COMMISSION OF THE EUROPEAN COMMUNITIES

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COMMISSION COMMUNICATION TO THE COUNCIL ON THE

GUIDELINES OF COOPERATION BETWEEN THE COMMUNITY

AND THE MASHREQ COUNTRIES

COM(77) 465 final.

COMMUNICATION TO THE COUNCIL

In an Exchange of letters contained in the Final Act of the Cooperation Agreements signed with Egypt, Jordan and Syria the Community stated that it was prepared to undertake, in conjunction with those countries, the preparatory work on setting cooperation in train and to appraise projects, as part of financial and technical cooperation, so that decision may be adopted as soon as the Agreements enter into force.

Pursuant to this Exchange of letters the Commission is submitting in this communication proposals on the position to be adopted by the Community within the Cooperation Councils, which, according to Article 5 (1) of the Agreements and Article 9 (1) of Protocol N° 1 to those Agreements must define the guidelines of cooperation and the specific objectives of financial and technical cooperation. These proposals have been drawn up in the form of draft Cooperation Council decisions. Their content will have to be approved by the two parties concerned at meetings of the Joint Committees set up under the Interim Agreements pending their formal adoption by the Cooperation Councils after the entry into force of the Agreements. It is with the guidelines approved in this manner as a starting point that the preparatory work for economic, technical and financial cooperation will have to be done, on the basis of the Exchange of letters referred to above.

The Council will find annexed to this communication notes on the economic and financial situation of the three countries; these data were collected mainly during fact-finding missions undertaken by representatives of the Commission and the EIB. In addition, the Bank has collaborated closely in drawing up the attached proposals on the implementation of financial and technical cooperation.

In drawing up these proposals the Commission took as a starting point the idea that Community aid should not, strictly speaking, be considered as transfers of resources but rather as support for measures to be taken to establish economic cooperation under Article 4 of the Cooperation Agreements. Similarly, the Commission considered that, for both political and economic reasons, one of the principles which it would be desirable to take as a basis for putting into effect financial and technical cooperation with the Mashreq countries would be the financing of operations within the framework of triangular cooperation.

In the Commission's view the work to be done within the Community on the basis of this communication should be undertaken so that agreement between the partners on the content of the draft Cooperation Council decisions can still be obtained before 20 October 1977. This would ensure that projects and schemes are identified and the initial financing requests examined before the entry into force of the Cooperation Agreements in accordance with the Exchange of letters contained in the Final Act to each Agreement.

GUIDELINES FOR COOPERATION WITH THE ARAB REPUBLIC OF EGYPT

1. The following objectives are taken as general guidelines for the cooperation to be established between the Community and Egypt for the benefit of both parties:

(i) Development of training schemes in order to increase inter alia Egypt's human and technical potential;

(ii) Development of technical assistance within the framework of integrated projects in order to ensure that the objectives described below are effectively attained;

(iii) Development of industrial and agricultural potential in order to improve production and increase capacity and help to establish new production areas and thereby improve living and working conditions;

(iv) Promotion of industrial cooperation between firms, in particular in order to facilitate the transfer of technology, the development of private investment and establishment of joint ventures;

(v) Development of basic infrastructure to increase the efficiency of Egypt's economic system.

2. Technical and financial cooperation will be put into effect in accordance with the following principles:

(i) Every effort will be made to ensure that Community aid is used to support economic cooperation schemes to be implemented under Article 4 of the Cooperation Agreement.

With this end in view, special attention will be paid to operations which would permit the simultaneous use of different forms of aid, in particular to operations likely to attract technology, capital and other benefits resulting from the implementation of the abovementioned Article 4;

(ii) Community aid measures will be designed to encourage, if possible, other suppliers of funds to give aid, in particular in the context of triangular cooperation.

3. On the basis of the principles described at 1 and 2 above and in the light of the objectives of Egypt's development plan, the aid specified in Article 2 of Protocol No 1 to the Cooperation Agreement will be used in accordance with the provisions of that Protocol to finance or part-finance projects and measures which correspond to the following economic priorities:

I. Training and technical assistance

(i) Technical and vocational training schemes, particularly to train intermediate-level instructors in the industrial, agricultural and tourist sectors;

(ii) Technical assistance to ensure the effectiveness of the process of selecting, preparing, executing and administering projects;

(iii) Technical assistance with a view to setting up a centre for development, training and industrial, technological and commercial information.

II. Development of production

Industry

(i) Modernization and development of industries capable of meeting domestic market requirements under satisfactory economic conditions and contributing to the diversification of intersectoral trade;

(ii) Development of industries using local raw materials.

Agriculture

(i) Development of productivity and extension of land suitable for cultivation (drainage, irrigation, soil protection and revitalization);

(ii) Harnessing of water;

(iii) Modernization and development of the market preparation, storage, transportation, processing and distribution of the main agricultural products, particularly so as to respond in the appropriate manner to the needs of the local and regional markets;

(iv) Development of feed-grain production for export.

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III. Basic infrastructure

Development of basic infrastructure, mainly infrastructure required to establish new production areas and to remove bottlenecks, impeding the execution and operation of the projects referred to under II.

GUIDELINES FOR COOPERATION WITH THE HASHEMITE KINGDOM OF JORDAN

1. The following objectives are taken as general guidelines for the cooperation to be established between the Community and Jordan for the benefit of both parties:

(i) Training aimed at increasing the technical and occupational skill of labour, in particular in the context of schemes of a regional nature.

(ii) Development of industries, in particular those requiring a relatively highly skilled labour force.

(iii) Promotion of industrial cooperation between firms, in particular in order to facilitate the transfer of technology, the development of private investment and the establishment of joint ventures.

(iv) Development of agricultural production in order to meet the requirements of the local and regional market.

(v) Development of basic infrastructure to increase the potential of the Jordanian economy and improve living and working conditions.

2. Technical and financial cooperation will be put into effect in accordance with the following principles:

(i) Every effort will be made to ensure that Community aid is used to support economic cooperation schemes to be implemented under Article 4 of the Cooperation Agreement.

With this end in view, special attention will be paid to operations which would permit the simultaneous use of different forms of aid, in particular to operations likely to attract technology, capital and other benefits resulting from the implementation of the abovementioned Article 4.

(ii) Community aid measures will be designed to encourage, if possible, other suppliers of funds to give aid, in particular in the context of triangular cooperation.

3. On the basis of the principles described at 1 and 2 above, and in the light of the objectives of Jordan's development plan, the aid specified in Article 2 of Protocol No 1 to the Cooperation Agreement will be used in accordance with the provisions of that Protocol to finance or part finance projects and measures which correspond to the following economic priorities:

I. Training and technical assistance

(i) Technical assistance and training schemes to enable technical and vocational training centres of a regional nature to be set up for the agricultural, industrial and tourism sectors.

(ii) Training of instructors.

(iii) Scientific research, in particular on solar energy, the environment and data processing.

II. Development of production

Industry

Projects aimed at reducing imports and at supplying the regional market, in particular those involving the use of natural resources.

Projects to help modernize and restructure small- and medium-sized firms in the private sector.

Agriculture

Projects aimed at increasing the country's self-sufficiency in food or exports to other countries in the region.

Soil protection and revitalization.

III. Basic infrastructure

(i) Transport infrastructure to improve the opportunities for export, particularly to neighbouring markets.

(ii) Basic infrastructure to encourage the development of economic activities, in particular water supplies for densely populated areas or the opening up of certain rural areas.

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GUIDELINES FOR COOPERATION WITH THE SYRIAN ARAB REPUBLIC

1. The following objectives are taken as general guidelines for the cooperation to be established between the Community and Syria for the benefit of both parties:

(i) development of training schemes in order to increase Syria's human and technical potential;

(ii) development of industrial and agricultural potential in order to improve production and increase capacity, to improve living and working conditions and to reduce regional disparities;

(iii) promotion of industrial cooperation between firms, in particular in order to facilitate the transfer of technology and the establishment of joint ventures;

(iv) development of technical assistance within the framework of integrated projects in order to ensure that the objectives described above are effectively attained;

(v) development of basic infrastructure to increase the efficiency of Syria's economic system and relations with neighbouring countries.

2. Technical and financial cooperation will be put into effect in accordance with the following principles:

(i) Every effort will be made to ensure that Community aid is used to support economic cooperation schemes to be implemented under Article 4 of the Cooperation Agreement.

With this end in view, special attention will be paid to operations which would permit the simultaneous use of different forms of aid, in particular to operations likely to attract technology, capital and other benefits resulting from the implementation of the abovementioned Article 4;

(ii) Community aid measures will be designed to encourage, if possible, other suppliers of funds to give aid, in particular in the context of triangular cooperation.

3. On the basis of the principles described at 1 and 2 above, and in the light of the objectives of Syria's development plan, the aid specified in Article 2 of Protocol No 1 to the Cooperation Agreement will be used in accordance with the provisions of that Protocol to finance or part-finance projects and measures which correspond to the following economic priorities:

I. Training and technical assistance

(i) Technical and vocational training schemes, particularly to train intermediate-level instructors in the industrial, agricultural and tourist sectors;

(ii) technical assistance to ensure the effectiveness of the process of selecting, preparing, executing and administering projects.

II. Development of production

Industry

(i) Modernization and development of industries capable of meeting the requirements of the local and regional market under satisfactory economic conditions;

(ii) development of industries using local raw materials.

Agriculture

(i) Development of productivity and extension of land suitable for cultivation (drainage, irrigation, soil protection and revitalization);

(ii) harnessing of water;

(iii) modernization and development of the market preparation, storage, transportation and processing of agricultural products, particularly so as to respond in the appropriate manner to the needs of the local and regional markets.

III. Basic infrastructure

Development of infrastructure aimed at regional development or relating to the projects referred to at II.

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ANNEXE I

E G Y P T

ECONOMIC AND FINANCIAL SITUATION

CURRENCY EQUIVALENTS

		Official Rate	Parallel Market Rate (From December 1, 1976)
E£ 1	=	u.a. 2.25	u.a. 1.26
E£ 1	=	US $ 2.56	US $ 1.43
u.a. 1	=	E£ 0.44	E£ 0.79
US $ 1	=	E£ 0.39	E£ 0.70

Abbreviations

M = million

B = billion

Weights & Measures

metric system

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I. SUMMARY AND CONCLUSION

The Arab Republic of Egypt has a population of around 38 M people and it extends over an area of approximately one million km2. Over 96 % of the country consists of desert and all economic activity is concentrated in the Nile Delta region. The density of the inhabitable area is one of the highest in the world (more than 1 000 persons per km2), and population growth remains very high (2.2 - 2.5 %) increasing the problem of food supply, underemployment and urban congestion. At 1975 price and exchange (1) rates, GNP per capita was estimated at US $ 320.

From the early fifties to the mid-sixties, economic growth averaged 6 % p.a. During these years the importance of the private sector declined sharply and Egypt became a predominantly public sector economy. Between 1965 and 1974 the rate of economic growth declined to just over 3 % p.a. ; lack of economic coordination, low productivity of the public sector, together with the slowdown of agricultural output, and the 1967 war were the main factors constraining economic growth. After the 1967 war, investments were squeezed by the diversion of resources to defense which, together with a decline of capital inflow, reduced gross fixed capital formation to 12 % of GDP in 1972. The gross domestic savings rate fell sharply after 1967 and remained below 5 % of GDP. In spite of a considerable effort to mobilise the country's domestic financial resources, largely by way of taxation, the high level of defense expenditures and more recently the growth of subsidies, especially for food has led to a growing government deficit. These deficits, although partly financed by a steady inflow of Arab grants, brought about an increase in the public debt with the banking system. This, in turn, caused a rapid rise in the money supply and thus exacerbated domestic inflationary tendencies. At the same time, the slowdown of output and the decline of exports, coupled with rapidly rising imports produced a large trade deficit which has led to a growing external debt in spite of large amounts of grants from other Arab States.

After the October 1973 war, President Sadat presented a new economic strategy in his "October Working Paper". This strategy is based on an "open-door" policy and is in essence an attempt to restructure the economy from a basically centrally controlled system into a more market-oriented one, with more emphasis on public sector efficiency, increased scope for the private sector and encouragement of foreign enterprises.

(1) Official rate US $ 1 = EL 0.3913

In the short run, the realisation of the new economic strategies has run into problems, many outside Egypt's control. Among these are the slow progress towards peace, which prevents a shift from defense to productive expenditures ; the world recession which led to lower capital inflows from western countries ; and the rise in food and other import prices which resulted in very sizeable balance of payments deficits. Internally, it proved difficult to implement a rapid change in the established bureaucratic structure, and to stimulate the long depressed private sector. Foreign investors too were slow in responding to Egypt's new economic policy.

In spite of the above mentioned difficulties, GDP increased at a rate of around 3 % and 6 % resp. during 1974 and 1975 : the sectoral growth performance varied considerably from stagnation in agriculture and moderate expansion in industry, to steady growth in the services sector. However, the public finance and external situation of the country suffered greatly during these years. The public deficit increased from E£ 534 M in 1973 to E£ 1 347 M in 1975 (29 % of GDP). In spite of large amounts of grants from other Arab countries, the over-all deficit of the balance of payments rose to well over US $ 1 B. The resulting foreign borrowing brought about a sharp increase in the non-military external debt to an estimated US $ 5.1 B by the end of 1975 ; repayment obligations in 1975 exceeded 27 % of foreign exchange earnings. Furthermore, due to an excessive recourse to short term borrowing, the time profile of the commercial foreign debt became extremely unfavourable.

As to the structure of the economy, available evidence suggests that in spite of a certain reorientation in recent years there are many problems that need to be solved in the near future, amongst which one may cite particularly the following :

- Seasonal and regional underemployment in agriculture is significant. Also, in the urban areas, and particularly in the service sector, there appears to be a considerable amount of underemployment and employment of low productivity. The unemployment problem of educated groups has been partially avoided by automatically providing jobs in the public sector to all university graduates, but at the cost of considerable overstaffing. Emigration, especially to the neighbouring Arab countries, has only recently intensified and, although it contributed to easing the employment problem, it has created some shortage of skilled manpower

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and technical staff such as trained economists and engineers. As a consequence, technical assistance is urgently needed in almost all sectors of the Egyptian economy (project evaluation, planning and implementation, management).

- infrastructure is relatively well-developed, but has been starved of resources of investment in recent years which has led to a considerable deterioration. Maintenance, modernisation and extension is therefore urgently needed, particularly in ports, power, transport, telecommunications and urban facilities.

- Since 1965, food production has lagged behind population growth. Increasing food imports, both in volume and unit value, combined with declining exports have widened the foreign exchange gap. The slow progress in agriculture (47 % of the labour force, 24 % of GDP, 33 % of export earnings) resulted from land and water constraints, capital shortage, inadequate price and other incentive policies, inflexible institutional structure and sub-optimal resource allocation. The sector suffers from excessive government regulation, e.g. of prices, cropping patterns and marketing channels, and this has limited private initiative and investment. The marketing and processing of agricultural products remains a serious handicap to expansion of agricultural production. A major result of past price policies has been to cause agriculture's terms of trade with industry to deteriorate, largely as a means of transfering resources to the latter sector. There has also been a gradual decline in the proportion of investment in the agricultural sector and the supply of essential inputs (fertilizers, seed, research, extension services) has shown very little improvement. Within agriculture, resource allocation has been oriented heavily towards land reclamation, thus limiting investment in the "old lands" where drainage and soil improvement have become major problems. It appears that land reclamation has very often proved to be a costly and disappointing undertaking, launched in many cases without proper feasibility studies and without ensuring the full productive use of the reclaimed lands.

- Despite some developments in heavy industry (fertilizer, steel, cement), food processing and textiles still dominate the industrial sector, contributing more than 50 % of the total value of industrial output. The public sector still plays a crucial role in Egypt's industry, accounting for 90 % of annual industrial investment and for more than 75 % of industrial value-added. Private activities have been heavily restricted and little attention has been paid to the development of small scale private industries. In recent years, manufacturing industry has been held back by lack of capital and foreign exchange, and many plants have been operating far below capacity because of lack of equipment, spare parts and raw material. There is substantial wastage of material inputs and the efficiency is generally low. On the other hand, capacity constraints are becoming increasingly serious in major sectors (cement, fertilizer). A great number of factories are in urgent need of renovation and foreign expertise. Other severe constraints on further development of the industrial sector are : insufficient overall and inter-industry planning, insufficient use of the price system as indicator of relative scarcities, excess of bureaucracy, low management efficiency and slow or inconsistent decision-making, lack of decentralisation and insufficient influence of the state-owned enterprises on decisions regarding prices and employment.

After the war of 1967, the system of medium term planning was abandoned and replaced by annual plans. A fresh start towards lengthening the plan period was made with the 1976-80 development Plan, which, however, exists only in preliminary draft form and is in effect being executed in the form of annual plans. The 1976-80 Plan is expected to be finalized by the end of August 1977. The main macro-economic objectives of the Plan are :

- to increase GDP by 11 % p.a. (in constant prices) ;
- to reduce the current deficit of the balance of payments to a level not exceeding capital goods imports ;
- to increase the share of investment to 23 % of GDP in 1980 and to raise gross domestic savings to 19 % of GDP at the end of the Plan period.

The projected increase in employment during the five year Plan period is estimated at 1.2 million, i.e. an average 240 000 employment opportunities per year, as compared with the avarage annual incrase in the labour force of more than 325 000. However, taking into consideration the migration of labour to neighbouring Arab countries which averaged around 100 000 p.a. during the past 3 years, the overall employment situation should show an improvement.

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The planned amount of total investment during the five year period is around EL 7.8 B or US $ 19.9 B (at 1975 constant prices), and the general investment strategy differs considerably from previous plans. The 1976-80 Plan emphasizes the need to improve and expand infrastructure, it give priority to projects with a short gestation period and it stresses the need to bring to completion ongoing projects before new ones are started. A much larger role is assigned to the private sector, both domestic and foreign, and greater priority is given to labour intensive projects. However, the relatively low capital-labour ratio implied by the Plan (US $ 16 000 per worker) is somewhat misleading, as a considerable share of the planned investment relates to ongoing projects, where sizeable capital expenditure have already been made.

About 25 - 30 % of the planned expenditures are earmarked for transport and communication. The Plan identifies industry as the key economic sector, with a growth target of 12 % and an allocation of 24 % of total investment. The aim is to modernize existing enterprises, to develop export oriented activities and to assign a much large role to the private sector. High priority industries are : construction materials, agro-processing and food, textiles, chemicals and metallurgy. Although agriculture wll only receive 10 % of the planned new capital formation, the development of this sector is considered of great importance. Agricultural production is expected to accelerate to 3 % p.a., with most of this growth to come from vertical expansion of the "old lands", following the ongoing efforts to increase the productivity (drainage, soil and water management, more intensive cropping patterns, research and extension service).

Relative to Egypt's past economic performance, and present situation, the Plan appears to be very ambitious in both its growth and savings targets. The growth objective of 11 % p.a. represents a substantial acceleration over the average 3 % p.a. realised during 1967-75. The Plan aims at financing by 1980 more than 80 % of gross investment from domestic savings. This implies that consumption will have to be contained and domestic savings, which fell to 1 % of GDP in 1974-75 and financed less than 6 % of investment, will have to be raised to 19 % of GDP in 1980. The implicit marginal savings rate of 29 % is very high for a country at Egypt's stage of development. Although past performances are only a partial guide to the future growth potential of the economy, as they have been severely biased by a series of unfavourable events, it still appears doubtful whether the Plan's targets can be achieved.

These doubts arise not only because of the ambitious macro aspects, but also because at present it would appear that not enough projects have been sufficiently studied and advanced to the stage of implementation.

The gross foreign exchange requirements for 1977-80 are currently estimated at about US $12.1 B of which US $ 3.6 B in 1977 alone. Without creating very serious external debt problems, this high level of foreign exchange requirements could only be satisfied on the assumption that, in the next few years, the international community will continue to provide financial assistance at favourable terms.

In the longer run however, Egypt's economic potential would appear to be more promising for the following reasons :

- the large domestic market, the key geographical location, a skilled labour force, low wages and the existence of varied raw materials will encourage further industrialisation ;
- the re-opening and the physical expansion of the Suez Canal as well as the Sumed pipelines should provide considerable foreign exchange revenues. Revenues from the Suez Canal are projected to rise from about US $ 350 M in 1976 to US $ 700 M (1975 prices) by 1980 (8 % of total foreign exchange earnings) ;
- the future oil production of Egypt will probably substantially exceed domestic requirements thus allowing an increase in oil exports worth an estimated US $ 2.5 M (30 % of total foreign exchange earnings) ;
- tourism seems to have a considerable potential (projection : US $ 600 M in 1980 i.e. 7 % of foreign exchange earnings) ;
- Egypt is increasingly exporting skills in the form of qualified labour and this may permit an increasing flow of remittances.

However, it is clear that these development prospects hinge to a large extent on the progress towards peace in the Middle East and on the country's ability to attract external capital and technology. Furthermore, a considerable effort is necessary in order to realize the structural changes which the Government intends to enforce during the Plan period, namely :

- ensure a more efficient resource allocation through a more consistent overall planning effort and an improved coordination in economic policy and decision making ;
- contain consumption and increase national savings ;
- redesign the country's price and exchange rate policy in order to reflect more effectively economic scarcities and to bring about an improved allocation of resources. The reduction of price subsidies and the adjustment in the interest rate structure is of considerable importance;
- improve the efficiency of the public enterprises ;
- improve the time-profile of external debt.

II. GENERAL FEATURES

1. Geography and Physical Resources

The Arab Republic of Egypt, with an area of approximately one million km2, lies in the north-eastern corner of the African continent. Over 96 % of the territory consists of desert and marches, and only about 3.5 % is permanently settled ; with an estimated 1976 population of around 38 M, the density of the inhabitable area (Nile valley and the Delta) is 1 085 persons per km2, one of the highest in the world.

The climate is generally warm and arid, with rainfall ranging from 200 mm in the north (Alexandria) to 80 mm or less in the south. As a result of deficient rainfall, agricultural activities largely depend on irrigation waters from the Nile. Major crops are cotton, rice, wheat, maize, sugar cane, many types of fruits and vegetables.

Egypt appears to have sizeable oil and gas reserves, at present not yet completely assessed. Oil production, which totalled approximately 16 M t in 1976, is projected at 35 M t by 1980. Present gas production is about 1.2 B m3 which covers local requirements.

Minerals presently being exploited include phosphate, manganese, iron ore and salt. Very sizeable phosphate deposits (concentration of phosphoric acid around 30 %) have been identified at Hamrawein and Abu Tartur (1 B t), but plans for their exploitation are at an early stage ; other recent discoveries include copper, lead and zinc.

Although the transport infrastructure is relatively well developed, modernisation and extension is urgently required. A railways network of 4 000 km and a road transport system of 26 000 km, 12 000 of which are paved, connect Cairo with the main centers of the country. River transport is extensively used, especially in the Delta.

The main ports of the country are Alexandria, Port Saïd and Suez. Cairo and Alexandria are the major airports of the country equipped to international standard.

III. POPULATION AND EMPLOYMENT

Egypt's population is estimated at around 38 M in 1976, and its growth rate lies in the 2.2 to 2.5 % range. Emigration to neighbouring Arab countries, especially of skilled people, has become important in recent years ; some estimates put the number of Egyptians living abroad at around 1 million persons. This braindrain has created some shortages of trained manpower.

Table 1

Employment by Economic Sector

	1970		1975	
	Thousands of persons	%	Thousands of persons	%
Agriculture	4 048	48.9	4 212	46.6
Industry (1)	1 672	20.2	1 907	21.1
Services	2 554	30.9	2 918	32.3
TOTAL	8 274	100.0	9 037	100.0

(1) includes construction, utilities and transport.

Total employment was estimated to be over 9 M in 1975. The structure of employment, as shown in Table 1, reveals that the agricultural sector, absorbing nearly half of the total labour force, is still by far the most important source of employment.

Due to a steady migration of manpower and a growing overstaffing of public services, as a result of a deliberate Government policy, unemployment is at present low. Underemployment however, both in the public sector and in agriculture is considerable. In future years, it is expected that the unemployment problem will inevitably become more serious, due to the young age of the population and the likely drop in the size of the armed forces.

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IV. RECENT ECONOMIC DEVELOPMENTS

1. General

From the early fifties to the mid-sixties, economic growth averaged around 6 % p.a. During these years, the importance of the private sector sharply declined and Egypt became a predominantly public sector economy, not only by means of ownership of the major factors of production, but also through extensive control of all sectors, including agriculture.

During the period between 1965 and 1974 economic growth declined to just over 3 % p.a. The lack of coordination in planning, the low productivity of the rapidly expanding public sector, and the slowdown of growth in agricultural output, were the main factors constraining economic growth. The 1967 war exacerbated these difficulties, as military expenditure rose rapidly and investments were further reduced. A high level of public expenditure led to a growing Government deficit which, although partly financed by a steady inflow of Arab grants, brought about an increasing public indebtedness with the banking system. This in turn caused a rapid rise in the money supply and thus strengthened the internal inflationary tendencies. At the same time, the slowdown of output and the decline of exports, coupled with rapidly rising improts, produced a large trade deficit. As a result, the external debt increased rapidly in spite of large capital transfers from other Arab States

The October 1973 war brought about radical changes in the international political and economic climate, and gave an opportunity to Government to initiate structural changes in the Egyptian economy. These changes were incorporated in Sadat's "October Working Paper" presented in 1974, and are based on the so-called "open-door" policy. In essence, this policy is an attempt to restructure the economy, transforming it from a basically Government controlled system into a more market-oriented one, with less central control, more emphasis on public sector efficiency (in Government and enterprises), increased scope for the private sector, and encouragement of foreign enterprise.

In the short run, the realisation of the new economic strategies has got into problems, many outside Egypt's control. Among these are the slow progress towards peace, which prevents a shift from defence to productive expenditures ; the world recession which led to lower capital inflows from western countries ;

and the rise in food and other import prices which resulted in very sizeable balance of payments deficits. Internally, it proved difficult to implement a rapid change in the established bureaucratic structure, and to stimulate the long depressed private sector. Foreign investors too were slow in responding to Egypt's new economic policy.

The above mentioned difficulties did not in fact constrain actual growth of GDP which increased by 6 % in 1975 thanks to the effort of reconstruction and repairs. The sectoral growth performance varied considerably from stagnation in agriculture and moderate expansion in industry, to steady growth in the Services sector. However, the external position and the public finances suffered greatly during this period. In spite of large transfers from other Arab countries, the foreign borrowing necessary to balance the current account deficit brought about a sharp increase in the external debt to an estimated US $ 5.1 B by the end of 1975 ; repayment obligations in 1975 were as high as 27 % of the total foreign exchange earnings. Furthermore, due to an excessive recourse to short term borrowing, the time profile of the commercial foreign debt became extremely unfavourable.

2. Principal sectors of the economy

In 1975 Egypt's GDP, measured in current prices, reached EL 4 653 M (US $ 11 890 M), equivalent to a per capita income of EL 125 (around US $ 320)(1). The development of GDP, by sector and measured in constant prices, is illustrated in Table 2.

As shown in Table 3, the primary sector, including agriculture and fisheries, showed a marked decline in its growth rate over the period 1961 and 1975. The reasons for this are manyfold, but inadequate price and incentive policies coupled with capital shortages, as well as land and water limitations have been singled out as the principal factors constraining the growth of agricultural output.

The secondary sector maintained a growth rate exceeding that of GDP in spite of severe difficulties. Lack of capital and foreign exchange, coupled with shortages of spare parts and raw materials have played an important role in limiting the growth potential of this sector. The neglect of small and medium scale industries and the restrictions on private initiatives have further constrained economic activity.

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(1) Converted at the official rate of US $ = EL 0.3913.

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TABLE 2 - GROSS DOMESTIC PRODUCT, AT CONSTANT PRICES

(in million of E pounds; 1969/70 prices)

	1969/70 [1]	1973	1974	1975 (preliminary)
Primary Sector	771.9	815.4	817.5	837.5
Secondary Sector	707.5	815.7	815.5	950.1
. industry, mining, petroleum	542.0	647.4	671.8	751.8
. electricity	41.8	56.0	60.4	69.8
. construction	123.7	112.3	83.3	128.5
Tertiary Sector	1 073.4	1 444.2	1 539.6	1 696.9
. Transport, communications, storage	130.9	163.5	180.2	241.3
. Trade and finance	229.0	313.6	350.3	386.5
. Housing	118.2	124.0	127.1	130.0
. Public utilities	11.7	16.5	18.7	20.0
. Government & other services	583.6	826.6	863.3	919.1
G D P, at factor cost	2 552.8	3 075.3	3 172.6	3 484.5

1) Year ending June 30

Source : Ministry of Planning

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TABLE 3 - G D P : SECTOR SHARES AND GROWTH RATES : 1966-1975

(Calculated from data expressed in constant terms)

Sectors	Shares in G D P				Growth Rates (% p.a.)		
	1966	1971	1974	1975 (Preliminary)	1961/66	1966/71	1971/75
Primary	28	29	26	24	4.0	2.0	1.7
Secondary	26	30	26	27	8.8	5.3	6.0
• Industry + mining	21	23	21	22	7	5	2
• Electricity	1	2	2	1	14	15	11
• Construction	4	5	3	4	17	3	-11
Tertiary	46	41	48	49	4.1	4.7	6.3
G D P	100	100	100	100	6.0	3.0	3.5

Source : Ministry of Planning

On the contrary, the tertiary sector including transport, trade and Government services, has shown a tendency to accelerate its growth rate chiefly thanks to the widening of public sector activities

3. Structure of Resource Use

Table 4 illustrates the development and structure of resource use for the last five years ; all figures are in current prices. During this period, the national resource use consistently exceeded GDP, growing from 105 % of GDP in 1970/71 to 125 % in 1975. This trend generated large deficits on the external resource balance, which caused a rapid increase of external debt, in spite of the fact that Egypt received sizeable tranfers, mainly from Arab oil producing Gulf States.

Domestic consumption has been allowed to grow at an estimated 11 % p.a., compared to GDP growth of around 9 %, measured in current prices. As a result, its claim on domestic resources increased from 92 % in 1970/71 to the entire GDP in 1974 ; in the following year, the country's consumption even exceeded its domestic product.

Gross investment throughout these years stagnated at a relatively low level, claiming on average 13 % of GDP. In 1974, gross investment increased to 18 % of GDP, to rise further to 24 % of GDP in 1975. Available data indicate that during the period 1970 and 1975, well over 90 % of total investment was undertaken by the public sector. Private investment expenditures appear to have been limited to agriculture and housing.

As gross domestic savings dropped from 8 % to less than 1 % of GDP between 1970 and 1975, fixed investment had to be financed mainly from capital transfers and external borrowings, as shown in Table 5.

4. Public finance

The public sector in Egypt consists of the central Government, local governments and public authorities. Government owned companies are treated as autonomous agencies, and their financing is kept outside the Government budgetary system.

The financial situation of the public sector has since 1970/71 been characterised by a growing imbalance between revenues and expenditures. -

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TABLE 4 – DEVELOPMENT AND STRUCTURE OF DOMESTIC RESOURCE USE

(in current prices)

	1970/71		1971/72		1973		1974		1975	
	£ million	%	£ million	%	£ million	%	£ million	%	£ million	%
. Gross Domestic Resource Use	3 354	105	3 591	105	4 004	107	4 736	118	5 744	125
Consumption	2 939	92	3 151	92	3 504	94	4 013	100	4 624	101
of which private	(2 115)	(66)	(2 223)	(65)	(2 427)	(65)	(2 836)	(70)	(3 327)	(92)
Gross Investment	415	13	440	13	500	13	723	18	1 120	24
of which fixed	(355)	(11)	(365)	(11)	(462)	(12)	(643)	(16)	(940)	(20)
. External Resource Balance (a)	– 150	(–5)	– 169	–5	– 258	–7	– 710	–18	– 1 144	–25
Imports (–)	– 476	15	– 494	–14	– 650	–17	– 1 364	–34	– 1 757	–38
Exports	326	10	325	9	392	10	654	16	613	13
. Gross Domestic Product (1 + 2)	3 204	100	3 422	100	3 746	100	4 026	100	4 600	100
. Net Factor Service/Income (a)	– 22	– 1	6	--	– 12	--	30	1	122	3
. Gross National Product (3 + 4)	3 182	99	3 428	100	3 734	100	4 056	101	4 722	103

ource : Ministry of Planning, and Central Bank

(a) Exports, Imports and Net Factor Service Income (Table 9) were converted from US dollars into E pounds at the official rate. The calender year data for 1970, 1971 and 1972 were used to calculate the approximate 1970/71 and 1971/72 data to conform to GDP statistics.

TABLE 5 - INVESTMENTS AND THEIR FINANCING

(in millions of E pounds, current prices)

	1970/71	1971/72	1973	1974	1975
Investment	415 (13)	440 (13)	500 (13)	723 (18)	1 120 (24)
of which - capital formation	355 (11)	365 (11)	462 (12)	643 (16)	940 (20)
- stock movements	60 (2)	75 (2)	38 (1)	80 (2)	180 (4)
Financing	415	440	500	723	1 120
of which - domestic savings (1)	262 (8)	272 (8)	253 (7)	56 (1.4)	29 (0.6)
- net factor incomes (1)	- 22	6	- 12	30	122
- external resources or change in reserves	175	162	259	637	969

Notes : a) Figures between parenthesis indicate ratio to G D P

Source : Ministry of Finance and IMF

(1) Domestic Savings, plus or minus Net Factor Services' Income = National Savings

The main reasons have been the continuing need for heavy defence expenditures, and the political decision to protect consumers from rising food costs through budgetary subsidies.

As shown in Table 6, current revenues increased over the period from EL 869 M in 1971 to EL 1 946 M in 1975, corresponding to 27 % and 33 % of GDP resp. The revenue structure did not change much over these years, with direct taxes contributing 16 % of total revenues, indirect taxes 43 % and transfers from public enterprises around 25 %. The structure of current expenditure would appear to have changed, chiefly as a result of the rapid rise in price subsidy payments, which in 1975 accounted for 38 % of total current expenditure. However, the presence of the "Emergency Fund Deficit" hides the impact that defense expenditures have on the structure of Government finance. This Fund receives most of its income through Arab grants and covers special defence and reconstruction expenditures.

Government savings have been negative in 1974 and 1975, while public investment rose to EL 913 M in 1975, equivalent to 20 % of GDP. The resulting deficits which increased more than threefold, and rose from 10 % of GDP in 1971 to 25 % in 1975, have been financed mostly through domestic borrowing (debts with the banking system, social insurance and pension funds, savings and postal certificates) ; however, in recent years increasing use of external sources has been made.

As no mention of Arab grants is made in the budget it would appear legitimate to assume that the entire amount of transfers (over US $ 1 B in 1975) were allocated to the Emergency Fund thus indicating that defence expenditures could possibly absorb a large amount of the Arab grants received by Egypt.

5. The Banking System, Money and Credit

The banking system in Egypt comprises the Central Bank, four commercial (nationalised) banks, several specialised investment banks, and a growing number of foreign or joint venture private banks. Monetary control is in the hands of the Central Bank which almost exclusively relies on controlling monetary expansion by changes in the bank's loan/deposit ratio, at present a maximum of 65 %.

TABLE 6 - GOVERNMENT REVENUES AND EXPENDITURES : 1970/71 - 1976

(in millions of E pounds)

	1970/71	1972	1973	1974	1975	1976 Prel. Actual	Structure in % 1970/71	1976
CURRENT REVENUE OF THE CENTRAL GOVERNMENT	869	903	1 018	1 180	1 541	1 946	100	100
of which : Direct Taxes	143	146	161	176	226	317	16	16
Indirect Taxes	362	375	396	430	629	836	42	43
Local Government	56	58	60	65	92	87	6	4
Public Economic Sector	188	181	264	335	381	493	22	25
Other	120	143	133	174	213	213	14	12
CURRENT EXPENDITURE OF THE CENTRAL GOVERNMENT	702	792	953	1 327	1 691	1 796	100	100
of which : Central Government	615	688	714	779	885	1 071	88	60
Local Government	46	42	51	61	91	101	6	5
Public Econ. Sectors	41	62	95	87	93	124	6	7
Subsidies	—	—	93	400	622	500	—	28
GOVERNMENT SAVINGS	167	111	65	- 147	- 150	150		
INVESTMENT EXPENDITURE (-)	358	414	451	565	913	850		
EMERGENCY FUND DEFICIT (-)	127	225	148	34	284	250		
OVERALL DEFICIT	- 318	- 528	- 534	- 746	-1 347	- 950	100	100
FINANCED BY :								
DOMESTIC BORROWING (net)	318	510	483	652	1 154	770	100	81
of which : Social Insurance and Pension Funds	188	214	224	245	253	270	59	28
Savings Certificates	23	32	38	43	50	54	7	6
Postal Savings	3	9	10	18	17	19	—	2
Jihad Bonds	—	14	13	3	—	—	—	—
Banking System	79	77	183	314	00	404	25	43
Other	25	164	15	29	34	23	9	2
EXTERNAL BORROWING (net)	—	18	51	94	193	180	—	19

Source : Ministry of Finance and IMF reports

The specialised investment banks include 17 regional Agricultural and Cooperative Credit Banks, two mortgage banks and an industrial development bank. The latter, the Development Industrial Bank of Egypt is newly formed joint venture between government, the Bank of America and the International Finance Corporation.

As shown in Table 7, domestic liquidity has been growing, over the period considered, at a rate well above that of GDP. The resulting twofold increase of the quantity of money and quasi-money in circulation contributed significantly to the inflationary forces at work in the country. The monetary expansion was fuelled by a rapid growth of domestic credit. Claims on Government rose sharply after the 1973 war, as public savings disappeared and the growing development expenditures had to be entirely financed through borrowing. Likewise, claims on the private sector started to rise after 1973 mainly as a result of more liberal import regulations and a surge in construction activities.

Interest rates are fixed by the Central Bank in close cooperations with Government : they are rarely used as a tool of economic policy, and the discount rate was unchanged for 14 years. However, in 1976 it was raised from 5 to 6 % and it was further increased in early 1977 to the present 7 %. Rates on savings deposits and postal savings books have been increased to 6 % ; in order to encourage savings, these earnings have recently been made tax exempt.

Interest rates in Egypt are well below the rate of profit and tend to lead to a serious misallocation of resources, causing distortions in the economy. It is therefore recognised by the Government that, in order to promote increased domestic savings and a more efficient allocation of credit, it is necessary to raise substantially the level of interest rates.

6. Prices and Wages

Egypt has made extensive use of price subsidies and administrative controls over wages and employment in its pursuit of social objectives. This policy has created a complex system of price and rent controls, subsidies (1) and rationing schemes. Its economic consequences are a price and wage structure that are unable to provide guidance for efficient resource allocation.

(1) Price subsidies increased from EL 93 M in 1973 to EL 622 M in 1975 (38 % of Government current expenditures or 13 % of GNP).

TABLE 7 - MONETARY SURVEY : 1970-1975

(millions of E pounds)

	1970	1971	1972	1973	1974	1975	Structure (%) 1970	Structure (%) 1975
MONEY SUPPLY (liabilities)								
Money	783	846	989	1 205	1 503	1 863	51	57
of which : currency	(525)	(559)	(631)	(777)	(948)	(1 156)	(34)	(35)
Quasi Money	346	319	356	432	617	703	23	21
Sub-total : domestic liquidity	1 129	1 165	1 345	1 637	2 120	2 566	74	78
Other Items	395	447	477	537	610	722	26	22
of which : counterpart funds	(146)	(150)	(151)	(151)	(142)	(171)	(10)	(5)
government deposits	(120)	(144)	(148)	(148)	(219)	(248)	(8)	(8)
capital accounts	(114)	(135)	(155)	(164)	(172)	(192)	(7)	(6)
LIABILITIES = ASSETS	1 524	1 612	1 822	2 174	2 730	3 288	100	100
COUNTERITEMS (assets)								
Foreign Assets (net)	- 232	- 333	- 308	- 165	- 219	- 1 049	- 15	- 32
Claims on Government (net)	1 172	1 327	1 460	1 656	2 050	3 095	77	94
Claims on the Economy (net)	523	549	553	531	788	1 093	34	33
Unclassified	61	69	117	152	111	149	4	5

Source : Central Bank of Egypt, and IMF

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A measure of the impact of price control is given by the relatively small increases in the available price indexes shown in Table 8.

Table 8

Price Indexes : 1972-1976 (June)

	1973	1974	1975	1976 (June)
Consumer Index for Urban Population (% annual changes)	7.2	10.4	9.9	7.7
of which : Food & beverages	10.2	15.2	12.8	11.0
Wholesale Index (% annual changes)	10.5	12.4	5.9	4.0

Source : Central Agency for Public Mobilisation and Statistics

Wages and salaries are controlled by Government chiefly as a mean to improve the distribution of income. Controls are mainly based on statutory wage minima, fringe benefits and incentive bonuses.

7. Balance of Payments

Egypt's balance of payments, as shown in Table 9, is characterised by a growing trade deficit which is only partly offset by earnings from services and unrequited transfers. Although in recent years the capital account has often been positive, the overall or basic balance has shown a growing deficit, rising to well over US $ 1 B in 1975. Gross external reserves in gold and foreign exchange at the end of 1976 were only US $ 350 M, hardly sufficient to cover one month of imports. Net foreign exchange assets however showed a rapidly rising negative balance reaching EL 1 050 or US $ 2.7 B in 1975.

In recent years imports have increased rapidly and in 1975 they totalled US $ 4.5 B, equivalent to almost 38 % of GDP. The increase in imports can be mainly attributed to the rapid rise in foreign prices, coupled with the country's chronic deficit in food stuffs that in 1975 accounted for around 25 % of the total import expenditure. Preliminary 1976 figures indicate that expenditure on imports will likely decline in absolute terms ; however, it is expected that export revenues will still barely cover half of the cost of imports.

TABLE 9 - BALANCE OF PAYMENTS : 1970-75[1] (in millions of US dollars)

	1971	1972	1973	1974	1975
CURRENT TRANSACTIONS					
Imports cif	- 1 244	- 1 286	- 1 664	- 3 491	- 4 497
Exports fob	850	814	1 003	1 674	1 569
Trade balance	- 394	- 472	- 661	- 1 817	- 2 928
Travel	53	73	96	161	227
Shipping	- 7	- 4	- 2	- 4	- 23
Suez Canal	—	—	—	—	85
All other	82	90	- 56	- 47	- 141
Non Factor Services (net)	- 36	- 21	38	110	148
Workers Remittances	6	81	86	189	367
Interest on Debts	- 82	- 75	- 146	- 206	- 309
Commissions, Dividends	20	22	29	77	75
Own Exchange Imports	—	—	—	16	168
Factor Services (net)	- 56	28	- 31	76	301
I - GOODS & SERVICES	- 485	- 466	- 654	- 1 632	- 2 480
Unrequited Transfers	279	295	731	1 305	1 079
(of which Government)	(268)	(289)	(725)	(1 264)	(983)
II - CURRENT ACCOUNT	- 206	- 171	77	- 326	- 1 401
CAPITAL TRANSACTIONS					
Medium & Long Term Loans (net)	- 26	79	40	- 147	257
Suppliers' Credit	60	44	- 117	- 12	83
Other Items	7	28	- 4	- 39	38
III - CAPITAL ACCOUNT	41	151	- 81	- 198	378
Errors and Ommissions	8	- 7	- 10	- 13	n.a. (2)
IV - OVERALL OR BASIC BALANCE	- 157	- 27	- 14	- 537	- 1 023

1) Totals may not add due to rounding

2) Included in Other Items under Capital Transactions

Source : Central Bank of Egypt, IMF

As shown in Table 9, the value of exports doubled in 1974 and 1975 as compared with 1971/72, reaching some US $ 1 569 M in 1975, equivalent to 13 % of GDP. Most of this growth can be attributed to price increases. Agricultural exports, led by cotton, are still dominant accounting for over 33 % of total exports in value terms. Yarns and textiles, and petroleum follow in order of importance.

The data presented in Table 9 underline the importance of the unrequited transfers and the workers' remittances in offsetting the trade deficit as the two items together accounted for approximately 90 % of total export receipts during 1974-75.

An analysis of the direction of trade reveals that Egypt's major suppliers are Western Europe and the USA, while the USSR share, although still supplying almost 20 % of total imports, has declined in recent years. On the contrary, most of the country's exports continue to flow to Eastern Europe and in particular the USSR, generally in the context of bilateral agreements.

Recently, in an effort aimed at curbing imports and encouraging exports, the exchange rate system has been restructured on a two-tier basis. The official rate (worth 76 % more in terms of foreign exchange than the parallel rate) is used for the payment of the imports of strategic commodities, while any other type of imports has to be paid using the more expensive parallel rate. At present, approximately 75 % of imports are transacted at the parallel exchange rate.

8. The External Debt

As shown in Table 10, the external non-military debt was estimated at US $ 5.7 B by the end of September 1976, whereas the corresponding service payments totalled US $ 950 M equivalent to a debt service ratio of almost 30 %. In addition, Egypt has made increased recourse to short-term bank credit of which some US $ 1 023 M were outstanding commitments at the end of 1975. Although this figure had been reduced to an estimated US $ 897 M by year-end 1976, these short-term obligations are putting increased pressure on Egypt's external liquidity position. Government intends to use the large amounts of unrequited transfers obtained in 1977 to eliminate these bank credits and so improve the time profile of the external debt.

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Table 10

Summary of External Debt (non-military)
(million US dollars)

End of period	1974	1975	September 1976
Debt, disbursed and outstanding	2 760	5 101	5 670
Debt Service Payments	558	680	950 (own estimate)
Export Earnings (goods, non-factor services, remittances)	2 297	2 565	3 175 (Government estimate)
Debt Service Ratio (%)	24.3	26.5	29.9

Source : IBRD External Debt Tables (1975) and information supplied by Government.

V. MAJOR ECONOMIC SECTORS

1. Agriculture

Value-added	24 % of GDP
Exports	33 % of total exports(1)
Employment	46 % of the labor force

Agricultural activities in Egypt are limited to the Nile valley and the Delta area. The total cultivable land represents 2.5 % of the national territory and covers 14.5 M ha, incl. the 1.4 M ha of "new land" gained since the completion of the Aswan dam. It is important to underline that the area under crops is almost double the cultivable lands, due to the year-round availability of water.

Although the land reform of the sixties left agriculture in the hands of the private sector, it radically changed the structure and organisation of agricultural production. Farmers have been groupedin cooperatives and farm sizes have been limited to 100 ha per farmer, with the result that 95 % of holdings are less 12 ha. Furthermore, cropping patterns are partly decided by means of administrative procedures limiting the choice of the cooperatives and the farmers.

(1) If processed agricultural products are included, then agriculture accounted for 66.5 % of exports : see Annex 2.

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Table 11 and Annex 3 show the structure of output : vegetables, cotton and cereals are the principal crops. Cotton is of fundamental importance to the Egyptian economy, providing about 24 % of total exports in the form of raw cotton and over 30 % as yarn and textiles. The domestic production of cereals does not cover internal demand and imports of foodgrains have, in recent years, accounted for the bulk of food imports. Chiefly due to the deficit of foodgrains, imports of agricultural products (E£ 750 M) are considerably larger than the exports generated within the sector (E£ 430 M).

Agricultural output increased at a rate of 4 % p.a. from 1956 to 1966 ; since then, growth has slowed down and during the last decade the increase in output has been below 2 % p.a. On a per capita basis, agricultural production has therefore steadily declined. Annex 3 indicates that cotton production fell somewhat in recent years, while output of cereals has stagnated since 1969/70 after rapid growth in the early sixties. Production of fruits and vegetables, the prices of which are not controlled, has generally increased. Livestock products have also shown steady growth, although meat and milk production has not kept up with population growth.

The slow agricultural progress can be explained by land and water constraints, capital shortage, inadequate price and incentive policies, inflexible institutional structure and sub-optimal resource allocation. The sector suffers from excessive Government regulation, e.g. of prices, cropping patterns and marketing channels, which has limited private initiative and investment.
In general, Government price and marketing policies have not sufficiently encouraged production of the major crops. As a result of past price policies, there has been a deterioration of agriculture's terms of trade with industry, largely as a means of transfering resources to the latter sector. The supply of essential inputs (fertilizer, seed, research, extension services) has shown very little improvement, and the level of investment in the agricultural sector has gradually declined. Furthermore, the allocation of investments has been oriented heavily towards land reclamation. These new irrigation and land reclamation projects have proved to be extremely capital intensive, and given the shortage of funds, the emphasis on horizontal development of agriculture has led to a neglect of the vertical development on existing "old-lands". The latter is in many respects the more difficult, because of traditional cultivation techniques, established cropping patterns and fragmented landholdings. However, it is also the more productive development strategy, and for reasons having to do with soil

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Table 11

Structure of Agricultural Production

(for 1975, in current prices)

	Value (million £ E)	Share (%)
Vegetable	248	14.6
Cotton	170	10.0
Maize	141	8.3
Wheat	104	6.1
Fruits	100	5.9
Rice	98	5.8
Sugar Cane	59	3.5
Sorghum & Barley	37	2.2
Beans	24	1.4
Onions	19	1.1
Other	120	6.9
All crops	1 120	65.8
Livestock & Fisheries	581	34.2
Total Agricultural Production	1 701	100.0

Source : Ministry of Agriculture

exhaustion and rising water tables, also the more urgent. Projects in this category include drainage and soil amelioration, which would raise the productivity on the old lands, while halting further yield losses. It appears that soil deterioration due to high groundwater tables is progressive, and that without corrective action the affected agricultural lands may be lost altogether.

2. Petroleum and gas

In 1976, the Sinai oil fields were returned to Egypt and petroleum production regained the early 1970's level of output (16 M tons p.a.). Domestic requirements are around 8 M tons, leaving a sizeable surplus for export. Intensive exploration is at present under way, and recent indications tend to support the Government's production forecast of 35 M tons p.a. by 1980 (1). The present production of gas is over 3 M m3/day, but recent exploration activities indicate that the future output could increase considerably. Four refineries, with a total capacity of around 11 M tons p.a. are in the process of being expanded and remodernized after having suffered severe war damages.

3. Manufacturing and mining

Value-added	20 % of GDP
Exports	35 % of total exports
Employment	13 % of labour force

The long term growth rate of the sector, although tending towards a decline over time, has been well over 5 % p.a., chiefly thanks to the Government effort aimed at developing import substitution activities. As a consequence, the structure of the manufacturing sector (see Table 12 and Annex 4) is characterized by the predominant position of agro-based industries such as textiles, beverages, food and cigarettes. These industries account for over 61 % of gross value-added of manufacturing and contribute 63 % of the sector's exports.

Most of the large and medium scale enterprises are publicly owned ; they account for 75 % of industrial value-added and 50 % of annual investment. Employment in the public sector industry has been estimated at over 600 000 people. The role of the private sector is limited to small and medium scale units notably in textiles, food and leather goods. Recent measures aimed at encouraging private initiative should in the short/medium term tend to promote new activities in the private sector.

(1) This would leave an exportable surplus of about 25 M tons by 1980 equivalent to an estimated US $ 2.5 B at present prices (almost 30 % of projected foreign exchange earnings).

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Table 12 - Structure of Manufacturing Industry (1) in 1975

INDUSTRIAL SECTOR	PRODUCTION		PUBLIC SECTOR OWNERSHIP (%)	EXPORTS	
	GROSS VALUE (Million E Ŀ)	SHARE (percent)		GROSS VALUE (Million E Ŀ)	SHARE (percent)
Spinning & Weaving Products	690	30	73	106	46
Foodstuffs	698	31	79	39	17
Chemicals	267	12	76	16	7
Engineering Products	221	10	82	19	8
Metallurgical Products	165	7	89	11	5
Building Materials	93	4	82	4	2
Wood Working	40	2	0	11	5
Leather Products	87	4	0	25	10
T O T A L	2 261	100	74	231	100

Source : Ministry of Industry and Mining

(1) Not included in these statistics are the following industrial sectors, which are those not under the direct responsibility of the Ministry of Industry and Mining

: defense, cotton ginning, flour milling, bakery production, tea packing, printing, pharmaceuticals and production of village industries. These are not under the supervision of the Ministry, but have been allocated to other ministries or organisations.

In spite of serious difficulties caused by shortages of capital and foreign exchange, manufacturing has proved to be one of the most dynamic sectors of the economy. Even so, the sector's development has fallen short of its potential, which is usually considered significant chiefly due to the availability of a well-trained labour force, a large domestic market and a central location vis-à-vis the entire Middle East market.

The lack of planning and excessive centralisation in decision-making greately added to the difficulties encountered by the sector. As a consequence, many plants have been working below-capacity, productivity has in general been low and equipment suffered from lack of maintenance and renewal. Furthermore, the haphazard planning has brought about serious bottlenecks resulting in shortages of important intermediary inputs such as cement and fertilizers. The destruction and dislocations caused by the wars exacerbated these constraints and, if they have provided short-term burst of repair and reconstruction activities, they have also severely limited the long-term growth of the sector. The complex system of price controls, incentives and regulations caused further difficulties, hiding relative scarcities behind an intricate bureaucratic system of interventions.

Mining activities are limited to the extraction of iron ore, with an output of 2.4 M p.a. and rock-phosphate with a modest annual production in the region of 0.5 M. The phosphate is at present used domestically for the production of fertilizers. Recent prospecting has identified new sizeable phosphate deposits in the western area of the country with a phosphoric acid content of around 30 % ; the economic feasibility of their exploitation is now being studied.

4. Power

The power sector, completely nationalised in 1964, is dominated by the Aswan hydrosystem which provides 63 % of the 3 860 MW generating capacity of the country. Oil and gas power plants provide the remainder. The Aswan power system together with the thermal units are interconnected and form the so-called Unified Electric Power System of Egypt.

The total domestic consumption of electricity reached 9.[illegible] TWh in 1975 for an average per capita consumption of about 265 kWh. The future growth rate of demand for electricity has been estimated at approximately 10 % p.a.

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In the medium-term, it is expected that the required additional capacity will be provided by either oil or gas-fired plants although a feasibility study for a nuclear power station is now being prepared.

In recent years, the sector has encountered difficulties due to the age of some of the oil-fired plants, and the conflicting demand on the waters of the Nile between irrigation, navigation and power generation.

5. Transport

Egypt has a well-developed transport system, but it is in urgent need of modernisation and expansion. The road network consists of over 12 000 km of highways, mostly tarred, linking the major centers of the country. The railway system of some 4 385 km, links Cairo with Alexandria, Port Said, the major centers in the Delta area and Aswan. The Egyptian Railway Corporation owns and operates the system, which in 1974 carried 8.7 M passengers and roughly 2.5 M tons/kilometers of freight (compared to almost 3.3 M t/km in 1970/71). Maintenance has been poor and replacement of rolling stock intermittent, with the result that the effciency and capacity of the system have declined. During the next few years, Government intends to modernize rolling stock, and carry-out much needed maintenance and repair activities.

Inland-water transport also plays an important role. Although the main artery is the Nile, which is utilized for the transport of heavy or bulk products, the dense network of canals in the Delta area provides essential transport linkages.

The major ports of the country are Alexandria, Port Said and Port Suez, although the latter are only now resuming their past importance ; their renovation and expansion are part of the Suez Canal Master Plan. The port of Alexandria (capacity 13 M t) is being modernized and expanded, and a new port (20 M t) is being constructed west of Alexandria, to be commissioned by 1978/79. The port of Safaga on the Red Sea is also being expanded, mostly for mineral exports and imports.

The Suez Canal was re-opened in June of 1975, and earnings reached about US $ 350 M in 1976. Contracts have recently been signed for the widening of the Canal, to allow passage of ships up to 150 000 t, as compared to 60 000 t at present (1). The cost of the expansion programme is estimated at US $ 1.1 B of which around 60 % foreign exchange. A recent addition to the transport sector

(1) Revenues from the Suez Canal are projected to rise to about US $ 700 M in 1980 (around 8 % of projected foreign exchange earnings).

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is the 320 km Sumed (Suez-Mediterranean) oil pipeline, which became operational early 1977. Full capacity of the first stage, some 40 M t per year, is expected to be reached by the end of 1977 or early 1978 ; expansion to 60 M t is envisaged at a later date. The pipeline carries crude oil from Suez, at the southern end of the Suez Canal, to Alexandria where the oil is transhipped into small tankers for delivery to final destinations in the Mediterranean basin. Sumed thus competes with the very large crude carriers transporting oil from the Arabian Gulf around the Cape and with smaller tankers capable of using the Suez Canal.

6. Tourism

Although tourism has severely suffered from the unstable political situation of the area, the sector has undergone a rapid growth and has provided a significant inflow of foreign currency. In the last two years, the number of visitors has increased significantly (1 M people p.a.) and foreign exchange receipt rose to over US $ 225 M. The future growth of the sector is however severely constrained by an acute shortage of hotel accomodation and trained manpower. To solve these problems the Government is planning to establish a hotel-training school and to increase the total number of hotel beds from 42 000 to over 60 000. The latter capacity increase would be sufficient to accomodate by 1980 more than 1.5 M people and would generate an estimated foreign exchange inflow of US $ 600 M per year.

VI. THE 1976-80 DEVELOPMENT PLAN AND FUTURE PROSPECTS

After the war of 1967, the system of medium-term planning was abandoned and replaced by annual plans. A fresh start towards lengthening the plan period was made with the 1976-80 Development Plan, which, however, exists only in a preliminary draft form and is in effect being executed until now in the form of annual plans. The Plan is expected to be finalized by the end of August 1977. The main macro-economic objectives of the Plan are :

- to increase GDP by 11 % p.a. (in constant prices) ;
- to reduce the current deficit of the balance of payments to a level not exceeding capital goods imports ;
- to increase the share of investment to 23 % of GDP in 1980 and to raise gross domestic savings to 19 % of GDP at the end of the Plan period.

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The projected increase in employment during the five year plan period is estimated at 1.2 million, i.e. an average 240 000 employment opportunities per year, as compared with the average annual increase in the labour force of 325 000. However, taking into consideration the migration of labour to neighbouring Arab countries which averaged around 100 000 p.a. over the past three years, the overall employment situation should show an improvement.

The investment strategy of the 1976-80 Plan differs considerably from the previous plans. It emphasizes the need to improve and expand infrastructure, and in the industrial sector it gives priority to projects with a short-gestation period. The need to bring to completion ongoing projects before new ones are started is emphasized. The Plan also assignes a much larger role to the private sector both domestic and foreign.

In general, the Government's policy is to give priority to labour intensive projects. However, the relatively low capital-labour ratio implied by the Plan (US $ 16 000 per worker) is somewhat misleading, as a considerable share of the planned investment relates to ongoing projects, with sizeable capital expenditure already disbursed before the Plan period.

The planned amount of total investment during the five-year period is around E£ 7.8 B or US $ 19.9 B (at 1975 constant prices) which will be allocated to the different sectors as follows :

Agriculture	10 %
Industry	24 %
Electricity	6 %
Transports and communications	26 %
Other (construction, housing, public services)	34 %
	100 %

Although agriculture will only receive 10 % of the new capital formation, the development of this sector seems to have a high priority. Growth of agricultural production is expected to accelerate to 3 % p.a. Much of this growth is supposed to come from vertical expansion of the "old lands", following the ongoing efforts to increase its productivity (drainage, soil and water management, more intensive cropping pattern, research and extension services). The aim is not to achieve self-sufficiency at any price, but to guide growth in the direction where improvements in productivity can be achieved, where the rural sector resources can be mobilized and where export possibilities can be exploited.

A large proportion of the investment expenditure allocated to this sector is earmarked for agricultural infrastructure projects (land reclamation, water management, land conservation; flood control) while the remainder will be shared between crop development, animal husbandry and fishing.

The Plan identifies industry as the key economic sector (growth target : 12 %). The aim is to modernize existing enterprises, to develop export-oriented firms and assign a much larger role to private sector. High priority industries are : construction materials, agro-processing and food, textiles, chemicals and metallurgy. In particular, the types of projects and industries which are to be encouraged are those which :

- aim at the renewal and replacement of old plants ;
- aim at the removal of bottlenecks (construction materials, fertilizers) ;
- have export potential in the regional Arab and European markets or will substitute for existing non-luxury imports or imports anticipated to be necessary for development ;
- entail processing of local raw materials ;
- are relatively non-capital intensive and labour intensive ;
- are quick-yielding in the sense of generating a positive net foreign exchange contribution rapidly ;
- contribute to a better integration between industry and agriculture and assist to increase productivity in the latter (fertilizers, tractors, farm implements).

The development of the power sector is considered to be of great importance. In order to cover the predicted growth in electricity demand, the present generating capacities would be expanded by approximately 1 900 MW and the transmission system would be extended.

The economic infrastructure is rundown and is becoming a constraint on the country's economic development. Therefore, its renovation and expansion is very urgent, and about 25 - 30 % of the planned expenditures are earmarked for transport and communications. The principal projects, which will be studied or implemented during the Plan period, are :

- widening of the Suez Canal and expansion and modernisation of the harbours of Suez, Alexandria, Port Said and Safaga ;
- expansion of the Egyptian fleet by 65 ships (between 4 000 - 35 000 tons each) ;
- construction of two highways between Egypt and the Sudan (Berenice - Port Sudan : 625 km ; Aswan - Khartoum : 1 200 km) ;

- modernisation of existing railways and construction of new railway lines between Egypt and the Sudan, and between the Abu Tartu phosphate mines and the harbour of Safaga ;
- construction of the metro in Cairo (1) ;
- modernisation and expansion of the telephone network in Cairo and other regions of Egypt.

Relative to Egypt's past economic performance, and present situation, the Plan appears to be very ambitious in its growth and savings targets. The overall growth objective (11 % p.a.) represents a substantial acceleration over the average 3 % p.a. realised during 1967-75. The Plan aims at financing in 1980 more than 80 % of gross investment from domestic savings. This implies that consumption will have to be contained and domestic savings, which fell to 1 % of GDP in 1974/75 and financed less than 6 % of investment will have to be raised to 19 % of GDP in 1980. The implicit marginal savings rate of 29 % is very high for a country at Egypt's stage of economic development. Although past performances are only a partial guide to the future growth potential of the economy, which has been severly biased by a series of unfavourable events, it still appears doubtful whether the Plan's targets can be achieved. These doubts arise not only because of the ambitious macro aspects discussed above, but also because at present, it would appear that not enough projects have been sufficiently studied and advanced to the stage of implementation.

Even if Government would succeed in curbing consumption and import expenditures, and in realising the country's export earning potential, it would still have very considerable foreign exchange requirements :

- to finance current imports ;
- to support the development programme; and
- to fulfil its debt service obligations.

The gross foreign exchange requirements for 1977-80 are currently estimated at about US $ 12.1 B of which US $ 3.6 B in 1977 alone. Without creating very serious external debt problems, this high level of foreign exchange requirements could only be satisfied on the assumption that, in the next few years, the international community will continue to provide financial assistance at favourable terms.

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(1) This project appears to have been dropped from the priority listing.

<u>In the longer run however, Egypt's economic potential would appear to be more promising for the following reasons</u> :

- the large domestic market, the key geographical location, a skilled labour force, low wages and the existence of varied raw materials will encourage further industrialisation ;
- the re-opening and the physical expansion of the Suez Canal as well as the Sumed pipelines should provide considerable foreign exchange revenues. Revenues from the Suez Canal are projected to rise from about US $ 350 M in 1976 to US $ 700 M (1975 prices) by 1980 (80 % of total foreign exchange earnings) ;
- the future oil production of Egypt will probably substantially exceed domestic requirements thus allowing an increase in oil exports worth an estimated US $ 2.5 M (30 % of total foreign exchange earnings) ;
- tourism seems to have a considerable potential (projection : US $ 600 M in 1980 i.e. 7 % of foreign exchange earnings) ;
- Egypt is increasingly exporting skills in the form of qualified labour and this may permit an increasing flow of remittances.

However, it is clear that these development prospects hinge to a large extent on the progress towards peace in the Middle East and on the country's ability to attract external capital and technology. Furthermore, a considerable effort is necessary in order to realize the structural changes which the Government intends to enforce during the Plan period, namely :

- ensure a more efficient resource allocation through a more consistent overall planning effort and an improved coordination in economic policy and decision making ;
- contain consumption and increase national savings ;
- redesign the country's price and exchange rate policy in order to reflect more effectively economic scarcities and to bring about an improved allocation of resources. The reduction of price subsidies and the adjustment in the interest rate structure is of considerable importance ;
- improve the efficiency of the public enterprises ; and
- improve the time-profile of external debt.

ANNEXES

Annex 1

Commodity composition of imports (1975)

	US $ Million	%
Live Animals, Animal and Vegetable Products, Food, Beverages and Tobacco 1)	913.7	20.3
Fats, Oils and its products, Fuels and Mineral Products 1)	477.2	10.6
Chemicals, Rubber and Leather products	658.9	14.7
Wood, Paper, Textile products	327.9	7.3
Machinery and Equipment	727.6	16.2
Base metals and Articles Thereof	429.3	9.5
Miscellaneous Manufactures	86.8	2.0
Others	707.8	15.7
Sub-total	4 329.2	96.3
Own Exchange Imports	167.9	3.7
Total Imports, c.i.f.	4 497.2	100.0

Source : Central Bank of Egypt

1) If one assumes that roughly half of the imports under Fats, Oils etc. are in fact food products, then food imports represented around 25 % of the total value of imports in 1975.

Annex 2

Commodity composition of exports (1975)

(Payments Basis)

		(US $ Million)	(%)
Agricultural products		525.3	33.4
of which :	Cotton 1)	370.7	23.6
	Rice	54.5	3.5
	Onion	18.9	1.2
	Potatoes	6.7	0.4
	Citrus	40.8	2.6
	Others	33.7	2.1
Yarn and textiles		477.5	30.4
Other industries		378.1	24.1
	Food preparation	42.2	2.7
	Chemicals	62.7	4.0
	Petroleum products	164.3	10.5
	Metals and Engineering	49.7	3.2
	Others	59.1	3.7
Others		190.4	12.1
TOTAL EXPORTS		1 571.3	100.0

Source : Central Bank of Egypt

1) If one includes "Yarn and Textiles", then cotton earned 54 % of total value exports in 1975.

Annex 3

MAJOR CROPS AND LIVESTOCK PRODUCTS : VOLUME AND GROWTH (1)

(3 year averages)

CROPS	1960/62	1964/66 ('000t)	1968/70	1972/74	1960/62 - 1964/66	1964/66 - 1968/70 (average annual growth rate, in %)	1968/70 - 1972/74
Cotton (unginned)	1 240	1 409	1 365	1 331	3.2	- 0.8	- 0.6
Maize	1 771	2 150	2 352	2 521	5.0	2.3	1.8
Rice (paddy)	1 556	1 834	2 583	2 343	4.2	8.9	- 2.3
Wheat	1 509	1 412	1 434	1 779	- 1.7	0.4	5.5
Sorghum	631	802	864	836	6.2	1.9	- 0.9
Beans	260	364	286	289	8.8	- 5.9	0.3
Vegetables	3 637	4 647	5 171	5 511	6.3	2.7	1.6
Sugarcane	4 523	4 849	6 635	7 360	1.8	8.2	2.6
Citrus fruit	319	530	705	904	13.5	7.4	6.4
Dates other fruits	380	354	343	470	- 1.7	- 0.8	8.2
Onions	511	673	483	582	7.1	- 3.8	4.8
LIVESTOCK PRODUCTS							
Meat	241	257	278	299	1.6	2.0	1.8
Milk	1 388	1 469	1 565	1 666	1.4	1.6	1.6
Poultry	75	85	91	105	3.2	1.7	3.6
Eggs	32	41	50	56	6.4	5.1	2.9

1) Growth rates have been derived from the 3-year "mid-point" average data, calculated above, where the period between the mid-points is 4 years.

Source : Ministry of Agriculture

Annex 4

Output of Selected Industrial Products

(In thousands of metric tons unless otherwise stated)

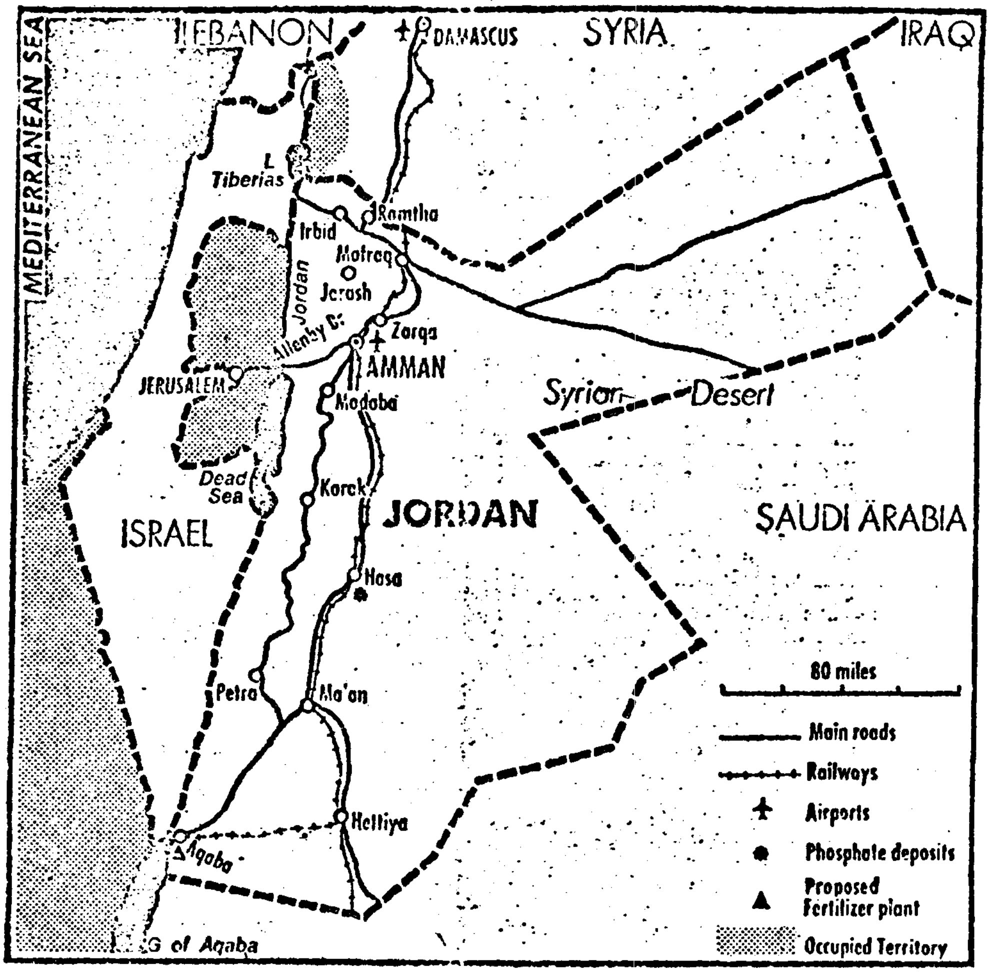
	1970	1973	1975	1975 INDEX (1970=100)
Spinning and weaving products				
Cotton yarn	169	182	181	107
Cotton textiles	112	118	122	109
Foodstuffs, etc.				
Sugar	581	633	526	91
Cheese	132	135	153	116
Preserved fruits and vegetables	20	24	24	120
Cottonseed oil	150	160	161	107
Oilseed cakes	643	600	720	112
Soft drinks (millions of bottles)	614	600	784	128
Beer (millions of litres)	13	32	29	223
Chemicals, etc				
Sulphuric acid	35	23	36	103
Paper	131	146	139	106
Superphosphate	447	419	520	116
Ammonium nitrate (31 %)	381	210	400	105
Tyres (thousands)	770	860	923	120
Engineering products				
Cars (units)	4 241	5 590	11 576	273
Trucks (units)	1 201	1 518	1 435	119
Tractors (units)	1 078	1 243	1 390	129
Buses (units)	407	413	305	75
Refrigerators (thousands)	54	39	109	202
Televisions (thousands)	58	49	77	133
Metallurgical products				
Reinforcing iron	230	226	219	95
Steel sections	108	87	106	98
Steel sheets	40	167	211	528
Building materials				
Cement	3 830	3 617	3 584	94
Building bricks (millions)	782	797	700	95

Source : Ministry of Industry and Mining

ANNEX II

JORDAN

ECONOMIC AND FINANCIAL SITUATION


LEBANON
DAMASCUS
SYRIA
IRAQ
MEDITERRANEAN SEA
L Tiberias
Ramtha
Irbid
Mafraq
Jerash
Jordan
Allenby B.
Zarqa
AMMAN
JERUSALEM
Madaba
Syrian Desert
Dead Sea
Karak
JORDAN
ISRAEL
SAUDI ARABIA
Hasa
80 miles
Petra
Ma'an
Main roads
Railways
Airports
Phosphate deposits
Proposed Fertilizer plant
Hattiya
Aqaba
G of Aqaba
Occupied Territory

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CONTENTS

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EXCHANGE RATE ON 31 JUNE 1977

1 Jordanian dinar (JD) = 2.69 u.a. or US $3.05

1 u.a. = JD 0.37

SUMMARY AND CONCLUSIONS

The Hashemite Kingdom of Jordan covers an area of almost 100 000 km^2. The arrival of large numbers of refugees after the 1948 and 1967 wars added to the demographic growth rate have resulted in a fivefold increase in the population over the last twenty years. The present population is put at two million[1].

Only 5% of Jordan's territory is arable land, and the only natural resource worked is phosphate, reserves of which are estimated at 3 000 million tonnes. Much has been done to develop transport infrastructure, particularly as a response to the difficulties occasioned by the closure of the frontiers with neighbouring countries.

The country suffered a considerable loss when the West Bank was occupied in 1967, and per capita GNP, estimated in 1975 at US $630, is lower in real terms than the 1966 figure for the whole country. Only since 1970 has the economy begun to be rebuilt on new foundations.

Since then GDP has been growing at approximately 5% a year[2]. The added value breakdown has remained more or less the same for the various sectors (agriculture: 10%; industry: 20%; services: 70% in 1975); despite a sharp increase in phosphate production and manufacturing, services continue to dominate the picture, owing to the large scale of public administration and transit trade.

Aid from foreign governments and, more recently, an increase in remittances from foreign workers have stimulated private demand and made it possible to pursue an expansionist budgetary policy, resulting in gross domestic expenditure which exceeded GDP by 36% in 1971 and by 53% in 1975. This

[1] Unless otherwise indicated statistics do not apply to the West Bank.
[2] Unless otherwise indicated growth rates refer to increases in real terms.

upsurge in demand has meant that prices have risen faster, the increase probably averaging 15% per annum over the last four years.

There has been a marked improvement in gross fixed asset formation, which reached 27% of GDP in 1975, compared to 16% in 1966; the Government's liberal policy has encouraged private investment, and public investment conmmitted by the State has been at a high level (56% of the total in 1975), particularly in the industrial sector.

The fact that all capital goods have to be imported (33% of total imports in 1975) and the structural shortfall in agricultural products (cereals, vegetables, meat) make it difficult to improve the trade balance. Exports still cover only one fifth of imports, in spite of increased sales to nearby Middle Eastern countries (40% of exports) and the rising selling price and export volume of phosphates ($60 million). The proliferation of grants and loans from external sources ($380 million in 1976) and the inflow of remittances from emigrant workers ($340 million in 1976 compared to only $14 million in 1971) are enough to keep the balance of current payments in surplus, and net capital inflows, generally linked to the financing of investment projects, are generating a steady increase in gold and foreign currency reserves, which stand at the equivalent of six and a half months' imports.

The external debt, although large in proportion to GDP (33% in 1975), is not unduly burdensome. It consists largely of loans on highly favourable terms and servicing accounts for no more than 5% of exports of goods and non-factor services.

The current Five-Year Plan (1976-80) has set a GDP growth target of 12% per annum. Economic development is to be based on external demand so as to increase exports and thus reduce the dependence of the balance of payments and the budget on foreign aid. Priority is given to growth in agricultural production (to rise by 7% a year) and in the mining and manufacturing sector (to rise by 26% a year).

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These targets appear extremely ambitious and could be cut by fluctuations in agricultural production, the extension of irrigated areas falling behind schedule, and the current difficulties on the international phosphate market. The growth of manufacturing industry, moreover, could be checked during the early years of the Plan period by a shortage of capacity, and growth is also vulnerable because of the need to rely on Middle Eastern export markets. The Gulf markets' absorbtion capacity is open to question in view of the big export targets set by the Mediterranean countries in particular. All this means that the overall increase in GDP will probably fall well short of the Plan target.

The Plan provides for fixed investment totalling $2 300 million[1], implying an average annual increase of 13% over 1975; however, since the bulk of these investments are to be made in the early years of the Plan period they are likely to come up against the obstacle represented by the inadequacy of the administrative and technical back-up needed to prepare and implement a sufficient number of concrete projects. Three-quarters of the investments are to be financed by foreign capital, mainly in the form of grants. The rapid growth of remittances from emigrant workers (the amount recorded in 1976, the first year of the Plan period, was twice that forecast) should cover the balance on condition that the State succeeds in mobilizing private savings to finance investment.

Jordan has a number of comparative advantages which it should be able to exploit:

(i) certain mineral resources (phosphates, potash);

(ii) the chance to develop a processing industry based on these commodities;

(iii) a labour force which, for the region, is well-qualified. At the moment, however, the high wages offered in the Gulf States are tying up part of this labour force;

[1] At 1975 prices and exchange rates.

(iv) the most efficient administration among the Mashreq countries;

(v) keen businessmen with experience in trading;

(vi) closeness to the markets for foodstuffs and industrial products.

Exploitation of these advantages could make development of the country an easier process. Development mainly depends, however, on the political and military stability of the area, which will remain precarious until peace and settled frontiers are secured. Finally, it is clear that Jordan's future economic and financial viability will to an exceptionally large extent depend on the continuation of massive inflows of foreign capital and remittances.

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1. GEOGRAPHY

The Hashemite Kingdom of Jordan is bounded by Syria to the North, Iraq and Saudi Arabia to the East and South, and Israel to the West. It has a 20 km coastal strip at the head of the Gulf of Aqaba. The country covers an area of 100 000 km^2.

The Ghor valley, through which runs the Jordan and the Dead Sea trench, has hot, humid summers, and vegetables, citrus fruit and bananas have gained ground at the expense of cereal crops. The high eastern wall of the valley overlooks a vast plateau of steppe and desert. Only 5% of Jordan's territory is arable land.

So far, the only mineral resource discovered in significant quantities is phosphate, which has been extracted since 1963 at Rusayfa to the north-east of Amman and, more recently, at El Hassa in the south. Reserves are put at 3 000 million tonnes. Some potash is extracted from the Dead Sea, and there are also iron and copper ore deposits, untapped as yet.

Transport infrastructure has been considerably developed over the past twenty years; Jordan now has 4 100 km of asphalted roads, and 540 km of railways[1]. The port of Aqaba has been modernized since the early 1960s, and now has an annual capacity of 3.2 million tonnes of phosphate and 600 000 tonnes of ordinary goods. There are two civil airports, at Amman and Aqaba.

2. POPULATION AND EMPLOYMENT

An estimated 2 million people live on the East Bank. The natural population growth rate is of the order of 3.3% a year; this has been supplemented by the influx of refugees after the 1948 and 1967 wars which has meant that the

[1] Unless otherwise indicated, statistics apply only to the East Bank.

East Bank's population has increased five-fold in twenty years. Integration of the refugees into the indigenous population has given rise to considerable problems. Forty-three per cent of the population live in towns with over 10 000 inhabitants; Amman has a population of over 600 000.

Forty per cent of the total population is of working age, but the working population is only 380 000, i.e. less than 20% of the total. Unemployment apparently affects only 2% of the working population; there is considerable underemployment in farming. An estimated 5 000 workers left the country for the Arab Gulf states in 1975.

Table 1: Breakdown by sector of the employed working population (in %)

	1970	1975
Primary[1] :	38.2	19.5
Secondary:	11.6	18.5
Tertiary :	50.2	62.0
	100.0	100.0

A disproportionately high percentage of the East Bank working population is employed in services. The sectoral distribution has changed rapidly in recent years, mainly owing to the increase in the numbers of construction workers and public works operatives in the secondary sector and military personnel in the tertiary sector.

3. RECENT ECONOMIC DEVELOPMENTS

(a) Growth and origin of national product

From 1960 to 1966 GDP grew at a steady 8% a year[2]. The 1967 war and the annexation of the West Bank - which accounted for some 35-40% of the value added produced in the country - put a stop to expansion. The loss of earnings and the flood of inhabitants crossing to the East Bank account for the fact that in 1975, per capita GNP, put at $630, was actually lower in real terms than the 1966 figure for the whole territory.

[1] Excluding mining, which comes within the secondary sector.

[2] Unless otherwise indicated, all growth rates are worked out in real terms.

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Table 2. ORIGIN OF GROSS DOMESTIC PRODUCT (EAST BANK)

	In millions of dinars at average constant prices for 1971-72				Average annual growth rate in % from 1971-72 to 1975	% of total	
	Average 1971-72	1973	1974	1975		Average 1971-72	1973
- **Agriculture**	23.0	17.9	27.1	20.9	- 2.7	13.3	10.3
- Industry	29.5	36.4	39.5	40.9	9.8	17.0	20.3
• Mining and manufacturing	19.0	23.4	27.2	26.6	10.1	11.0	13.2
• Construction	8.0	10.0	9.0	10.0	6.6	4.6	5.0
• Electricity and water	2.5	3.0	3.3	4.3	16.8	1.4	2.1
- **Services**	120.5	123.6	132.4	140.2	4.4	69.7	69.4
• Transportation and communications	16.0	16.8	17.9	18.4	4.1	9.3	9.1
• Trade	32.5	33.8	36.1	38.0	4.6	18.8	18.9
• Banking and finance	3.0	3.0	3.8	5.0	15.7	1.7	2.5
• Ownership of dwellings	11.5	11.5	12.5	13.3	4.2	6.7	6.6
• Public administration and defence	40.0	40.8	42.0	44.0	2.8	23.1	21.8
• Other services	17.5	17.7	20.1	21.5	6.1	10.1	10.6
GDP at factor cost	173.0	177.9	199.0	202.0	4.5	100.0	100.0

Source : National Planning Council.

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Table 3. NATIONAL PRODUCT AND ITS USE (EAST BANK)

	In millions of dinars at average constant prices for 1971-72				% of total	
	Average 1971-72	1973	1974	1975	Average 1971-72	1975
Consumption	222.7	234.1	264.3	301.2	114.2	130.9
- private	(157.7)	(160.1)	(166.2)	(217.4)	(80.9)	(94.5)
- Government	(65.0)	(74.0)	(98.1)	(83.8)	(33.3)	(36.4)
Investment	45.0	42.0	49.2	50.8	23.1	22.1
Gross domestic expenditure	267.7	276.1	313.5	352.0	137.3	153.0
Resource gap	-72.7	-70.9	-87.7	-122.0	-37.3	-53.0
+ Exports of goods and non-factor services	34.9	51.7	56.4	80.9	17.9	35.2
- Imports of goods and non-factor services	-107.6	-122.6	-144.1	-202.9	-55.2	-88.2
Gross domestic product	195.0	205.2	225.8	230.0	100.0	100.0
Net factor income from abroad[1]	10.3	17.8	22.6	41.5	5.3	18.0
Gross national product	205.3	223.0	248.4	271.5	105.3	118.0

[1] Including remittances from Jordanians working abroad.

Source : National Planning Council.

The recovery of production has been hindered by frontier incidents occuring up to 1970, foreign trade problems caused by the closure of the Suez Canal and, temporarily, of the Syrian frontier and severe drought practically every second year. The economy has been recovering slowly since the early seventies, aided at first by the growth of the construction sector and increased demand for consumer goods and, more recently, by expanding phosphate production, the rising price of phosphate and strong demand for agricultural products and manufactures in neighbouring Persian Gulf markets. The civil war in Lebanon in 1975 indirectly boosted Jordan's banking sector and its services in general. However, the growth targets set in the 1973-75 Three-Year Plan have not been achieved (GDP annual growth target 8% about 4% achieved). In 1976 the expansion of construction and industry gave rise to an increase of 5% in GDP.

The sectoral breakdown of GDP is determined by value added in the agricultural sector, which varies considerably from year to year (up 51% in 1974, down 23% in 1975, down 9% in 1976), and can thus account for as little as 10% or as much as 15% of GDP. The development of manufacturing and phosphate mining have significantly increased the industry's share (20% of GDP in 1975), but the tertiary sector continues to dominate the picture (69% of GDP in 1975) owing to the size of the public administration and the scale of transit trade activities.

(b) <u>Consumption, saving and investment (see Tables 3 and 4)</u>

The massive inflow of grants, which come chiefly from Arab countries and the United States and accounted for the equivalent of 61% of GDP in 1975, enables Jordan to maintain a wholly artificial economic equilibrium characterized by a level of gross domestic spending (consumption + investment) which in 1975 exceeded GDP by 53%. This situation is partly due to the high level of military spending, which accounted for 17% of GDP in 1975; it cannot easily be analysed in terms of the usual economic criteria, being largely dependent on political factors. Consumption exceeds GDP by 20% on average; this imbalance was particularly marked in 1975, when GDP was exceeded by 31%. This is a recent development, which appears to have been stimulated by the rapid growth of remittances from Jordanian workers abroad; these accounted for 20% of private consumption in 1975 (as against only 3% in 1972).

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Table 4 : FINANCING OF INVESTMENT

	In millions of dinars at current prices					% of total	
	1971	1972	1973	1974	1975	1971	1975
-) Investment	44.0	46.0	55.0	80.0	94.0	100.0	100.0
- Government	(n. a.)	(17.4)	(24,0)	(46,0)	(53,0)	(-)	(56.4)
- Private	(n. a.)	(28.6)	(31.0)	(34.0)	(41,0)	(-)	(43.6)
-) National savings	-13.9	-20.9	-5.8	-3.8	-26,8	-31.6	-28.5
F which - Domestic savings	(-23.6)	(-31.7)	(-25.6)	(-34.6)	(-89.1)	(-53.6)	(-94.8)
Net income from abroad[1]	(9.7)	(10.8)	(19.8)	(30.8)	(62.3)	(22.0)	(66.3)
- Resource gap (-)	-57.9	-66.9	-60.8	-83.8	-120.8	-131.6	-128.5
Unrequited transfers (net)	36.6	68.3	64.6	86.8	139.8	83,2	148.7
- official	(31.9)	(59.1)	(54.5)	(75.6)	(128.5)	(72.5)	(136.7)
- private	(4.7)	(9.2)	(10.1)	(11.2)	(11.3)	(10.7)	(12.0)
Net capital inflow	7.6	7.1	6.5	10.8	22.5	17.3	23.9
Change in external assets[2] (increase: -, decrease: +)	13.7	-8.5	-10.3	-13.8	-41.5	31.1	-44.1

[1] Including remittances from emigrant workers.

[2] Including the balance of payments item "errors and omissions".

Source : National Planning Council.

At current prices, the proportion of gross fixed capital formation in GDP rose from 16% in 1966 to 27% in 1975. This improvement was made possible by the volume of transfers from abroad, and is mainly the result of a sharp rise in public investment (from 33% of the total in 1971 to 56% in 1975).

Until recent years housing construction and public works accounted for three-quarters of total investment. New industrial projects have probably now increased the proportion of productive investment.

(c) Public finance (see Table 5)

A major feature of the Government's budget is the substantial share contributed by grants from abroad, accounting for 50% of total revenue on average. Since 1973, however, the increase in the tax on exported phosphates has led to a rapid rise in domestic revenues (up to 33% a year at current prices).

Military expenditure still accounts for a quarter of total spending, although it is decreasing in relative terms (from 65% in 1969); current non-military expenditure has risen rapidly, particularly from 1973 to 1975, because of the adjustment of civil service salaries.

The expansion of public investment, which led to a trebling of capital expenditure in five years, has not been covered by budget savings. If military expenditure and a corresponding amount of foreign aid are left out of account it can be seen that budget savings (defined as the balance of domestic revenues - current non-military expenditure) are able to finance only a dwindling proportion of capital expenditure:

1969	1972	1975	1976
60%	36%	19%	28%

Despite the considerable inflow of transfers, therefore, the State has been obliged to have recourse increasingly to external borrowing and national private savings.

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Table 5: GENERAL BUDGET OF THE CENTRAL GOVERNMENT

	In millions of dinars						As % of total revenue		
	1969	1971	1973	1974	1975	1976 [1]	1969	1974	1976
(+) Revenues and grants	70.9	71.1	91.8	116.2	174.2	154.6	100.0	100.0	100.0
• Domestic revenues	32.5	35.7	46.2	63.2	84.2	110.5	45.8	52.4	71.5
• External grants	38.4	35.4	45.6	53.0	90.0	44.1	54.2	47.6	28.5
(-) Current expenditure	65.2	60.7	78.6	104.8	136.3	144.5	92.0	84.1	93.5
of which military expenditure	46.2	38.9	42.0	44.5	55.3	55.6	65.2	40.5	36.0
(=) Current balance	5.7	10.4	13.2	11.4	37.9	10.1	8.0	15.9	6.5
(-) Capital expenditure	22.5	22.2	40.9	46.7	73.2	78.4	31.7	33.4	50.7
(=) Overall balance	- 16.8	- 11.8	- 27.7	- 35.3	- 35.3	- 68.3	- 23.7	- 17.3	- 44.2
Financing of the deficit [1]									
• Domestic borrowing	12.1	8.2	15.6	26.4	16.3	n.a.	17.1	4.0	-
• External borrowing	4.7	3.6	12.1	8.9	19.0	n.a.	6.6	13.5	-

1 Estimated.

Source : Central Bank of Jordan.

This led to a trebling of the central government debt between 1970 and 1975, which by the end of the latter year had reached JD 175 million, i.e. three-quarters of GDP.

(d) Money, credit and the banking system

Excess liquidity is the salient feature of Jordan's monetary situation; it reflects a strong propensity to hoard, which is a reaction to the area's political instability. The considerable volume of transfers from abroad has led to a rapid increase in net external assets; there has been an even sharper increase, however, in credit to the economy. The adjustment of Treasury bond interest rates has enabled the State to divert some of the private sector liquidity to finance its investment budget, the commercial banks have been asked to increase credit to the productive sectors, and interest rates for industry and agriculture have been kept fairly low. Most private sector credit, however, goes to trade and construction, in spite of controls imposed on this type of credit.

As well as the Central Bank, Jordan has ten commercial banks[1] and four specialist banks. Among the latter, only the Industrial Development Bank and an agricultural credit establishment deal in long-term finance for production.

(e) Prices

After a fairly long period of price stability, Jordan is currently experiencing rapid inflation:

Table 6: Annual change (%) in the cost of living index for Amman

1968	1969	1970	1971	1972	1973	1974	1975	1976
-0.3	7.8	6.8	4.4	8.0	10.4	20.0	12.0	14.3

This inflation is caused partly by rising prices on the world market, but chiefly by considerable excess demand, which is rising steeply and far outstrips Jordan's production capacity.

[1]Four of the commercial banks are Jordanian, on is Iraqi, one Egyptian, one Lebanese, two British and one American.

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Table 7: Money supply and principal counterparts (at end of periods)

	In millions of dinars						As % of total money supply		
	1969	1971	1973	1974	1975	1976	1969	1974	1976
- Money	96.2	108,0	139.3	170.2	218.5	263.6	81.0	78.5	73,4
- Near-money	22,6	27,1	36.8	46.5	59.2	95,3	19.0	21.5	26.6
- Total money supply	118.8	135.1	175.1	216.7	277.7	358.9	100.0	100.0	100.0
- External assets (net)	95.2	89.1	103.4	113.3	163.8	204.9	80.1	52.3	57.1
- Credit to the economy	36.1	68.2	98.0	122.0	152.6	254.5	30.4	56.3	70.9
· Claims on the Treasury (net)	(-10.3)	(20.0)	(32.9)	(32.7)	(25.5)	(60.1)	(-8.7)	(15.1)	(16.7)
· Claims on other public bodies	(2.9)	(3.3)	(5.8)	(9.0)	(11.5)	(17.2)	(2.5)	(4.2)	(4.8)
· Claims on the private sector	(43.5)	(44.9)	(59.3)	(80.3)	(115.6)	(177.2)	(36.6)	(37.0)	(49.4)
- Other items (net)	-12.5	-22.2	-25.3	-18.6	-38.7	-100.8	-10.5	-8.6	-28.0
TOTAL COUNTERPARTS	118.8	135.1	176.1	216.7	277.7	358.9	100.0	100.0	100.0

Sources: IMF, Financial Statistics. Central Bank of Jordan, Monthly Bulletin.

(f) Foreign trade and balance of payments (see Table 8)

The amount of aid received by Jordan in the form of transfers from abroad has enabled the country to increase imports to a level out of all proportion to its own capacity based on export earnings, and although the latter have increased five-fold - at current values - since 1970 exports cover only about 20% of imports (except in 1974).

Since 1967 Jordan has had to import large quantities of wheat, fruit and vegetables; agricultural produce accounts for 20-30% of all imports, depending on the size of the harvest. Imports of capital goods have risen steeply over the last three years (32% of total imports in 1975) in line with the rapid expansion of investment (see Annex 1).

The growth of exports (see Annex 2) was checked by the closure of the Suez Canal and the Syrian border (from 1970 to 1972); the difficulties were prolonged by the civil war in Lebanon and the destruction of the port of Beirut. Jordan's trade has nevertheless benefited from the steep rise in demand in the Arab Gulf states, which take 42% of its exports, mainly in the form of foodstuffs (fruit and vegetables) and manufactures (cement, chemicals).

The main growth area, however, is phosphates, with exports worth $60 million in 1974, 1975 and 1976 as against only $10 million in 1973. This spectacular progress is due both to an increase in the volume of sales (from 1.1 million t in 1973 to 1.5 million t in 1974) and to a rise in world market prices[1]. In 1976 phosphates accounted for about 40% of total exports.

The net balance on services and transfers for 1976 was approximately US $780 million, i.e. nearly six times the value of exports[2]. The figure for services and transfers is rising steadily and consists mainly of remittances from Jordanians working in the Gulf States ($340 million in 1976, as against only $14 million in 1971) and official transfers ($380 million in 1976), the amount and origin of which are directly linked to national policy and the military situation in the region.

[1] Although world prices fell by nearly 40% in 1976, they are still more than 150% above 1973 levels.

[2] Not counting re-exports.

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Table 8: BALANCE OF PAYMENTS (1969-76)
(in millions of current dinars)

	1969	1970	1971	1972	1973	1974	1975	1976
Imports (cif)	67.54	65.53	76.19	94.88	107.80	155.68	232.94	297.89
Exports (fob) including re-exports	14.75	12.17	11.44	17.01	24.15	49.75	48.88	66.29
Trade balance	-52.79	-53.36	-64.75	-77.87	-83.65	-105.93	-184.06	-231.60
Travel, tourism (net)	-3.00	-4.58	-3.34	-2.97	-0.57	-0.14	1.96	25.97
Other non-factor services	-20.24	-0.30	0.47	3.11	3.64	-8.56	-1.01	-15.76
Interest and dividends (net)	6.04	6.12	4.77	3.34	5.08	6.70	9.36	8.25
Workers' remittances	6.92	5.54	4.97	7.41	14.70	24.13	53.25	114.41
Other net transfers	47.34	40.65	36.61	68.29	64.50	86.74	139.50	127.30
of which : Arab States	(41.15)	(33.07)	(19.11)	(23.19)	(23.66)	(46.60)	(106.21)	(77.59
USA	(1.23)	(1.38)	(12.82)	(35.95)	(30.83)	(25.31)	(22.32)	(26.13
UN Organizations	(3.37)	(4.51)	(3.56)	(6.82)	(6.60)	(8.86)	(4.42)	(17.16
Balance on services and transfers	37.06	47.48	43.48	79.18	87.45	108.87	203.06	260.17
Balance on current account	-15.73	-5.93	-21.27	1.31	3.80	2.94	19.00	28.57
Private capital (net)	0.80	-1.35	-1.28	-0.38	-1.14	1.06	3.50	n.a.
Public capital (net)	4.54	1.61	8.02	6.71	7.59	9.82	18.99	n.a.
Capital balance	5.34	0.26	6.74	6.33	6.45	10.88	22.49	-24.43
SDR allocations	-	0.96	0.88	0.88	-	-	-	-
Errors and omissions	-0.53	3.19	1.83	-1.81	2.23	-7.08	9.25	5.94
Net change in reserves (increase: -, decrease: +)	10.92	1.52	11.82	-6.71	-12.48	-6.74	-50.74	-10.08

Source : Central Bank of Jordan, Monthly Bulletin.

Moreover, the spectacular rise in earnings from tourism made it possible to bring the travel account back into balance in 1975, and a surplus of $75 million was recorded in 1976.

The balance on current account has been in the black since 1972 and showed a surplus of $85 million in 1976. The capital balance showed a substancial surplus for 1974 and 1975; this was occasioned by a large increase in private capital inflows owing to the execution of several major projects and by much heavier government borrowing abroad.

The Central Bank's gross gold and currency reserves have improved steadily in the past few years and stood at $560 million at the end of 1976, as against only $270 million at the end of 1972; however, the end 1976 figure is equivalent to only 7½ months' imports, as against 12 months for the end 1972 figure.

(g) Public external debt

From $170 million in 1972, Jordan's external debt had risen by the end of 1975 to $330 million - thus increasing slightly faster than GDP:

Table 9: Public external debt (paid portion) as percentage of GDP, at market prices for the current year

1971	1972	1973	1974	1975
28.0	29.5	32.9	31.6	33.1

This progression essentially reflects borrowing from foreign governments, mainly from DAC member countries. The acceleration of the rate of commitments (non-paid portion: $90 million in 1972, $260 million in 1974) points to a considerable increase in the debt in the next few years.

Loan terms seem fairly favourable on the whole, since the average grant element for the period 1971–74 is 56%[1]. This means that debt servicing must be relatively low and is in fact currently equivalent to 5% of exports of goods and non-factor services.

Table 10: Servicing of the public external debt as a percentage of exports of goods and non-factor services

1967	1971	1972	1973	1974	1975
1.6	7.8	7.3	6.3	4.9	5.0

[1] Which means that the terms of an average loan could be 3% for 30 years, with an eight-year grace period.

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4. MAIN SECTORS

(a) Agriculture

Value added: 10-13% of GDP, depending on harvests
Proportion of the employed working population engaged in the sector: 20%
Average annual change in value added of the sector: + 2.7% from 1971/72 to 1975.

Agricultural production has fallen considerably since the occupation of the West Bank, which contained 25% of the country's cereal acreage, 45% of its vegetable acreage and 80% of its orchards.

East of the Jordan, slightly less than 5% of the land is cultivated, mainly in the Jordan valley and on the nearby plateaux. Irrigation channels have been dug in the valley and parallel to the river in the Ghor region, drawing water from the Yarmuk, a tributary of the Jordan.

Farms mostly tend to be small and extremely fragmented; 63% cover less than five hectares and account for only 14% of the cultivated land. Seventy per cent of farmers own their own land, but in the irrigated areas there appears to be a considerable number of absentee owners. The last few years have witnessed the rapid development of cooperative farms, particularly in the Irbid district and the Ghor region.

Despite the fact that there is a fair amount of seasonal underemployment in agriculture, there appears to be a shortage of labour for the harvesting of certain crops, and an even greater shortage of the skilled labour needed to mechanize the sector.

The wide variations in agricultural production recorded over the last few years actually conceal stagnation in the sector; Jordan is having to import an increasing proportion of the foodstuffs it requires, mainly wheat, flour, milk and milk products, eggs and meat on the hoof; the agricultural trade deficit for 1976 amounted to almost $200 million. Cereal production varies from 50 000 to 250 000 t a year depending on rainfall, with yields ranging from 2 to 10 quintals per hectare. There has been a spectacular increase in the production of chickens and eggs in the last few years, and it was forecast that the country would be self-sufficient in these products by 1977. Stock-farming accounted for 20 to 25% of total agricultural income (in 1973), but has not recorded any growth overall, due to the scarcity of pasture and forage crops. Fruit, vegetables[1] and olives generate about one-third of the income from farming, amd account for practically all exports of agricultural products (95%) and a quarter of total exports. The spread of cultivation under plastic now seems to have made it possible to increase the yield of these products, for which there is a heavy demand in the neighbouring countries.

All in all, Jordan's agricultural potential is slight; nevertheless, it is still underexploited. The sector can be developed in two ways: by extending the irrigated areas for fruit and vegetable production, and by increasing productivity in the cereal-growing areas.

(b) Mining

Value added: 5.0% of GDP
Proportion of the employed working population engaged in the sector: 1%
Average annual growth from 1973 to 1975: 7.0%

Activity in this sector is concentrated largely on the extraction of phosphate, which assays at between 64 and 72%. The Jordan Phosphate Company, in which the State has a stake of 83%, holds the mining monopoly, extracting phosphate at Rusayfa near Amman and more recently at El Hassa, 100 km further south. This second mine has raised production capacity to 2.8 million tonnes a year, but the downturn on the international phosphate market has meant that Jordan has been unable to increase its exports, and therefore its production, as quickly as had been expected:

[1] The main crops are tomatoes (80 000 to 150 000 t/year), aubergines (15 000 to 45 000 t/year), water-melons (20 000 to 60 000 t/year) and citrus fruit (15 000 to 40 000 t/year).

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Table 11: Jordan's phosphate production and exports (in 1 000 tonnes)

	Production	Exports
1968	1 162	1 095
1971	640	651
1973	1 081	1 089
1974	1 675	1 469
1976	1 700	1 630

Source: Department of Statistics and Jordan Phosphate Company.

Jordan is currently the world's fourth largest exporter of raw phosphates; its main customers are India, Japan, Austria, Turkey and the East European countries.

At present the only other mining activities consist of stone and gypsum quarrying. Studies are being carried out with a view to mining potash on the banks of the Dead Sea and copper in the Fainan; geological surveys aimed at confirming the presence of manganese and copper in the south of the country are now under way; and in 1975 an oil concession was granted to a US company. Research is being carried out to find a productive method of extracting the uranium which occurs in phosphate in significant quantities.

(c) Manufacturing

Value added: 10.5% of GDP
Proportion of the employed working population engaged in the sector: 6.3%
Average annual growth from 1973 to 1975: 6.5%.

Twenty-four thousand people are employed in this sector, approximately half of them in businesses with over five employees. Oil refining, cement production, metal working and cigarette manufacturing are carried on by a handful of large firms, but most of the firms with more than five employees (1 400 out of 1 800) are in textiles and leather.

Hitherto the largest firms have enjoyed a State protected monopoly within the country, but the size of the domestic market is forcing these firms to begin exporting, mainly to the Gulf States.

Although the rest of the sector is run by keen businessmen, there is insufficient productivity. The high degree of tariff protection they have hitherto enjoyed and the very great caution that is exercised in the issue of operating licences have held down competition and probably removed any incentive to try and improve productivity.

The Government now intends to re-adjust its sectoral policy by making it easier to set up new businesses. Large numbers of applications for licences are currently being received. Firms are encouraged by a law offering tax rebates and concessions, and they can obtain loans on easy terms.

The sector as a whole has a number of comparative advantages which it can exploit rapidly:

- the existence of mineral resources (phosphates, potash) which could support a basic industry, and agricultural resources which, although limited, would make it possible to extend the food-stuff industry;
- a generally well-qualified labour force, although part of it is being attracted to the Gulf States by the high wages offered there;
- efficient administration;
- keen businessmen with considerable experience of trading.

Jordan's industry could also benefit from economic union with Syria, which is currently being implemented. An additional asset is the proximity of Jordan's export markets around the Gulf, but there is some doubt whether demand in these countries will continue to grow, and Jordan will certainly come up against competition from other Mediterranean countries which see the Middle East as a natural outlet for their exports. Because of the small domestic market, Jordan's industry is forced to rely largely on exports, and caution needs to be exercised in evaluating the medium-term potential of this sector.

(d) Energy

Jordan obtains its energy supplies from the Zarka refinery, a fuel-fired power plant and a large number of small diesel sets.

Electricity production, which has increased by an average of 16.5% per year over the last five years, was estimated at 410 million kWh in 1975. The limited scale of the distribution network and the high generating cost of the diesel sets, most of which are located outside the Amman and Irbid areas, act as a brake on the extension of economic activity outside these privileged regions. Consumption is still very low (185kWh per annum capita) and industry accounts for the biggest proportion of demand (42%), although outside the industrial centre of Amman and Zarqa the predominance of household consumption means a very low load factor, which increases the average production cost.

(e) Transport

Value added: 9% of GDP
Proportion of the employed working population engaged in the sector: 5.1%
Average annual growth from 1971 to 1975: 4.1%.

Jordan has invested large sums in its communications network during the last twenty years and especially under the last Plan (1973-75). The increase in phosphate exports, the growth of transit traffic and the need to develop the port of Aqaba which became apparent when Syria closed its frontier in retaliation after the events of September 1970 and when the port of Beirut was closed as a result of the Lebanese civil war, have intensified the need for communications infrastructure.

The railway network was extended as far as Aqaba in 1975 and the line can carry about 1.6 million t/year of phosphate from the Hassa mine and 200 000 t of goods. The port itself, continually modernized since 1959, has a handling capacity of 3.2 million t of phosphates per year and 600 000 t of goods. The phosphate loading quays are not being used to capacity at present but those used for handling the other goods can no longer cope with the country's requirements.

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(f) Tourism

The loss of the Holy Places in 1967 considerably reduced the importance of tourism (620 000 visitors in 1966, 2 000 in 1969). The State has subsequently encouraged tourists to come to new places, particularly Petra, which is south of the Dead Sea, and Aqaba. As a result the number of visitors has increased rapidly, rising from 290 000 in 1972 to 1.1 million in 1976, and foreign currency earnings from tourism reached $180 million this past year. Most of the visitors come from the Middle East (less than 20% are Europeans) and tourist traffic is evenly distributed throughout the year.

The development of East Bank tourism has been so rapid that the sector suffers from a lack of infrastructure and an even greater lack of qualified labour.

5. DEVELOPMENT PROSPECTS UNDER THE 1976-80 PLAN

(a) General remarks

The current five-year Plan lays the stress on developing the agricultural, industrial and mining sectors:

Table 12: Projections of the 1976-80 Plan

	Average annual growth rate (%)	Sectoral structure (%)	
	1976-80 (forecast)	1975 (real)	1980 (forecast)
Agriculture	7.0	10.3	8.3
Mining and industry	26.2	15.6	28.3
Construction	4.1	7.6	5.3
Public administration	7.0	19.0	15.2
Other services	5.7	47.6	42.8
GDP[1]	11.9	100.0	100.0

This approach was adopted in order to develop mainly exports, particularly to the Middle Eastern markets. It forms part of the Government's long-term objectives for making the budget and the balance of payments less dependent upon external grants. The trade deficit should be lowered to 21% of GNP in 1980 as against 47% in 1975.

The Plan provides for average annual investment of $460 million[2], i.e. an average of 28% of GDP over the period in question. Public investment will represent half this amount and semi-public ventures about 15%. The amounts for private projects without a State contribution are given only as a guide.

The sectoral breakdown of investment favours agriculture, mining and industry, particularly the large-scale projects. The amounts earmarked for transport and social infrastructure are nevertheless higher than in the preceding Plan.

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[1]At factor cost.

[2]At 1975 prices and exchange rates.

The financing of investment is based on the increase in transfers by emigrant workers and on the development of borrowing from abroad, whereas external grants are to be substantially reduced under the Plan.

(b) Sectoral objectives

Agriculture

Investments under the Plan: $430 million
= 18% of the total Plan amount.

The first objective of the Plan is to encourage, as part of the development of the Jordan valley, the growing of export crops for the Gulf markets (fruit, vegetables) - these being products which can be obtained in Jordan at competitive prices for the region - and the extension of stock-farming and the cultivation of fodder crops. The acreage under cereals, however, will be reduced - probably by one-third - in areas where the yields are lowest to make way for fruit and olive trees.

The main increases in production will be achieved in the irrigated areas, the extension of which will take up two-thirds of the investments. It is planned to increase the total irrigated area from 30 000 hectares in 1975 to 62 000 in 1980, mainly by carrying out projects in the Jordan Valley ($190 million): construction of the Maqarin dam, lengthening of the East Ghor Canal, extension of sprinkler and other irrigation methods.

The other major projects include:

the extension of the areas planted with fruit trees ($ 24 million);
the rationalization and modernization of an unirrigated area of 60 000 ha in the Irbid region ($17.5 million).

Mining and industry

Investments under the Plan: $720 million, of which $250 million for mining
= 30% of the total amount.

[1] For each project, the amounts to be invested during the Plan period are given below, evaluated at 1975 prices.

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The development objectives in this sector fall into four main categories:

(i) mining of phosphate resources;

(ii) mining of other resources;

(iii) development, with State participation, of industry processing local raw materials for sale on foreign markets (e.g., fertilizers, cement);

(iv) development, in the private sector, of manufactures for export and, to a lesser extent, of manufactures to be substituted, under normal competitive conditions, for imports.

The Government is therefore primarily committed to developing highly capital-intensive industries using local resources and geared to exports rather than encouraging the labour-intensive branches of industry or those which could not withstand international competition. This policy is attuned to the present employment situation, which is characterized by considerable emigration to countries further south, abd also fits in with the desire to improve the state of the balance of payments by developing exports rather than by encouraging local industry which would be protected by customs barriers in a country whose market is in any event too small.

The main projects included in the Plan are:

the extension of phosphate extraction capacity, to be raised from 3.5 million t/year in 1976 to 6 million t in 1980 ($75 million);

the opening of a potash mine on the shores of the Dead Sea ($78 million over the Plan period - a total cost $141 million). Mining should start in 1982 and the annual capacity is expected to be 1 million t[1];

the building near Aqaba of a factory to produce phosphatic fertilizers ($190 million) with a raw phosphate processing capacity of 1.6 million t/year;

a new cement works in southern Jordan ($67 million) with a capacity of 1 million t/year, part of the production being intended for export;

the extension of the Zarqa refinery ($122 million), the annual capacity of which will increase from 1 million t of oil in 1975 to 3.5 million t in 1979.

Electricity[2]

Investments under the Plan: $134 million
= 5.6% of the total amount.

[1] This would put Jordan in seventh place in the world.

[2] Jordan has no known oil reserves, but several areas are at present being explored. The equivalent of $14 million will be given over to oil exploration during the Plan period (this amount is included in the investments in the mining sector).

The objective of the Plan is to increase the overall capacity of the power plants from 130 MW in 1975 to 350 MW in 1980, to organize and extend the distribution network, particularly in order to supply all the industrial areas and those agricultural areas where increasing use is being made of electric pumps and to connect about a hundred villages to the national network. Among the main projects, the extension of the Zarqa power plant, which has been under construction since 1973 and will have an additional capacity of 120 MW, will absorb half the total amount earmarked for the sector.

Transport

Investments under the Plan: $625 million[1]
= 15.7% of the total amount.

Transport infrastructure has been developed considerably over the last few years, but the rapid growth provided for by the present Plan nevertheless makes it necessary to maintain the volume of works at a high level, particularly in order to:

(i) serve the new industrial or mining projects;
(ii) meet the requirements of external trade and transit activities;
(iii) remove the bottlenecks between the major agricultural areas (in particular the Jordan valley) and the areas of high food consumption (Amman - Zarqa).

The main projects included in the Plan are:

the purchase of locomotives and wagons to increase the capacity for transporting phosphates from the El Hassa mine to the port of Aqaba ($44 million); the widening to standard gauge of the railway track between Amman and the Syrian frontier ($24 million);

the expansion of the capacity of the network of roads[2] leading to the port of Aqaba and the Syrian frontier;

the building of five new quays at Aqaba (including one for loading phosphates), storage silos and the purchase of handling equipment ($90 million);

the extension of the airports of Aqaba and Amman and the building of a new international airport near the capital ($93 million).

[1] Does not include the amount earmarked by the national airline company for increasing its fleet ($125 million).

[2] Total cost of the road projects = $117 million.

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(c) Prospects

The targets set in the 1976-80 Plan look particularly ambitious in the light of the growth achieved in recent years (4.5% a year on average).

Variations in income from agriculture due to climatic factors, and delays in increasing the amount of irrigated land (due to be doubled over five years) could, inter alia, slow down the growth in agricultural output (target set at 7%). Growth in the mining sector depends mainly on the implementation of a programme for the extraction of 5.4 million tonnes of phosphate in 1980 (as against only 1.7 million tonnes in 1976); this programme was worked out before demand and prices started dropping on the international phosphate market. Increased production in the manufacturing sector is dependent on the commissioning of new capacity in industries no longer able to keep up with demand. This means that the industrial growth rate cannot be expected to accelerate until the latter half of the Plan period. The overall value-added growth rate in the mining and industrial sector could therefore be somewhere between the Plan projections (26% a year) and the rate achieved under the 1973-75 Plan (10% a year).

The volume of fixed investments under the Plan is $2 300 million, i.e. about 32% of GDP for the whole 1976-80 period as against 27% under the 1973-75 Plan. The average yearly increase provided for is approximately 13% over 1975, but the year-by-year breakdown allocates the bulk of investment to the first three years, and the programme will probably be hampered by the fact that there is not enough administrative and technical capacity available to prepare and implement a sufficient number of specific projects.

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Table 13: Financing of investment under the 1976-1980 Plan (forecasts) compared with actual results under the 1973-1975 Plan (based on current prices for past results and 1975 prices for forecasts)

	JD million		In %	
	1973-1975	1976-1980	1973-1975	1976-1980
Investment	229	765	100,0	100,0
National savings	- 36,4	171	- 15,9	22,3
(of which) Domestic savings	(- 149,3)	(-117)	(- 65,2)	(- 15,3)
Net income from abroad and emigrant workers' remittances	(112,9)	(288) [1]	(49,3)	(37,6)
• Resource gap	- 265,4	- 594	- 115,9	- 77,7
Net transfers	291,2	332	127,2	43,4
Net capital contribution	39,8	262	17,4	34,5
Change in external assets	- 65,6	-	- 28,6	-

[1] Including JD 243 million in emigrant workers' remittances

Source : **National Planning Council - Five Year Plan 1976-1980**

Taken as a whole the investment financing problems do not appear insoluble. The unexpectedly rapid increase (more than double the amount forecast for 1976) in remittances from workers abroad could more than make up for the complete absence of domestic saving (consumption is well above GDP). The need remains, however, for the State to mobilize an increasing proportion of these remittances to finance public investment, which in turn means that among other things private consumption will have to be held down. In spite of these measures, the State will still be forced to borrow large sums abroad, increasing the public external debt and the servicing rate, which could rise to 10% by 1980.

All in all, bearing in mind Jordan's absorption capacity and the difficulties besetting agriculture and industry, it looks as though the growth in GDP will be well below the 12% per annum envisaged by the Plan.

In the longer term, the launching of the investment projects planned and the exploitation of Jordan's natural advantages should ensure a relatively high growth rate. Rich in minerals for its size, well-situated geographically, and endowed with a skilled labour force and efficient administration, Jordan does not lack assets to aid its development.

However, the country's small domestic market and its heavy dependence on the neighbouring export markets make economic growth somewhat precarious, for the indications are that demand in those markets will grow less rapidly in the medium term, and tougher competition is expected there from other Mediterranean countries in particular.

Jordan's economic situation cannot be assessed by applying the usual criteria. The development of the country's economy conceals fundamental imbalances which make it seem probable that the exceptionally high level of dependence on a massive inflow of remittances and foreign capital will continue.

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Annex 1 BREAKDOWN OF IMPORTS BY PRODUCT AND BY PRINCIPAL COUNTRIES OF ORIGIN (cif)

	In millions of dinars at current prices					Average yearly increase 1969-75 %	% of total		
	1969	1972	1974	1975	1976 11 months		1969	1974	1975
Breakdown by product									
Foodstuffs, beverages, vegetable oils and tobacco	19.62	29.58	44.83	51.94	75.17	17.6	29.0	28.6	22.2
• Wheat and flour	1.78	6.10	7.14	6.82	13.95	25.1	2.6	4.6	2.9
• Live animals	3.13	1.18	2.37	3.19	1.78	0.3	4.6	1.5	1.4
• Dairy products, eggs	1.88	3.24	3.88	4.82	5.33	17.0	2.8	2.5	2.1
• Fruit and vegetables	2.52	3.89	8.67	9.57	14.44	24.9	3.7	5.5	4.1
• Vegetable oils	0.54	1.10	1.15	1.26	2.51	15.2	0.8	0.7	0.5
Raw materials other than oil	2.75	2.82	4.38	5.87	8.89	13.5	4.1	2.8	2.5
Oil and petroleum products	3.81	4.57	5.21	24.89	7.48	36.7	5.6	3.3	10.6
Chemicals	3.41	5.36	8.06	12.20	14.09	23.7	5.0	5.2	5.2
Machinery and transport equipment	13.04	15.59	35.34	74.04	84.35	33.6	19.3	22.6	31.6
Other manufactured goods	21.09	25.78	42.63	61.63	73.12	19.6	31.1	27.2	26.4
• textiles, clothing, footwear	7.83	9.45	11.55	20.05	18.26	17.0	11.6	7.4	8.6
Other	4.03	11.61	16.06	3.44	1.73	-2.6	5.9	10.3	1.5
Total imports	67.75	95.31	156.51	234.01	264.83	22.9	100.0	100.0	100,0
Breakdown by country									
• Arab States	14.38	16.38	26.45	46.34	n.a.	21.5	21.2	16.9	19.8
• EEC (Nine)	22.43	26.99	45.63	76.97	"	22.8	33.1	29.2	32.9
• USA	6.23	16.89	17.58	24.18	"	25.4	9.2	11.2	10.3
• Socialist bloc	9.43	8.24	14.30	18.75	"	12.1	13.9	9.1	8.0
• Non-EEC European countries	15.28	3.49	6.91	16.68	"	28.2	22.6	4.4	7.1
• Other		23.32	45.64	51.09	"			29.2	21.[illegible]

Source : Department of Statistics and Central Bank of Jordan.

Annex 2 BREAKDOWN OF EXPORTS BY PRODUCT AND BY PRINCIPAL COUNTRIES OF DESTINATION (fob)

	In millions of dinars at current prices					Average yearly increase 1969-75 %	% of total		
	1969	1972	1974	1975	1976 11 months		1969	1974	1975
Breakdown by product									
Foodstuffs, tobacco, vegetable oils	6.44	5.52	10,92	11.61	16.16	10,3	54.1	27.7	29.0
• Fruit and nuts	1,45	1.58	4.27	6.38	7,81	28.0	12.2	10,8	15.9
• Vegetables	3.57	2.50	4,89	3.24	5,05	-1.6	30.0	12.4	8.1
• Cigarettes	0.56	0.40	0,71	0,75	0,74	5.0	4.7	1.8	1.9
Raw materials other than oil	3.85	3.72	20,03	20.11	17,70	31.7	32.3	50.8	50.2
• Phosphates	3,57	3.50	19,53	19.59	16.95	32,8	30.0	49.5	48.9
Oil and petroleum products	0.04	-	0.13	0.25	0.61	n.a.	0.3	0.3	0.6
Chemicals	0.19	0.31	1.24	1.95	3.24	47.4	1.6	3.1	4.9
Other manufactured goods	1.39	3.06	7.12	6.16	6.21	28.2	11.7	18.1	15.3
• Cement	0,48	1.92	4.08	1.66	0,01	23.0	4.0	10,3	4.1
Total domestic exports	11,92	12.61	39.44	40.08	43.92	22.4	100.0	100.0	100.0
Re-exports	2.83	4.40	10.32	8.80	17.64	20.8	23.7	26.2	22.0
Total exports	14.75	17.01	49.76	48.88	61.56	22.1	123.7	126,2	122.0
Breakdown by country									
Arab States	8.51	9.15	18.43	16.90	n.a.	12.1	71.4	46.7	42.2
EEC	-	0.05	0.06	1.98	"	n.a.	0	0.2	4.9
Socialist bloc	1.41	0.41	2.04	6.39	"	28.6	11.8	5.1	15.9
India	1.48	1.41	6.58	1.97	"	4.9	12.5	16.7	4.9
Japan	0.04	0.63	3.79	1.91	"	90.5	0.3	9.6	4.8
Others	0,48	0.96	8.54	10.93	"	68.4	4.0	21.7	27.3

Source : Department of Statistics and Central Bank of Jordan.

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Annex 3 : BREAKDOWN BY INDUSTRY OF VALUE ADDED OF THE MANUFACTURING SECTOR (INCLUDING WEST BANK)

	In thousands of dinars at current prices				% of total	
	1968	1970	1972	1974	1968	1974
• Foodstuffs and beverages	3 130	3 570	3 990	5 865	18.5	17.3
• Tobacco	890	560	660	1 928	5.3	5.7
• Textiles, clothing, footwear	2 430	1 790	2 500	4 560	14.4	13.5
• Oil refining	2 360	1 860	3 100	4 810	14.0	14.2
• Other chemicals	1 040	1 020	1 320	1 126	6.1	3.3
• Metal processing	1 270	2 236	2 590	4 835	7.5	14.3
• Other	5 790	4 904	7 700	10 763	34.2	31.7
TOTAL	16 910	15 940	21 860	33 887	100,0	100,0

Source : Department of Statistics.

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ANNEX III

S Y R I A

ECONOMIC AND FINANCIAL SITUATION

Rates of exchange

1 u.c. = 4.45 SL

1 US $ = 3.92 SL

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1. Summary

Syria covers an area of approximately 185 000 km2, about 45 % of which is considered arable land, the remainder consists of bare mountains, desert and pasture. The present population is estimated to be around 8.0 M people growing at a rate of approximately 3.3 % p.a. Income per capita in 1976 expressed in current prices was 2 630 SL equivalent to 670 US $.

Agricultural resources are important. Wheat and barley are widely cultivated and, on average, the output is sufficient to cover domestic consumption. Amongst the cash crops cotton is by far the most important providing, on average, 15 % of the total export earnings in recent years. Non agricultural resources are important. Oil, with a production of 10 M tons p.a. contributed, in recent years, to approximately 70 % of the total export earnings. High grade phosphates (60/65 % P_2O_5) with a production of 1 M tons p.a., are becoming an important export item.

Since 1963, the economy of the country has been managed within the framework of a national plan. Although the performances of the economy have usually fell short the plan targets, the long term growth of GDP averaged, over the period between 1963 and 1976, a rate of increase of 7.3 % p.a. (1). The growth of the economy lifted the income per capita, expressed in 1963 constant prices from 800 SL in 1963 to 1 400 SL in 1976 which corresponds to an annual growth rate of 4.4 % p.a. Over the period considered, the structure of the economy has undergone some important changes characterized by a drop from 30 % to 18 % of the agricultural sectors' contribution to value added, coupled with an increase from 15 to 20 % of the share of GDP generated by the industrial sectors. Agricultural however, absorbing almost 50 % of the total labour force, still remains the most important sector, capable of deeply affecting the growth trend of the economy through unpredictable annual fluctuations of output.

During the last development Plan, covering the period between 1971 and 1975, the economy grew at a rate of 10.5 % p.a. which is 2.3 % faster than the rate predicted by the Plan. The Plan's targets were amply overtaken, chiefly thanks to the rapid economic expansion achieved during 1974 and 1975, when, with the help of a tenfold increase in the amount of financial assistance

(1) Unless otherwise stated all growth rates refer to aggregates expressed in real terms.

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received from other Arab countries (670 M US $ in 1975), the economy rapidly recovered from the effects of the October war. The inflows of Arab grants were rapidly transferred on the economy through a drastic rise in Government expenditure, which increased fourfold between 1971 and 1976 without however increasing the internal debt position of the Government. The increase in public expenditure boosted investments (in 1976 these absorbed over 25 % of GDP) but brought about a large trade deficit (1.2 B US $ in 1976) which, in the absence of the Arab grants, would have caused a substantial external debt. At present the debt service ratio, excluding military debt, is 10 % indicating the relatively low level of external indebtedness in spite of the high level of consumption and investments coupled with the small internal level of savings and the large trade deficit.

If on the one hand, the inflows of Arab grants in 1974 and 1975 allowed the Government to follow expansionary policies without incurring in any budgetary or balance of payments problems, on the other it would appear to have committed the Government to a future pattern of expenditure beyond the country's potential. This has already emerged in 1976 when Arab grants dropped to 450 M US $ rapidly causing an increase in the Government indebtedness accompanied by short term borrowing and a balance of payments deficit of 500 M US $.

The structure of the 1977/80 Plan, conceived in 1974 and 1975, when Syria enjoyed an exceptionally favourable external situation, would also appear to be based on over-optimistic assumptions. In the agricultural sector, the Plan aims at achieving self-sufficiency in the production of food products chiefly through the development of the Euphrates irrigation project. In the industrial sector, the envisaged development is based on a greater exploitation of the available resources such as cotton, phosphates, oil and natural gas. The planned rate of growth of the economy (12 % p.a.) and the Plan's investments of 54 B S£ (US $ 14 B), 75 % of which is assumed to be financed by internal resources, are based on excessively optimistic assumptions about the country's savings generation potential. In fact, the Plan's projections are based on an average propensity to save of 28 % while the actual propensity to save of Syria has rarely been above 12 %. It would appear therefore that the Plan's target could only be achieved if a level of external assistance much higher than that assumed in the Plan will be forthcoming. Although it is difficult to speculate as to whether other Arab countries will step up their

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grants, it is however useful to point out that the gap in resources assumed in the Plan (based as pointed out above on a propensity to save over twice as large as that achieved historically) is already higher than the level of grants received by Syria in the peak year of 1974. Beside all the above considerations of financial character, the Plan appears to be over-optimistic from a physical point of view as well. This is because the investments envisaged by the Plan involve a rapid implementation of a number of projects that at present do not appear to have reached a sufficiently advanced stage of preparation.

If the Plan's objectives appear to be difficult to achieve, some optimism is however justified. The ambitious investment programme in the agricultural sector, even if it suffers inevitable delays and setbacks, should gradually decrease the dependence of agriculture on rainfall. This should avoid the periodical deficits in the country's food grain production, and should go a long way to stabilize farms' output on which the agro-based industrial sector depends.

The prospects for a continued fast growth in the industrial sector are favourable, especially if the general movement towards the liberalisation of trade, foreign exchange regulations and private initiatives, is capable of bringing back Syrian capitals and talents that fled the country in the mid-sixties. This is already happening in the construction sector which has enjoyed a rapid expansion fuelled by a number of new private ventures financed with external capitals. For cotton and phosphates, Syria is rapidly following a world wide trend aimed at limiting the exports of unprocessed domestic raw materials. To fulfil this objective, sufficient spinning capacity will be provided domestically to eliminate, by 1980, all exports of raw cotton, and the rapid development of the fertilizer industry should go a long way to minimize the exports of unprocessed phosphates.

The presently existing light industry (engineering, paper products, tractors, refrigerators and television assembly) is expected to rapidly increase its output with the establishment of 5 free zones, located close to the Syrian/Jordan border and in the vicinity of Damascus , Lattakia, Tartous and Homs. The proximity of Syria to the Gulf markets, its availability of manpower and the presence of a reasonably large domestic market, should constitute important additional assets favouring the development of the manufacturing and food processing sectors. Furthermore, the chronic labour deficit situation in the wealthy Gulf states should provide plenty of employment opportunities for Syrians thus generating a steady inflow of foreign exchange. The favourable prospects of new oil findings, the development of the phosphates deposits and possibly those of iron ore, should in the future, go some way towards helping the balance of the trade account which however will likely show, for a few years to come, a substantial deficit.

The moderate optimism expressed above however, in addition to the continuation of the trend towards the liberalisation of private initiatives, as well as measures aimed at improving projects' preparation and implementation, is conditional to a rapid and permanent settlement of the political situation of the area. This not only will enable the Government to divert towards productive activities a large amount of resources (16 % of GDP) at present spent on defence, but it would also contribute to re-establish a climate of confidence necessary to fully exploit the country's economic potential.

2. General features

Syria covers an area of approximately 185 000 km^2, about 45 % of which is considered arable land, the remainder consists of bare mountains, desert and pastures suitable only for nomads. The frontiers of the present day Syria are largely artificial, being defined,- except westwards where the frontier follows the crest of the anti lebanon hills, by straight line drawn between salient points.

Geographically Syria consists of two main zones : a fairly narrow western part formed by a fertile coastal plain, interrupted eastwards by a mountain range; these mountains, rising to 1 500 m., fall very sharply eastwards to a flat bottomed valley opening on a broad and open platform dropping gently towards the East and crossed diagonally by the wide Euphratesvalley.

The presence of ranks of relatively high mountains aligned parallel to the coast has important climatic effects. Tempering and humid effects from the Mediterranean are restricted to the narrow western belt, where the climate is mild without wide seasonal fluctuations. Central and western Syria, on the contrary, show marked continental tendencies with a moderately cold winter with frequent frost at night. Rainfall is fairly abundant in the West, where the heights of the land tend to determine the amount received; but east of the chain of mountains, the amount decreases considerably producing a steppe region that quickly passes into true desert, except close to the banks of the river Euphratesand its larger tributaries, where local irrigation projects have allowed some cultivation.

Agricultural resources are important. Wheat and barley are widely cultivated and, on average, the output is sufficient to cover domestic consumption. Fruit and vegetables are also wide spread crops, but their production is not sufficient and has to be supplemented with imports. Amongst the cash crops, cotton is by far the most important providing, on average, 15 % of the total exports earnings in recent years. Agricultural resources are likely to increase considerably in the medium long term, as the irrigation schemes associated to the Euphrates dam, will come to fruition.

Non-agricultural resources are significant. Oil with a production of 10 M tons p.a., is by far the most important and likely to maintain its predominant role in the future. This is because a large part of the country has not yet been fully explored and the likelihood of discovering additional deposits is ranked fairly high. High grade phosphates (60 % P_2O_5), with a production of 1 M tons p.a., have only recently started to be exploited. Uranium and iron ore although not yet commercially exploited, are believed to exist in sufficient quantities to permit their extraction on economic terms.

The transport system in Syria is being expanded rapidly. The road and rail networks not only play an important role in the national transport context, but they are also part of an important international network of transportation linking, for instance, Baghdad and Amman to Beirut via Damascus. The network of roads, with a total of 14,00 km, 70 % of which are bitumenized, appears to be sufficientthe railways network however, with two different gauges, has lagged behind and it is only recently that, with a significant extension of the system, will be capable of providing a valid alternative to road transport.

Damascus is an important international airport, capable of handling the largest aircraft at present in service, with an annual level of traffic of 0.5 million passengers. Internal air transport only plays a very limited role. Lattakia and Tartous are international general cargo ports adequate, after the planned expansion, to service the seaborne transport requirement of the country. Two important international oil pipelines (one from Iraq the other from Saudi Arabia) cross the country, providing, when regularly working, a significant contribution to the balance of payments. The Iraqui pipeline terminates at Banias which is an important deep water tanker port.

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3. Population and employment

The population of Syria in 1977 is estimated to be just under 8 M people and growing at a rate of 3.3 % p.a.

The average density of population for the country as a whole is 43 people per km^2 or, 96 people per km^2 of arable land. During the last decade there has been a continuing movement from village to town, reflected in a considerable increase in the urban population. The population of Damascus and Aleppo, 0.83 M people the former and 0.64 M people the latter, have almost doubled in the last decade. Rural population remains concentrated mainly along the coast and in the strip east of Lebanon, its rate of growth of 2.1 % p.a. has been throughout the country lower than the national average.

The country's manpower (defined as those between the ages of 12 and 65 years old) was estimated at 5.0 M or 67 % of the total population in 1975. However, the labour force (persons currently employed or seeking employment), was estimated at 1.8 M in the same year, or less than 36 % of the potential labour force. This is probably due to the very low participation rate of the female population and the high rate of school enrolement and army recruts.

The occupational distribution of the labour force, shown in Annex 1, has not changed significantly over the last decade. The number of unemployed is estimated to be around 90 000 people equal to approximately 5 % of the total labour force. This number however tends to underestimate the actual unemployment, not only because a large number of unemployed persons do not register with the Ministry of Labour, but also because the underemployment in the agricultural sector is believed to be substantial.

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4. Recent economic development

4.1. Introduction

Since the attainment of independence in 1946, Syria has had several changes in regime which resulted in a shift of power from groups of landowners, traders and industrialists to a rising group of officers, technicians and civil servants. This change was accompanied by a shift of the economy from an essentially 'laissez-faire' system to a largely publicly owned and regulated one.

The Baath Socialist Party came to power in 1963 and since then it has given to Syria a reasonable degree of stability, further consolidated since the beginning of 1971 when General Assad was elected president. Since then a gradual, but noticeable move towards a more open mixed economy, in which the private sector plays a greater role, has taken place.

Since 1963, the economy of the country has been managed within the framework of a national plan. At present the fourth Plan 1977/80 is being implemented. In general, during the first two Plans, the actual achievements of the economy have not attained the planned targets chiefly due to foreign exchange shortages, poor preparation of projects and a number of political upheavals severly upsetting the development of the economy.

In spite of this, however, the long term growth of the economy has kept well over that of population. As shown in Table 1, GDP at market prices during the period between 1963 and 1976 averaged a rate of growth of 7.3 % p.a. (1) with a peak of 19 % in 1974 and a trough of - 2.8 % in 1966. The wide annual fluctuation of GDP have mainly been caused by the variations in yearly output of the agricultural sector brought about by changes in weather conditions. The economic growth of the country lifted the income per capita, expressed in 1963 constant prices, from 800 S Ŀ in 1963 to 1 400 S Ŀ in 1975 which corresponds to an annual growth rate of per capita income of 4.8 % p.a. Income per capita in 1976 expressed incurrent prices was 2 630 Ŀ equal to 670 US $.

(1) Unless otherwise stated all growth rates refer to aggregates expressed in real terms.

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Table 1 : SECTORAL COMPOSITION OF G D P
(M.S £ constant 1963 market prices)

	1963	1970	1971	1972	1973	1974	1975	1976	Structure (%)		Growth rates (% p.a.)
									1963	1976	1963/76
Agriculture	1 196	1 153	1 187	1 525	1 107	1 535	1 669	1 818	30.1	18.2	3.3
Industry (1)	631	1 109	1 204	1 326	1 411	1 793	1 870	2 028	15.8	20.3	9.4
Construction	119	159	205	204	200	239	355	566	3.1	5.7	12.8
Transport and communications	328	623	797	651	950	880	1 114	803	8.3	8.1	7.1
Trade	758	998	1 040	1 150	1 100	1 320	1 668	1 929	19.0	19.3	7.4
Finance and insurance	81	120	131	156	161	187	47	52	2.0	0.5	- 3.3
Government	360	704	815	918	1 108	1 321	1 459	1 192	9.0	11.9	9.6
Other services	507	750	807	857	901	981	1 048	1 590	12.7	16.0	9.1
Total G D P	3 980	5 616	6 186	6 787	6 938	8 256	9 230	9 978	100.0	100.0	7.3
Annual changes in GDP (%)	-	-	10.1	9.7	2.2	19.0	11.8	8.1			

Source : Central bureau of statistics

(1) Including manufacturing, petroleum, mining and utilities

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During the period covered by the third five year development Plan (1971/75) the growth of the economy averaged a rate of 10.5 % p.a. This rate is well over that envisaged by the Plan which predicted a growth of 8.2 % p.a. The Plan's targets were amply overtaken chiefly thanks to the rapid economic expansion achieved during 1974 and 1975 when, with the help of a tenfold increase in the amount of financial assistance received from other Arab countries, the economy rapidly recovered from the effects of the October war.

In 1976, the growth of the economy, although in net decline with respect of the two previous years, was still above 8 % p.a. The sharp reduction in the level of grants received however (down by 30 % when compared to the previous year) coupled with the fast growth in public expenditure and imports, brought about an increase in the domestic public debt (20 % of GDP) and the deficit of the current account of the balance of payments reached almost 3 000 M S£, equal to over 70 % of total export receipts.

4.2. The development of the principal sectors of the economy

As indicated in Table 1 agriculture has shown a long term growth of 3.3 % p.a. This, being markedly below the growth of the economy as a whole narrowed the contribution of the sector to GDP from 30 % in 1963 to 18 % in 1976. In more recent years however, due to a series of favourable crops and an increase in the area under irrigation, the agricultural sector performed better than expected and, as shown in Table 2, the actual growth rate over the plan period (7.7 % p.a.) was well above that predicted by the plan (5.2 % p.a.).

Industry, on the contrary, has shown a long term growth rate well above that of GDP leading to a significant increase in its contribution to GDP rising from 16 % in 1963 to 20 % in 1976. In more recent years however, as shown in Table 2, the development of the sector, in spite of receiving the largest proportion of investments over the third five year Plan, has fallen short the Plan's expedition, chiefly due to difficulties encountered in the implementation of large projects and the dislocations caused by the 1973 war.

Likewise industry the construction sector has increased at a rate well above that of GDP. This trend, in recent years, has further accelerated favoured by the private sector's liberalization measures and by the availability of capital originating in particular from the remittances of Syrians working abroad.

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Table 2 : Comparison between the planned and the actual growth rates of the economy over the 3rd five year development plan (1971/76)

	Plan (% p.a.)	Actual (% p.a.) (1)
Agriculture	5.2	7.7
Industry	15.8	11.2
Construction	11.5	17.4
Transport and Commerce	9.8	12.3
Trade	3.4	10.8
Finance	4.1	17.1
Government	4.5	15.7
Other services	10.5	6.9
G D P	8.2	10.5

Source : State planning Commission

(1) GDP figures at 1963 constant prices

The increase in the number of Government employees and the rises in civil servants salaries are reflected in the fast growth of Government services that has increased at a rate well above that of the economy, expending its contribution to value added from 9 % in 1963 to 12 % in 1976.

4.3. The development of the main components of final demand

4.3.1. Consumption

Public and private consumption have absorbed, on average, over the period 1968/76, approximately 90 % of GDP. The long term trend indicates, as shown in Table 3, that the proportion of national resources allocated to consumption has increased over time. This is mainly due to the rapid increase in public expenditure that has grown between 1970 and 1976 at a rate of 15.0 % p.a. which is well over that of GDP.

4.3.2. Capital formation expenditure and its financing

Gross capital formation in Syria has grown over the period between 1970 and 1976 at a rate of 23.2 % which is over two times that of GDP. The rapid rate of increase of investment is also reflected in the proportion of the total value added absorbed by domestic capital formation which rose from 14 % to 28 % of GDP from 1970 to 1976.

As shown in Table 4, the comparison between planned and actual investments indicates that the targets of the 3rd development plan (1971/75) have been achieved. The breakdown of investments by sector indicates the emphasis put by the plan on the development of the industrial sector, and the importance of the Euphrates project in the overall economic development of the country.

The proportion of investments financed through national savings has since 1974 sharply declined. Up to 1973 national savings, representing just over 10 % of GDP, financed on average approximately 75 % of the gross domestic investments. In the last few years national savings representing only 5 % of GDP, covered on average only 18 % of the total investment expenditure, the balance being covered by Arab grants.

Table 3 : GDP BY CATEGORIES OF EXPENDITURE

(M.S.L constant 1963 market prices)

	1970	1971	1972	1973	1974	1975	1976	Structure % 1970	Structure % 1976	Growth (% p.a.)
Consumption	5 010	5 545	5 996	6 207	8 135	8 643	9 462	89	95	11.2
Private	(3 919)	(4 323)	(4 569)	(4 527)	(5 916)	(6 314)	(6 936)	(70)	(69)	10.0
Public	(1 091)	(1 222)	(1 427)	(1 680)	(2 219)	(2 329)	(2 526)	(19)	(26)	15.0
Gross domestic investments	788	932	1 012	970	1 249	2 133	2 768	14	28	23.2
Private	(237)	(304)	(412)	(400)	(302)	(791)	(662)	(4)	(06)	18.7
Public	(551)	(628)	(600)	(570)	(947)	(1 342)	(2 106)	(10)	(21)	25.0
Net foreign sector	- 182	- 291	- 222	- 239	- 1 129	- 1 546	- 2 252	- 3	- 23	52.0
GDP at market prices	5 616	6 186	6 786	6 938	8 255	9 230	9 978	100.0	100.0	10.05

Source : Central Bureau of Statistics

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Table 4

Comparison between the planned and the actual investments during the 3rd Development Plan (1971/75)

(M. Syrian Pounds)

Sector	Planned Investments (*)	Actual Investments (**)	%
Euphrates Project	1 593	1 255	14.1
Agriculture	648	631	7.1
Industry, mining, energy	2 187	4 136	46.3
Transport and communications	783	1 177	13.2
Public utilities, services and works	1 112	1 599	17.9
Trade	125	121	1.4
T O T A L	6 448	8 919	100.0

(*) 1970 prices

(**) Current prices

Source : State Planning Commission

4.3.3. Public expenditure and Government finance

Domestic revenues have increased at a rate of 29 % p.a. between 1970 and 1976, representing, at the end of the period, almost 30 % of GDP.

As shown in Table 5, the major source of domestic revenues are the transfers to budget of the public enterprise. These have shown, chiefly thanks to the growth in the surpluses of the state owned oil company, a fourfold increase between 1973 and 1976. The second most important revenue source are direct and indirect taxes. The importance of tax revenues, as a proportion of total Government revenues, has declined from 46 % in 1970 to 38 % in 1975. The third source of Government funds are the non tax revenues; the largest item included in this category are the oil transit dues paid to Syria by Iraq and Saudi. Recently, due to a dispute on transit rates, this item of revenues has been drastically cut depriving Syria from an important proportion of its foreign exchange earnings.

Up to 1975 current expenditure rose in line with revenues absorbing steadily 80 % of the total funds available to Government. In 1976 and in 1977, the proportion of revenues allocated to current expenditure sharply increased leaving less than 1 % of revenues to investment expenditure. The major item of expenditure is defence which has absorbed an increasing share of Government revenues reaching 60 % of total current expenditure or nearly 16 % of GDP. The relative share of current expenditure on education, general administration and social services has, as a whole, declined while the allocations to the Ministry of Supply earmarked for price stabilisation purposes have significantly increased.

Investment expenditure during the period between 1970 and 1976 has increased 7 fold from 743 M S Ŀ to 5 212 M S Ŀ representing respectively 36 % and 46 % of the total Government expenditure. Capital outlays have been approximately equally divided among the three major sectors : Agriculture and Irrigation; Industry, Mining and Power; Transportation, Public Utilities and Works, following the general guidelines of the 1971/75 development plan.

The continuous increase of both recurrent and development expenditure has brought about a corresponding rise in the Government deficit. This, as shown in Table 5, has increased from 9 % of GDP in 1970 to 20 % in 1976 representing almost 70 % of Government domestic revenues. As shown in Table 5 the Government deficit up to 1972 was financed through domestic borrowing

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Table 5 : CENTRAL GOVERNMENT ACCOUNTS

(M. S. Ł)

	1970	1971	1972	1973	1974	1975	1976	1977 Budget
Domestic Revenues	1 451	1 686	1 940	2 676	4 293	6 599	6 785	6 666
of which : Tax revenues	(671)	(719)	(985)	(1 075)	(1 500)	(2 347)	(2 578)	(3 051)
Non tax revenues	(309)	(409)	(349)	(622)	(539)	(459)	(188)	(103)
Transfers from public enterprises	(471)	(558)	(616)	(979)	(2 254)	(3 793)	(3 680)	(3 297)
Current expenditure	1 286	1 470	1 735	2 242	3 204	5 161	6 029	6 644
of which : defence	(764)	(894)	(793)	(1 485)	(2 023)	(3 280)	(3 634)	(4 136)
Government Savings	165							
Development expenditure	743	850	936	1 098	2 393	4 502	5 212	10 403
Total Government expenditure	2 029	2 320	2 671	3 340	5 597	9 663	11 241	17 047
Overall deficit	- 578	- 634	- 731	- 664	- 1 304	- 3 064	- 4 456	- 10 381
Financing of the deficit	578	634	731	664	1 304	3 064	4 456	10 381
External borrowing	(98)	(82)	(65)	(73)	(503)	(2 402)	(3 445)	n.a.
Domestic borrowing	(481)	(341)	(503)	(- 733)	-	(- 448)	n.a.	n.a.
Transfers of aids to the budget	-	-	-	(1 324)	(801)	(1 110)	n.a.	n.a.

from the banking sector, thereafter large transfers of external aids from other Arab countries, not only enabled the Government to cover its rising deficit but also allowed the public sector to reduce its overall indebtedness with the national banks.

The favourable situation experienced in 1973, 74 and 75 seem however to have come to an end because, as shown in Table 5, in 1976, due to the previously mentioned drop in the Arab grants , the external borrowing of Government sharply increased. Furthermore, the overall deficit budgeted for the year 1977 is almost 2.5 times as large as that experienced in 1976 and, unless corresponding transfers of Arab aids to the budget will become available, the Government deficit will have to be covered with borrowings of unprecedented size.

4.4. Money and banking

The banking system in Syria has been nationalized in the sixties. Since then, monetary policies are determined by the Council on Money and Credit in concert with an Economic Committee headed by the Minister for Economic Affairs. The policy guidelines set by the Committee and the Council are implemented on a day to day basis by the Central bank of Syria. Monetary authorities, in the implementation of their credit regulation policies, have almost entirely relied on direct controls, notably on credit ceilings. More recently however, credit ceilings have been applied more fexibly and demands for loans were accomodated, provided credits were required for the financing of certain productive projects. At present, the discount rates vary between 5 % for commercial banks paper and 2.5 % for specialized credits. Lending rates vary between 4 and 9 %, while rates on time and saving deposits range between 4 and 5.75 %.

At present, the banking system is made up by 5 banks (1). As all of them extend both commercial credits and development loans, their specialization would appear to be based on their sector of intervention rather than on the type of credit they grant. Up until recently, although credits from these banks have increased substantially, the majority of the lending has been on short term maturity while long term lending (more than 5 years) has been negligible. Recent data however indicate that the trend of credit granted by banks is moving towards longer term maturities than has been the practice so far

(1) Commercial Bank of Syria; Agriculture Cooperative Bank, Industrial Bank, Real Estate Bank, Popular Credit Bank.

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Table 6 : MONETARY SITUATION

(M. S. L)

	1970	1971	1972	1973	1974	1975	1976
LIABILITIES							
Currency and demand deposit	2 341	2 502	3 151	3 797	5 540	6 958	8 599
Quasi money (time deposits etc.)	180	213	277	317	457	619	806
TOTAL	2 521	2 715	3 428	4 114	5 997	7 578	9 405
ASSETS							
Foreign assets	- 108	- 161	- 137	1 037	1 628	1 918	14
Claims on central government	1 818	2 130	2 588	1 855	2 448	2 000	4 538
Claims on enterprises and households	1 523	1 650	2 006	2 475	3 761	5 558	7 982
Other items	- 712	- 904	- 1 029	- 1 253	- 1 840	- 1 858	- 3 129
TOTAL	2 521	2 715	3 428	4 114	5 997	7 578	9 405

Source : Central Bank of Syria

Up to 1972, money supply expanded at a rate of over 15 % compared to an average GDP growth rate of about 12 % p.a. at current prices. As shown in Table 6 the credit expansion was mainly generated by rising budgetary deficits which were financed through borrowing from the domestic banking system.

Between 1972 and 1976 the growth of money supply doubled chiefly due to a sudden increase in the volume of credits granted to the enterprise and the household sector. In 1976, as shown in Table 6, a noticeable change took place in the monetary situation characterized by a sudden drop in the foreign exchange assets held by the banks, and a doubling in the indebtedness of the Government sector which since 1972 did not show any tendency to increase. The worsening of the general monetary situation, was brought about by the already mentioned reduction in the aid received from other Arab countries without being matched by corresponding cuts in government expenditure.

4.5. Prices

Prices in Syria are subject to Government control. Present regulations besides determining the prices of the public sector's outputs fixes the price of approximately 10 basic commodities of large consumption often involving price subsidisations. A further price control procedure recently implemented involves the fixing of a mark-up rate over and above market prices coupled with distribution of rations at levels just below the average per capita consumption of these goods.

Existing price indices only have a limited significance. They tend to underestimate price inflation because no allowances are introduced for the frequent price subsidies.

In fact, as shown in Table 7, existing indices indicate that prices have been relatively stable between 1962 and 1972 increasing at a yearly average of approximately 3 %. More recently, however, prices have increased faster, chiefly due to the greater degree of liquidity of the economy. Further pressure came from the supply side through increases in the cost of imports in line with world wide inflation.

Table 7

Wholesale Price Index

(% change)

1970	7
1971	10
1972	- 5
1973	32
1974	14
1975	7
1976	12

Source : Central bureau of Statistics

4.6. The balance of payments

As shown in Table 8, the balance of payments of Syria is characterized by a growing trade deficit that has risen from 643 M S Ŀ, equal to 10 % of GDP, in 1970 to 4 685 M S Ŀ (1.2 B US $), equal to 21 % of GDP, in 1976.

In recent years, exports have only covered on average 55 % of total import in spite of the fact that Syria's terms of trade have improved as a result of increasing crude oil and phosphate prices. As shown in Annex 2, the recent movements in commodity prices have altered the structural composition of Syrian trade, and from 1974, crude oil emerged as the principal Syrian export accounting for over 70 % of total exports. As shown in Annex 3, the structure of imports has remained more stable. In recent years consumer goods accounted for approximately 25 % of total imports, while intermediate goods and capital goods accounted for 55 % and 19 % respectively. Recently, important changes have also taken place in the direction of trade of Syria. Up to 1972, the socialist countries were the principal trading partners of Syria; in 1974, the predominance of the Eastern Bock on the Syrian trade ceased and Western Europe took the lead, shipping almost half of Syrian imports and receiving an equal proportion of the country's exports.

Table 8 - BALANCE OF PAYMENTS

(M. of Syrian pounds)

	1973	1974	1975	1976
1. Goods and Services				
Exports (FOB)	1 339	2 914	3 441	4 141
Imports (CIF)	- 2 341	- 4 176	- 5 697	- 8 826
Trade balance	- 1 002	- 1 262	- 2 256	- 4 685
Oil transit dues	+ 563.2	+ 479.2	+ 505.1	+ 117.8
Shipping and Transport	+ 2.8	+ 13.7	- 34.9	- 19.7
Travel and tourism	+ 52.1	- 363.1	- 296.5	- 186.8
Investment income	+ 12.8	+ 99.8	+ 50.3.	- 28.5
Government	+ 54.6	+ 18.9	- 57.3	- 13.2
Others	+ 60.4	- 81.2	- 178.1	+ 47.2
Net Services	+ 746.1	+ 167.3	- 11.4	- 83.2
Unrequited Transfers	+ 1 530.4	+ 1 714.4	+ 2 611.4	+ 1 765.8
Balance on current account	+ 1 274.5	+ 619.7	+ 344.0	- 3 002.4
2. Capital account	+ 95	+ 227	- 35	1 048
Private	- 99	+ 62	+ 68	+ 280
Official	+ 194	+ 165	- 103	+ 768
3. Net errors and omissions	- 185	- 409	- 19	50
4. Overall surplus or deficit (-)	+ 1 089	+ 846.7	+ 379	- 1 954.4

Source : Central Bank of Syria and IBRD.

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Up to 1972, the trade deficits were only partially offset by invisible earnings, with the consequence that the country was usually loosing reserves with the exception of some years when large capital inflows were balancing the accounts. Between 1972 and 1975 the situation changed and the growing trade deficits were more than offset by a sudden increase in unrequited transfers, raising from 200 M S Ł in 1972 to 2 600 M S Ł in 1975. In 1976, however, due to a doubling of the trade deficit, coupled with a sharp reduction in the unrequited transfers and a drop in the oil transit revenues, the current accound closed, for the first time since 1971, with a deficit of 3 000 M S Ł (0.8 B US $).

Up to 1975, the increasing surpluses of the current account coupled with the net capital inflows in 1972 and 1974 have enabled Syria to accumulate a significant amount of foreign exchange. Gross international reserves rose from the equivalent of US $ 135 M at the end of 1972 to US $ 700 M at the end of 1975 equivalent to cover 8 months of imports. During 1976 however part of the external reserves were employed to cover the deficit of the current account and, at the end of the same year, gross reserves in gold and foreign exchange were reduced to US $ 430 M.

4.7. The external debt

The information at present available on the size and the structure of the Syrian external debt are not complete and often not entirely consistent. Up to 1974 the external debt, as shown in Table 9, remained low around 0.4 B US $. Debt service repayments were kept around 10 % of the total exports of goods and non factor services except in 1974 when, due to the sudden increase in oil revenues, the debt service ratio dropped to 5 %. After 1974 the total debt can only be indirectly estimated from the size of the annual repayments. A rough estimate would tend to indicate that in 1976 the public external debt was approximately 1 B US $ and the debt service ratio around 10 %. These indicators however tend to underestimate the real indebtedness of the country, not only because the data of Table 9 excludes short term borrowings, but chiefly because it does not include the external military debt believed to be substantial.

Table 9 : EXTERNAL PUBLIC DEBT

(M. US $)

	Public debt (*) (1)	Repayments (2)	Exports of goods and non factor services (3)	Debt service ratic (2/3)
1971	325	36	337	10.6
1972	369	39	410	9.5
1973	317	42	504	12.0
1974	453	46	893	5.1
1975	n.a.	71	857	8.2
1976	n.a.	103	1 014	10.1

Source : IMF : Syrian Arab Republic, Recent economic development

(*) Including undisbursed loan.

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5. Analysis of the structure of the main sectors of the economy

5.1. Agriculture

Value added generated	: 18 % of GDP
Employment	: 50 % of the total labour force
Growth	: 3.3 % p.a. (1963/76)
Investment received (including the Euphrates project)	: 21 % of the national gross capital formation

The importance of agriculture in the economy of Syria goes beyond the figures quoted above, not only because much of the manufacturing sector relies on agricultural raw materials - cotton spinning, food processing and textile leather industries - but also because the distribution and the service industries, as well as the export earnings of the country partly depend on the level of the agricultural output. Furthermore, the fluctuations in the level of production of the agricultural sector caused by random weather conditions significantly affect the overall economic activities of the country, causing sizeable variations in domestic demand and foreign exchange availability that slow down the growth of the economy.

The total cultivable area is estimated to be 8.7 M ha (46 % of the total country's surface) while the remainder consists of bare mountains, desert and pastures suitable only for nomads. Table 10 shows the land usage.

Table 10

Cultivated land use

(1 000 ha)

	1966-1970	1971-1975	Index (a)
Non irrigated	2 593	2 746	106
Irrigated	480	563	117
Fallow	2 899	2 568	89
Total	5 972	5 877	98

(a) 66 - 70 = 100

Table 11 shows the breakdown of the agricultural output by main crops. As it can be seen, the outputs of wheat, fruits and vegetables and poultry have increased while the production of barley, cotton, sugar beet and milk has remained constant or declined.

Table 11

Agricultural production by main crops

(1 000 tons)

	1966-1970	1971-1975	Index (a)
Wheat	767	1 286	168
Barley	433	465	107
Cotton	373	406	109
Sugar Beet	185	192	104
Vegetables	937	1 583	169
Fruits	480	628	131
Milk	529	472	89
Eggs(mln)	275	411	149

(a) 66 -70 = 100

Agricultural production is closely related to the pattern of rainfall distribution in the country. Rainfall is highest in Syria's northern and western portions and decreases as one moves to the South and East. Rainfall conditions range from semi-humid (500/800 mm of rain p.a.) where cotton, wheat, sugar beet, olives and tomatoes are widely cultivated, to arid and semi-arid with a scarce and unpredictable level of rainfall (100/200 mm p.a.) where dry farming of barley is possible during favourable years only. Much of the year to year fluctuation in cereals production depends on the success of the crop in this area.

In spite of this, however, Syria is, on average, selfsufficient in terms of cereals and during favourable years, the country has an exportable surplus of wheat and barley (200 000 tons p.a.). This has, however, been achieved more rarely in recent years than in the early sixties, chiefly due to the increase in population and the detrimental effect thatthe land reforms appear to have hadon agricultural output.

In normal years however in spite of the country's deficit in fruits, vegetables, meat and animal products, the overall external trade balance of the agricultural sector is positive, chiefly due to the valuable exports of cotton.

Total irrigated area approximately covers 555 000 ha of which 150 000 ha are under controlled irrigation from major public irrigation projects, the remainder consists of small scale privately controlled works, subject to considerable annual fluctuationsin response to the variations in water supply. Although the irrigated area has increased in the last decade and, with the implementation of the Euphrates irrigation scheme, it should continue to increase (the ultimate irrigation potential of the dam is 640 000 ha, this however is unlikely to be achieved during this century) rainfed agriculture still accounts for 70 % of the total agricultural output. Given the dependence of rainfed agriculture on weather conditions, the stabilization of Syria's agricultural output will still take many years and will unlikely be achieved before the Euphrates irrigation schemes will be well under way. Since 1973, when the dam was completed, only about 20 000 ha have been irrigated and cultivated as a pilot project. The slow development of the irrigated area stands to show the complexity of the project that involves, not only a large investment in infrastructure (land preparation, roads, housing, storage, facilities, etc.), but also it requires convincing thousands of farmers to come and live in this remote and semi-arid area. The government target aiming at irrigating duringthe next five years 240 000 ha of which 135 000 ha would be cultivated , seems therefore rather optimistic.

It should however be pointed out that the moderate long term growth rate of the agricultural output, only partly reflects the potential of the Syrian agricultural sector. Unfavourable weather conditions in 1970 and 1973, coupled with the after effects of the land reforms implemented in the late sixties, have not yet released the full productive potential of the sector estimated to be amply sufficient to achieve a sizeable exportable surplus in food crops and selfsufficiency in animal products.

5.2. Secondary sector

Value added generated	:	20 % of GDP
Employment	:	12 % of the total labour force
Growth	:	9.4 % p.a. (1963-1976)
Investment received	:	46 % of the national gross capital formation

5.2.1. Petroleum and other mining

Production of crude oil started in 1968 with a total output of 1 M tons. Since then production gradually increased reaching 10 M tons in 1976. Although Syrian crude oil is of low quality, due to its high sulphur content, so far no serious difficulties have been encountered in the marketing of it, and oil exports have become since 1974 the most important foreign exchange earner, accounting for over 70 % of total exports. Recently Syria changed attitude to foreign participation to oil exploration which, since the beginning, was reserved to the Syrian Oil Company only with some Soviet assistance. The knowledge that Syria has 75 000 km2 of land offering good prospects for oil exploration, and that only 500 km2 have so far been explored, has induced the Syrian authorities to open up the country to foreign exploration firms in joint ventures with Syrian interests. Recently, the Government offered a dozen on-shore oil concessions for international bidding. Although it is too early to draw any conclusions, prospects are favourable to the extent that recently OPEC is due to consider Syria's application for membership.

The main Syrian refinery is situated in Homs. The 1973 Jom Kippur war extensively damaged the refinery installations. These, after having been repaired by the beginning of 1975, were further expended in 1976 to a capacity of over 5 M tons p.a. A second refinery with a capacity of 6 M tons, is under construction at Banias on the Syrian coast.

Since 1972, when the phosphates mine close to Palmira, in the centre of the country, began production, Syria has exported a growing quantity of phosphates rocks (60 % P_2O_5) reaching 650 000 tons in 1974 and about 900 000 tons in 1975. Production is expected to reach 2 M tons by the early 1980.

In addition to oil and phosphates, Syria is thought to possess quantities of chromite, salt, at least 100 M tons of exploitable iron ore, and a substantial amount of uranium which is believed to be associated with Syria's phosphates deposits.

5.2.2. Manufacturing

In all four Syrian plans, industry has been regarded as the spearhead of the country's development. A large and diversified investment programme contributed to its growth which is clearly reflected in the rapid rise of the contribution of the sector to GDP (see Table 1).

Since the mid-sixties, when the main industrial units were nationalized, all important manufacturing establishments have been grouped into three main "Unions" (textile, food, chemical and engineering) under the control of the Ministry of Industry. The total output of the industrial units belonging to the unions is over 65 % of the country's industrial production. The private sector, which appears to be revitalizing in response to the recent liberalization programme favouring private initiative, is composed mainly of small industrial units of the family and handicraft type (69 % of output produced units of less than 10 workers).

The structure of the manufacturing sector (see Table 12) clearly reveals the importance of the agro-based industries and it emphasises the linkages that exist between the development of the sector and the volume and type of agricultural output. Over 30 % of the manufacturing output is generated in the food and tobacco processing sector. Another third of the value added is produced by yarn and textile industrial units processing domestically produced cotton. Chemicals, cement, glass and other products share the remaining value added of the sector.

In spite of the rapid growth of output, the sector has suffered from a series of problems ranging from excessive centralisation, unsatisfactory coordination in the planning process accompanied by a shortage of skilled manpower often responsible for the frequent delays in the implementation of the large public sector projects on which the growth of manufacturing heavily depended. The large military effort deeply affected the growth of the sector by taking away scarce resources chiefly in terms of capital and skilled manpower.
The destructions caused by the wars were usually made good by very prompt repair works but, if in the short term they managed to keep the value added flowing, they deeply affected and considerably slowed down the long term growth of manufacturing. The uncertain, and at times hostile attitude to private initiatives that characterized Government policies up to 1972, stopped the majority of private sector's new ventures causing a flight abroad of capital and talents.

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Table 12

PRODUCTION OF THE MAIN MANUFACTURING INDUSTRIES IN 1971-1975

Types of industry	Unit	1975	Index (a)
A - Food industries			
Canning	ton 000	9.8	172
Olive oil	ton 000	33.2	150
Vegatable oil	ton 000	22.2	85
Margarine	ton 000	6.7	92
Biscuits	ton 000	3.9	170
Macaroni	ton 000	6.0	111
Sugar	ton 000	117.1	90
Chocolate	ton 000	1.3	144
Alcohol liquids	Mil. meters^3	12.6	177
Tobacco, Tombac	ton 000	6.7	152
B - Textile industries			
Cotton yarn	ton 000	31.7	135
Wool yarn	ton 000	1.2	67
Silk yarn	ton 000	2.0	80
Woolen cloth	ton	1 536	128
Silk and Cotton textiles	ton 000	36.7	126
Wool carpets	M2 000	287	184
Silk carpets	M2 000	531	135
Stockings	Dozen 000	1 373	163
Underwear	Dozen 000	1 274	137
Ginned cotton	ton 000	141.5	90
C - Chemical industries			
Rubber shoes	Mil. pairs	0.6	60
Plastic shoes	Mil. pairs	3.1	125
Fertilizers (Azotic)	ton 000	86	-
Paints	ton 000	4.1	124
Soap	ton 000	28.9	124
Cement	ton 000	994	109
D - Engineering industries			
Liquid gases	M3 000	1 444	170
Glass products	ton 000	25.4	167
Refrigerators	one	52 108	279
Washing machines	one	17 914	111
T.V. sets	set	39 065	319
Liquid batteries	one	81 521	355

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The movement towards liberalizing the private sector, started in 1972, has slowly gathered momentum, but up until now had a noticeable impact only on construction. It is however felt that businessmen begin to gain confidence, and as soon as the Government gives môre clear indications in which industries it wishes the private sector to invest, it can be expected that Syrian capitals and talents will return.

5.2.3. Power

The available power capacity of Syria reached 4 032 MW in 1977 and on the whole the development of power generation managed to keep pace with the domestic demand of electricity growing at a rate of over 12 % p.a. Electricity generation is based on hydro power for approximately 40 % of the total available capacity, while the remaining 60 % is based on gas and oil fired plants. The sector, since the mid 1960's has undergone a drastic reorganisation which has unified the national network up until then, fragmented into a number of isolated power systems. Over 45 % of the power generated is absorbed by the industrial sector.

5.3. Tourism

Syria, in spite of possessing a number of unique tourist attractions, has effectively opted out of the boom in world tourism that has taken place in the last decade, and the sector has started to grow only from the early 1970's. During the 1960's, entry to the country became increasingly difficult, and the consequent drop in the number of visitors, coupled with the difficulties that the private sector was facing, discouraged any investment in tourism. Since 1973 however, Syria has changed attitude towards tourism and it has began to encourage its development, soon realizing, however, that the lack of suitable hotel accommodations scared away a large number of possible visitors.

The number of tourists entering Syria has increased steadily since 1973, when 450 000 came, reaching 618 000 in 1974 and 680 000 last year. Hotel accommodations amount to 18 000 beds, most of which require radical innovation. The shortage of hotel accommodations has recently been made more acute by the Lebanese refugees who tend to occupy scarce hotel rooms on a long term basis.

5.4. Transport and communications

Value added generated	: 8 % of GDP
Employment	: 4 % of the total labour force
Growth	: 7.1 % p.a.
Investment received	:13.2 % of the national gross capital formation.

The transport sector in Syria has a particularly prominent position in the overall development of the country, not only because the transit oil pipelines provide sizeable revenues, but also because, due to the country's geographical position and its limited coast line, the national road and rail systems have to be carefully integrated in a wider international network of transport. This is particularly true in the southern part of the country which not only lies within the hinterland of the port of Beirut, but it is also crossed by a sizeable transit road and rail traffic coming from Jordan and Iraq and bound to Beirut.

Highways are the most important mode of transport in Syria carrying approximately 95 % of the total national traffic expressed in tons or passengers/km. Syria's highway network comprises about 14 000 km of which approximately 10 000 km are primary bitumenized roads. The total number of road vehicles in Syria has on average risen at a rate of 4 % p.a. reaching a total of approximately 65 000 units in 1974.

The Syrian railways consist of two systems of different gauge with a total length of over 1 300 km. The narrow gauge system (307 km) connects Beirut to Amman via Damascus. The standard gauge system extends over approximately 1 000 km from the port of Lattakia to the Turkish border via Aleppo. The network is being at present considerably expanded to improve the connection of the eastern part of the country with the ports of Lattakia and Tartous.

Syria's main general cargo ports are Lattakia, with an annual traffic of 1.3 M tons, and Tartous with an annual traffic of 0.8 M tons. Both ports are being expanded : the former to reach an annual capacity of 3 M tons and the latter to attain a capacity of 2.5 M tons. Banias is a deep water tanker port capable of handling over 20 M tons p.a. of Iraqui oil pumped through the Iraqui Petroleum Company's pipeline crossing in an East-West direction the Syrian territory and feeding with crude oil the refinery at Homs. A second pipeline, coming from the Saudi Arabian border, crosses the southern part of the country to terminate at Saïda in the Lebanon. At present, the Iraqui pipeline is temporarily inoperative, due to a dispute between Syria and Iraq over transit dues.

Air transport operations in Syria are centred around the new airport in Damascus, completed in 1969. It can accomodate the largest aircraft in service. Traffic in Damascus has increased at a rate of 7 % p.a. reaching the level of 0.5 M passengers per annum.

6. Future prospects

Syria is at present implementing the fourth Development Plan covering the period between 1977 to 1980. The text of the Plan however, although already approved by Government, is not yet available having been subject, in the last few months, to several changes including a drastic reduction in the overall plan expenditure. The predicted growth of GDP over the Plan period is 12 % p.a. which is well above that achieved during the 3rd Plan when the economy enjoyed in 1973, 1974 and 1975 an exceptionally favourable foreign exchange situation. Industry, construction and transport, with growth rates of 16 % p.a., are envisaged to spearhead the growth of the economy, while agriculture is predicted to grow at a rate of 8 % p.a. Table 13 and Annex 1 show the detailed breakdown of the envisaged expenditure by economic sector and by main projects.

The total capital expenditure envisaged over the Plan period has recently been reduced from 80 B SL to 54 B SL (14 B US $), at current prices or 40 B SL at 1975 prices. Over 75 % of the total planned investments is assumed to be financed with domestic savings which implies, given the predicted growth of GDP, a propensity to save in the region of 28 %. Although the historical propensity to save is difficult to assess, due to statistical discrepancies, the available evidence suggests that domestic savings have been ranging in the last few years between 10 and 15 % of GDP. This would indicate that the propensity to save required to fulfill the Plan's target is well above that achieved in the past which, coupled with the optimistic GDP growth assumption, would tend to indicate that the implementation of the Plan's investment programme may require a level of external resources much larger than that envisaged. On the assumption that through restrictive Government policies, it would be possible to increase the propensity to save up to 20 %, the external requirements would be approximately 1.3 B US $ p.a. Although it is difficult to speculate as to whether the required aids will be forthcoming, it is possible to say that if grants do not materialize, the external situation of the country will deteriorate and the present debt service ratio of 10 % will rapidly increase.

Beside all the above considerations of financial character, the Plan appears to be over-optimistic from a physical point of view as well. This is because the investments envisaged by the Plan involve a rapid implementation of a number of projects that at present do not appear to have reached a sufficiently advanced stage of preparation.

If the Plan's objectives appear to be difficult to achieve, some optimism is however justified. The ambitious investment programme in the agricultural sector, even if it suffers inevitable delays and setbacks, should gradually decrease the dependence of agriculture on rainfall. This should avoid the periodical deficits in the country's food grain production, and should go a long way to stabilize farms' output on which the agro-based industrial sector depends.

The prospects for a continued fast growth in the industrial sector are favourable, especially if the general movement towards the liberalisation of trade, foreign exchange regulations and private initiatives, is capable of bringing back Syrian capitals and talents that fled the country in the mid-sixties. This is already happening in the construction sector which has enjoyed a rapid expansion fuelled by a number of new private ventures financed with external capitals. For cotton and phosphates, Syria is rapidly following a world wide trend aimed at limiting the exports of unprocessed domestic raw materials. To fulfil this objective, sufficient spinning capacity will be provided domestically to eliminate, by 1980, all exports of raw cotton, and the rapid development of the fertilizer industry should go a long way to minimize the exports of unprocessed phosphates.

The presently existing light industry (engineering, paper products, tractors, refrigerators and television assembly) is expected to rapidly increase its output with the establishment of 5 free zones, located close to the Syrian/Jordan border and in the vicinity of Damascus, Lattakia, Tartous and Homs. The proximity of Syria to the Gulf markets, its availability of manpower and the presence of a reasonably large domestic market, should constitute important additional assets favouring the development of the manufacturing and food processing sectors. Furthermore,the chronic labour deficit situation in the wealthy Gulf states should provide plenty of employment opportunities for Syrians thus generating a steady inflow of foreign exchange. The favourable prospects of new oil findings, the development of the phosphates deposits and possibly those of iron ore, should in the future, go some way towards helping the balance of the trade account which however will likely show, for a few years to come, a substantial deficit.

The moderate optimism expressed above however, in addition to the continuation of the trend towards the liberalisation of private initiatives, as well as measures aimed at improving projects' preparation and implementation is conditional to a rapid and permanent settlement of the political situation of the area. This not only will enable the Government to divert towards productive activities a large amount of resources (16 % of GDP) at present spent on defence, but it would also contribute to re-establish a climate of confidence necessary to fully exploit the country's economic potential.

Level of investments and major prospects by sector over the 1977/1980 Plan

Table 13 shows the breakdown by economic sector of the planned investments as envisaged by the Fourth Plan .

2.1 Agriculture

Growth of value added (%p.a.)	8.0
Plan Investments (B SL)	12.9
% of total plan expenditure	23.9

Investments in the agricultural sector are dominated by the Euphrates basin development programme that will absorb over 8 M SL. The Euphrates programme includes a large variety of projects ranging from land reclamation, water distribution, settlement programmes, training, extension, etc.

Outside the Euphrates basin development, an addtional 2 M SL are earmarked for irrigation and water resources development including dams and bonification works in the Orontes basin; on the basin of the Alkhabir river in the North of the country; and on the river Khabur in the north east part of Syria.

The remaining 2.9 M SL are earmarked for a series of projects aimed at the development of crops and animal husbandry. The Plan aims at increasing by over 50 % the cereal production and at achieving selfsufficiency in animal products such as meat, milk and eggs. While it is not envisaged to increase the production of cotton (predicted to remain constant at 400 000 tons p.a.), the volume of the output of fruits and vegetables is planned to grow over the Plan period by over 70 %, chiefly to provide the basic imports to a growing canning industry.

2.2 Industry

Growth of value added (% p.a.)	15.4
Plan investments (B SL)	11.3
% of total plan expenditure	20.8

The programme of industrial development envisaged by the Plan embraces the following sectors :

<u>Chemicals</u> : 3 new fertilizer plants of a 0.6 M tons capacity each, 2 superphosphates factories, 2 glass factories, one paper and one tyre manufacturing plants.

<u>Textiles</u> : 8 new factories spinning and weaving domestically grown cotton and in some cases, producing ready made clothing.

<u>Cement</u> : 11 new plants bringing the domestic capacity of cement production from 1.2 M tons to 7 M tons.

<u>Food processing</u>: one brewery, several fruits and vegetables canning plants, and 4 sugar refining factories designed to achieve selfsufficiency of refining capacity by 1980.

<u>Mining</u> : the Plan envisages to increase the present output of phosphates, at present around 1.2 M tons, to 3 M tons by 1980.

<u>Power</u> : projects included in the Plan envisage the construction of power plants increasing the overall power generation of the country by approximately 5 000 MW, approximately 40 % of the increase will be hydrobased. An extensive programme of electrification of rural areas is also envisaged.

2.3 <u>Petroleum and fuels</u>

Plan expenditure (B SL)	8.0
% of total plan expenditure	14.7

Oil production is envisaged to remain over the Plan period, around the present level of production ranging between 9 and 10 M tons p.a. A new refinery with a capacity of approximately 6 M tons is planned at Banias, bringing the country's total refining capacity to well over 11 M tons.

Gas production is predicted to start by 1979/80 with a total output of approximately 250 M m3 p.a.

2.3 <u>Transport</u>

Growth of value added (% p.a.)	16.4
Plan investments (B SL)	5.1
% of total plan expenditure	10.4

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The Plan includes several highway projects and a few transport studies at present being defined.

In the railways transport sector, the Plan envisages an ambitious extension and renewal programme, together with a standardisation of the railways system on one gauge only. The port system of Syria is also undergoing a wide programme of expansion. The facilities of the port of Lattakia are being rapidly expanded with a construction of a new breakdown and 8 new deep water berths. The capacity of the port will reach 4 M tons p.a. by the end of the Plan period. The port of Tartous is also undergoing an important extension programme that should increase its capacity to over 3.5 M tons. The ports development programme are at present being entirely financed by Russian aids.

Table 13 : FOURTH PLAN : SECTORAL INVESTMENTS
(M.S.£, current prices)

Agriculture (1)	12,938	23.9
Industry (2)	11,289	20.8
Energy and fuels	7,986	14.7
Transport and communications	5,636	10.4
Trade and commerce	1,144	2.2
Housing and public utilities	8,085	14.9
Services, administration, others	7,086	13.1
	54,164	100.0

Source : State Planning Commission

(1) Including irrigation and the Euphrates project.

(2) Including manufacturing, mining, electricity, water and gas

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Annex 1 : LABOUR FORCE BY SECTOR

	1960		1970		1972		1975	
	(000)	(%)	(000)	(%)	(000)	(%)	(000)	(%)
Agriculture	519	46.0	752	48.0	925	54	916	49.8
Manufacturing, mining	129	11.0	199	13.0	189	11	223	12.1
Building and construction	58	5.0	115	7.0	106	6	130	7.2
Electricity, gas, water, etc.	7	0.7	8	1.0	19	1	9	0.4
Commerce and trade	89	8.0	145	9.0	141	8	189	10.3
Transport and communications	39	3.3	64	4.0	65	4	78	4.2
Services	160	14.0	224	14.0	228	13	239	13.0
Others	140	12.0	64	4	42	3	55	3.0
TOTAL	1,140	100.0	1,571	100.0	1,715	100.0	1,839	100.0

Source : Statistical Abstract Central Bureau of Statistics

Annex 2 : MAIN SYRIAN EXPORTS

	1970		1975	
	M. S. £	%	M. S. £	%
Raw cotton	305	43.7	439	13.3
Wool	15	2.1	30	1.0
Lentils	24	3.4	18	0.5
Fruits and vegetables	28	4.0	37	1.1
Oil cakes	25	4.1	13	0.4
Live animals	71	10.2	13	0.4
Tobacco	18	2.6	81	2.5
Hides and skins	9	1.3	23	0.7
Textiles	69	10.0	203	6.2
Phosphates	-	-	56	1.7
Crude oil	130	18.6	2 377	72.2
	698	100.0	3 290	100.0

Annex 3 : MAIN SYRIAN IMPORTS

	1970		1975	
	M. S. £	%	M. S. £	%
Fruits and vegetables	60	4.6	125	2.2
Live animals, meats	22	1.7	83	1.5
Sugar	40	3.1	427	7.6
Other foodstuff	236	18.3	520	9.2
Fuels	107	8.3	357	7.0
Chemicals	190	14.7	842	14.9
Woods and wood products	41	3.2	93	1.6
Paper and paper products	29	2.2	142	2.5
Textiles	121	9.4	360	6.4
Metal and metal products	208	16.0	889	15.9
Machines and equipment	174	13.6	929	16.5
Transport equipment	64	4.9	826	14.7
Others	-	-	-	-
	1 292	100.0	5 633	100.0