arabia if the Western Desert and other areas are explored and developed. Some Iraqi geologists and experts put the potential Iraqi recoverable oil reserves at 300 billion or even more.

Many super-giant and giant fields (Majnoon, West Qurna, Nahr Umar, Nassiryiah, Halfaya, Ratawi, Gharraf, al-Ahdab, Tuba, Rafidain) and many other lesser fields await development. It is estimated that within five years from lifting the sanctions, Iraq's oil production capacity, with the help of international oil companies willing to invest in Iraq's upstream oil industry, can go up to 6-6.5mn bpd.

If we assume, and this is a very credible assumption, that due to Iraq's special situation, it will be allowed by OPEC to produce at capacity, then Iraq will generate very good oil income after lifting the sanctions. However, what happens to this oil income will very much depend on who is in power when the sanctions are lifted.

Rationally, Iraq's oil revenues (after paying for production cost, production sharing payments to investing oil companies, pipeline transit fees, etc.) should go towards paying for general civilian imports (as an example: around $8 billion in 1989) and financing reconstruction and economic development (around $5 billion per year).

Saddam in power after removing sanctions

If Saddam's regime is in power after removing the sanctions, Saddam's first priority will be re-armament, which would cost around $5 billion a year.

Furthermore, because in the presence of Saddam, Iraq will be a pariah state and in order to not reward Saddam for his war crimes and atrocious rule, it is most likely that Iraq will be compelled to pay for war reparations (the UN received about $300 billion of claims but may only endorse around one-third of it) and will also be compelled to pay its foreign debts (around $94 billion by the end of the year 2000).

Under such scenario, and given Saddam's priorities, lack of care to his people, and absence of UN supervision, it is very likely that the Iraqi people may fare worse after the sanctions are lifted and the oil-for-food programme is ended, if Saddam's regime continues in power. The oil revenues will have to go towards paying war reparations, debt, re-armament, and expenditures on a police state. There won't be much left for civilian merchandise imports or reconstruction and economic development.

Democratic regime in power after removing the sanctions

If Saddam's regime is replaced by a different one, especially if it is a peaceful democratic regime, there is a strong likelihood that:

a. The war reparations may be annulled (precedent: Germany after the 2nd World War), and the US has been hinting towards this kind of possibility.

b. The foreign debts issue will be addressed favourably. Some debts forgiven, others reduced, interest rate reduced, debts rescheduled, Iraq buying its own debt with large discounts in the secondary market, etc.).

c. Under such conditions, Iraq will be able to stabilise its economy through combating inflation and improving the exchange rate of the Iraqi Dinar (the official exchange rate is ID1=$3.2 while the present market rate is in the range of $1=ID1500-2000).

Furthermore, considering the Iraqi people's long suffering, and to reward and enhance the stability of this country and the region as a whole, the international community, especially the US and its allies, may re-enter Iraq and participate with vigour in rebuilding the country through facilitating loans, guaranteeing credits, transferring technology, and encouraging private investment. Under such scenario Iraq may regain its economic stability and health within the first decade after the sanctions are removed.

Role of the private sector

Since the onset of economic development planning in 1950, all Iraqi governments' investments were under the ownership of the public sector. Furthermore, in 1964 the Iraqi government nationalised all private enterprises with capital exceeding ID70,000 (around $200,000). The result was a huge growth of an inefficient and losing public sector controlling more than 75% of the GDP's value added in 1980. To make matters worse, the nationalisation measures resulted in the continuous flight of Iraqi private capital and emigration of Iraqi entrepreneurs and good managers.

Realising the adverse economic effects of this policy, the Iraqi regime moved towards a partial market economy by privatising, in the second half of the 1980s, agriculture and some industrial enterprises. However, the oil industry, chemical and petrochemical industries, military industries, heavy industries, electricity, communications, etc. remained in the hands of government.

Such move did not realise its goals and was more of a drastic failure than a success because, simply, the conditions to promote an active private sector were non-existent. Some of the reasons contributing to the failure were:

- Lack of capital markets and investment banks.
- Lack of public participation.
- Lack of trust between the people and government
- Lack of proper legal environment for the protection of property ownership.

With the privatisation of those enterprises, all that happened was the transfer of the government's monopoly to the monopoly of well-connected individuals.
What Iraq needs after removal of the sanctions and stabilisation of the economy is expansion of its manufacturing and agricultural sectors. These are the two sectors with the best potential for providing employment and increased exports. In order to develop these two sectors and achieve sustainable economic growth, the following steps have to be taken:

1. Privatisation of the public sector.

2. Providing the proper legal and economic environment conducive to private investments.

3. Opening up the doors of Iraq for Arab and international investors.

4. Development of the Iraqi human resource base, especially in the areas of health and education.

5. After this long period of dictatorship and misrule, the stability and progress of the Iraqi economy will need good governance exemplified in democratic decentralised rule and respect of the law.

HUMAN DEVELOPMENT PARADIGM UNDER THE GLOBALIZATION ENVIRONMENT: THE ARAB GULF

Ahmed M. Jiyad

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On 13 September 1999, Ahmed Jiyad delivered a lecture in London along the lines of this text at the invitation of the Iraqi Economic Forum.

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Charts are not reproduced her.

Introduction

Globalization, as conceptualised in this paper, is increasingly becoming an economic reality in almost all the countries of the Arab Gulf. This powerful multifaceted trend and the various policy initiatives associated with it are bound to touch every single individual in the region, and present the societies with promising opportunities as well as formidable and daunting challenges. The relation between human development and globalization can be visualised in the following manner: the effects of globalization on a developing economy, such as the Arab Gulf countries, could be backwash effects or spread effects. The backwash effects means that globalization could contribute to and be the source of *human deprivation* through processes of marginalization (of the country) and social exclusion (of individuals and groups based on social, ethnic, occupation/skill, age or gender grounds). Marginalization, of a country, under globalization could mean one or a combination of the following: that country had not benefited from globalization or had benefited less than other countries (say in the region); it had been totally untouched by the process; it had been absolutely worse off. Marginalisation and social exclusion of individuals or groups could mean the same even though their country had actually benefited from globalization.

On the other hand, the spread effects imply that globalization itself could enhance *human development* (through various processes which leads to increased efficiency of both investment and production, expands choices and provide wider opportunities for most people and all of this in turn enhances human development).

What is important, however, is that a respectable level of human development is a fundamental and prerequisite to benefit from globalization (i.e. to maximise the spread effects) and safeguard against its negative impacts (minimise the backwash effects)

In part one we will attempt to explore the meaning and evolution of globalization. Most emphases in the literature are given to economic globalization. Though three interrelated interpretation to the evolution of globalization are considered, we are inclined to give more weight to pace and intensity of the process to outline the main components of globalization environment from economic policy initiative standpoint.

After we provide brief review of the concept of human development we will attempt, in part two, to construct a three-dimensional concept and paradigm of human development based on *capability*, *choice* and *contribution*. The first two parts of the paper are linked in part three where we examine how these three dimensions of human development are likely to be affected by globalization. Finally, some concluding remarks are made at the end.

The Arab Gulf is taken here to include eight countries: the six members of the GCC, i.e. Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and United Arab Emirate (UAE) plus Iraq and Yemen.

PART ONE: GLOBALIZATION ENVIRONMENT

Globalization: phenomenon and process

There seems to be a recognition among economists, social and political scientists and intellectuals that globalization is not a new feature of the contemporary world economy. Various ideas on globalization were expressed by the grand founders such as Adam Smith, Marx, J.S. Mill, Keynes and Lenin, to name only few.

If one only reads few review articles on globalization one would find that in the last few years there was a fury in the number of writings and intellectual contributions on and about globalization: its evolution, meaning, impacts and broader implications, and would conclude that there are almost as many points of view as there are writers (Waterman 1996, Power 1997, and Pieterse 1997). Books, articles, conferences, workshops, and more recently violent demonstrations[1] are undoubtedly very genuine reflections on how people are really concerned and preoccupied with this powerful multifaceted trend known as globalization.

Some of the efforts were directed towards understanding the evolution of globalization: is it part of the evolutionary trend of humanity in general or of capitalism in particular or an advanced stage in the development of 20th century multilateralism or simply one of many processes of change.
Also the emphases are not universal. Though most of today's scholarly and policy formulation works are centred around economic globalization, other important efforts have been directed to and are concerned with the technological, political, cultural, social, behavioural, or geopolitical dimensions of globalizm. Even within the economic discipline on globalization one can trace different and divergent view points: some emphasise the competitive advantages and their impacts on decision making on matters related to production and location of producing units world-wide; others put more weight on and give preference to the growth and functioning of the never-closes international financial market; the importance, magnitude and spread of multinationals and the associated FDI and their role in both world trade and investment is another area of emphasis; finally, attention was also given to a new international division of labour characterised by permanent change of job requirements, flexibility and mobility of the workforce.

Finally, but most importantly and as is always the case in social sciences, there seems to be a wide range of opinion and a somewhat large degree of inconclusiveness on the inevitability and consequences of globalization.

Capitalism, in the view of John Dunning, has gone through three different phases; each has unique techno-economic and social-institutional settings and regime. The first phase was *entrepreneurial capitalism* (1770-1875) which was characterised by relatively small independent enterprises. Then came *hierarchical capitalism* (lasted to 1980) with large-scale hierarchical enterprises driven by mass production and economies of scale. Finally, *alliance capitalism*, which has been taking shape from early 1980s onwards, features networks of alliances among enterprises, which are innovation-driven production on national, regional and global operational levels (Dunning 1994).
While they also consider globalization as part of the history of vibrant capitalism and its spread on the world scale, Sachs and Warner argue that the current flux of globalization is only a return to the evolutionary path of capitalism since 1870. An evolution which was suddenly and unexpectedly interrupted by political and military developments: the first World war, the socialist revolution in Russia and a new statist *zeitgeist,* all had contributed to hold the globalization of the capitalist system for well over half a century.

For them the world economy at the end of the 20th century looks much like it was at the end of the previous century and a global capitalist system is again taking shape to bring together regions of the world, by various arrangements and institutions, to a more open trade and increased interdependence (Sachs and Warner 1995).

Although Matthias Finger considers globalization as part of a long-term historical process, he differs with Dunning and Sachs and Warner by going beyond capitalism on one hand and holding somewhat pessimistic view on the prospect of such an evolution. Globalization, according to Finger, which is a reflection of human history not only capitalism, has gone through six stages and now we are in the latest seventh stage: 1- In religions there is a Global God; 2- in science we talk about global rationality; 3- in international relations we have seen colonisation and the drive for global civilisation; 4- in the modern nation-state and society there is a notion for global society; 5- in industrialisation there is global development; 6- in world affairs we had witnessed global wars (the first, the second and cold wars); and 7- today's globalization encompasses two interrelated global features: financial globalization and ecological globalization. This final stage, according to Finger, marks the beginning of a vicious circle, which ultimately leads to a dead-end (Finger 1997).

But Sigmund Grønmo, who looks to globalization from a sociological perspective, considers it as one of four processes of change in today's society- the other three are individualism, liberalisation, and reorganisation. Each of these four processes has demonstrated itself in the three main arenas in society: politics, culture and the economy. As far as globalization is concerned it represents itself in the political arena through increasing pressure on the nation-state; in the cultural sphere by the many world-wide media networks; and in the economy through strengthened multinationals (Grønmo 1998).

Grant Power defines economic globalization as the progressive integration of the economies of nations across the world through the increasingly unrestricted flow of global trade and investment. Most writers on economic globalization, according to Power, could subscribe to the underlying assumption of either of two main schools of thoughts: the free market mainstream and free market iconoclasts. The first school advocates that globalization is both good and inevitable: it brings benefits to societies that are willing to submit to the discipline of the free market. The iconoclasts, on the other side of the debate, argue that economic globalization is not inevitable, it is dangerous to society, it undermines true democracy, and it destroys the environment (Power 1997).

As it has been always the case, there are many and different schools divided across issues such as meaning, type, origin, inevitability, requirements and above all implications.

Consequences of globalization are multi-folds: on individuals and social groups, entities and states, systems and regimes, organisations and institutions; on national, regional and international levels and on a variety of issues: debt, development, sovereignty, policy autonomy, marginalization, democracy, human rights, employment, civil society, social solidarity, local participation, ecology and environment etc.

Accelerated globalization

However, much of the current wave of globalization, which in our view is termed as accelerated globalization, can actually be attributed to a set of policies and development which took place from the 1970s onwards: in the developed countries, the former socialist countries, in the developing countries, in the multinationals, and on the multilateral-institutional levels.

Due to some macro economic policies, especially the deflationary fiscal policies, adopted by most free market developed countries during the first half of the 1970s, slow growth in domestic demand, high unemployment, and squeeze in profits and capital returns, all had contributed to putting immense pressure on firms to go global in pursuit of new and profitable business opportunities. And they, in turn, did not hesitate to exert ample pressure on their respective governments to do what they can to open foreign markets for them on one hand and provide the needed guaranties for their business against economic and political risks. Furthermore, changes in world structure of production, wealth, energy and environmental considerations had contributed to the gradual spatial shift of many (heavy) industries from developed to developing countries.

As a result of these developments one would expect accelerated growth and dispersion in international investment and related instruments.

Foreign direct investment (FDI) outflows from the developed countries began to accelerate and had increased by nearly four folds between 1983-87 and 1995- from $72.6 billion (annual average) to $270.5 billion during the period- (UNCTAD, 1996c: Table I.1). Accordingly, a proliferation of bilateral, regional and multilateral treaties, agreements and instruments on protection of international trade and investment had taken place. The number of bilateral investment treaties had reached by the end of 1996 more than 1300 such treaties, two thirds of them came into existence during the 1990s (Kline and Ludema 1997). Furthermore, the number of "main" international instruments (multilateral, regional, and non-governmental) dealing with FDI totalled 78 by 1997 and distributed as follows: 3 during the 1940s, another 3 in the 1950s, 9 during 1960, 18 in the 1970s, 19 in the 1980s and 26 in the 1990s. (UNCTAD 1998)

In addition, there are many programmes intended specifically to promote FDI from developed into individual or group of developing countries. The European Union, for example, has designed a number of such programmes to facilitate FDI by European firms in Asia. The most important of these programmes are: The Asia-Invest Programme, The European Community Investment Partners, and Financing facilities of the European Investment Bank. (UNCTAD, 1996c: 53)

After they had recovered from their tarnished image of the early 1970s and benefiting from the above mentioned support from their home governments, agents of globalization, i.e. the multinationals or transnationals, began to spread worldwide rapidly more than ever before. Their business structure has been further facilitated by reductions in transactions and transport cost. Freight costs and cargo costs, for example, have declined by 15 percent and 58 percent respectively between 1950 and 1990. Communication and information technologies have made even more substantial cuts in transaction cost. A three-minute phone call, for example, between London and New York, which cost on average $53.20 in 1950, was down to $31.50 in 1970 and to only $3.22 in 1990.
Both the number of multinationals and the magnitude of their investment began to increase, and by the mid 1990s there were around 38,750 parent firms connected with 265,551 foreign affiliates, investing some $350 billion FDI the world over in 1996 and generating further $1.4 trillion of investment in the foreign affiliates.

Their role in international production, trade, investment, and finance made them key players in the accelerated process of globalization. A role which became more internationalised with the shift in their principal objectives over the years. While one of the principal objectives of FDI in the 1960s and 1970s was production for the domestic markets, more recent FDI has concentrated on serving world rather than domestic markets (Agosin and Tussie 1992). And this unprecedented surge in global businesses and worldwide operations had forced multinationals to go through and undertake very significant changes in their management style, organisation and structure, networking, and strategy during these three decades. Changes which features what has become known as Post-Fordist Capitalism (Amin 1994) or Dunning's Alliance Capitalism. Command-and-control management and economies of scale gave some way to front-line managers, time consideration, flexible specialisation, and fashion & value-conscious customers; the source of their competitive advantages has shifted from capital to knowledge and information; that many of them became more receptive to multiculturalism in their boardrooms to capture the advantages of local conditions; and prolonging both the life-cycle of machines and products by adopting what might be labelled as "flying machines" strategy: launching the products in the rich world first, then in the less affluent and developing countries latter (*The Economist* 1995).

At the same time, many significant developments had taken place and or began to take shape and were under way since then in many developing countries. Most notably among them are: the energy crisis of the 1970s, the debt crisis of the 1980s and the post-Cold War era of 1990s.
All these important events focused attention on the soundness and relevance of the adopted economic policies and the economic role of the state in most, if not all, the developing countries.

A shift in the dominant trend in development thinking from import substitution to export promotion and from the conventional wisdom of the developmental state to market forces paradigm had gained strength and momentum with the debt crisis in early 1980s onwards. Being unable to service their obligations, many indebted developing countries had to pursue debt rescheduling through the venue of the Paris Club for official debt (and the London Club for commercial debt). Paris Club debt rescheduling eventually leads to the adoption of an economic reform package designed primarily by the two Briton Woods Institutions: the IMF and the World Bank. Even countries with no debt difficulties, such as the GCC, are usually advised to undergo reforms on similar premises.

Finally, the wholesale collapse of the former socialist countries had put the final nail in the coffin of strict and comprehensive state control and central planning.

As a result, different forms and degrees of liberalization in the internal and external sectors of many developing countries were implemented and the process of globalization began to accelerate.

Though the multilateral trading system has been functioning for more than half a century, the expansion of international trade, investment, and technology on one hand and the increasing involvement and role of the multinationals in such an expansion seems to have became fundamental ingredients for the health of the world economy in the eyes of the centre of economic gravity. This is evidenced by the way in which the developed countries began to take a holistic and integrated view on these issues and by their persistent efforts to formulate effective and binding multilateral disciplines in all these areas.

On this level we can identify three influential developments on the international economy: Foreign direct investment and portfolio investment, the conclusion of the Uruguay Round and the ratification of the World Trade Organisation (WTO) and the declaration of an international Labour Standards by the International Labour Organization (ILO).

1. Increasing role of FDI and portfolio investment:

During the 1980s, world FDI increased at around 30 per cent annually, which is more than three times the rate of world export and four times that of world GDP. A decade later most developing and former socialist countries began to undertake significant changes in their legal regimes related to inward FDI and thus contributing to greater investment liberalization. Between 1991 and 1995 alone 474 out of 485 changes in national FDI regimes were in the direction of more investment liberalization (UNCTAD, 1996c: 132). This has come about, among other things, as a result of the impressive growth in international investment.

In addition to the large number of bilateral and multilateral agreements on FDI, as referred to above, the developed countries are driving for a more comprehensive and forceful new international framework. In this respect, the OECD launched its deliberations on Multilateral Agreement on Investment (MAI) in September 1995 and has not yet been concluded.[2]
However, if and when MAI is concluded it could boost globalization and liberalization trends even further and have far reaching consequences since such agreement could provide strong and comprehensive framework for foreign direct investment and sufficient legal security for international investors (Brittan 1995; Witherell 1995). Furthermore, the WTO's Singapore declaration of December 1996 established a working group to examine the relationship between trade and investment since about one-third of the $6.1 trillion world trade in goods and services in 1995 was a trade within companies: between subsidiaries and their headquarters. This declaration opened the possibility for incorporating MAI into WTO. And if MAI, after its conclusion, is incorporated under the umbrella of WTO then it could have even far reaching implications and consequences on policies, practice and the legal regimes governing FDI in all member states of WTO in general and the developing countries among them in particular (Shahin 1997; Ganesan 1997; 1998).

2. Uruguay Round and WTO

With the conclusion of the Uruguay Round and the ratification of World Trade Organisation (WTO), not only liberalization of international trade had achieved considerable progress but the scope of the system became wider and enforceable as well.

In a nutshell, the WTO deals with three trade activities: in goods, in services and in intellectual property products. Thus, WTO is an updated version of the GATT which deals with trade in goods, the General Agreement on Trade in Services (GATS) which, as the name clearly indicates, deals with trade in services, and the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS).

The Organisation has an elaborated supervisory instrument TPRM and strong enforcement mechanism DSS. WTO will continue using the Trade Policy Review Mechanism (TPRM), which was launched in 1989, to improve transparency of trade policy and practices of all members. Such a review is conducted on the basis of two reports; the first is prepared by the WTO Secretariat and intended to examines the country's trade related policies and measures, covering both tariff and non-tariff barriers, from an economic perspective and reviews the impact of these policies and measures on the country's recent overall economic performance and on the development of major sectors. The other report, prepared by the government of the concerned country, describes the country's trade-related policies and the basic institutional and legal structure affecting trade policy decision-making process and, also, examines these policies against the background of the country's wider economic and development needs. These Reviews are done every two, four or six years depending on the country's relative importance in world trade. The big four traders- Canada, Japan, USA and the EC (as a single entity) are reviewed every two years.

Also WTO has a well defined and strong enforcement mechanism, the Dispute Settlement System (DSS), according to which a trade sanction can be imposed against members who violate the rules. The system is intended to use a multilateral forum of settling disputes instead of taking action unilaterally.

Apart from scheduled reduction in export subsidies, WTO has two important principles: MFN and NT. The Most Favourable Nation (MFN) principle under WTO means that if a country offers another country a concession on trade policy (now trade of goods and services), it will automatically offer the same concession to all other countries which are party to the agreement, with limited exemption. The other one is the National Treatment (NT) principle which implies that a member country is not permitted to discriminate between imported and locally produced goods, services, trademarks, copyrights and patents, after they have entered the local market.[3]

3. The ILO's Labour Standard

A declaration of an international labour standards has been adopted by ILO in June 1998 which encompasses a universal respect for fundamental human rights in the work place and provides supervisory mechanisms to promote these principles and monitor universal compliance. It should be stated that "core labour standards" have been on the agenda of WTO but the 1996 Singapore ministerial conference of the organisation decided that ILO is the competent body to deal with this issue, and therefore it will not be on the agenda of WTO anymore.

From the above discussion we can now proceed to construct the main phases and components of globalization environment for a developing economy such as those of the Arab Gulf which have strong repercussions on human development. These phases come largely in sequence and the policies and results of the former constitute a prerequisite for the latter.

- Phase one: Liberalization of the domestic economy.
- Phase two: Property and Ownership liberalisation.
- Phase three: Regionalism and Multilateralism

In the following pages we will attempt to outline briefly the main components of each phase and what had been done about them in the Arab Gulf countries.

Phase one: Liberalization of the domestic economy

These are mostly based on IMF/World Bank package: Stabilisation and Structural Adjustment Programmes.

Though the detailed components of each specific package are dependent on the conditions of the adjusting country, nevertheless the standard and general items of these two packages are designed to reduce basic monetary and fiscal imbalances. They aims also to reduce both the balance of payments deficit and inflation through, for example, exchange rate management and devaluation of currency, contraction of aggregate demand, tighter monetary policies, raising interest rates, budgetary cuts including subsidies cuts and price liberalization. In the longer-term perspectives they aim at eliminating structural imbalances in the national economy. They seek to achieve a structural transformation of the productive sectors through a shift from non-tradable to tradable sectors, reform public sector inefficiencies, reduce state domination and increase the role of private sector through privatisation and or liquidation of the state owned enterprises (SOEs), removal or relaxation of government control over trade policies, reform tax systems, etc.

Also included in this phase are efforts designed to liberalise the labour market in the sense that permits down-sizing and retrenchment of labour and wag reduction.

The introduction of these programmes usually leads to what have became known as the "bread riots" since price increases and reduction in subsidies- on the basic necessities such as food, fuel, transport, water and electricity, and health services all of which constitute a high proportion of a normal household budget- are the first and most felt effects of the enforced policies. Other effects, such as income tax, are also resisted but in a non-violent fashion.
Among our group of countries only Yemen had concluded, and thus adhered to a strict implementation of such programmes. Yemen adopted a three-year IMF/World Bank programme for economic reform in 1995, which have been prolonged, in August 1997, for another three years. On both occasions the programmes led to price increases and, as evidenced by the violent demonstrations in Ma'reb and Ta'iz in June 1998, deadly clashes that left many dead and tens wounded.

Though the other countries, the GCC and Iraq, had not concluded any such programmes with the two institutions, they had actually taken similar measures to reduce subsidies, liberalise prices, and introduce some reform measures.

Market mechanism was introduced in Iraq when price controls on some goods produced by the private sector were lifted in August 1988. Prices began to rocket and many complains started to appear in the local newspapers. This "forced" the government to reinstate the central pricing committee on April 1989. Two months later, it announced a one year price freeze for goods and services produced by the state's enterprises, obligated retailers to put price tags on all goods, and reactivated price monitoring. Finally on July the same year the government announced the first pay rise, in 10 years, for state employees and the continuation of the annual $750 million food subsidy.[4]

Moving from price increases and subsidy reduction to revenue augmentation of the reform packages we could find yet another form of resistance. When a proposal for a new law on income tax in Kuwait, suggesting income tax starting at 5 percent and progressively increasing to 30 percent as a way to address budgetary deficit, was presented for discussion it faced fierce opposition.

Phase two: Liberalisation of Property and Ownership

The primary purpose of this phase is to liberalise property and ownership through privatisation of SOEs and provide legal incentives and guarantees for FDI.

The term privatisation has been used, defined and conceptualised in a variety of ways. However, as a policy initiative privatisation could mean the following: *first* a reduction in ownership base of the state enterprises through a change of ownership from public to private sectors. On the enterprise (micro) level, such a change in ownership structure could be full, total sale-off, or partial, usually through share auction; *second* a reduction in the level of activities of the public enterprise by transferring the provisions of producing goods and providing services from the public enterprise to the private sector while maintaining public ownership of that enterprise; and *third* creation of enabling environment for the private sector to augment its role and functions in the national economy on both or either of ownership and activity axes.

Due to possible limitations on the part of domestic investors, privatising countries are advised to introduce substantial changes in their legal regimes governing FDI to insure the success of privatisation and to attract more FDI.

It is not difficult to see the links of this phase to globalization. The search for profit through the acquisition of both private and publicly owned firms (acquisition through privatisation) world-wide is the main driving force in the globalization process.

Let us first deal with privatisation then we return to FDI.

Privatisation in the Arab Gulf countries could be both an old and new policy initiative. It is old because all of these countries had adopted policies, created specialised institutional bodies and banks and promulgated laws and legislation pursuant to which the private investor was the recipient of various types of state support in spite of the marked domination of the public sector. The Industrial Bank in Iraq, for example, started its operations as early as 1946, and other industrial development banks in the GCC began performing their financial role early 1970s.

On the other hand, privatisation is a new policy initiative since it entails a deliberate transfer of "existing" ownership and or activities from the parastatal to private concerns, and implicit "undertaking" from the state not to engage itself, through total control and acquisition, in these privatised enterprises.

What made all the Arab Gulf countries embark on this new policy initiative of privatisation even though there is a marked difference in economic structure and fortune between some of them?

To answer this question we have to address three main theses: the first is of developmental nature which argues for growing importance of private sector and the need to provide added space for such development; the second is of external nature and claims giving-in to international pressure; and the third is of financial nature and advocates what is known as the fiscal crisis of the state. The financial and pressure theses have more credibility in explaining why the Arab Gulf countries embarked on privatisation (Jiyad 1998a; 1998b).

Indications for actual state detachment in Iraq began to emerge first in the agricultural sector, in 1982, and by 1985 a full-scale state-trimming programme, known at that time as the *Economic and Administrative Revolution*, began to take effect and prepare the grounds for privatisation.

The privatisation programme had practically touched all sectors of the economy: agriculture, industry, trade, health, tourism, banking and insurance, and recreation services.

Between 1987 and 1990, some 80 state owned enterprises were privatised fully, sold out to the private sector, or partially, through a conversion to mixed-sector companies. Only one restriction was introduced in April 1989 according to which private investors were limited to buying one state factory or project, unless the purchase complements the existing business.

The intention could be to prevent developing monopolies and property concentration.

Initially, it appears that privatisation had created an encouraging atmosphere for the private sector as evidenced by the number of private companies operating in the country which, according to the Directorate General of Companies Registration (DGCR), reached a record of 5,308 firms by the end of 1992. These registered companies were capitalised at about $8 billion and the government had a minority interest (less than 50 percent) in only 42 of them.[5]

However, the privatisation programme as well as the entire economy of Iraq had suffered catastrophic setback due to the Gulf War. Therefore, our assessment of this privatisation experience will, basically, be limited up to 1990 and not beyond.

Ministerial debates on privatisation in Yemen led by January 1995 to a decision which furnished the general principles and directives of privatisation in the country. These directives encompassed the usual objectives of privatisation: state withdrawal from production sector, reducing the financial burden on the state, increasing economic efficiency, expanding the base of property ownership, employment retrenching and the government's expressed desire not to see privatisation as the cause of social tension.

Privatisation strategy was to privatise loss-making SOEs first, continuation of "leasing" some establishment to the private sector, and finally privatising profit-making establishments through public offering at a later stage. (Saghir 1995).

Within these efforts of privatisation, Yemen adopted, as mentioned earlier, a three-year IMF/World Bank programme for economic reform in 1995 which then, in 1997, was prolonged for another three years. Furthermore, as part of its economic reform and in support of privatisation efforts Yemen was planning to put in action its Stock of Exchange in 1998.

A financial survey in 1992 showed that 37 large SOEs, each with more than 300 employees, attained operational surpluses. These were out of 140 registered SOEs employing a total of 76,000 persons. Most of these were loss makers and many were either bankrupt or closed. Approximately 30 thousand employees continued to receive their salaries from the Ministry of Finance even though their SOEs were closed.

Privatisation policy in Oman was finally rested on operational grounds by virtue of Royal Decree no. 42/96 which took effect on 15 June 1996. Privatisation, according to the Decree, has become an integral part of the Sultanate's economic policy, and a Ministerial Committee for Privatisation was formed to draw the related programme. A set of 10 *policies* and 10 *guidelines* governing privatisation was incorporated in the Decree. The policies include provision related to what to privatise first (productive service sector), partial privatisation, transparency, competition, FDI, protection of the environment, public relation, and privatisation proceeds. The guidelines include provisions related to bids selection, public offering, taxes, loans, employees and management.

This decree was intended to reinforce privatisation orientations of the country's Fifth Five-Year Plan 1996-2000, which envisaged private sector relative share in capital formation to increase from 38.1 percent during the fourth plan to 53.3 percent during the firth plan, and privatisation programme alone will contribute by 13.8 percent (Oman 1996).

As a policy initiative, privatisation has been under official consideration for quite some time in Saudi Arabia. The 1990-95 development plan contained some measures necessary for the privatisation process such as the establishment of an organised stock exchange, incentives for new share-holding companies, and providing more credit, by the commercial banks, to privately owned production projects. Also the development plan 1995-2000 envisaged an increasing role for the private sector.

The government announced, in May 1994, a plan to privatise a large number of its public enterprises, the value of which was estimated, then, to be more than $7 billion. A special "Ministerial Committee" was formed to examine the possibilities for transferring some state ownership to the private sector. The said committee presented its report to the Council of Ministers, which after discussion in December 1995, referred that report to the "General Committee" of the Council to study it and make the necessary recommendation about it. Finally, the Council discussed in August, 1997 the issue of privatisation and decided to increase the share of the private sector and enhance its contribution in the national economy.

To this effect, the Council spelled out 8 *objectives* and 4 *guidelines or considerations* that should govern the program. Objectives of privatisation includes: 1- greater participation of private sector investment in the national economy and increase its share in the GDP to achieve development of the national economy; 2- widening the property base of productive assets; 3- provide incentives for domestic and foreign capital to invest locally; 4- increase employment opportunities, optimal utilisation of the national work force and the continuation of fair increases in income; 5- enhance efficiency level of the national economy and increase its competitive strength on regional and international levels and to face the challenges and requirement of WTO membership; 6- provide timely services to citizens and investors at reasonable cost; 7- rationalisation of public expenditure and relief for state budget by allowing the private sector to finance, operate and maintain some of the services which the sector is capable to run; and 8- increase state revenues through privatisation proceeds as well as concession.

To achieve these eight objectives four consideration has to be observed: 1- An integrated programme, including necessary legislation, should be prepared to create economic environment conducive to investment, increase competitiveness and provide equal opportunities for the qualified private sector; 2- Gradualism and selectivity in both methods of privatisation and what to privatise; 3- When deciding on what to privatise, due consideration be given to possible effects on economic growth, on state budget, on national employment, on recipients of fixed income, and on peoples employed by concerned activity, and 4- Maintain the state's role in providing the necessary services and social security.[6]

The above guidelines adhere to most of the known arguments for privatisation, as mentioned above in privatisation paradigm. In addition to its apparent cautious orientations in terms of scope, speed, and approach, these guidelines tend to provide some assurances and safeguards against possible social detrimental impacts of privatisation. Furthermore, they clearly indicate to a learning curve from others' experience with privatisation in the Arab countries, such as Egypt, Morocco and Tunisia, as well as other developing countries.

The daunting and most important task now is on: *how* to translate these 8 objectives and 4 considerations into operating mechanisms and enforceable guidelines; *what* are the steps and procedures of implementing the programme; *which* level of the state bureaucracy is going to be in charge of which function; and *when* the privatisation process will be set on course, and *what* is its time frame.

Abu Dhabi, UAE, had approved recommendations by consultants on privatising several major industries, including the vast petrochemical industry. Ownership of a number of GIC - General Industry Corporation- run industries would be transferred to the private sector when these industries become profit-making. Some 40 industries were selected for privatisation from a list of more than 100. We assume, therefore, that some form of restructuring and commercialisation will take place before these 40 enterprises go for actual privatisation.

The World Bank had conducted a study, in 1993, on Kuwait and recommended privatization of more than 70 SOEs with total value of $3.6 billion. So far, however, little has been privatised: very marginal shares of Kuwait Investment Authority in some financial institutions, and Kuwait Airlines.

Bahrain managed to privatise some of its SOEs in the industrial, agricultural and fishing sectors. For example, the government sold before the Gulf War 20 percent of its share in one aluminium company to the private sector, and further offering was made in 1995. Similar percentage of government share in food manufacturing SOE was sold in 1994 through the Bahrain stock exchange. Nevertheless, the public sector still maintains a leading position in the manufacturing sector. Total industrial investment in Bahrain reached $4.4 billion at end 1996, 87.1 percent was by the public sector, which employed 64 percent of total 8074 worker engaged in the industrial sector.[7]

All the Arab Gulf countries had actually taken particular steps to augment the role of the private sector in the their economies. They differ though in the scale, scope, speed and sectoral distribution of their privatisation efforts. Among them the Iraqi privatisation programme is the most radical and effectively implemented, the GCC countries are mostly cautious and slow, and finally the Yemeni programme is somewhat in the middle.

Now we return to FDI in the Arab Gulf.

Privatisation could facilitate and attract foreign investors but does not guarantee its level, distribution among economic sectors and magnitude. Therefore, privatisation efforts accompanied by other legal and institutional changes could, and were indeed recommended by, for example, the Foreign Investment Advisory Service (FIAS) attached to the World Bank, not only induce foreign investors but also attract offshore/flight capital to fly back home.

All of the Arab Gulf countries had enforced various measures to encourage and attract FDI both Arab and non-Arab. Oman, Dubai (UAE) and Bahrain, for example, allows foreign ownership to reach 100% in some industrial projects. Saudi Arabia has been implementing the 'offset programme' for many years by now. According to these programmes, the foreign exporter had to reinvest a portion of own turnover in the importing country by participating in private sector projects, eventually privatisation as well. Kuwait also established her 'offset programme' in July 1992; In UAE, Jebel Ali Free Zone in Dubai, set up in 1985, allows 100 percent foreign ownership and now host more than 500 companies. Similar zones in Abu Dhabi, Sharjah and Fujairah are underway; Foreign participation is allowed in Kuwait banking and insurance industries up to a maximum 40 percent of equity, and Kuwait is considering further incentives to FDI in other sectors as well; In Qatar, foreign investors are allowed a maximum share of 49 percent in joint ventures in certain areas; A Yemeni investment law was passed in 1991 according to which the General Investment Authority, a 'one-stop-shop', was established to assist foreign investors, and many incentives, including a five-year tax exemptions, were provided by that law.

Few changes in the Iraqi legal regime were introduced as well. In 1988, Arab Investment Law 46 was passed to encourage Arab entrepreneurs investing in the country. Law No. 45 of 1989 which amended the Commercial Agency & Intermediation Law No. 11 of 1983 was promulgated to repeal the strict prohibitions on commercial agents and intermediaries in connection with sales to government entities and to facilitate private sector involvement in such commercial activity (Stovall 1989).

Yet, the inflow of total FDI was both low and declining. On average, the region attracted only $1 billion per annum during 1991-95 compared with $1.91 billion in 1990 and $1.3 billion during 1984-89. On the country level, Saudi Arabia had the lion share in both total FDI and in the total reduction of FDI; Bahrain and Iraq had became worse off and suffered an FD 'devestment'; Qatar and Yemen enjoyed progressive growth in FDI all along the three periods; UAE and Kuwait had shown recovery in attracting FDI during 1991-95 compared with 1990; and Oman, like Saudi Arabia, had lower average FDI in 1991-95 than it was five years.[8]

Undoubtedly, this unimpressive, or rather disappointing inflow of FDI is behind many repeated calls to introduce the necessary changes in their legal regimes in order to provide more incentive to and attract FDI and to support privatisation efforts. Needless to say that the GCC suffers no shortage of capital at all. In fact Arab offshore capital, mostly from GCC states, could range from $200 to $900 billion, and a fraction of that would be sufficient to compensate any reduction in FDI. [9]

Having said this, non-financial aspects of FDI could provide the motivations: there is know-how, high-technology, and international-networking aspect of FDI which could be as important as the capital considerations.

Unlike the GCC, Iraq and Yemen are in desperate need for more FDI. Though on average Yemen had a progressive trend in attracting FDI, the level is still very modest. As for Iraq, there is a very long way to go before she could become, if at all, an FDI magnet in the region despite the fact that directives had been issued, in May 1997, to set up free trade zone at *Khor al-Zubair* port on the Arab Gulf. According to the directives, the zone is designed to serve as an Arab and international trade centre, and will be exempt from Iraqi tax, import and export laws and will provide fees-free service to foreign investors. However, the oil sector is going to be the most attractive to FDI once the sanction is lifted and Iraq is allowed to return to normality. Already the country had concluded many participation agreements with Turkey, Russia and China, other agreements with Canadian, French and Italian firms are in the pipeline.

Liberalization of property and ownership as evidenced by privatisation and opening-up for FDI is therefore taking root in all of our countries through declared policies, actual specific programmes, and legal settings.

Phase three: Regionalism and Multilateralism

We have gone briefly into the main three instruments for stronger multilateral setting: the WTO, MAI and ILO Labour Standards.

Only four of our eight countries are members in WTO: Bahrain and Kuwait joined in 1995 and Qatar and UAE joined a year later. Both Oman and Saudi Arabia are negotiating their membership conditions and, therefore, they acquired observer status. Iraq and Yemen are, for the time-being, outside WTO.

After the Uruguay round was concluded and WTO agreement was signed many developing countries, institutions and multilateral organisations had taken stock of the situation and reflected on the whole exercise.

It appeared that most developing countries were not well prepared or aware of the real implications and requirements of the new organisation when they signed-up. That was partly due to lack or limitation of institutional capacity; to the symbolic, bureaucratic or "diplomatic" participation; or have been overloaded or overwhelmed by requirements and overtaken by the urgency of concluding the agreement. This is evident by the fact that many serious issues began to arise by the developing countries only after they have signed the agreement and applied for WTO membership.

There are many in the Arab Gulf who express some concerns on whether membership in WTO could- in the future - have some serious consequences on the country's sovereign rights to act, for example, within OPEC to decide the price of oil even though oil is outside the domain of WTO for the time-being. In other words, will there be a conflict between the membership in both organisations, and if so which one has the precedence. What is worrying to some in this respect is the fact that WTO, unlike OPEC, has a system or enforcement mechanism based on rules to settle trade disputes between governments.

Another potential difficulty could arise from the lack of "co-ordinating forum." In the previous rounds within GATT, developing countries had benefited from their collective efforts within G77 or through UNCTAD to prepare positions, clarify issues and benefit form each other's experience. The possibility of forming subgroup within WTO seems very slim and remote indeed, though possible. However, the main decision-making bodies of WTO are councils and committees consisting of the *entire* membership of the organisation.

To overcome these shortcomings, as far as the Arab countries are concerned, UNCTAD and UNDP organised a brainstorming meeting in February 1998 for about 50 experts, ambassadors, trade representative and economic counsellors of Arab countries accredited to UNCTAD and the WTO. The main objective of this gathering, which was ahead of the second Ministerial conference of WTO held on May same year, was to exchange views between the participants and international experts on the implementation of the Uruguay Trade Round results, and to discuss preparations for the launch of new trade negotiations.[10]

This state of non-readiness could cause further inequality of partnership between WTO members and cast serious doubt on the possibilities of actually benefiting from globalization.

MAI could have more direct implications on the Arab Gulf if and when the agreement is concluded on one hand and if it is incorporated within the umbrella of WTO. Apart from MAI all the countries under study had concluded large number of various international treaties related to foreign investment. Some of these treaties are multilateral, others are regional and the majority are bilateral (divided between two main areas one related to promotion and protection of FDI, and the other for the avoidance of double taxation).

Considering the significant number of expatriates in the Arab Gulf, especially in the GCC countries, ILO's Labour Standards could have far-reaching consequences on the legal settings and social policy in these countries. As mentioned earlier the international labour standards which had been adopted by ILO in June 1998 encompasses a universal respect for fundamental human rights in the workplace and provide supervisory mechanisms to promote these principles and monitor universal compliance. This, if implemented in an enforceable manner, could have, as we shall see later, a razor edge effect which might constitute an economic-political dilemma.

Arab efforts: Regionalism and Globalizm

However, one of the positive side effects of globalization is the injection of fresh blood into the ailing Arab co-operation in the economic and trade areas.

As mentioned earlier MFN principle under WTO implies that if a country offers another country a concession on trade policy it will automatically offer the same concession to all other countries which are party to the agreement. However, an exemption from the provision of this principle was granted to countries when they inter into, or are already party to, some sort of economic groupings or regional arrangements. In other words, the MFN principle had eliminated the role and advantages of bilateral agreements since party nations are required to generalise the exemptions, priorities, preferences and concessions granted according to such bilateral agreements to all members of the Organisation. This by itself provides strong impetus to strengthen regionalism.

It is rather paradoxical to see that WTO membership had prompted the Arab countries to reactivate their somewhat failing co-operation in trade which began as early as 1953. Within ten years, starting from January 1998 the Greater Arab Free Trade Zone (GAFTZ), finally became operational according to a new Implementation Programme agreed upon in February 1997 by the Economic and Social Council of the Arab League.

Also Labour Standards might motivates the GCC countries to examine seriously their employment fundamentals and rethink labour market mechanisms on the direction of enhancing local and Arab natives employment, thus strengthening regionalism via proper inter-Arab labour movement.

It seems, from our analysis so far, that the Arab Gulf, willingly or not but at varying degrees and speed, is heading for globalization. In other words, globalization is an inevitability. Hence, the process puts before the countries some serious challenges and also offers some opportunities. All could have important impacts and significant implications for human development in the region, as we shall turn to in the following section.[11]

PART TWO: HUMAN DEVELOPMENT: CONCEPT AND PARADIGM

Literature and scholarly work on human development reveals many interesting trends and induce us to make some observations. First, the concept had attracted interdisciplinary contributions and orientations. Reference to and emphases on "human good", "flourishing lives" and human beings as the "real end" of all activities were made and are found in the writings of various philosophers from Aristotle to Emmanuel Kant and among the leading political economists from Adam Smith, Ricardo, Malthus, Marx and John Stuart Mill. In other branches of knowledge- the field of managerial and industrial psychology- Abraham Maslow had actually brought to the fore the very essence of contemporary human development thinking when, in 1954, he came up with the theory of human "hierarchy of needs.” He argued that human needs are hierarchical by nature and when man is assured of all those needs he can then be able to reach and use his full potential (Maslow 1970; 1980). Contemporary scholars and philosophers have enriched the debate on human development greatly. Very briefly, Amartya Sen conceives development as an expansion in positive freedoms; Martha Nussbaum distinguishes between internal capabilities of a person and external factors that facilitate the exercise of such capabilities; and James Griffin's prudential values covers everything that makes a person's life better.[12]

Second, though much emphases has been directed in the last twenty years or so, especially by the commencement of this decade, to human development the concept reflects the dominant trend in development theory on one hand and has been associated with the notion of capital on the other. And this is not surprising since capital- in its broader sense encompasses physical, natural, human and social- is considered as the catalyst of growth, and the latter is a necessary, though not sufficient, condition for development.

Development economics after World War II and the whole of the 1950s was predominantly concerned with *growth in average income-* GDP per capita. Then the concept of *human capital* arose in the 1960s emphasising the qualitative aspects of human inputs, namely skills and education, in wealth generation and capital accumulation. A shift towards issues of *income distribution* had taken place by the 1970s in response to the failure of the then adopted development strategies to have significant impacts on reducing poverty. That switch to distributional aspects of growth facilitated the emergence of *Basic Needs* strategies, a fundamental element of them was the concept of human development and its relationship with income growth. The Club of Rome on its part called, in mid 1970s, for the creation of a *Quality of Life* index to measure development and economic welfare in and between nations. Recently, attention has been directed towards another important dimension of human input in community development and well-being, and that is the *social capital*. (Schurmann 1994).

Our third observation relates to conceptualisation and measurement of human development. Considering the fact that human development has been conceptualised in a variety of ways emphasising many and diverse issues, this by itself has some implications on the measurement of such development. Naturally, measures are needed and used for planning, comparison and decision-making purposes, and they are meaningful when real accurate and sufficient data are available. Thus, it would not be possible to construct a measure based on a philosophical conceptualisation unless such is translated into quantifiable variables. This explains why we find a significant gap between the richness of conceptualisation and the limitation of measurements of human development, albeit their number grew vastly.
Nevertheless, the granted attention to human deprivation and development had boosted the efforts to arrive at some yardsticks for measurement, and led to an unprecedented mushrooming of various indices, indicators and formulas, only few of them are considered here.[13]

The US Overseas Development Council, motivated by that call from the Club of Rome, proposed the Physical Quality of Life Index *(PQLI)* to assess progress in terms of human welfare. The *PQLI* combines three indicators- life expectancy, infant mortality, and literacy- into an equally weighted composite index. However, while some empirical work had proved that *PQLI* as defective since its three independent variables were closely correlated and any one of them could give the same result, and the Index could rank most countries similar to that of GNP per capita (Larson and Wilford 1979); others found it difficult to accept its results without a stronger theoretical foundation (Hicks and Streeten 1979); and others even question its usefulness to assess the well-being of the poor people (Greeley 1994).

When the UNDP launched its first issue of Human Development Report *(HDR)* 1990 it constructed a composite Human Development Index. The three components of *HDI* are: life expectancy, representing a long and healthy life; educational attainment, representing knowledge; and real GDP (in purchasing power dollars), representing a decent standard of living.[14] The successive HDRs came with many new composite indices, in addition to the improvement in the main HDI, while others were dropped.[15] The HDI measures the average achievements of a country in basic human capabilities. It indicates whether people lead a long and healthy life, are educated and enjoy a better and decent standard of living. The Gender-related Development Index (GDI) measures average achievements of a country in basic human capabilities as the HDI does, but take note of inequality in achievement between men and women. The greater the gender disparities, the lower a country's GDI compared with its HDI. Gender Empowerment Measure (GEM) examines whether women and men are able to actively participate in economic and political life and take part in decision-making. So, while GDI focuses on the enhancement of basic capabilities of women, GEM is concerned with the utilisation of those capabilities to take advantage of the opportunities of life. (UNDP, HDR 1995).

Then in 1996 HDR (UNDP 1996) introduced a new multidimensional measure of human deprivation: the Capability Poverty Measure (CPM). The measure is composed of three variables having equal weight in the index, expressed in percentage terms they are: Births unattended by trained health personnel, underweight children under five, and female illiteracy rate. A lower value of CPM is better.[16] The CPM was elaborated and improved further and replaced, in HDR 1997, by a new Human Poverty Index- HPI. Unlike CPM, HPI was intended to measure deprivation in terms of five, instead of three in CPM, variables: people expected to die before age 40; adults who are illiterate; people without access to health services; people without access to safe water; and underweight children under five. Again, like CPM, a lower value of HPI indicates improvement against poverty.

As was the case with *PQLI*, HDI had been subject to many criticisms and drawn some controversies related to: limited dimensions and variables, quality of data, the way in which income variable is treated, and suggestions to add political freedom, cultural values and environmental sustainability.[17]

Concerned with agriculture and rural population, the International Fund for Agricultural Development (IFAD) had constructed five basic composite indices, all of them relate to human development in one way or the other: Food Security Index, Integrated Poverty Index, Basic Needs Index, Relative Welfare Index, and Women's Status Index.[18]

UNICEF came, in 1995, with a measure of relevance to children's health and education: National Performance Gap. *NPG* is the difference between a country's actual level of progress in under-five mortality rates (u5mr), malnutrition rates and the percentage of children reaching grade 5 (crg5) on one hand, and their respective expected levels for that country per capita GNP. And when the actual performance of individual countries diverge (lower) from this trend line- the expected level of performance- a performance gap emerges (UNICEF 1995).

It is apparent, therefore, that though there are many indices or measures which can be used to assess various dimensions of human development, none of them can capture in full what the concept of human development is all about. This is not a critique of the inability to invent a suitable index but an admission and recognition of the fact that there is no universal and quantifiable human development concept.

Fourth observation on internationalisation of concerns on human development.

Withholding the fact that concerns on human development, as mentioned earlier, goes back to ancient times an unprecedented and impressive international attention has been directed to human development from 1990 onwards. This again reflects the deficiency of the dominated developmental paradigm that prevailed since the commencement of previous decade.

Most of the decision makers in developing countries, international aid community, and observers of development were very much preoccupied with the reform and restructuring policies which dominated the entire decade of the 1980s. Much of the hopes and optimism of these policies evaporated and it became apparent, by the end of that decade, more deprivation and further deterioration in human conditions had actually taken place.

The disappointing results of that decade had led to the "rediscovery" or "remembrance" of poverty on one hand and renewed emphases on human development on the other. This is why an increasing international attention has been directed towards these two issues ever since. Such attention has manifested itself through the intensive efforts by the World Bank, UNDP, IFAD, UNCTAD, UNICEF, and a long list of other IGOs and NGOs. The fact that reducing poverty, decreasing unemployment and enhancing social integration were the three interrelated agenda items for the World Summit for Social Development, held in Copenhagen in March 1995, is by itself an indication of the gravity of poverty worldwide and the importance of human development.

International agencies engaged in development had demonstrated marked commitment to combating poverty since the beginning of the 1990s, and naturally enough this objective had intertwined with some fundamental elements of human development. The World Bank's World Development Report *(WDR)* 1990, for example, had proposed a strategy for sustainable poverty reduction based on two premises: first, broadly based economic growth generates efficient income-earning opportunities for the poor, and second, improved access to education, health care, and other special services helps the poor take advantages of these opportunities. This in a sense implies that poverty eradication leads to better human development and also human development eradicates poverty.

Not surprising, therefore, to see the concept of human development becoming, in the decade of 1990s, the central theme in a number of major international conference: on Environment and Development- Rio 1992, on Human Rights- Vienna 1993, on Population and Development- Cairo 1994, on Social Development- Copenhagen 1995, on Women- Beijing 1995, and on Human Settlements- Habitat II, Istanbul 1996.

The Rio declaration proclaimed that all human beings are entitled to a healthy and productive life in harmony with nature; Vienna conference reiterated the importance of fundamental human rights of all people, and urged the eradication of all forms of discrimination against women; Cairo programme of action called for improving the quality of life of all people; Copenhagen declaration called to meet human needs more effectively; Beijing Declaration and Platform of Action agreed that women participation and access to power are fundamental to the achievement of equality, development and peace; and finally, since improved housing conditions have an immediate and direct impact on human development, Habitat II made adequate shelter for all one of its two main themes.

Human development paradigm

Human development, mostly elaborated by UNDP, contains many concepts. Initially, four of such concepts were seen as "essential components" of human development paradigm (UNDP 1995: 12): *Productivity*: implies the enhancement of peoples' productivity and their full, better and enabled participation in the process of income generation and remunerative employment; *Equity*: comes with providing accessible equal opportunities by effectively eliminating all and every barrier to economic and political participation; *Sustainability*: insures that all forms of capital- physical, human, environmental- should be replenished, i.e., inter-generational equity; and *Empowerment*: means development is *by* people, not only *for* them, i.e., participatory development. However, it is evident from further discussions and analyses that an element of dynamism and evolution was needed since human development as a concept as well as a paradigm is not fully developed and widely recognised. Therefore, in the light of further discussion, analyses and criticisms the HDR 1996 had broadened the concept to include some new dimensions: *Co-operation*: demonstrates the concerns with people as individuals and their interaction within the community; *Security*: encompasses freedom from threats, repression, hurtful disruption in daily life, unemployment.

The introduction of *Co-operation* was attempted to incorporate the concept of "social capital" into the human development. Also the inclusion of *Security* fits with the calls for UN reform to include "economic security" as one of the responsibilities of the Security Council; in response to food security concerns raised, inter alia, by IFAD, and to accommodate the "hunger" perspective: adequacy of supply of food to all at all times; and finally, to reintroduce human rights issues.

In addition to this conceptual formulation, vast empirical investigations, mostly supported by the experience and performance of the East Asian 'miracle', had arrived at conclusions in support of human development and its contribution in nations' progress. A World Bank study on 192 countries had echoed such importance of human development when it concluded that physical capital contribute by 16 percent, natural capital by 20 percent and human capital by an outstanding 64 percent in national wealth (World Bank 1995). Also a cross-country econometrics exercise (UNDP 1996: 113-4) showed strong links between human development indicators (life expectancy, child mortality rate, equitable distribution of income, share of GDP invested in health and education and social expenditure) and economic growth indicators (higher levels and growth rates of per capita income)

Based on the above brief survey an attempt is made here to define the *concept* and construct the *paradigm* of human development.

For me, the concept of human development is defined as an enhancement of people's capabilities, choices and contributions- the (3*Cs*)

The term *enhancement* implies that human development is a dynamic, evolutionary and continuous process. Such enhancement can take the forms of *"more"* -quantitatively, *"better"* -qualitatively or *"new"* in any one of the (3*Cs*)

The term *capabilities* comprises all aspects of human physical, intellectual and social endowments. It includes variety of needs the proper satisfaction of which is necessary to enhance a person's capacities and abilities such as good health, nutritious food functional education, convenient housing, clean environment, safe neighbourhood, etc.

The term *choices* is centred around the concept of "free to/free from": free to take and make a decision- let it be of economic, political, associational, residential, or habitual nature; and free from fear, hunger, unemployment, exclusion, discrimination, persecution etc.

And finally, the term *contributions* incorporate the necessary participatory harmonious relations between the individual and community- let it be local, national or humanity at large.

And human development paradigm addresses the functional relationships between, and the nature of, these three components or dimensions (3*Cs*):

- Enhancement should take place simultaneously or in parallel on all the three dimensions of capability, choice and contribution;
- Each of these three components comprises many *levels* or sub-dimensions, which in turn comprises many levels, and so on;
- While the first two, i.e. capabilities and choices, are largely centred around the individual, the third component, i.e. contributions, is the bond between the individual and society.
- The conceptualisation of human development, in addition to being multidimensional, must be internally consistent as well. In other words, the three components are dependent on and enforce each other, i.e., mutually inclusive. Sacrifice of one component for the sake of one or both of the other components serves no good purpose. This conceptualisation also draws on and captures the necessary balance between rights and obligations; means and ends; consumption and investment; current and future; the individual as a consumer and as creator of wealth, which in turn accommodate for the inter-generational links and needs.
- Finally, each of the three has both intrinsic and instrumental values.

Though the border lines could be very thin indeed, between them the 3Cs actually accommodate most, if not all, important concepts of human development which have emerged in the last few years, as we have seen above. Capabilities and Choices could very well suggest empowerment, productivity, security and equity; and Contribution indicates co-operation, participation and sustainability.

PART THREE: GLOBALIZATION AND HUMAN DEVELOPMENT

The fact remains that human development, as the case with globalization, is a multifaceted as well as inter-paradigmatic issue which cannot be addressed sufficiently from a narrow perspective. Our perception of a three dimensional and multilevel paradigm is a reflection of this reality. But for practical considerations, due to space, time, data, and scope, we have to be selective in what to cover in our discussions on the likely effects of globalization on human development. A selection which reflects the nature of the proposed paradigm.

Methodologically, this part is structured in the following manner: for each of our three dimensions a proxy (or proxies) is chosen, brief of the contending arguments is presented, and finally statistical date or other information are used for the analytical purposes.

The capability dimension: health, education and income

To begin with, we consider UNDP's HDI as proxy for the capability component of our human development paradigm, since HDI is a composite of health, education and income variables all of which are determinants of and fundamentals for human capability.

Globalization (through privatisation effects on efficiency and resource allocation as well as other liberalization measures) could release significant financial resources and re-channelling them to improve standard of activities provided by the social sector such as education and health. Furthermore, introducing some privatisation methods into education (beyond states' obligation for, say, primary schooling or pre- higher education) might improve educational standards and structurally transforming it to cater for employment market requirements. The same is also valid for health services (beyond states obligation to provide preventive and treatment health service for fixed and low-income groups). In other words, private involvement in education and health sectors could bring with it more investment, more competition, better service, and wider choices. Successful liberalization and privatisation programmes could also accelerate growth, boost domestic investment and attract foreign capital, generate employment and increase (per capita) income.

On the other hand reform packages calls for restoring budgetary balance through, mostly and immediate, reduction in public expenditures. This could very well lead to a shrink in funds allocation for the social sector and contraction of public works investment. Furthermore, private sector involvement in health and education services could lead to public-private "Dutch disease": migration of human resources from public to private sector, thus affecting the performance of the public sector and this in turn undermines the services it renders to the majority of population with fixed and low incomes.

No one disputes the fact that the Arab Gulf countries had, since early 1970s, achieved very impressive progress in human development. However, while these countries continued to make some significant progress, they also witnessed serious setbacks during the period 1990-1994.

There are few trends which indicates rather some degree of fragility and vulnerability of the capability dimension as measured by our proxy of HDI:

ONE: The comparative levels of HDIs and their progress during these years since 1990 show some discomforting trends after an impressive progress attained by all countries during 1970s and 1980s.

The four countries, Iraq, S. Arabia, UAE and Yemen, for which an inter-temporal HDI was possible to construct, the Index had increased between 9.4 percentage points (for Yemen) and 17.6 percentage points (for Saudi Arabia) in 1990 compared with their levels twenty years or so earlier. But since 1990 improvement in HDI, as elaborated below, has been either very slim or even negative.

But the incremental improvement in the value of HDI and its trend is not comforting, and this is true for the GCC and even more alarming for the other two Arab Gulf countries: Iraq and Yemen. While human development in all Arab Gulf was better in 1994 compared with 1990, the situation in Iraq had been on a course of digression: from bad to worse to sever deprivation.

Progress and deprivation in human development (measured as the periodic difference in the value of HDI multiplied by 100) ranged from negative (-5.8 percentage point) in Iraq to negligible level (0.3 percentage point) for Oman, and to approximately 13 percentage point in UAE and Yemen, as illustrated by the following chart.

The annual percentage change in all GCC HDI has been, except for the UAE in 1993, consistently on the decline from their levels of 1992. And while all of them grew in 1992 by rates ranging from 0.6 percentage point in Kuwait and 7.2 percentage point in Bahrain, by 1994 all of them had much less than one percentage point improvement on previous year. This might suggest that human development in the GCC is approaching a plateau and the incremental improvement in such a situation could only go downwards in percentage terms. A plateau levelling could be a possibility for those countries whose HDI value had crossed the 0.800 level such as UAE, Bahrain and Qatar. Higher marginal progress in HDI is, therefore, envisaged for Oman and Saudi Arabia since their own HDI values are still under 0.8 level, and for Kuwait which is determined to regain her 1990 leading HDI rank among the GCC.

However, the most troubling among all is the increasing level of human deprivation in both Yemen and Iraq. After achieving an impressive 9.1 percentage point progress in the Yemeni HDI in 1992 it dived deep into less than half of that to only 4.3 percentage point in 1993, and worse still when it went into negative territory of -0.5 percentage point in 1994. As for Iraq, human deprivation has getting deeper and rapidly too.

After a modest 2.5 percentage point improvement in 1992, HDI slipped immediately by -1.5 in 1993 and by further -6.8 in 1994 reflecting deteriorating living conditions under the imposed sever sanction and absence of normality in economic activities. (Apart from Iraq and Yemen, two other Arab countries had also registered negative changes in their HDI in 1994 in comparison with 1993. Jordan with -1.1 and Sudan with -2.6).

The dramatic reduction in Iraq's HDI value from 0.599 in 1993 to 0.531 in 1994 (or by -6.8 percentage point) was caused by unprecedented -13.8 % (decline) in life expectancy, by -7.4% (reduction) in real per capita GDP, and by -3.8 % (decline) in overall gross school enrolment ratio.

Regional disparity or the gap in HDI values among the Arab Gulf is, naturally, wide but declining. Since Yemen has the lowest HDI during the entire period it represents the lower bound (1) of the gap, while Kuwait then Bahrain occupies the upper bound. In 1990 the gap was 1:3.5 with Kuwait, then went down to 1:2.7 with Bahrain in 1992, and finally to 1:2.4 with Bahrain also both in 1993 and 1994.

TWO: Despite the importance of HDI, as proxy for enhancement in people's capabilities, it appears that using other human development related measures could give us a different picture. Therefore, we have incorporated HPI and NPG to shed some light on further aspects of human development.

Three countries (Iraq, UAE and Yemen) are among 78 developing countries for which Human Poverty Index was compiled. This index measures how much of the population, in a percentage term, are affected by human poverty. As mentioned earlier HPI measures deprivation in terms of five variables: people expected to die before age 40; adults who are illiterate; people without access to health services; people without access to safe water; and underweight children under five.[19]

While it makes no surprise to see Iraq and Yemen included in the list since the two have the lowest HDI among the Arab Gulf, it is very surprising indeed to see UAE, which has the second best HDI of 0.866 and $16,000 real per capita GDP in 1994, occupies HPI rank 14 among these developing countries. In fact Jordan has more favourable HPI rank 8 even though it has 0.730 HDI and a per capita GDP of one-fourth that of UAE. In other words, around 15 percent of the population in the UAE suffers from human poverty as compared to around 12 percent in Jordan.

Another aspects of human development, a National Performance Gap (NPG) which is related to children, was suggested by UNICEF to measure the difference between a country's actual level of progress and the expected level for its per capita GNP. And when the actual performance of an individual country diverge (i.e. lower) from this trend line- the expected level of performance- a performance gap emerges.

Actual under-five mortality rate- u5mr- (per 1000 live birth) in 1993 was less than 40 in the GCC, 71 in Iraq and 137 in Yemen, comparing with expected u5mr of 25 in the GCC, 38 in Iraq and 105 in Yemen. Obviously the NPGs (expected-actual) were all negative indicating, according to the NPG criteria, that in spite of the progress achieved by reducing this type of mortality rate what has been achieved was much less than what it should have been considering the level of GNP per capita. As one expects, though, the *depth* of this gap is not unified across the Arab Gulf: ranging for the GCC between (-2) in Kuwait and (-16) in S. Arabia, and (-33) and (-32) for Iraq and Yemen respectively. And by way of comparison with other Arab countries, the u5mr NPGs were also negative in Lebanon (-5), Sudan (-9) and Algeria (-31), but positive Morocco (1), Syria (13) and Egypt (30), while remained at zero in Tunisia.

The other performance gap deals with percentage of children reaching grade 5 of schooling (crg5). The situation here is rather different from the previous one whereby some have performed better while others worse than expected. Countries with negative (crg5) NPG were Oman (-3), Kuwait, Iraq, and S. Arabia (-19), and those with positive performance were UAE (3) and Yemen (7). Furthermore, all other Arab countries had scored positive marks ranging between (2) in Morocco and Sudan, and (29) in Egypt.[20]

The above discussion clearly indicates that in spite of high level GDP per capita and, accordingly, high ranking HDI for the GCC more needs to be done to enhancing peoples 'basic' capabilities in health, education and poverty eradication. The same is applied, of course, to low ranking HDI Iraq and Yemen.

THREE: The profile, or the comparative structure, of HDI in these countries indicates some degree of "imbalance" in the magnitude of the three components of HDI: LEI represents life expectancy index, EI is education index and GDPpcI is GDP per capita index. The following figure presents a profile of HDI in 1994 in the eight countries under study.

The above chart revels many interesting features. Though the GCC countries had, more or less, similar level of income index, they demonstrated very divergent levels of educational performance and a less divergent life expectancy index. In fact, the income factor had contributed to lifting HD level upward in these countries. On the other hand, we noticed that the income factor has pushed HDI in Yemen downwards. Furthermore, though both Yemen and Iraq had a lower HDI than Oman, both countries had performed better than the latter in education. Finally, it seems that Iraq is the only country which has, in spite of or because of the prolonged sanction, a somewhat balanced human development since the values of the three components of HDI, and accordingly HDI itself, are close to each other.

FOUR: purchased HD could be financially possible but socially and politically unsustainable.

Much of the necessary human inputs- for the impressive record of human development in the GCC countries- such as nurses, doctors, teachers, and skilled personnel are expatriates. In Saudi Arabia, for example, 50 per cent of the foreign workers in the civil service sector are in the health sector.

In addition to the fact that total public expenditures in the Arab Gulf (excluding Iraq due to unavailability of data) had increased only slightly from $81.4 billion in 1985 to $82.7 billion in 1995, allocation for budgetary items "public services" and "social services" have declined in both absolute and proportional terms during the ten-year period. Allocation for "public services" declined from $22.2 billion (representing 27.2 % of total expenditures) to $17.8 billion (representing 21.6 % of total expenditures), also funding for "social services" went down from $8.9 billion (10.9%) to $7.5 (9.1%). This indicates a fiscal limitation on further development and investment in people if the financial crisis of the state persists due to, among other things, declining oil revenues (i.e., the external rent).

Even if human development is financially possible and feasible the fact remains that such development is dependent upon expatriates. If for whatever reason they chose, suddenly and at a large scale, to return home the social sector in the GCC countries could witness serious breakdown. Though this might be an unlikely scenario, it nevertheless represents another source of vulnerability for future development which the decision makers have to consider seriously, especially within the socio-political and potential implications of the ILO Labour Standards.

The choice dimension: political openness, civil and human rights

The choice dimension of our human development paradigm centres around, as mentioned earlier, the notion of free to/free from. Freedom (inseparable from rights) is neither finite nor static and, naturally, takes many forms: civil, political, economic, and social, on different levels: individual, communal, and national.
Having said this and considering our proposition that human development is a multidimensional multilevel paradigm I will confine myself here to two issues: human rights and political openness.

In addressing the relationship between globalization (economic reforms, liberalization and privatisation) on one hand and political openness, civil and human rights on the other, we can identify two broad positions. The first argues that serious reforms in the economic domain could lead to some degree of political liberalization. Moving away from total state control entails many substantive changes, mostly in legal regimes, which are not easy to reverse such as laws on private ownership, financial institutions, FDI, taxes and relevant international agreements, treaties and conventions. When such economic liberalization takes place and penetrates deep into various sectors of the economy, they are bound to benefit some segment of society and hurt others in the process. Voices of those benefiting from liberalization (e.g. business associations, chambers of commerce, and new owners of former SOEs) calls for more demolition of barriers to reforms, while those hurt by reforms (e.g. Trade Union, professional associations and those with fixed income) ask for protection and take every opportunities to air their grievances. Environment of debate, dialogue and participation or campaign of protest, opposition and discontent begins to emerge. Terms such as transparency, accountability, good governance and openness are becoming increasingly heard of. Advice, help, or pressure from international community (concerns with FDI, human rights, aid, debt or structural adjustments) could play a role in such development. Civil society emerges, press gains some degree of freedom, political monopolisation weakens, and elections (mostly maintaining the status quo) held regularly. In short, economic liberalization, reforms and privatisation lead (not in a very deterministic fashion though) to some degree of democratisation (controlled political freedom and participation). Post-economic reform Egypt, Tunisia, Morocco and Jordan could provide supportive examples for the proponents of this broad view.

The second position argues that as long as the state is financially independent from domestic pressure (due among other things to externally generated rent and ineffectual domestic taxing system) there will not be a rush for real and significant political liberalization, and economic reforms are either of cosmetic type (for the *Yankees* to see) or they are of minor scale and correlate with the temporary nature of the fiscal crisis itself. Much of this argument is based on the thesis of "rentier states," which mostly refers to the GCC.[21]

In my view the above two arguments meet when a more deep and genuine privatisation (since it deals with real economy and it is, generally, irreversible) occurred and the national economy becomes more globalized this could lead to gradual political openness. However, they differ in degree, magnitude and timing of such effects. In a comparative sense, economic reforms and privatisation have higher probability in inducing political liberalization in a non-rentier than in a rentier states. Therefore, globalization efforts in the Arab Gulf could lead to some relaxation but it will not be similar to those taking place in Egypt, Morocco and Jordan. On the other hand, other ingredients of globalization, namely ILO's Labour Standards, could prove to be effective in the direction of political relaxation and more respect and observance of human rights.

Let me go back to the selected two issues for choice dimension: human rights and political openness.

Human rights issue in the Arab countries is not only a complex and sensitive one, but also subscribe to the ongoing debate between the two major schools of thought on human rights. Briefly: the *universalist-* articulated through Western philosophy and ideological positions, emphasises the universal nature of (individual) human rights, and the *relativist/ culturalist*, emphasises the socio-cultural aspects of society as basis of (individual and collective) human rights. Also human rights as an issue of development in general and of human development in particular have not been conclusive as well. Various trade-offs have been debated in the literature on development, namely: democracy *vs.* development and equality *vs.* growth. Both types of trade-offs argue for a "temporary" waiver of civil and political rights and sacrifice of social justice to generate growth and development. These trade-off arguments have been contested by economic, political economy, and political science disciplines, both on empirical and normative grounds.[22]

The position taken by the Arab Gulf states on various human rights issues can be addressed on two levels: one is the "factual/ operational" aspects which deals with the actual situation (mostly violation) of human rights as reported by various international related agencies- since no national human right organisation is formed in any country of the Arab Gulf; the other is the 'formal' aspect which specify the official legal standing of the countries towards international instruments of human rights. This paper is concerned with the second aspects only.

The formal position of the Arab states towards human rights is rather contradictory: while the majority of them are signatory to many international instruments of human rights, yet they have neither a unified position (in a form of, say, charter) nor institution (organization). Considering the fact that it was formed fifty years ago, not until 1970 the Arab League was able to present a draft for human rights convention, and it is not clear if any of the Arab states had ratified the document. Furthermore, when the Arab Organization for Human Rights (an NGO) was formed, no Arab country allowed the organization to convene its first conference on its territory, and that conference was held in Cyprus in 1982. Four Years later, a Charter on Human and People's Rights in the Arab World was produced, but so far no Arab state has accepted the charter. Finally, when the ECOSOC of the UN granted this Arab Organization a status of an observer, all Arab states opposed that action.

There are eight recognised international instruments (covenants and conventions) related to human rights.[23] The position of Arab Gulf countries towards these human rights instruments as measured by their signatory (as on 1995) is summarised as follows: Oman: 1; Saudi Arabia, UAE and Qatar: 2 each; Bahrain: 3; Iraq: 6; Kuwait: 7 and Yemen: 8.

Two out of these eight instruments, the 1984 convention against torture and other cruel, inhuman or degrading treatment or punishment, and the 1951 convention relating to the status of refugees, are lest accepted by the Arab Gulf since Yemen is signatory to both of them while Kuwait is signatory to the former only. It is obvious from these data that even the "formal" aspects of human rights the Arab Gulf and the GCC in particular is lagging behind.[24]

The apparent lack of acceptance of these international instruments by some GCC states of Oman, Saudi Arabia, UAE, Qatar and Bahrain, bring to one's attention the thesis of tacit social contract (a form of trade-off mentioned earlier): people accept economic development as substitute for democracy and human rights. In this respect policies and strategies related to reduce subsidies, increase direct taxes, and liberalise prices of goods and services provided by the state, could be seen to constitute an infringement of such social contract and could necessitates changes in its order or even its validity, especially when state policy is the one that tears up the contract. Furthermore, globalization entails substantive changes, modifications or introductions in the legal framework relating to FDI, WTO and alike. It would be rather unreasonable for the states to expect their people to acquiesce to such development in these legal regimes while persist to shield themselves from the necessity of providing formal tent for human rights. By the same token, if these countries became a signatory to and observed the provisions of Labour Standards, which guarantee human rights at workplace, they are bound then to extend similar rights outside workplace.

Again, the complexity and sensitivity of human rights issues and the possibility of spill-over could be one of the explanatory variables on why privatisation in the GCC, for example, has been slow, gradual and cautious. However, the globalization process might expedite both privatization as well as more considerations for human rights.

Political participation is another form of openness and important component of human development. Much attention was granted in the last few years to issues such as empowerment, participatory development and inclusionary down-top decision-making processes. It has also been considered that election constitutes a suitable acceptable and effective form of political participation, which in turn could contribute to good governance, transparency, accountability and democratization.

During the last fifty years or so, many of the Arab Gulf states had held various elections: while some held election once, others had it repeatedly, but others never did. Until 1993, the number of elections held in five Arab Gulf states total 38, and at that year there were 685 elected and appointed representatives who sit on various national or local assembly or council. Bahrain stands at the bottom with only one election in 1973; Kuwait 8 elections; Iraq 9; UAE and Yemen 10 elections each.[25] No election was held in Saudi Arabia while Oman held election in 1997 and Qatar is on her way for first, municipal, election in 1998.

Most, if not all, of these elections are far from being fair, free and equal as prescribed by the IPU's Declaration on criteria for Free and Fair Elections,[26] and some would be termed as "election without choice". However, one can only hope that they take root and develop into institutional democratic exercise.

While free and fair election could be, to a limited degree, a debatable matter, the issue of equality is not. Women's right to vote and to be elected is not recognised in Saudi Arabia, UAE and Kuwait (in spite the fact that Kuwait is a signatory to the 1966 convention on civil and political rights and the 1979 convention on the elimination of all forms of discrimination against women.) And while women's right is recognised in Bahrain's constitution, which states all citizens are equal before the law, no women was elected or appointed during the Emirate's only legislative election of 1973. (Unlike Kuwait, Bahrain is not signatory to 1966 and 1979 conventions mentioned above.)

But women do have the right to vote and to be elected in both Iraq and Yemen. Nevertheless the number of women parliamentarians is very small indeed: 27 in Iraq and only 2 in Yemen, representing 10.8 percent and 0.7 percent of total seats in the two countries respectively. Finally, with the exception of Iraq, Kuwait and Yemen the remaining Arab Gulf states are not signatories to the 1979 international convention on the elimination of all forms of discrimination against women.

However, few faint signs of optimism are emerging in the Arab Gulf. As far as women's political participation is concerned recent developments in both Oman and Qatar are, hopefully, only the beginning. In Oman, two women were elected among 82 members for the third term of the consultative council *"Majlis ul-Shura"* in October 1997 election. It should be stated that the number of women in this term of the Council is the same as it was in the previous one.

Qatar has also decided lately to follow suit when the Emir announced at the end of November 1997 that an election of a 29 member Municipal Council will be held in 1998, and women will be given for the first time the right to both vote and be elected.

Women's political participation became very visible during 1994-95 political crisis in Bahrain. More than three hundred women presented, in April 1995, a petition to the Emir expressing their concerns and anxieties about the escalation of violence and use of force against demonstrators and requesting, among other demands, the inclusion of Bahraini women in political decision making and utilising their creative energies.[27]

It will no also be long before Kuwait joins the rest in granting similar political participatory rights to women. No official commitment was made, yet many Kuwaiti intellectuals predict such eventuality sooner than later.

The issue of political equality in Kuwait is not limited to women only, but others as well. A significant number of Kuwaitis known as *bidoon* (meaning without) are, for stringent registration conditions which goes back to 1920s, deprived from full citizenship and thus have no rights to vote or run for office. For the National Assembly election of October 1992, for example, only about 70,000 male Kuwaitis of proven ancestry, out of 625,000 natives had the right to vote (Gause 1994).

Communication and information technologies penetrating the region in a very impressive manner, introducing new concepts and ideas and making their forceful presence which began to show results and one cannot underestimate their potential in opening up. Computers, faxes, e-mail, Internet and, above all the already existing 15, or more, Arab satellite TV channels in addition to the international ones, are not only increasingly used in business but in politics as well; Marketing for various products, advertisement for real estate development in this or that country, daily reporting on exchange rates of major currencies, prices of oil and gold, stock exchange dealings in major Arab market, reports on economic reforms are only few examples. Increasing number, though very limited, of direct uncensored and 'on the air' programmes, debates, press conferences by senior government members, important events and conferences are increasingly seen at home. Arab reporters and correspondents, both men and, yes, women are reporting from major capitals, hot spots and on important events.

Globalization and these developments, which are promoted by public and private sectors, are bound to have their marks on Arab Gulf society and cause an incremental degree of opening.

The effects of civil society, professional associations and regional institutions.

At the outset, if privatisation programme is dealt with in a participatory manner, let it be for PR purposes, political support, or building social consensus, when various types of civil society, professional associations, and pressure groups take part in an open constructive and truthful dialogue, if that happens then it is very likely that privatisation programme gains social support and its transitional cost could be minimised. This in turn could enhance human development in more than one aspect: enhance the empowerment/participation dimensions, satisfy some aspects of economic security, minimise negative consequences, and eliminate incredulity in the programme itself.

In its design and implementation phases, the privatisation programme in Iraq was strictly a "top-down" exclusionary process with very limited discussion on "high special committee" levels only. State bureaucracy, Party run Trade Union and other professional associations were neutralised and given no opportunity to raise objection or give an opinion.

Only one minor, though significant in nature, development had taken place later on as a consequence of privatisation itself. That was when the Iraqi Federation of Chambers of Commerce & Industry reached an agreement, in Baghdad in mid-June 1989 with a team representing more than 20 companies from former West Germany, according to which a group of German banks agreed to extend a DM 200 million line of credit to finance the sale of machinery and equipment to private sector businesses.[28]

Unlike Iraq, professional association and other pressure groups in the GCC countries played a significant role and demonstrated leverage on economic reform efforts and engaged themselves in privatisation discourse well before or parallel to implementation of privatisation programs. A 'Seminar on privatisation in the GCC', for example, was convened in Bahrain early 1995 and attended by all Federations of Chamber of Commerce and Industry in the six member states of the Council. One of the interesting recommendations of that seminar was its call to form specialised committees in each member state to draw the basis and regulations for privatisation in their respective countries, and such a national committee should be comprise representatives from relevant ministries, business community and independent experts. Furthermore, the seminar recommend expanding the role of the Chambers and their Federation in the privatisation process and "To adhere to a phased, slow-paced privatisation process and make use of the international experience in this field. This helps in avoiding obstacles, shortcomings and malpractice."[29]

This regional orientations had been echoed, or even initiated by, the national federations as well. For example, the chairman of the Saudi Federation of Chambers of Commerce and Industry, Mr. Abdul Rahman Al-Jeressy, warned against the rush in privatising the efficient and profitable Saudi enterprises such as SABIC and power companies since this, in his view, could drain whatever liquidity the private sector might have. Instead, he suggested to begin by privatising what he termed the "Service sectors" such as airlines, water utilities, railways, communication and ports.[30]

In addition to these powerful and influential Chambers and Federations, local specialised periodicals and newspapers had contributed to the debate on privatisation and addressed its various aspects, thus influencing policy initiative towards it. Furthermore, the GCC region is a host to a number of regional and financial institutions which have been active participants in the general discourse on economic reforms, restructuring and privatisation such as the Arab Monetary Fund based in UAE, the Inter-Arab Investment Guarantee Corporation based in Kuwait, the Islamic Development Bank based in Saudi Arabia, Gulf Investment Corporation, of the GCC, based in Kuwait, and GOIC-Gulf Organization for Industrial Consulting, of the GCC, based in Qatar.

Also, unlike Iraq, the Trade Union in Yemen expressed some position on privatisation in the country and the decision maker on privatisation accommodated such concerns. The Trade Union made two demands: first it request that workers should not be dismissed, instead they should continue in their employment in order to make use of their expertise; two, they should be provided with free shares in their enterprises when privatised.[31]

The position of peoples' associations or civil society in Yemen was qualitatively different from other countries in the region and they are linked to the expatriates' remittance transfers and their role in the national economy. Workers' remittances were so important to the Yemeni economy so that they exceeded all export revenues in many years, as was the case in 1978, 1987, 1988 and 1990.[32] An inflow of such a magnitude is bound to have an impact on consumption, investment and attitude of the domestic recipients. It had encouraged the emergence and development of various forms of co-operatives, private activities and associations independent of the state in terms of financial support, and thus provided open platform to address the impacts of economic reforms and privatisation. Furthermore, economic reforms had began not very long after the unification of the two republics, with two very different ideologies, in May 1990. This has not, yet though, contributed to weaken workers associations in a drastic fashion so as to erode their power base.

In both examples of the GCC and Yemen, civil society (if we accept that these elite professional associations and trade union are forms of civil society) involvement had influenced privatisation for better or worse, depending on how one looks at it: for those who call for sweeping fast and widespread privatisation such involvement could only put gravel in the wheels and create more hurdles on the path of privatisation. But for those who see how high and risky a political price could be, call for cautious gradual and socially sensitive privatisation. Civil society stands with the second bunch and help to make privatisation an added factor to human development than deprivation.

The contribution dimension: equitable remunerative and productive employment.

This third dimension of human development is the one where people utilise their capabilities, exercise some of their choices and, thus, enhance their productive role in the betterment of their and their society's standard. Equitable remunerative and productive employment, as right, as choice and as contribution, stand among the most important contributors to sustainable development of both the individual and society. In the mean time, the most immediate and mostly detrimental impact of globalization falls on employment and wage earners. Moreover, due to demographic, educational, and social characteristics of high population growth rates, large family size, and high dependency ratio, unemployment is, paradoxically enough for the GCC, still constitutes a major challenge before all the countries of the region. Finally, since globalization is a dynamic increase in the international division of labour it implies a permanent change of job requirements, which in turn indicates that human capital has to be built in a way that allows for flexibility and mobility of the workforce. Hence comes our choice of employment as proxy for this dimension of human development.

Employment in the Arab Gulf is composed of three distinct and different structures: on one end of the spectrum is the GCC structure which is characterised by the dominance of expatriate labour force, on the other end is the Yemeni structure of surplus labour and, thus, exporter of labour force and, finally, the Iraqi structure which is in the middle: importer of labour at boom and exporter at bust.

Let us begin with employment structure in the GCC.

One of the known facts about labour force composition in the GCC is the high contribution of expatriates. The overall GCC ratio of expatriates to total labour force had increased in percentage term from 47 in 1975 to 65 in 1980, and to 70 in 1985 before it went slightly down to 68 in 1990. On the national level, expatriates ratio ranged between 32 and 84 for Saudi Arabia and UAE respectively in 1975 and, in 1990, between 92 percent in Qatar and 51 percent in Bahrain.[33]

Undoubtedly, the Gulf War had left its long lasting marks on labour force composition in the GCC. Specific programmes of localisation/indigenization (replacing expatriates with nationals) have been underway in many of these countries. The Sixth Development Plan (1995-2000) in Saudi Arabia, for example, envisaged that 319,500 foreign workers would be replaced by nationals by the end of plan period. To this effect, orders were issued, in October 1996, to suspend work permits of expatriate workers in 14 professions, and companies were obliged to increase the number of nationals on their staff by 5 per cent per year or face penalties. As a result of such policy, *Saudization* efforts in the civil service sector, for example, had reduced the number of contract (foreign) workers in the country as a whole from 119,500 to 104,000 between 1993 and end 1996, thus a total of 15,500 civil service jobs had been, theoretically, Saudized. A more significant achievement was made by SABIC and Electric Power, which by mid 1997 more than 66 percent and 63 percent of their respective employees were Saudis.[34]

In Oman, each private enterprise was obligated to finalise an *Omanization* plan and present it to the Ministry of Social Affairs and Labour by the end of 1996, then was extended to the end of 1997. However, Oman's Five-Year Plan (1996-2000) envisaged modest increase in Omanization from 35.2 percent in 1995 to 38.9 percent by the end of the Plan.[35]
Similar indigenization efforts have been also underway in Bahrain and Kuwait.

Another feature of employment structure in the GCC is low native employment in the private sector and high in the public sector, which means high opportunity for expatriates employment in the private sector activities and low in the public sector. In Kuwait, for example, 1.4 per cent of the labour force in all private companies is native, whereas the natives represent 45.9 per cent of the labour force in the government bureaucracy in 1990. A similar situation is also found in the UAE: 3 per cent of the manpower in the private sector and 37 per cent in the government bureaucracy are natives. The number of civil government Omani employees has increased from 24,550 in 1980 to 68,571 in 1996, representing 61 percent and 67 percent of total civil government employees during same period.[36]

A third phenomenon is related to the wage structure: on a comparative basis, wage level for the expatriate worker is lower than his counterpart native worker, and wage level in the private sector is lower than that of the public sector. In Kuwait, for example, the public sector pays two to three times the market wage level. With such a differentiated wage structure, a cheap-labour syndrome takes root and could influence the decision-making process contrary to the indigenization efforts.

The fourth feature is low women participation in wage employment. In the GCC as a whole, females' economic activity rate in 1994 was only 17 percent (compared to 88 percent for males), and their employment was mostly in the service sector (86 percent) while industrial and agricultural sectors had 10 percent and 4 percent respectively.[37] Theoretically speaking, there is an untapped pool of female workforce. This by itself presents a daunting task and serious challenge before strategic decision-making. If national authorities, as they should, manage to invent and devise educational, training, incentives and employment policies to attract more female work force, especially to the manufacturing sector, this could contribute to the realisation of the indigenization efforts and support privatisation.

A fifth observation on employment structure is related to sectoral distribution. It seems that the service sector is largely manned by native work force, and the manufacturing sector is dependent on foreign workers.[38] The number of industrial units in GCC was 6,500 with an investment of over US$63 billion, providing employment to over 472,000 people at the end of 1996. What does that mean? It simply means that if privatisation in the manufacturing sector is to succeed it has to be exempted from indigenization policies, otherwise either it will fail or the state 'finances' its policy of indigenization. In either case, it could very well question the viability of privatisation in this sector.

Finally, the private sector and the labour market have shown the following preferences: expatriates are preferred before natives on wages as well as attitudinal grounds; Asian expatriates are preferred before Arabs on wages, attitudinal, as well as security grounds; and (probably) expatriates from Egypt, Syria and Morocco are preferred before those from Jordan, Palestine, Yemen and Sudan on political grounds, i.e. post Gulf War syndrome.

It has been very well established from other countries' experience that privatisation leads to unemployment and lowers wage levels, at least in the short to medium terms. Therefore, considering the above characteristics of employment and wages structures in the GCC, unchecked privatisation could lead to three things: first, a substitution of natives by expatriates as a result of wage differentials; two, higher unemployment among natives, due to the substitution effects mentioned above, and among expatriates, due to privatisation effects on employment; and third, decline in "general" wage level which might come closer to "expatriate wage level" after it was affected by the higher "native wage level."

Furthermore, it was claimed that management of the privatised companies have "an inherent tendency to replace local work force by expatriate workers in order to increase the productivity of the enterprise" [39]

For all this, we detected many signals which indicate serious concerns by the decision maker that employment of nationals could be adversely affected if the labour market is left to function on its own; why the GCC private sector is forcefully requested to pay due attention to this issue and why special programmes of indigenization have been introduced are only few of such signals. On the other hand, a social concern on expatriate workforce becomes more visible during economic or political crises. The 1995 "Women Petition" to the Emir of Bahrain, for example, specifically requested the creation of employment for all citizens, securing minimum requirements for livelihood, and finding effective solution to the increase in the foreign labour force.

There are many issues here:

1. On the micro/enterprise level, privatisation leads immediately to less employment and, probably, lower wages if that enterprise is fully (100%) or partially (over 51%) privatised, as was the case in Iraq and Tunisia, or the conditions of privatisation does not contain provisions by which employment and/or wages are protected for a certain period of time, as was the case in Egypt and Morocco where a moratorium, for three and five years respectively, on employment was introduced in the privatisation programme. Furthermore, such outcomes are more likely to occur when privatising loss-making enterprise than the profit-making SOEs. On the macro economy level, such outcomes depend largely on the scale, magnitude, speed, and strategy of privatisation programme on one hand, and the presence of safeguarding measures such as retrenching, safety-net, and provisions for early retirements. Again, a less social-friendly privatisation programme, as was the case in Iraq, causes more unemployment and deterioration in wages and standard of living on the macro level, more than a socially- sensitive programme, at least in the short run as is the case with Egypt (Jiyad 1995; 1997).

2. Employment is a politically very sensitive issue in the GCC and could cause a conflict between profitability concerns of the private sector, indigenization efforts and national security considerations: privatisation could lead to more unemployment of the natives due to substitution effects by the expatriates, thus undermining official policies and attempts to deepen indigenization. Globalization process and expatriate human rights

considerations might lead, in the future, to certain obligations which the GCC are not ready or willing to grant or accept. Furthermore, the differentiation of Arab, which Arab and non-Arab expatriate, might complicate the matter even further considering the sentiments that prevailed post Gulf War.

3. How far down can privatisation push the wage level? Wage level of the expatriates are lower than that of the natives and will, probably, be depressed further due to privatisation-induced unemployment. Part of the expatriate's wage is considered as quasi-rent, the difference between home-wage and expatriate wage levels, since it is higher than what they could earn at home. Theoretically, therefore, privatisation will push down the wage level until it eliminates the entire quasi-rent. In practice, it all depends on the adopted employment and wage policies under the privatisation programmes in the countries concerns.

The situation is rather different in both Iraq and Yemen. We shall consider Iraq first.

Employment and wages issues were handled by the decision maker in a dramatic way: the Trade Unions were undercut then dissolved by changing all workers '*o'mmal'* in the public sector into 'employees- *mouathaffon'* according to RCC decision No. 150 dated April 1, 1987. The logical consequences were to make all Trade Unions redundant and Labour Law nullified since it is not allowed for government employees to become members in any labour trade union on and employment in government is regulated and governed by Civil Service Law and Establishment Law and not the Labour Law; the minimum wage was abandoned; and finally, the new owners of the privatised enterprises were given freehand to trim labour costs dramatically.

Marginalization of women was one of the expected, though unintended, consequences of privatisation. During the oil boom many subsidised services, fringe benefits and facilities for working mothers were offered and introduced such as on job or nearby nurseries and kindergartens facilities, transport, medical care and meal. The termination of some of these facilities began in 1985 and the private sector had the opportunity to offer them at high charges, which in many instances were very substantial in relation to working mother's income.

Furthermore, privatisation leads to general price increases and sometimes astronomical inflation, as we have mentioned earlier. This by itself causes a deterioration of the purchasing power of whatever earned income, and thus a decline in the standard of living.

Combining the effects of these three factors; the labour market, reduced subsidies, and higher prices/lower quality product, a family might find out that the opportunity cost of the mother going to work is really high, and therefore, the family would be better-off economically if she stays home. This option becomes even more attractive when an opportunity for early retirement is on the table! Many regulations and directives were enforced in Iraq during the second half of the 1980s the outcome of which was to make it easy for working women, especially mothers, to seek and obtain early retirements.

Regardless of whether this withdrawal of women from employment market is justifiable economically on the family level or not, it certainly constitutes a step backward and increasingly marginalizes the role of women in society. On the other hand, if the decision is left to the workingwomen and if she exercises her right by deciding to retire early then, from the *choice* dimension, this is a form of human development.

Another impact of privatisation is the expansion of the urban informal sector and informal activities. However, such expansion is not necessarily positive and might contribute to the impoverishment of those who already find living by engaging in the activities of the informal sector.

Privatisation pressure on the informal sector can be generated from at lest two source: The laid- off workers who are not taken care of by the supportive measures have no option but to seek employment in various activities of this sector. This impact depends largely on how spread, fast, and comprehensive privatisation was and the magnitude of the labour force made redundant by these programmes. The other source of pressure on the informal sector is generated from the tendency to adopt multiple survival and coping strategies to offset the increasing burden of the economic crisis or hardships caused by it or by any other macro economic policies of liberalization and privatisation.
The economic crisis culminated when many professionals, engineers, economists, and qualified technical and managerial staff members began to engage themselves in other informal activities in addition to their official jobs by working with private companies, or having their own private firms, or work as freelances. This issue became so visible, widely practised and apparently annoying to the extent that the Iraqi Council of Ministers, at the presence of Saddam Hussain, had convened three sessions in December 1989 to discuss the issue of State employees working 'outside the official working hours.'[40] This by itself is a strong indication that due to privatisation the private sector began to offer some employment opportunities and, as was the case in many Middle Eastern countries, to use the pool of state employees to acquire the needed qualifications. On the other hand, this also reflects a rigidity in official employment policy which was not commensurate with the privatisation policy. While the government maintains its

indisputable authority to dismiss any of its employees, no employee has the right to resign from his or her job without approval.[41]

These unguided policies of liberalization and privatisation are bound to have some effect on the manufacturing sector which had seen most of the privatisation efforts. The sector had witnessed many downturns during the period of privatisation 1985-90: Employment had declined by 24 percent between 1980 and 1990 (from 177,000 in 1980 to 174,000 in 1985 and to 134,000 in 1990); average wage, including supplements, declined by 4 percent between 1990 and 1980 but by a big cut of 32 percent between 1985 and 1990. Furthermore, the average wage was higher than per capita income by 9 percent in 1985; by 1990, it was less than per capita income by 1 percent.

This had happened at the time when productivity of labour was on the rise during the period. Looking at productivity of labour in terms of gross output per worker we find that it has increased by 94 percent between 1980 and 1990, and by 34 percent between 1985 and 1990. Productivity of labour in terms of value added per worker also increased at a much higher rate of 133 percent between 1980 and 1990, and a lower rate of 29 percent between 1985 and 1990.[42]

Is it really correct to attribute all that to privatisation and how much of that was attributed to privatisation are two fundamental questions, and the answer to both of them is: difficult to tell. Much of what had been privatised in Iraq was done between 1985 and 1990, and that period was extremely abnormal: privatisation began in the midst of Iran-Iraq war, continued after that war was over in 1988, and finally suffered a serious blow with the invasion of Kuwait. Undoubtedly, the totality of conditions in such a situation was bound to have its serious impact on the performance of the manufacturing sector. Nevertheless, because of deliberate policies adopted by the decision maker on employment and wages in the privatised industries we have strong reasons to believe that such policies, which abrogated the long-standing support for Iraqi working class, had contributed to these results.

Employment problems in Yemen

The number of registered SOEs in Yemen totalled 140 employing some 76,000 persons. Only 37 large SOEs, each with more than 300 employees, attained operational surpluses while most of the remaining were loss makers and many either were bankrupted or were closed. Approximately 30 thousands employees continued to receive their salaries from the ministry of finance even though their SOEs were shutdown. In the mean time, the government expressed its desire not to see privatisation as the cause for any sort of social tension. But according to its declared privatisation strategy, the government will privatise the loss making SOEs first. Furthermore, due to high growth rates of the labour force (4.25 percent annually), tighter budget, and shrinking employment opportunities abroad, unemployment will probably remain in its current level of over 25 percent of the labour force.

The combination of these rather incompatible factors will only indicate that we are facing extremely bleak prospects. Experience shows that privatisation of loss making enterprise is mostly a full-type privatisation, it is a buyer's market (monopsony) and definitely a significant number of the workers are destined to lose their job.

To safeguard against the negative social consequences of privatisation, Yemen seems to follow Egypt's example or benefit from her experience. To this effect Yemen created a Social Fund (probably financed by aid donors as was the case with Egypt), which concluded in October 1997 a co-operation agreement with the Social Fund in Egypt- the latter itself was established in 1991 as part of privatisation programme.

To what extent this sort of safety net is going to ease this transitional cost of privatisation and globalization is difficult to tell. However, knowing the financial situation of Yemen, the structure of its budget expenditures, the unemployment problem and the declared privatisation strategy, one thing is sure. As was the case with Iraq, privatisation in Yemen might exacerbate unemployment, lower wages and deteriorate living standard. What make this a real possibility is the fact that we have seen already how fragile was the progress in human development since 1992 when HDI had even declined in 1994.

Concluding remarks

1. For any country and society, globalization presents both formidable challenges and promising opportunities. To cultivate the fruits of going global and minimise its adverse impacts requires continuously developed human capital. The dynamism, speed and scale of the globalization process could very well marginalise countries as well as people and generate processes of social exclusion and polarisation even in countries benefiting, on the macro level, from globalization.

2. Being dependent on one commodity, oil, to generate the needed revenues, having less diversified industrial structure, characterised by micro and small family type private sector, heavy dependency on both expatriate workers and imported foodstuff, and for

variety of other reasons, the Arab Gulf could be among countries which are likely to be marginalised (in a comparative sense) by the globalization process.

3. We have already argued that, in spite of some significant achievements, the *capability* dimension of human development in the first half of the 1990s, as measured by HDI, was both fragile and vulnerable. Financially, socially and politically could be unsustainable as well. We argued also that on the *contribution* side, the effects could be even more troubling. And on the *choice* dimension, we demonstrated that there is a lot that needs to be done on human rights and political participation. But the elitist civil society in the GCC countries had, probably acting in self-defence and self-interest, contributed to adopt a more cautious and social-friendly approach to liberalisation policies, to privatisation initiatives, and to globalization orientations.

4. We could argue that one promising way-out is to strengthen Arab economic regionalism. This entails genuine strategic thinking, commitment and persistent work. Judging by almost half a century of failing co-operation this way-out might be a non-starter. However, WTO membership, ILO's Labour Standards and the whole issue of globalization left the countries with no option but regionalism. The establishment of GAFTZ with a phased-out procedure of implementation is a step in the right direction, put much remains to be done. Furthermore, to cope with the future requirements of globalization is by itself a formidable task stand beyond the capacity of any one country. For GATS alone, for example, there is a need to negotiate agreements related to more than 150 category of services. An Arab regional forum becomes a necessity to handle such a load of tiresome work.

5. Globalization might require a new drafting of the prevailing tacit social contracts. In the developed world excesses of capitalism led to the development of welfare state model and adoption of national social contracts. It seems also that the potential of even more excesses of globalized capitalism had prompted many to specifically propose new global social contracts: on basic needs, on democracy, on culture, and on the environment (Group of Lisbon 1996) or establish a global solidarity forum or foundation with the basic objective of accelerating human development and tackling the whole range of social effects of globalization.[43]

The Arab tacit social contract too needs even better redrafting to survive, let alone enjoy the benefits of globalization. The fundamentals of the new Arab social contract should be the enhancement of people's *capabilities*, broadening their *choices*, and improving their effective and productive *contributions*.

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Notes

1. Such demonstrations were in Geneva during the second Ministerial Conference of the WTO held in May 1998 commemorating the 50th anniversary of the multilateral trading system. The demonstration was planed during February 98 when People's Global Action-PGA convened it first conference in Geneva. PGA is a gathering of organisations of peasants, students, indigenous peoples, trade unionists and squatters, who all believe that globalization, liberalization and privatisation are agents for growing inequality and exploitation- See *Financial Times*, 16.2.98 [*]

2. Originally it was aimed to conclude the agreement by May 1997, then extended to May 1998. However, from the results of the OECD February 98 meeting and its annual ministerial meeting on April 98 it became apparent that it was not possible to reconcile the differences and further negotiations are needed to finalise this agreement which has been labelled "the constitution of a single global economy". Issues of sovereignty, extraterritoriality, culture, labour and environmental standards and taxation proved to be

very difficult to overcome as evidenced by the outcome of these meetings- See *Financial Times*(1998), *Herald Tribune* (1998), and *Bergens Tidende* (1998). [*]

3. Information on WTO were taken from WTO(1998) and WTO, *FOCUS Newsletter.* [*]

4. MEED, 14 July 1989. [*]

5. OPEC, OPEC Bulletin, Vol. XXIV, No. 9, October 1993. p. 49. However, the number of the privatized companies according to DGCR was 31 with total capital of $3.5 billion, which is much lower than the figure of 80 cited above. This difference is very significant and wide which require verification (Author's note) [*]

6. Asharq Al-Awsat, No. 6825, 5/8/1997. London. (in Arabic) [*]

7. Asharq Al-Awsat, No. 6846, 26/8/1997. London. (in Arabic) [*]
8. Compiled from (UNCTAD 1996b; 1996c). Data are annual average for 1991-93, except for Yemen 1992-94. [*]

9. The $200 billion was estimated by GOIC. See *Asharq Al-Awsat*, No. 6825, 5/8/1997, London (in Arabic). GOIC figures are much lower than other estimates such as those by Hassan Abdulla Al-Noman, Chairman of the UAE Federation of Chambers of Commerce and Industry, who estimate Arab overseas investments around $900 billion, representing 96 per cent of total Arab surplus assets. See OPEC, OPEC Bulletin, Vol., XXV, no. 3, March 1994. A third estimate put offshore Arab investment at $670 billion in 1990. See (AMF et al, 1992: 147). Hereinafter referred to as JAER. [*]

10. See OPEC, *OPEC Bulletin*, Vol. XXIX, No. 3, March, 1998. p. 43. [*]

11. Parts Two and Three are mostly edited version of previous work (Jiyad, 1998b) [*]

12. For a discussion of Sen, Nussbaum, and Griffin, positions on human development see Qizilbash, Mozaffar (1996). [*]

13. There are many single and composite measures with different purposes and varying degrees of complexity and data requirements. Surveys of some of these measures are provided by (Blackwood and Lynch 1994). [*]

14. To construct the HDI, fixed minimum and maximum values have been established for each of the three indicators, and a general formula is devised to compute the

indicators indices, then HDI is calculated by dividing the sum of these three indices by 3. Since 1994, two changes have been made in the construction of the index relating to variables and the minimum and maximum values. See (UNDP 1995). [*]

15. HDR 1991 contained a Human Freedom Index. The index was dropped in the following year due to methodological flaws and political sensitivity when a number of developing countries showed concern that it could lead to some sort of political conditionality for development aid. [*]

16. The CPM was calculated for 101 developing, including 16 Arab, countries: UAE (Rank 12), Kuwait (14), Jordan (19), Libya (34), Lebanon (36), Saudi Arabia (38), Tunisia (44), Syria (48), Iraq (59), Egypt (63), Sudan (65), Algeria (73), Morocco (74), Mauritania (86), Yemen (91) and Somalia (92). See (UNDP 1996). [*]

17. For these criticisms and the position of UNDP on them see (UNDP 1995; 120-124); and (Bhaskar M 1992). [*]

18. The State of World Rural Poverty- covers 114 developing countries, and they were ranked according to the calculated values of each of the above mentioned indicators. For the composition, construction, and methodological considerations related to these indices see (Jazairy et al, 1992: 376-78, 458-81). [*]

19. The HPI was constructed for 78 developing countries only, including 12 Arab countries: Jordan (Rank 8), UAE (14), Libya (21), Syria (24), Tunisia (31), Algeria (37), Iraq (39), Egypt (44), Morocco (55), Sudan (57), Mauritania (65), and Yemen (66). The methodology of constructing HPI is different from other indices of HDR. Though HPI is composed of five variables the last three are composed into one variable (P3) by taking a simple average of them, then (P3) and the first two variables (P1) and (P2) are introduced into the formula to arrive at HPI. See (UNDP 1997: 117-27) [*]

20. I should make two cautionary notes on the usage, implications and interpretation of these two NPGs: first, since the data were aggregate one cannot say if gender (for u5mr) and gender or/ and income (for crg5) can be detected as explanatory variables for negative performance in the country concerned; two, negative NPGs does not and should not be taken to indicate "actual low" for either of the two variables. For example, the GCC had scored negative NPGs in (u5mr), yet their "actual" (u5mr) were the best among the Arab countries. [*]

21. Various versions of these two broad positions were presented by many Middle East scholars: (Clement 1996); (Harik and Sullivan, (eds.) 1992); (Ayubi 1995); (Salame (ed.,) 1996); (Norton (ed.,) 1995); and (Deegan 1993). [*]

22. For a discussion of these issues from human right perspectives see (Gloppen and Rakner 1993). [*]

23. ICESCR: International Covenant on Economic, Social and Cultural Rights- 1966; ICCPR: International Covenant on Civil and Political Rights- 1966; ICEFRD: International Convention on the Elimination of all Forms of Racial Discrimination- 1969; CPPCG: Convention on the Prevention and Punishment of Crime of Genocide- 1948; CRC: Convention on the Rights of the Child- 1989; CEFDW: Convention on the Elimination of all Forms of Discrimination against Women- 1979; CTCID: Convention against Torture and other Cruel, Inhuman or Degrading treatment or punishment- 1984; CSR: Convention relating to the Status of Refugees- 1951 (UNDP 1997). I should mention that data in HDR 1997 is different (more) from those reported in HDR 1996. Whether this difference is due to typing error or new accession is difficult to tell for the time being. Some of these instruments- ICESCR, ICCPR, ICEFRD- the Optional Protocol to ICCPR and the Universal Declaration of Human Rights (1948) all are recognised as part of a collective term known as the International Bill of Human Rights. In addition there are other human rights conventions such as those by ILO related to workers, which are not covered by this paper for the time being (Author notes) [*]

24. One should keep in mind that this record for Yemen is the product of the two Republics before their unification in 1990. I should emphasise also that signing by itself does not constitute, at all, an observance on the part of the state to its obligations under any of these human right instruments. [*]

25. Compiled from Inter-Parliamentary Union- IPU (1995) [*]

26. The Declaration was unanimously adopted by the IPU in March 1994, and representatives of the national parliaments from Iraq, Kuwait, Yemen and UAE attended the meeting and adopted the Declaration. [*]

27. For the text of the "Women Petition" see Khalaf (1998) [*]

28. MEED, 14 July 1989, p. 14. Before, then, West Germany financing for the private sector, the 1988 Financial Protocol between Iraq and the UK involved also the first financing of contracts placed by the Iraqi private sector. The Financial Protocols were

annual financial facilities provided by the U.K's Export Credit Guarantee Deportment (ECGD). Since 1983 through 1988, these protocols had provided more than $1700 million of credit to Iraq, MEED, 24 March 1989, p. 20, and MidEast Markets, 29 May 1989, p. 16:11/11 [*]

29. For the list of seminar recommendations see (Al-Mutrif 1997). [*]

30. *Asharq Al-Awsat*, No. 6828, 8/8/1997. London. (in Arabic) [*]
31. As stated by the Deputy Minister of Finance of Yemen Obaied A. Al-Hamer. See (Alsadik, et al, (eds.) 1995: 247). It should be stated that privatisation programme in Iraq provides workers, employees and management of the privatised enterprises with shares at favourable terms either in price or in payment conditions. Also employees of SAFCO, a subsidiary to SABIC, own 10 per cent of their company- Author's note. [*]

32. Based on data from (Richards and Waterbury 1996: 380-81) [*]
33. Compiled from (Jaber TA 1993) [*]

34. A total 51,704 of the contract workers are (1997) in the health sector, according to a statement by SA Civil Service Bureau, see OPEC, OPEC Bulletin, Vol. XXVIII, no. 3, March 1997; for SABIC, see OPEC, OPEC Bulletin, Vol. XXVIII, no. 5, May 1997; and for Electric Power, see OPEC, OPEC Bulletin, Vol. XXVIII, no. 10, October 1997 . This is quite expected since service sector is more private dominated activity compared with production sector such as that of SABIC. On the regional level the percentage of GCC national manpower in the basic industries such as chemical, mineral, refining and cement industries count more than 50 percent of their total work force. In the mean time these industries account for more than 50 percent of value added and for about 15 percent of the industrial sector work force, according to a paper prepared by GOIC entitled "The Industrial Structure of GCC States: Reality, Significance, and Future Direction" and presented before the 6th Conference for GCC Industrialists held in Abu Dhabi, UAE, on 13-14 May 1997. See OAPEC, OAPEC Monthly Bulletin, Vol. 23, No. 10, October 1997. [*]

35. It should be noticed that most Omanization effort of the Plan is envisaged for the lowest three out of seven labour force categories. See (Oman 1996: 62). [*]

36. For data on Kuwait see Al-Hamud, Mudi, Tajrubat al-Kuwait.. , in A. Al-Nasrawi et al, Al-Qita al-Amm, Beirut: CAUS. 1990; and for the UAE see Al-Shuruq, 23 April 1992, both cited by (Ayubi 1995: 380; 382). Data on Oman was compiled from (Oman 1996a: 29-30). [*]

37. Since these data includes expatriates, GCC women employment rates would be even lower than what has been stated. See (ESCWA 1997:140-141). [*]

38. Looney have contended the non-viability of further expansion of the manufacturing sector and enhancement of its role in the national economies of the GCC without the continuation of significant flows of foreign workers. See (Looney 1994: 46). [*]

39. Bhattacharyay (1966: 21). There is an assumption here that improvement in productivity comes through either inputs cost reduction due to natives-expatriates or public-privates sector wage differentials effects, or/ and assumed higher productivity of the expatriates compared with the native work force. (Author's note) [*]

40. *Al-Iraq* daily newspaper, Baghdad No. 4235, 12 December 1989 [*]
41. Pursuant to RCC decree No. 200 dated 12.2.1984 any employee of the government, public sector, or state owned enterprise who resigns without prior approval of his/her office will be sentenced to ten years imprisonment without trial. [*]

42. The calculation was based on data from (UNIDO 1996: 179). I should mention that there was a typing error in UNIDO Report concerning 1990 gross output per worker: the typed figure was 6611 while it should be 56418- Author's note. [*]

43. As have proposed by Dharam Ghai (UNCTAD 1997) [*]