

SUSTAINABILITY IMPACT ASSESSMENT STUDY OF THE EURO-MEDITERRANEAN FREE TRADE AREA

THE EVOLVING ECONOMIC, SOCIAL AND ENVIRONMENTAL CONDITIONS IN MEDITERRANEAN PARTNER COUNTRIES

First Report on Phase 2 of the SIA-EMFTA Project: Baseline Scenario

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Prepared by:

Impact Assessment Research Centre
Institute for Development Policy and Management
University of Manchester



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by:

Institute for Development Policy and Management, University of Manchester (IDPM)
Bocconi University
The International Centre for Advanced Mediterranean Agronomic Studies (CIHEAM)
Centre International des Technologies de l'Environnement de Tunis (CITET)
Deloitte & Touche, Sustainable Emerging Markets
Overseas Development Institute (ODI)
United Nations Economic and Social Commission for Western Asia (ESCWA)

Principal authors:

Colin Kirkpatrick, Clive George, Balsam Ahmad, Sergio Alessandrini,
Carol Chouchani Cherfane, Raymond Colley, Lydia Richardson, Dirk Willem te Velde

Project website: <http://www.sia-trade.org/emfta>

Project email address: sia-emfta@man.ac.uk

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Abbreviations

EC	European Commission
EMFTA	Euro-Mediterranean Free Trade Area
EMP	Euro-Mediterranean Partnership
EU	European Union
FDI	Foreign Direct Investment
FEMISE	Euro-Mediterranean Forum of Economic Institutes
FTA	Free Trade Area
GDP	Gross Domestic Product
IMF	International Monetary Fund
IPPC	Intergovernmental Panel on Climate Change
LNG	Liquefied Natural Gas
MCM	million cubic meter
MDG	Millennium Development Goal
MENA	Middle East and North Africa
MPC	Mediterranean Partner Countries
MCSD	Mediterranean Commission for Sustainable Development
MSSD	Mediterranean Strategy for Sustainable Development
NEAP	National Environmental Action Programme
NEC	National Environment Commission
NGO	Non-Governmental Organisation
ODA	Official Development Aid
PKK	Kurdistan Workers Party
SIA	Sustainability Impact Assessment
SPS	Sanitary and Phytosanitary Standards
TBT	Technical Barriers to Trade
TRIPS	Trade-related Intellectual Property Rights
UAE	United Arab Emirates
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
WHO	World Health Organisation
WTO	World Trade Organisation

1. Introduction

The establishment of a Euro-Mediterranean Free Trade Area (EMFTA) is one of the central elements of the Euro-Mediterranean Partnership (EMP), formed in the Barcelona Declaration of 1995. The partnership aims to create a common area of peace, stability and shared prosperity between the European Union and the ten Mediterranean Partner Countries (MPCs)¹, through cooperation in three principal areas: political and safety partnership, economic and financial partnership, and social, cultural and humanitarian partnership. The Barcelona Process has also adopted sustainable development as a guiding objective, and has initiated the development of a Mediterranean Strategy for Sustainable Development (MSSD)². At the Euro-Mediterranean Ministerial Meeting held in Stuttgart in 1999, the European Commission made a commitment to carry out a sustainability impact assessment (SIA) of the EMFTA.

Phase 1 of the SIA project developed the methodology to be used in the study³. This first report in Phase 2 forms the basis of a Baseline Scenario for the subsequent stages of the SIA. It focuses specifically on the MEDA Partner countries, and provides a broad qualitative and quantitative assessment of the current state of their economies, the state of the environment, social conditions, relevant institutions and technical capacities, and their likely evolution over the next 20 years.

The baseline scenario is defined as the continuation of foreseeable trends, including traditional trade and foreign direct investment flows. It provides an integrated view, which essentially reflects a 'without EMFTA' future, as a comparison against which to assess other scenarios. The report also discusses the main problems of regional trade integration in the form of a problem tree analysis, illustrating cause and effect paths at the general regional level. This will be expanded at national level as appropriate during the later stages of the SIA.

¹ The ten EU-Med partner countries are Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, the Palestinian Authority, Syria, Tunisia, and Turkey.

² The draft Mediterranean strategy is presented in UNEP/MAP (2005).

³ IARC (2004)

2. SIA Methodology

The methodology which will be used in the subsequent stages of the SIA is described in the final report for Phase 1 of the project. The methodology is based on those used elsewhere for similar studies, adapted for the specific characteristics of the EMFTA.

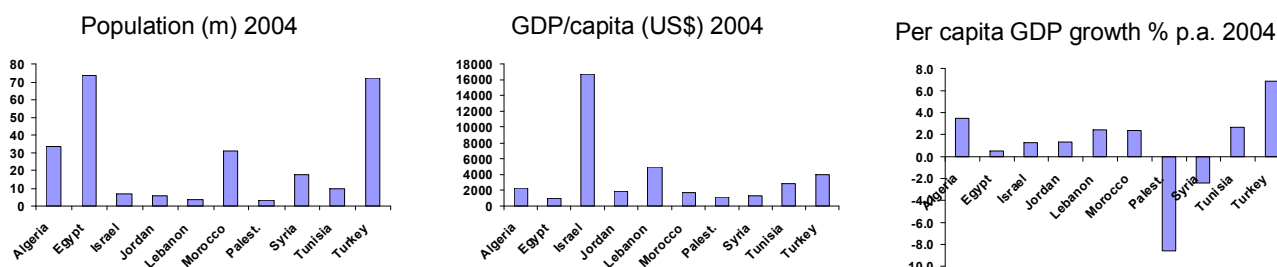
No adjustments to the methodology as described in the Phase 1 report are proposed, although its implementation will take account of the many helpful comments and suggestions that have been received in the consultation on the Phase 1 report. These include:

- co-operation with the Mediterranean Commission for Sustainable Development, particularly in the development of indicators
- assessment of impacts on the Millennium Development Goals
- close attention to specific types of impact, including biodiversity, gender and unemployment
- analysis of existing business structures in partner countries, including social economy enterprises and micro-enterprises
- analysis of regulations governing the business sector, particularly as they affect small enterprises
- relationships to national development planning and spatial planning systems
- integration of social, economic and environmental issues
- contributions to EU initiatives to promote environmental protection and sustainable development in the region, and to the development and implementation of the Mediterranean Strategy for Sustainable Development (MSSD)
- cost-effectiveness analysis of potential mitigation and enhancement measures
- involvement of NGOs in the analysis
- co-operation with parallel studies that are being undertaken by other organisations, on particular issues in the region or impacts in individual countries
- involvement of EC Delegations in the consultation process
- the addition of further consultees to the electronic mailing list
- production of an Arabic version of the Newsletter

The subsequent stages of the assessment will also draw on the many reports and other information provided by correspondents during the consultation process, several of which have been used in the preparation of this report. All these contributions are much welcomed.

3. Economic and Trade Situation and Trends

The ten southern and eastern Mediterranean Partner Countries (MPC) of the Barcelona process vary considerably in size, per capita incomes and growth rates. Population ranges from 3 million people in the Palestinian territories to 73 million in Egypt. Per capita GDP is about US\$1000 in the Palestinian territories and Egypt, and ranges up to US\$17000 in Israel. Turkey had the highest per capita growth rate in 2004, at just under 7%. At the lower end, GDP per capita grew in Egypt by only 0.5%, while in Syria it declined by over 2%, and in the Palestinian territories by nearly 9%.



Source: Annex 1 Table 1.

Trade and economic data for the partner countries are presented in Tables 1 to 4 in Annex 1⁴.

The draft Mediterranean Strategy for Sustainable Development characterises the MPCs as being generally uncompetitive in international markets, with a lack of dynamism and innovation in their enterprises. This is fostered by a tradition of exploitation of the region's geographical location and natural resources. Further information on the current and evolving situation in each country is discussed in the country reviews in Annex 3. Regional data for the Millennium Development Goals are given in Annex 2.

3.1 Core SIA indicators

Real income

All the southern and eastern partner countries are in the lower middle income group in the World Bank's classification, except for Lebanon (upper middle income) and Israel (a high income country). Economic growth has been weak in many of the countries, despite successful macro-economic programmes and significant progress towards trade liberalisation. Country data on GDP, growth rates and the incidence of poverty are given in Annexes 1 and 3.

Fixed capital formation

Annex 1 gives country data on gross capital formation and foreign direct investment (FDI). It also includes data on development aid and investment in science and technology, as contributory factors to the creation of productive capital. Tunisia has been particularly successful at attracting FDI, while most investment in Palestine comes from development assistance. Investment in science and technology is close to high income country levels in Israel, and there are some indications of high R&D expenditure in Jordan (primarily in the public sector). In most of the other countries R&D expenditure is a tenth of this or less, while far fewer scientific and technical articles are published than in the EU (about 2% of the number per capita).

⁴ Principal sources for this section and the data and information in Annexes 1 and 3 are: IARC (2004), EC (2005), Femise (2005), OCP EC (2004), EC NNP strategy papers, EIU (2004)

Employment

Unemployment is a significant concern in many of the countries, averaging around 14%. Annexes 1 and 2 give employment data for each country. About 40% of the population currently depend on agriculture for their livelihoods, varying between countries. The rural population is particularly high in Egypt, at 56%, compared with Israel at 2.5%. Unemployment is particularly high in Algeria, at 28%, and the Palestinian territories, where it rose to almost 40% by the end of 2000. Unemployment throughout the region tends to be biased strongly towards those under 25, and is generally higher for women than for men.

3.2 Regional trade

Details of trade in the region have been summarised in the Phase One report for the SIA project⁵. Other key sources include the European Commission's April 2005 review of the Barcelona process⁶, and the February 2005 review undertaken by Femise⁷.

EU trade with Mediterranean partner countries represents about 7% of total EU imports and 8% of total EU exports (exports have exceeded imports in every year since 1995). By contrast, partner countries' trade with the EU averages 50% of their total trade. This bias is particularly strong for the Maghreb countries and Turkey, while the Mashreq countries trade less with Europe and more in the Middle East (including Iran and the Gulf states). The volume of EU-MPC trade has increased markedly in the past 10 years, but less rapidly than total world trade. France, Germany and Italy are the largest EU importers from MPCs, followed by the United Kingdom, Belgium, Portugal and Spain. Algeria and Turkey account for more than 50 percent of total MPC exports to the EU, followed by Israel, Morocco and Tunisia.

Although agriculture is an important part of the domestic economy in most of the partner countries, it is a smaller part of their trade. Food exports declined from about 13% of total merchandise exports in 1995 to about 10% in 2002, while food imports declined from 16% to 14%.

EU-MPC trade in services more than doubled from 1995 to 2002, and has since grown broadly in line with trade in goods. The contribution of MPCs to global services trade has remained relatively stable at about 2.5% from 1995 to 2003, with a slight dip after 2001. MPCs are net service exporters, primarily through tourism.

Trade between MPCs and each other is only about 5% of their total trade, having grown by about 0.5% between 1995 and 2003. This figure is strongly influenced by oil exports from Algeria, Egypt and Syria. For non-oil producers such as Jordan and Lebanon, trade within the whole of the Middle East and North Africa is more than 40% of total exports.

Turkey differs from the other partner countries in that it is the only candidate for accession to the EU. The influence of the EMFTA will apply only to the period leading up to accession, which is expected to take place within the 20 year time horizon of the SIA. In most of the other partner countries, the Barcelona process and the EMFTA have not yet had a major effect. Although some of the trends can be attributed partly to the process, they are more generally influenced by other aspects of global and regional development. In the absence of an EMFTA, similar trends can be expected to continue over the 20 year period.

⁵ IARC (2004)

⁶ EC (2005)

⁷ Femise (2005)

3.3 Economic structure

The MPCs tend to import high value-added products and services from Europe, the USA and other high income countries, while most of their current exports are primary products and resource-based manufactures. Except for Israel, Turkey, Tunisia and Jordan, the exports of the MPCs are concentrated in a few agricultural commodities, raw materials and minerals. Agriculture provides about a quarter of GDP in the region, but with wide variations across countries. The most important agricultural products imported from the EU are grains, dairy produce and sugar, and the most important products exported to the EU are fruits and vegetables and fish. Oil is the main export for Algeria, Egypt and Syria.

A large majority of business initiatives in partner countries consist of micro-enterprises (family-run companies and self-employed workers), with many of them operating through co-operatives, mutual benefit societies and development associations. This applies to both agriculture/fisheries and industrial products.

Key industrial products include food, beverages and tobacco, chemicals (Egypt, Turkey, and Tunisia), electrical machinery (Israel) and textiles and clothing. The textiles and clothing sector has grown in importance in many countries of the region. Between 10% (Jordan) and 41% (Tunisia) of employment in manufactures originates in the textile and clothing sectors. Exports from MPCs tend to specialise increasingly in highly labour-intensive products with average technology intensity, particularly for their exports to the EU. Exports to the rest of the world have a larger technological content than those to the EU, and this difference has increased in the period 1995-2002. The countries which are geographically closest to the EU (Tunisia and Morocco) do relatively well for high levels of skill and technology in their exports to the rest of the world, but less well for exports to the EU. Jordan and Turkey have both performed better. This pattern appears to reflect a hub and spoke structure of trade specialisation, exacerbated by a lack of South-South integration.

Investment in science and technology is low in most of the region. The Arab Human Development Report for 2003 stressed the importance of overcoming this, while the 2004 report noted that 'of all the impediments to an Arab renaissance, political restrictions on human development are the most stubborn'. These issues are discussed in the next section. The 2003 report also expressed concerns over WTO requirements for implementation of trade-related intellectual property rights (TRIPS), with potential effects on the growth of key industrial sectors and the use of traditional knowledge. The report identified a need for closer regional cooperation on knowledge acquisition.

Over the 20 year baseline period, all the economies of the region are expected to make some progress in moving towards higher levels of skill and technology intensity, at varying rates. Oil and gas, agriculture, textiles, other manufactures and services, particularly tourism, are expected to play significant roles in this. The main other main sources of foreign earnings which may change during the period are development assistance and remittances from workers overseas.

Oil and gas. World prices are expected to rise, which may have a restraining effect on growth in major importers such as Lebanon and Jordan, but will yield an increase in export earnings in Algeria, Egypt and Syria. This will be offset in varying degrees by decline of the resource, or enhanced where unexploited reserves become economic. The supply chain for the industry has the potential to provide a core for the expansion of high technology domestic manufacturing and services.

Agriculture. Agriculture is a fairly small component of international trade for most of the countries, but is highly significant to their domestic economies, social welfare and natural environments. Agricultural co-operatives play an important role in several of the countries, notably in Egypt, Morocco, Turkey and the Palestinian territories. Federations of farmers have close ties to the co-operative movement in Algeria, Tunisia, Jordan and Syria. Agriculture is highly protected, in Europe as well as in partner countries, and susceptible to considerable influence from trade liberalisation. Agricultural production in MPCs is typically between 10% and 20% of GDP, compared with 3% in

western Europe. It accounts for over 20% of employment on average, compared with 4% in Europe. Labour productivity is low compared with European agriculture, and wage rates are low. The level of processing of exported products also tends to be low. As in most developing countries, an increase in agricultural wages generally depends on increased productivity and lower levels of employment, with consequent pressures on unemployment and rural-urban migration. Most of the countries of the region are generating opportunities for higher value-added employment in other sectors, but at a pace which is slow and uneven.

Fishery. Fish represent a key sector for several MPCs, especially Morocco and Egypt in terms of fish and fish-based products as well as aquaculture. The EC has stringent controls on fish imports, but is active in providing aid and assistance in this area. Morocco has well over 200 fish/fish product exports approved for export to the EU, but Egypt only has 3.

Textiles and clothing. Many of the countries have established strong textile industries as major contributors to their exports. These have been protected with preferential quotas under the Multi-Fibre Agreement, which came to an end at the beginning of 2005. In consequence, the industry is in decline in many countries, and this is expected to accelerate as south and east Asian countries take advantage of lower wage rates. Some opportunities exist for picking up production from Europe, where similar pressures apply, although this may do no more than slow the rate of decline.

Non-textile manufacturing. Some of the countries have made good progress in strengthening their technology base, raising skill levels, and establishing internationally competitive manufacturing industries. Electrical/electronics and machinery are particularly important for Tunisia, Turkey and Israel. Other countries such as Morocco, Lebanon and Egypt have significant potential. EC measures related to Technical Barriers to Trade (TBT) and Sanitary and Phytosanitary Standards (SPS) may have serious implications for MPC manufactured exports and the effectiveness of EMFTA, such as forthcoming bans on the use of heavy metals for electrical components, which come into effect in 2005 and 2006 (Directives 2002/95/EC and 2002/96/EC). Progress in this sector depends, in part, on the extent to which foreign direct investment (FDI) can be aligned with domestic interests in gaining internationally competitive advantages. FDI is expected to play an increasing role in all countries of the region, with domestic policies influencing the extent to which this contributes to higher skill levels and incomes.

Tourism. Tourism is an important growth sector for the region. Apart from the Palestinian territories, Algeria is the only partner country in which tourism is a small component of foreign earnings. This is influenced partly by the country's high income from oil, and partly by the political situation. Most of the other MPCs have strong tourist industries, with considerable opportunities for further expansion. The political tensions in the region have caused setbacks, and this can be expected to continue to some extent. Despite this however, tourism is expected to play an important role in most countries' economic development over the full 20 year period.

Other service industries. Banking, other financial services, telecommunication services and other high value service industries can in principle make major contributions to the region's economic development. In doing so however, such industries are in competition with those in Europe and other high income countries, whose economies are increasingly dependent on their service sectors. Domestic policies are expected to take advantage of foreign involvement in these industries where it contributes to building domestic strengths. Telecommunications contributes strongly to improving the performance of other economic sectors, and is expected to grow rapidly throughout the region, with high levels of FDI. Banking and other financial services also have important roles to play, but here the region's industries have local competitive advantages. These are expected to remain strongly utilised and be further developed. Other industries are expected to adopt intermediate positions in pursuing competitive and cooperative advantages.

Remittances. Remittances from workers overseas make a significant contribution to foreign earnings in many of the partner countries, particularly Jordan, and also Lebanon. The EU employs large

numbers of temporary workers from the region, mainly from the Maghreb countries and Turkey. The baseline assumes that remittances will continue at similar levels to their current ones. Some economic pressures within Europe lean towards increased use of migrant workers, while social and political ones press in the opposite direction.

Development aid. Overseas aid is a significant source of income for most of the countries, and a major one for some. Official aid to the Palestinian territories contributes almost half of GDP. Overseas aid to most partner countries is expected to decline gradually through the 20 year period, in response to successful development and eased political tensions. A significant degree of assistance is however expected to be needed for some countries, even in 20 years' time.

3.4 Foreign direct investment

During the past decade, all the MEDA countries introduced a number of reforms to attract Foreign Direct Investment (FDI). The climate of investment in the region has greatly improved, but capital inflows have continued to fluctuate heavily. Political instability and volatile growth have contributed to a lack of interest from investors.

Turkey, Israel and Egypt receive more than three quarters of EU and US flows to partner countries. The EU is the most important investor country in the region, with a clear preference for Turkey. American investors focus on Israel and Egypt, which take about two thirds of the American flows, and only one third those from Europe.

All of the countries in the region have signed investment protection agreements and agreements against double imposition, except the Palestine Authority, which has signed only two such agreements, with Egypt and Germany. However, only a third of these are in force. They are expected to come into effect during the 20 year horizon.

3.5 Trade barriers and trade agreements

Despite recent liberalisation measures, the Mediterranean region remains highly protected. The level of protection compared with other regions is more marked for simple average customs duties than it is for weighted averages and tariff escalation. Informal non-tariff barriers are significant, such as lengthy and non-transparent customs procedures, and relatively costly transport facilities. However, free trade zones have been established in several countries, including Jordan, Egypt and Morocco, and major ports are being upgraded (e.g. Tangiers).

Tariff rates for agriculture tend to be high in all the MPC countries, while those for manufactures vary significantly between countries. The EU already provides preferences for MPC partners through previous co-operation agreements, and had already unilaterally removed tariffs on most industrial goods before the first Association Agreements were negotiated. Apart from Algeria, Lebanon, Syria and the Palestinian territories, all MPCs are members of the WTO, and several have trade agreements with the US as well as the EU. A number of south-south agreements have been negotiated, with varying effect. Details are given in the Phase One report and in the country reviews of Annex 3.

3.6 Macroeconomic situation

Most MPCs have achieved a relatively high degree of macroeconomic stability since 1995. The average inflation rate fell from around 12% in 1995 to around 3% in 2003 and 2004. Fiscal policy remains strongly dependent on oil revenues in oil-exporting countries, and on external assistance in many of the other countries. GDP growth for the region increased to 4.5% in 2004 from 3.8% in 2003, influenced by the high oil price and the situation in Iraq. Growth in the Maghreb remains relatively high at around 5%, and higher in Turkey at 9%.

The pace of structural reforms has generally been slow throughout the region, with the state sector still large in many of the countries. Cumbersome regulation of market entry and exit inhibits dynamic growth in many countries, although Tunisia and Morocco have made significant improvements. Reforms are expected to continue slowly under the baseline scenario.

3.7 Governance and political situation

The parliamentary institutions in most MPCs exhibit limitations in their role of supervising the executive and ensuring accountability, transparency and the rule of law, with consequent limitations on economic and social development. There are however positive trends, including recent elections in Algeria, Morocco, Jordan and the Palestinian territories, and the amendment of the Egyptian constitution to allow multi-party elections.

The potential for periodic social and economic upheavals is expected to decline gradually, but to remain significant throughout the 20 year period. For the purposes of the SIA it will be assumed that current perturbations to the economies of Iraq's neighbours will settle into stable trading relationships. It is also assumed that a Palestinian state will be established within the 20 year time period. This is not expected to fully resolve all the issues, but would have a major effect on the trading relationships of the territories themselves, and on their future economic development.

4. Social and Health Situation and Trends

The key health and social issues identified in the draft Mediterranean Strategy for Sustainable Development include relative backwardness in literacy and gender equality, insufficient access to safe drinking water and sanitation in many partner countries, and rapid population growth (although fertility rates have fallen spectacularly in the past ten years). Poverty is still a dominant problem in many countries, especially in rural areas, although there is relatively little extreme poverty. Social concerns are aggravated by un-equitable distribution of wealth.

4.1 Core SIA indicators

The core indicators for the SIA are: poverty; health and education; equity (including gender equity). Data for partner countries are given in Annex 1, and Annex 2 gives regional data for the indicators that are being monitored for the Millennium Development Goals. The situation and trends in individual countries are discussed in Annex 3. This section gives an overview of the regional issues for each of the core indicator areas, and for the related issues of population and migration.

4.2 Population and migration

General and cross cutting themes in MPCs which are expected to influence social issues in the next 20 years include:

- Population growth, economic migration and unemployment.
- Democratic processes and socio-political liberalisation.
- Stability, peace and conflict.

The southern and eastern Mediterranean has experienced high rates of population growth in the past century. Fertility rates have decreased significantly, but the population is still predicted to increase by nearly 2% annually, with life expectancy higher, infant and maternal mortality lower and better health care. The urban population was about 57% of the MPC total in 2002, and is expected to rise to about 62% by 2015. Most governments promote family planning, but culturally sensitive issues mean that services are not accessed as widely as they might be.

One of the most significant implications of a rising young population is the number of entrants to the work force each year. For every retiree or person close to retirement there are 5 people entering the workforce. Unemployment levels are high, with a significant impact on other social and economic development issues within the region. Many wage earners support large extended families, with correspondingly serious effects when they lose their job. The loss of employment expected in the textile sector is likely to affect women in particular in those countries (e.g. Morocco) where the majority of the workforce is female, but not in those where employment is more balanced (e.g. Egypt).

With the increase in life expectancy and the decrease in fertility there will be a gradual demographic transition involving a larger ageing population.

It is expected that by 2015 Egypt will be the only country amongst the 10 that will have less than 50% of its population urbanised. Lebanon and Israel are expected to be at least 90% urban by 2030.

Inward migrants form a significant proportion of the total population in many of the countries, and outward migration is also important. Traditional economic migration routes from North Africa are to France or to southern Spain, for opportunities in agriculture. Migration from the Mashreq tends to be to the Gulf States, for work in the oil and gas sectors and as unskilled labour. There is also a significant amount of inward migration to some of the partner countries, much of it for low-skilled

labour. Largely as a consequence of past conflicts within the region, there is a high refugee population.

The Arab Human Development Report for 2003 states that about 25% of 300,000 first degree graduates from Arab universities in 1995/96 emigrated, and that over 15,000 Arab doctors emigrated between 1998 and 2000. These trends are expected to increase as increasing numbers of educated and aware young people wish to take advantage of the opportunities in other countries.

4.3 Poverty

Extreme poverty (income less than US\$1 per day) is around 1.5% for most of the countries for which statistics are available, but over 3% in Egypt. The number of people living on less than US\$2 per day is particularly high in the Palestinian territories (60%) and Egypt (44%). Poverty levels are also high in Morocco and Algeria.

Food security is a concern throughout the region, which is a net food importer, and a large importer of grain.

4.4 Health

Significant improvements have been made in health in the region. In 1970 under-five mortality ranged from 27 per thousand in Israel to over 230 in Algeria and Egypt. By 2002 the figure was under 50 for all the countries. Morocco lags behind the other countries on access to sanitation, at 68% of the population, with the others above 80% and several approaching 100%. Most countries still lag significantly behind Europe in most respects. Data on basic health indicators are given in Table 7 of Annex 1, and those associated with Millennium Development Goals in Annex 2. There are significant variations between the partner countries, particularly for Israel, because of its high per capita GDP.

Unemployment and urban poverty are important determinants of poor health, related to lack of access to basic services. Poor outdoor air quality from traffic and industrial emissions is another important determinant prevalent in partner countries. Amongst the air pollutants emitted, PM₁₀, SO₂ and lead are of great concern, with levels well above maximum allowable concentrations in some areas. The increasing number of vehicles, poor traffic management, ageing cars and congested roads in major cities add to the level of air pollution. Exposure to lead in particular is an important determinant of ill health, especially in children.

Communicable diseases from exposure to traditional health hazards (such as lack of safe water, sanitation and indoor air pollution) still constitute a major cause of mortality and morbidity in many of the countries. At the same time, exposure to modern health hazards (caused by exposure to chemicals, tobacco use, outdoor air pollution and unhealthy and sedentary lifestyles) has resulted in an increasing burden of chronic disease conditions such as diabetes and coronary heart disease. In addition, there is a high prevalence of traffic injuries, and in recent years, road deaths have grown faster than population.

Official statistics indicate a low incidence of HIV/AIDS in the region, although UNAIDS/WHO have given higher estimates⁸. Migrants and refugee populations are identified as being particularly vulnerable, and other risks are associated with increasing tourism. There may be implications for the potential influence of EMFTA. There has been little behavioural and social research on HIV/AIDS, which makes prevention programmes either ineffective or difficult to plan and implement. Poor health care systems, lack of access to condoms and socio/cultural factors are all problematic. Concerns have also been expressed about gender issues that limit women's access to health care and being empowered about their own health, particularly among the poor.

⁸ World Bank (2003)

4.5 Education

Considerable advances have been made in primary and secondary education in most countries of the region, with primary enrolment now close to 90% or above. Morocco and Syria are well behind the other countries in secondary school enrolment, but Syria has fairly high adult literacy, comparable with Israel, Jordan and Turkey. Adult literacy is lowest in Egypt and Morocco.

Tertiary education and its alignment to the needs of knowledge-oriented economic growth remains weak. As measured by the numbers of scientific papers published per capita, output doubled in the decade from 1985, while China's increased more than tenfold. The average output of Arab countries is still only about 2% of that in industrialised countries. Although partner countries have many well established universities, their curricula are not well coordinated with business needs, particularly in skill-intensive and technology-intensive sectors, and there is little private sector investment in R&D.

4.6 Equity

Income inequality as measured by the Gini index ranges from about 34 in Egypt up to 40 in Morocco, Tunisia and Turkey. This compares with figures of around 25 in Nordic countries and 41 in the United States.

MPCs have advanced reasonably well on issues of female education, fertility, life expectancy and per capita income. However, women's economic activity remains low by international standards, and their involvement in public life and politics remains weak in many of the countries. The 2003 Arab Human Development Report sees Arab countries supporting gender equality in higher education, but not reflecting this in attitudes towards equality in workforce participation. The region could benefit economically by an increased labour force of educated women. Simulations using household survey data suggest that the average household income in some countries could increase by an extra 25% from greater female participation.

Fruit picking is predominantly done by women, although other industries vary across the MPCs (e.g. men work in the garment industry in Egypt more than they do in Morocco). Women also tend to work in traditional female roles such as nursing, teaching and in public services. If public sector jobs decrease, this is likely to affect the rate of female employment much more significantly than male. Women are strongly under-represented in sales and in private sector service employment, such as retailing, hotels and restaurants. Whether this is a result of cultural norms of avoiding indiscriminate contact with men, or traditional male domination of the urban marketplace, it has implications for the gender impacts of moves towards more market based economies.

There is little gender disparity in enrolment at both primary and secondary school level, and this is on target to reach some of the criteria for the third MDG, to promote gender equality and empower women. Girls, however, have a much higher drop out rate, primarily due to early marriages.

In many of the countries the cultural attitude to women and their roles within the family differs significantly from western norms. The family, not the individual, is seen as the centre of society. Honour codes are still very much alive and men are seen as the head of the house. Women often need their permission to work or to undertake other activities that might be seen as compromising their role within the family. In some countries there are restrictions on the hours a woman can work, and the lack of flexibility, ability to travel and undertake certain activities mean that women are less likely to be employed.

Gender equality is expected to increase with the large youthful population (60% of the people in the region are below 25) and equality in education standards. Young women's expectations and abilities will challenge the male dominated work force, although this will be influenced by the type of work and market situation in the region. The move to urbanisation is another factor that might promote

equality, because women will have greater exposure to education, services, media and access to non-agricultural work.

5. Environmental Situation and Trends

The draft Mediterranean Strategy for Sustainable Development identifies the following key environmental issues:

- loss of agricultural land to urbanisation and salinisation.
- depletion or degradation of water resources.
- traffic congestion, noise, poor air quality and the rapid growth of waste generation in urban areas.
- pollution of coastal areas and the sea, urbanisation and erosion of coastlines, depletion of fish resources.
- disruption, over-exploitation or abandonment of unique landscapes and biodiversity
- potential impacts of climate change

The attention within this section focuses on those aspects of the environment that are most likely to be affected by the EMFTA. There are many features affecting the environment of the partner countries that are common to most or all of them. This is due not only to geographical closeness and similarities in their natural resource base, but also to many of them being at similar stages of economic and social development. Clearly, there are also marked differences. Divergence is most marked in Israel, because of its high per capita GDP, and Turkey, because of its relatively abundant water resources. Where such variations are likely to be sufficient to affect the overall conclusions, they have been highlighted. Environmental conditions in each of the countries are discussed more fully in Annex 3, and environmental data are presented in Table 9 of Annex 1.

5.1 Core indicators and key issues

The environmental core indicators for the SIA are biodiversity, environmental quality and natural resource stocks. The key issues for the region are grouped under these three headings in the following sections. Key environmental issues which apply to most or all partner countries include:

- Water resources quantity and quality;
- Land and coastal degradation and deforestation;
- Air quality and Climate Change;
- Urban environment, waste management and industrial pollution;
- Lack of capacity to manage natural resources and environmental quality.

The baseline status and trends in each of these areas are examined in the sections below.

5.2 Natural resource stocks: water resources and quality

Of the partner countries, all except Turkey and Lebanon are expected to be experiencing water scarcity (defined as the availability of less than 1,000 cubic meters of renewable water per person per year) by 2025. Water consumption is already at an unsustainable level in Algeria, Israel, Jordan, and Tunisia, and would probably be so in the Palestinian territories if conditions there were normalised. Morocco and Egypt are already on the borderline of unsustainable water consumption, and Syria will shortly follow if current consumption trends continue. There are several factors that lead to sub-optimal allocation of available water resources including:

- the inefficient use of water (except in Israel),
- major water usage by economic sectors that contribute only a small portion of GDP (Jordan, Morocco, Egypt);

- uneven distribution of water between regions within countries, leading to severe local shortages (especially in Syria);
- the security situation, which prompts some countries to grow water intensive food crops rather than rely too heavily on imports.

Much of the water resource is provided by large transboundary river basins. Uganda, Ethiopia and Sudan share the Nile Basin with Egypt, the river Jordan feeds Syria, Lebanon, Israel, West Bank and Jordan, and the Tigris and the Euphrates both rise in Turkey and flow into Syria and Iraq. Even where there are agreements on the allocation of water resources, such as between Israel and Jordan, the demands of each country have only been met by setting unsustainable abstraction rates (i.e. the rate of abstraction exceeds the rate of replenishment) or, as with the agreements between Turkey, Syria and Iraq, each country considers its share too low.

The issues of water resource availability and water quality in many of the partner countries are intimately connected. Saline intrusion caused by over-abstraction of groundwater close to the coast has occurred in several countries, as has salination caused by over abstraction of groundwater and poor management of irrigation. Pollution is caused by agriculture - from extensive use of fertilisers and pesticides – and by industrial effluents associated with increasing industrialisation.

Municipal waste water is still a major source of pollution in many partner countries. Most of the urban population is served with domestic wastewater collection but sewage treatment is far from universal, ranging from around 80% (Ankara, Tunis, Algiers) to almost nil (e.g. Damascus 3%). Treatment capacity is rising however, with treatment plants being planned and constructed at many locations.

5.3 Biodiversity: coastal and land degradation and deforestation

The coastal zones of the Mediterranean Partner Countries already support much of the population and are increasingly affected by urbanisation, industrialisation, tourism, and the oil industry; leading to acute local pollution and damage to tourism and recreational assets as well as to marine biodiversity.

Desertification and soil erosion are of concern in several of the countries, influenced by a combination of weak land use controls and inappropriate agricultural practices. In many urban areas relatively lax land use controls have permitted urban sprawl, with significant effects on the quality of life and cohesion of communities as well as landscape and ecology. Similar effects arise from quarrying and uncontrolled dumping of solid wastes, along with potential pollution of air, water and soil. The impacts of land degradation include lost agricultural productivity, increased risk of natural hazards and loss of biodiversity.

Much of the region's flora and fauna is damaged or threatened. Factors impacting regional biodiversity include population growth, agriculture, fisheries, urbanisation, industry, poverty, drought and unsustainable use of biota. Emerging threats include the bio-invasion of exotic and genetically modified species. On a positive note, protected areas and biosphere reserves have been established, such that several of the partner countries (Algeria, Egypt, Israel and Tunisia) recorded increases in their stock of forests between 1990 and 2000,. The remainder either reported a halt in deforestation (Morocco and Turkey), a slight decline (Lebanon), or did not provide data.

5.4 Environmental quality: air quality

Air pollution is an important, if relatively localised, concern in many areas of the partner countries. As well as its effects on human health, this can cause damage to historical monuments, with adverse consequences for the tourism sector. Many of the region's antiquities are in or near major cities (e.g. Istanbul, Cairo, Tunis). The principal source of air pollution in most of the large cities is vehicle emissions, due to increasingly heavy motor traffic, ageing and poorly maintained vehicle fleets, low quality fuels and poor traffic conditions.

Cement factories and other large scale facilities located close to urban centres may produce high local levels of particulates and other pollutants, for example in Amman, Cairo and Damascus. Under certain wind conditions large areas of these cities may be affected. Dense clusters of environmentally inefficient small-scale activity such as Cairo's ceramics industry can also produce high local levels of urban air pollution. In rural areas high local levels of particulates can arise from the production of construction materials, including quarrying, stone crushing and cement manufacture. Particulate concentrations in air have been found to be three times higher than the WHO limit in several major cities (UNEP 2000).

The region's high temperatures and extensive sunshine convert primary pollutants to ozone, sulphates and other secondary pollutants, which can have equal or greater effects on human health than the primary emissions. Concentrations of ozone above WHO limits have been reported in several of the partner country primary cities. A recent report (UN 2002) suggests that increasing use of natural gas in power plants has contributed to reducing emissions during the 1990s and that this trend will continue.

5.5 Environmental quality and natural resource stocks: the effects of climate change

Climate change is expected to exacerbate the region's water resource problems. The projected precipitation increases are small, and temperatures and evaporation are projected to rise. This may have been a contributory factor to recent droughts. Other likely effects of climate change that have been suggested (IPCC 2001) include increased flooding around the Mediterranean. The Nile Delta region is particularly threatened by sea level rise. Among other effects identified specifically for the region, yields of maize, wheat and rice in Egypt are expected to fall by between 10 and 50 percent.

Partner countries do not consider climate change among their greatest priorities however. Only Egypt and Israel had ratified the Kyoto protocol by the time it came into force, although three others (Jordan, Morocco and Tunisia) had accepted it in principle. Per capita CO₂ emissions amongst partner countries range from 1.2 to 3.9 metric tonnes/ year (apart from Israel at 10.0), with rapid growth in the past two decades. Carbon emissions are low compared with the EU per capita average of 8.0 metric tonnes/year, but will gradually become closer if present trends continue. Under the Kyoto protocol the EU target will be to reduce emissions by 8%, while no limits have yet been set for Annex II countries.

5.6 Environmental quality: urban environment, waste management and industrial pollution

The rapid growth of the urban population has created considerable environmental stress, along with health risks for the poorer sections of society, particularly in the lower income countries. Municipal and industrial effluents are often discharged into watercourses without treatment. In peri-urban areas of, for example, Syria, Egypt, and the Palestinian territories, much of the drainage is in open sewers.

Poor land use planning controls result in close proximity between residential and industrial areas, creating further health and safety risks. In many places small scale industrial activities occur within residential areas, and even within residential buildings. In the Palestinian territories catastrophic loss of life has occurred from explosion of gas-lighter-filling facilities located in multi-storey residential blocks.

Proper waste disposal is largely lacking in many parts of the region, especially in rural areas and the poorer areas of major cities. Waste is often left in unsanitary dumps that are home to disease carriers and vermin. Combustion of waste, deliberate or spontaneous, creates noxious and polluting smoke. Industrial hazardous waste is rarely treated adequately (only Israel has a comprehensive waste management system), although it is recognized as a major threat to human health. Co-disposal of industrial and hazardous waste materials with municipal wastes compound the environmental health hazard.

5.7 Capacity to manage natural resources and environmental quality

Partner countries, with the exception of Israel, do not have complete and fully effective mechanisms for environmental enforcement. Problems include:

- Poorly written laws or laws that contradict one another;
- Overlapping enforcement jurisdictions between national agencies;
- Lack of clarity between enforcement responsibilities at the national and local levels;
- Unreasonable penalties and fines (high and low) for non-compliance;
- Inadequately trained enforcement officials;
- Ill-equipped testing facilities and limited data reliability;
- Inadequate monitoring systems.

There are also organisational and institutional weaknesses in almost all partner administrations. Common problems that apply to most of the countries include:

- Environmental institutions tend not to have the technical background and human capacity necessary to carry out their functions.
- There is often poor communication and coordination between line ministries and government agencies with environmental responsibilities.
- Environmental officers often have difficulty appreciating and assessing the economic costs and benefits of environmental protection, as much as sector ministry officials have difficulty in appreciating the costs that economic activities might impose on the environment.
- There is poor communication and coordination between national ministries, local governments, and community level representatives.
- Public participation, essential to attaining meaningful compliance with many environmental regulations, is partial and tends to take place through informal traditional structures.
- NGOs, particularly those that help to reach and mobilise poor and marginalised groups, are viewed with suspicion and their activities are often tightly controlled. This hampers management of the distributional effects of instruments used to protect environmental resources.

The close links between political power and the ownership of companies and resources lends considerable importance to the role of the private sector in environmental policy and management. Large industries that are internationally based have made important contributions to increasing the sustainability of environmental management, motivated by a combination of international corporate responsibility and cost saving. Other industries that are less subject to international consumer pressure, and whose principal environmental costs are external rather than internal, have been less progressive.

6. Institutions and Technical Capacities of Mediterranean Partner Countries

In order to take full advantage of the potential benefits of the EMFTA and to avoid or minimise adverse impacts, partner countries need to be able to respond quickly to changing economic, social and environmental conditions, and successfully implement appropriate domestic policies. Relevant institutions in the region exhibit a number of weaknesses in this respect, and technical capacity is often limited. In assessing potential impacts and identifying appropriate mitigation or enhancement measures, the SIA needs to take this into account.

The SIA methodology defined in the Phase 1 report for the project identified two core process indicators related to institutional and technical capacity. These are: adherence to sustainable development principles; effectiveness of sustainable development strategies. A number of shortcomings have been identified in this report which have potentially adverse effects on both these indicators. These are summarised below, along with other observations from the literature and from consultation on the SIA. These shortcomings do not apply to all countries, but are fairly typical in the region, and will influence the design of mitigation and enhancement measures and the provision of appropriate development assistance within the Barcelona process.

Governance institutions

- Parliamentary institutions are weak in supervising the executive and ensuring accountability, transparency and the rule of law.
- Political parties are weak.
- Continuity is limited in formulating, implementing and monitoring development policies, with frequent changes in governments and officials.
- Litigation procedures are cumbersome with a lack of judicial efficiency and certainty.
- Local government has limited authority, with decision-making power and resources highly centralised.

Social and civil society institutions

- Activities of NGOs are often tightly controlled.
- Public participation in development decision-making is only partial.
- There is a lack of parliamentary networks, journalism networks, political party networks, city partnerships and media-civil society links, with only limited linkage between southern and northern Mediterranean institutions.
- High unemployment, particularly youth unemployment.
- Although female education is fairly strong, women's involvement in politics and public life is weak. This is strengthening across the region, with specific NGOs targeting the involvement of women in politics and the judicial system.
- There is a lack of behavioural and social research regarding HIV/AIDS, limiting the effectiveness of prevention programmes.

Environmental institutions

- Bilateral and regional agreements on allocation of water resources are inadequate for sustainable abstraction.
- Poor land use planning controls, poor traffic management.
- Lack of capacity to manage natural resources and environmental quality.
- Insufficient sewage treatment and waste disposal capacity, and inadequate management of hazardous waste.
- Limited regulatory capacity and enforcement mechanisms for environmental protection.
- Contradictory environmental laws, overlapping enforcement jurisdictions, poor communication and coordination between national ministries and local governments.

- Lack of clarity of enforcement responsibilities, unsystematic penalties and fines for non-compliance, inadequately educated and trained officials, ill-equipped testing facilities, limited data reliability, inadequate monitoring systems.
- Environmental management insufficiently grounded in economic costs and benefits of protection.

Technical and educational capacity for economic development

- The capacity of scientific and technical institutions is low. R&D expenditure is low, and dominated by the public sector. Few patents are granted, and few scientific and technical articles are published.
- Weak intellectual property rights regimes.
- Lack of training in skills for productivity growth, with poor quality data on the needs at firm and sectoral level.
- Poor coordination between the private sector and educational institutions in the provision of vocational training.
- Slow progress in introducing business development centres, incubators, technology parks and venture capital funds.

Regulatory capacity for economic development

- Cumbersome regulation of market entry and exit.
- Cumbersome regulation for registration of businesses and property.
- Slow pace of economic reforms on taxation, privatisation, and reductions in state subsidies.
- Inflexible labour regulation
- Inadequate competences to assess anti-competitive behaviour and enforce competition laws.
- Cumbersome and non-transparent customs regulations and procedures.
- Lack of infrastructure and capacity for conformity assessment, accreditation, and implementation of environmental, health and safety standards under TBT and SPS.

Financial capacity for economic development

- Non-bank financial markets remain underdeveloped.
- Limited transparency and disclosure policies for investor protection.
- Slow pace of financial sector reform, with limited implementation capacity and skills.
- Limited efforts to attract investment to leading sectors that can drive growth.
- Difficult access to finance for small enterprises.

Physical capacity for economic development

- Relatively costly transport facilities
- Limited transport infrastructure.
- Inefficient management of ports, airports, airlines and railways
- Variable quality of information and communication technology infrastructure.

7. Problem Tree Analysis

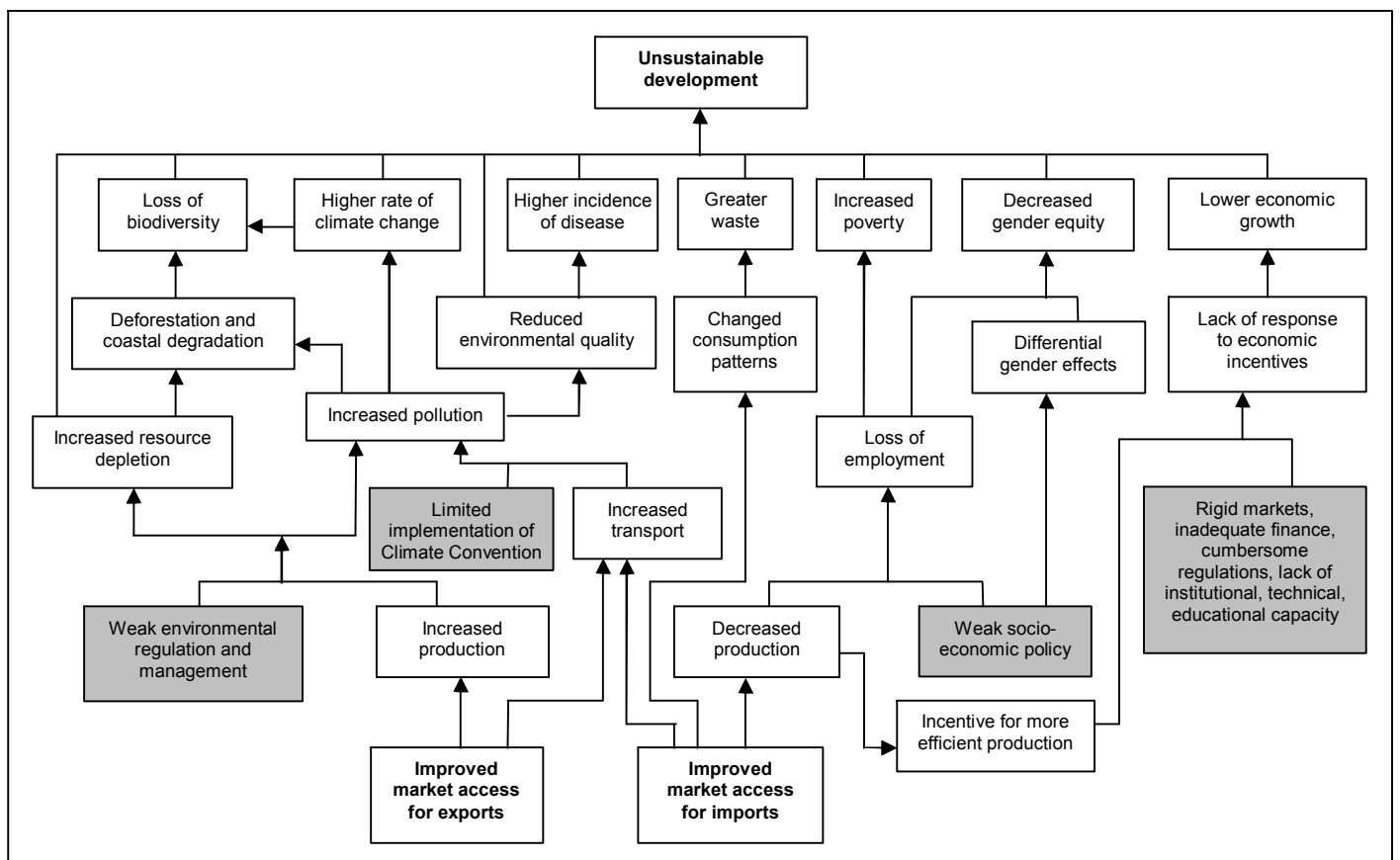
The aim of the SIA study is to assess the impacts on sustainable development which may arise from trade liberalisation through the EMFTA, in comparison with the baseline scenario described in this report. The analysis will include the evaluation of cause and effect relationships between trade integration and sustainable development at the regional level, and will identify priorities for more detailed investigation in Phase 3 of the study.

The causal relationships which will be examined are highly complex. Interactions occur between effects at global, regional, national and local levels, and there are significant variations between countries and sub-regions within countries. Both positive and negative impacts may result, for each of the economic, social and environmental components of sustainable development. Potential gains of the EMFTA may not be realised if effective action is not taken to address problem areas.

The chart below represents a highly simplified problem tree analysis of those effects which are potentially negative. The shaded boxes indicate areas where parallel measures may be needed, in order to avoid or reduce adverse effects and enable positive outcomes.

The causal chain analysis of the SIA will evaluate these types of relationship in greater depth, and assess the significance of the potential impacts associated with them.

Trade liberalisation and sustainable development: problem tree analysis



8. Workplan for Next Steps

The workplan for the remainder of Phase 2 of the project, and for the subsequent Phase 3, remains as described in the Final Report for Phase 1.

In parallel with the development of the baseline for the study, proposals are being drawn up for the trade liberalisation scenarios that will be assessed at regional level in the final stage of Phase 2, and in more detail for priority issues in Phase 3. These proposals will be published in a separate report. Consultation will take place on both the Baseline report and the Scenario report, before being finalised for use in the remainder of the SIA.

The final report for Phase 2 will present the results of the initial overview assessment of potential impacts in the region. Following consultation on the findings, the report will be available by September 2005, for use in the preparations for the forthcoming Ministerial meeting of the Euro-Mediterranean Partnership, to take place in Barcelona in November 2005.

Comments and suggestions on the baseline proposals made in this report, and on all other aspects of the SIA, are invited through the project e-mail address:

sia-emfta@man.ac.uk

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Annex 1. Statistical data

General economic data (from Table 1)

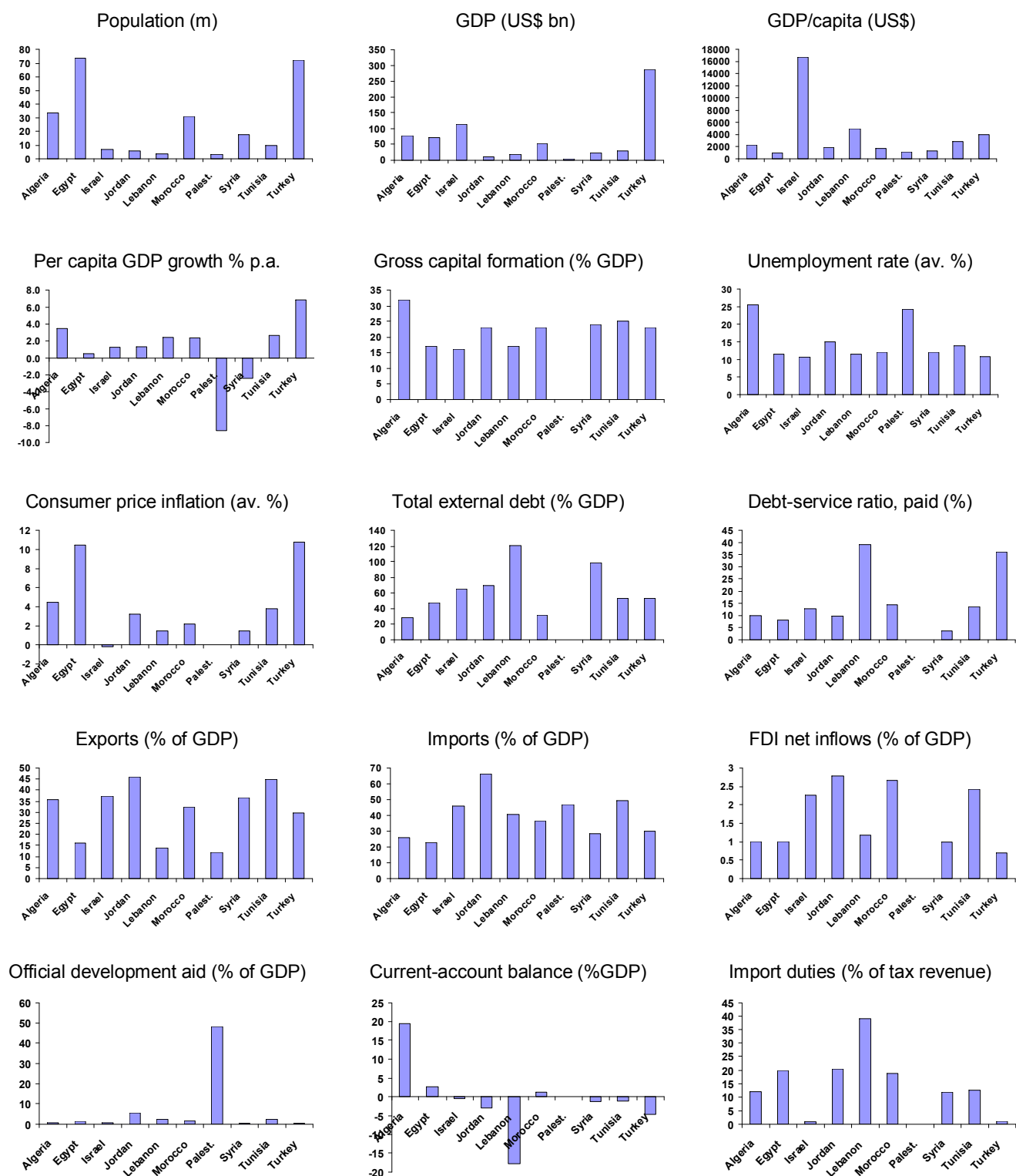


Table 1. General economic data

	Algeria	Egypt	Israel	Jordan	Lebanon	Morocco	Palest. Auth.	Syria ¹	Tunisia	Turkey
Population (m) 2004	33.4	73.3	6.8	5.6	3.7	31.1	3.4	17.8	9.9	72.30
GDP (US\$ bn) 2004	76.8	71.9	114.1	10.8	18.1	52.4	3.7	22.1	28	287.8
GDP/capita (US\$) 2004	2299	981	16779	1929	4892	1685	1110	1242	2828	3981
Real GDP growth (annual %) 2004	6.1	2.7	3.6	5.1	3.5	4.4	-5.2	0.6	4.7	9.0
Per capita GDP growth (annual %) 2004	3.5	0.5	1.3	1.4	2.5	2.4	-8.6	-2.4	2.6	6.9
Gross capital formation (% GDP) 2003	32	17	16	23	17	23		24	25	23
Unemployment rate (av. %) 2004	25.4	11.5	10.6	15.0 ¹	11.5 ²	12.1	24.3 ¹	12.0	14.0	10.8
Consumer price inflation (av. %) 2004	4.5	10.5	-0.2	3.2	1.5	2.2		1.5	3.8	10.8
Total external debt (% GDP) 2004	28.6	47.0	65.4	69.4	120.4	31.7		98.2	53.2	52.7
Debt-service ratio, paid (%)2004	9.9	8.1	12.7	9.7	39.2	14.5		3.6	13.5	36
Exports of goods and services (% of GDP) 2002	35.8	16.1	37.2	46.0	13.9	32.3	12.0	36.7	44.8	29.7
Imports of goods and services (% of GDP) 2002	26.0	22.7	45.8	66.5	40.9	36.7	47.0	28.3	49.1	30.0
Official development aid (% of GDP) 2002	0.6	1.4	0.7	5.7	2.6	1.8	48.0	0.4	2.3	0.3
Remittances (% of GDP) 1998-2000	1.9	4.2		20.6		5.8	22.0	3.0	3.6	2.5
Current-account balance (% GDP) 2004	19.4	2.6	-0.5	-3.0	-17.7	1.2		-1.2	-1.1	-4.7
Import duties (% of tax revenue)1997-2001	12.1	19.9	0.7	20.4	39.0	18.8		11.7	12.5	1.1
FDI net inflows (% of GDP) 1995-2002	1.02	1.01	2.27	2.79	1.18	2.66		0.99	2.42	0.69
R%D expenditure (% GDP) 2004		0.2	5.0	6.3				0.2	0.5	
Scientific/technical articles / m capita 2004	5.4	19.1	820.4	43.0	23.4	13.7	-	3.5	25.1	-

¹2003, ² unofficial estimate

Sources: Economist Intelligence Unit Country Reports, Oct – Dec 2004, World Bank 2005 World Development Indicators, World Bank 2004 World Development Report, World Bank 2003 World Development Indicators, EC (2005), UNDP Human Development Report 2004, World Bank (2003) Trade, Investment and Development in the Middle East and North Africa

Table 2. Distribution of gross domestic product

	Origins of GDP	% of total	Components of GDP	% of total
Algeria	Industry	52.7	Private consumption	41.2
2002	Services	37.3	Exports of goods & services	38.8
	Agriculture	10.0	Fixed investment	23.8
	Manufacturing	7.9	Public consumption	14.8
			Change in stocks	6.0
			Imports of goods & services	-24.6
			Net exports	14.2
Egypt	Trade, finance & insurance	22.4	Private consumption	75.0
2001/2	Industry & mining	20.1	Gross fixed capital formation	18.2
	Social services	18.8	Exports of goods & services	15.8
	Agriculture	16.6	Government consumption	10.1
	Transportation & the Suez Canal	9.2	Changes in stocks	0.4
	Petroleum & electricity	6.7	Imports of goods & services	-19.6
			Net exports	-3.8
Israel	Services	59.8	Private consumption	58.8
2003	Industry	34.8	Exports of goods & services	38.4
	Manufacturing	23.9	Government consumption	30.2
	Agriculture	2.6	Gross domestic investment	17.6
			Imports of goods & services	-44.3
			Net exports	-5.9
Jordan	Services	71.2	Government consumption	23.0
2002	Manufacturing	16.0	Fixed investment	19.3
	Construction	4.4	Stockbuilding	0.8
	Mining	3.3	Private consumption	77.6
	Agriculture	2.3	Exports of goods & services	45.3
			Imports of goods & services	-66.0
			Net exports	-20.7
Lebanon	Services and trade	64.1	Private consumption	103.5
1997	Manufacturing	13.5	Fixed investment	26.3
	Construction	9.4	Government Consumption	10.9
	Agriculture	6.3	Net exports	-40.7
	Transport & communications	5.3		
	Energy and water	1.5		
Morocco	Services	44.4	Private consumption	61.6
2002	Manufacturing	19.8	Exports of goods & services	26.3
	Agriculture, forestry & fishing	18.9	Fixed investment	22.1
	Energy & water	8.5	Government consumption	19.8
	Building & public works	6.0	Changes in stocks	0.3
	Mining	2.4	Imports of goods & services	-30.2
			Net exports	-3.9
Palestinian territories	Agricultural produce	5.5	Exports of goods & services	15.0
			Imports of goods & services	-85.0

			Net exports	-70
Syria	Agriculture	25.9	Private consumption	63.6
2001	Mining, manufacturing, electricity & water	27.0	Exports of goods & services	39.9
	Wholesale & retail trade	15.6	Fixed investment	16.6
	Transport & communications	12.7	Government consumption	11.5
	Government services	10.0	Imports of goods & services	-31.4
			Net exports	8.5
Tunisia	Services	53.9	Private consumption	62.7
2003	Manufacturing	20.6	Exports of goods & services	45.9
	Agriculture & fisheries	13.9	Gross fixed investment	24.4
	Construction	5.5	Public consumption	15.9
	Electricity, gas & water	5.2	Change in stocks	-0.6
	Other	0.8	Imports of goods & services	-48.2
			Net exports	-2.3
Turkey	Services	57.9	Private consumption	66.6
2003	Industry (excl construction)	26.8	Exports of goods & services	27.4
	Agriculture, forestry & fishing	11.8	Gross fixed investment	15.5
	Construction	3.5	Government consumption	13.6
			Stockbuilding	7.3
			Imports of goods & services	-30.7
			Net exports	-3.3

Principal sources: Economist Intelligence Unit Country Reports, Oct – Dec 2004

Table 3. Principal imports, exports and other foreign earnings

	Principal exports	US\$ m	Principal imports	US\$ m
Algeria	Crude oil	11,848		
2003	Natural gas	6,105	Capital goods	5,027
	Condensate	4,181	Food	2,729
	Refined products	3,337	Semi-finished goods	2,442
	Liquid Petroleum Gas	2,625	Consumer goods	2,226
	Tourism receipts ¹	20		
	Remittances ¹	934		
	Official development aid ²	461		
Egypt	Petroleum & products	3,161	Semi-processed goods	4,396
2002/3	Cotton yarn, textiles & garments	691	Capital goods	3,179
	Aluminium, iron & steel	365	Consumer goods	2,593
	Pharmaceuticals	130	Petroleum & products	2,313
	Agricultural products	117	Raw materials (excluding petroleum)	1,308
	Tourism receipts ¹	3,600		
	Remittances ¹	3,746		
	Official development aid ²	1,007		
Israel	Polished diamonds (gross)	8,991	Diamonds (gross)	7,728
2003	Electronic communication, medical & scientific equip	4,575	Machinery & equipment	4,399
	Chemicals & chemical products (excl refining)	4,454	Fuel	3,699
	Electronic components & computers	2,192	Chemicals & chemical products (excl refining)	2,320
	Tourism receipts			
	Remittances			
	Official development aid ²	799		
Jordan	Manufactured goods	224	Machinery & transport equipment	1,255
2002	Potash	192	Manufactured goods	972
	Agricultural products	143	Food & live animals	691
	Machinery & transport equipment	142		
	Phosphates	135		
	Tourism receipts ¹	800		
	Remittances ¹	1,684		
	Official development aid ²	616		
Lebanon³	Jewellery	287	Mineral products	2,068
2004	Machinery	273	Machinery	1,109
	Base metals	227	Vehicles	843
	Chemicals	149	Chemical products	828
	Foodstuffs	148	Base metals	596
	Mineral products	107	Foodstuffs	526
	Tourism receipts ¹	900	Jewellery	526
	Remittances	large ⁵		
	Official development aid ²	471		
Morocco	Textiles	2,003	Consumer goods	3,547
2003	Electric components	597	Semi-finished goods	3,381

	Phosphoric acid	565	Capital goods	3,275
	Phosphate rock	421	Fuel & lubricants	2,304
	Citrus fruits	247	Food, drink & tobacco	1,267
	Tourism receipts ¹	1,900		
	Remittances ¹	2,037		
	Official development aid ²	943		
Palestinian territories				
	Remittances ⁴	814		
	Official development aid ²	1,776		
Syria	Crude oil	3,169	Machinery & transport equipment	863
2000	Fruit & vegetables	259	Food & livestock	742
	Textiles	317	Metal & metal products	615
	Cotton	196	Chemicals & chemical products	397
	Tourism receipts ¹	1,000		
	Remittances ¹	482		
	Official development aid ²	88		
Tunisia	Textiles	3,304	Textiles	2,288
2003	Electrical equipment	931	Machinery	1,423
	Petroleum & derivatives	801	Electrical equipment	1,312
	Leather & hide products	488	Petroleum & products	1,131
	Olive oil	89	Vehicles, cycles & tractors	727
	Tourism receipts ¹	1,500		
	Remittances ¹	727		
	Official development aid ²	644		
Turkey	Textiles & clothing	14,257	Machinery & equipment	15,790
2003	Motor vehicles & parts	5,245	Crude oil & gas	11,398
	Metals	5,062	Metals	6,792
	Agricultural products	3,954	Chemicals & products	5,549
	Food & beverages	1,789	Motor vehicles & parts	5,369
	Tourism receipts ¹	6,700		
	Remittances ¹	4,815		
	Official development aid ²	863		

¹ 1998-2000, World Bank 2003, Trade, Investment and Development in the Middle East and North Africa

² 2002, from Table 1

³ Ministry of Economy and Trade, Lebanon, <http://www.economy.gov.lb/MOET/English/Panel/Statistics/Trade.htm>

⁴ derived from World Bank 2002, MENA Social and Economic Development Group Working Paper 29

Other data: Economist Intelligence Unit Country Reports, Oct – Dec 2004

⁵ Little data are available on Lebanese transfers from the rest of the world. The national accounts for 1997 report that Lebanese gross disposable income was 20% larger than GDP. Ministry of Economy and Trade 2003.

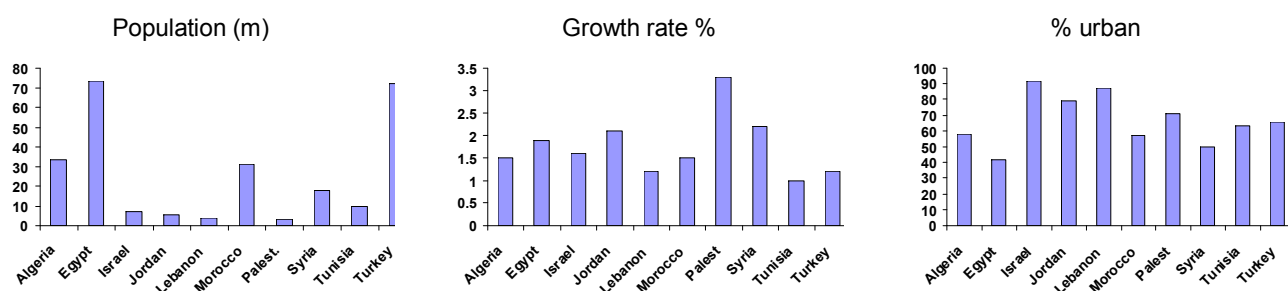
Table 4. Main trading partners

	Main destinations of exports	% of total	Main origins of imports	% of total
Algeria	Italy	18.9	France	32.9
2003	US	17.9	Italy	10.2
	France	13.2	Spain	6.5
	Spain	10.9	Germany	6.1

Egypt	US	13.7	US	13.5
2003	Italy	12.6	Germany	7.6
	UK	8.1	Italy	6.9
	France	4.8	France	6.5
Israel	US	42.4	US	22.4
2003	Belgium	6.1	Germany	8.9
	UK	4.7	Belgium	8.4
	Germany	4.4	UK	7.3
	Netherlands	3.7	Switzerland	7.2
Jordan	US	20.8	Iraq	15.8
2003	Iraq	19.9	US	9.7
	India	9.1	Germany	9.2
	Saudi Arabia	5.3	China	9.2
Lebanon	UAE	10.2	France	13.3
2003	Switzerland	9.2	Italy	10.7
	Saudi Arabia	7.7	Germany	10.2
	US	7.5	Syria	5.3
Morocco	France	26.1	France	21.2
2003	Spain	16.4	Spain	13.6
	UK	7.0	Italy	6.7
	Germany	5.4	Germany	6.5
Palestinian territories				
Syria	Germany	23.6	Germany	10.9
2003	Italy	15.3	Italy	10.8
	Turkey	10.8	China	9.7
	United Arab Emirates (% share)	9.2	France	9.0
Tunisia	France	35.6	France	31.2
2003	Italy	22.8	Italy	23.4
	Germany	12.0	Germany	10.0
	Libya	5.4	Spain	6.0
Turkey	Germany	15.9	Germany	13.7
2003	US	8.0	Italy	7.9
	UK	7.8	Russia	7.9
	Italy	6.8	France	6.0
	France	6.0	UK	5.1
	Russia	2.9	US	5.0
	EU	51.9	EU	45.8

Principal sources: Economist Intelligence Unit Country Reports, Oct – Dec 2004

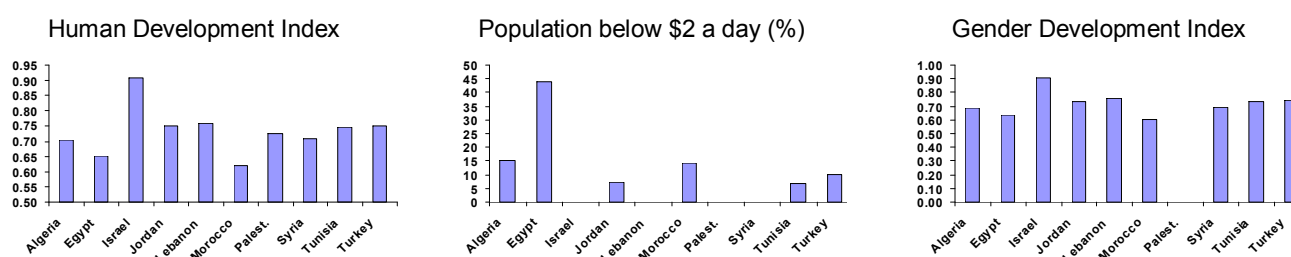
Table 5. Population data



	Algeria	Egypt	Israel	Jordan	Lebanon	Morocco	Palest	Syria	Tunisia	Turkey
population (m)										
1975	16.0	39.3	3.4	1.9	2.8	17.3	1.3	7.5	5.7	41.0
2002	31.3	70.5	6.3	5.3	3.6	30.1	3.4	17.4	9.7	70.3
2015	38.1	90.0	7.8	7.0	4.2	36.5	5.3	23.0	11.1	82.1
growth %										
1975-2002	2.5	2.2	2.3	3.7	1.0	2.0	3.7	3.1	2.0	2.0
2002-15	1.5	1.9	1.6	2.1	1.2	1.5	3.3	2.2	1.0	1.2
urban %										
1975	40.3	43.5	86.6	57.8	67.0	37.8	59.6	45.1	49.9	41.6
2002	58.3	42.1	91.6	78.9	87.2	56.8	70.8	50.1	63.4	65.8
2015	65.3	44.9	92.4	81.1	90.1	64.8	75.6	52.4	68.1	71.9
under 15 %										
2002	33.5	35.2	27.9	38.0	29.6	31.8	46.1	38.3	28.5	30.7
2015	27.4	31.7	24.8	31.6	24.0	27.9	42.1	32.2	22.6	25.0
65+ %										
2002	4.2	4.6	9.9	3.0	6.2	4.4	3.4	3.0	5.9	5.7
2015	4.9	5.4	11.4	4.0	6.5	5.1	3.0	3.6	6.7	6.7
fertility rate										
1970-75	7.4	5.7	3.8	7.8	4.9	6.9	7.7	7.5	6.2	5.2
2000-05	2.8	3.3	2.7	3.6	2.2	2.7	5.6	3.3	2.0	2.4

Source: UNDP Human Development Report 2004, UNDP New York

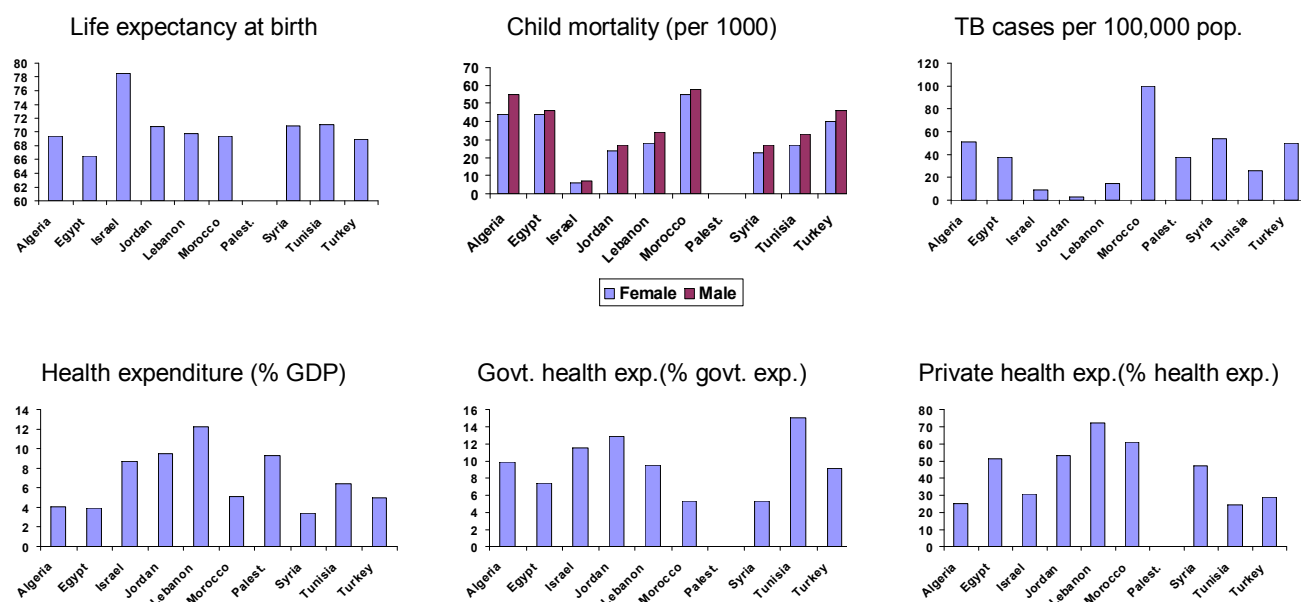
Table 6. Social indicators



	Algeria	Egypt	Israel	Jordan	Lebanon	Morocco	Palest.	Syria	Tunisia	Turkey
Human Development Index	0.70	0.65	0.91	0.75	0.76	0.62	0.73	0.71	0.75	0.75
Human Poverty Index	21.9	30.9		7.2	9.5	34.5		13.7	19.2	12.0
Gini index	35.3	34.4	35.5	36.4		39.5			39.8	40.0
Income share poorest 10% (%)	2.8	3.7	2.4	3.3		2.6			2.3	2.3
Population below \$1 a day (%)	1.5	3.1		1.5		1.5			1.5	1.5
Population below \$2 a day (%)	15.1	43.9		7.4		14.3	60 ¹		6.6	10.3
Gender Development Index	0.69	0.63	0.91	0.73	0.76	0.60		0.69	0.73	0.75

Source: UNDP Human Development Report 2004, UNDP New York. ¹EC NP Country Report (2004)

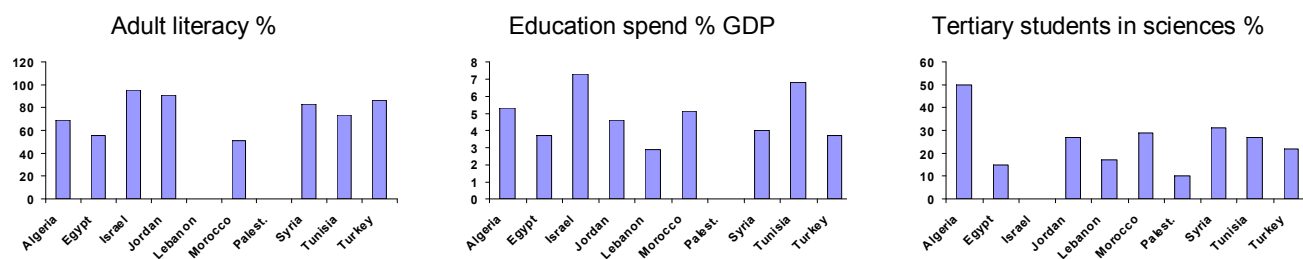
Table 7. Health indicators



	Algeria	Egypt	Israel	Jordan	Lebanon	Morocco	Palest.	Syria	Tunisia	Turkey
Adult mortality (per 1000) females	129	160	55	122	140	105		129	117	118
Adult mortality (per 1000) males	164	230	115	193	204	162		192	174	206
Child mortality (per 1000) females	44	44	6	24	28	55		23	27	40
Child mortality (per 1000) males	55	46	7	27	34	58		27	33	46
Annual population growth rate (%)	1.9	1.9	2.9	3.9	2.5	1.9	2.4	2.7	1.4	1.6
Dependency ratio (per 100)	62	64	61	75	58	62	97	76	53	57
Percentage of population aged 60+ years	6.0	6.3	13.1	4.6	8.5	6.4		4.7	8.4	8.2
Life expectancy at birth (years) total population	69.4	66.5	78.5	70.8	69.8	69.4		70.9	71.1	69.0
Maternal mortality per 100,000 births	140	84	17	41	150	220	100	160	120	70
TB cases per 100,000 pop.	51	38	9	3	15	100	38	54	26	50
General government expenditure on health as % of total general government expenditure	9.9	7.4	11.5	12.8	9.5	5.3		5.3	15.1	9.1
Private expenditure on health as % of total expenditure on health	25.0	51.1	30.8	53.0	71.9	60.7		46.9	24.3	29.0
Social security expenditure on health as % of general government expenditure on health	37.4	29.7	37.1	0.7	50.6	5.8		0	53.4	28.6
Total expenditure on health as % of GDP	4.1	3.9	8.7	9.5	12.2	5.1	9.3	3.4	6.4	5.0

Source: Based on WHO data (2001 except for Palestinian territories, 2003), http://www3.who.int/whosis/core/core_process.cfm, UNDP (2004)

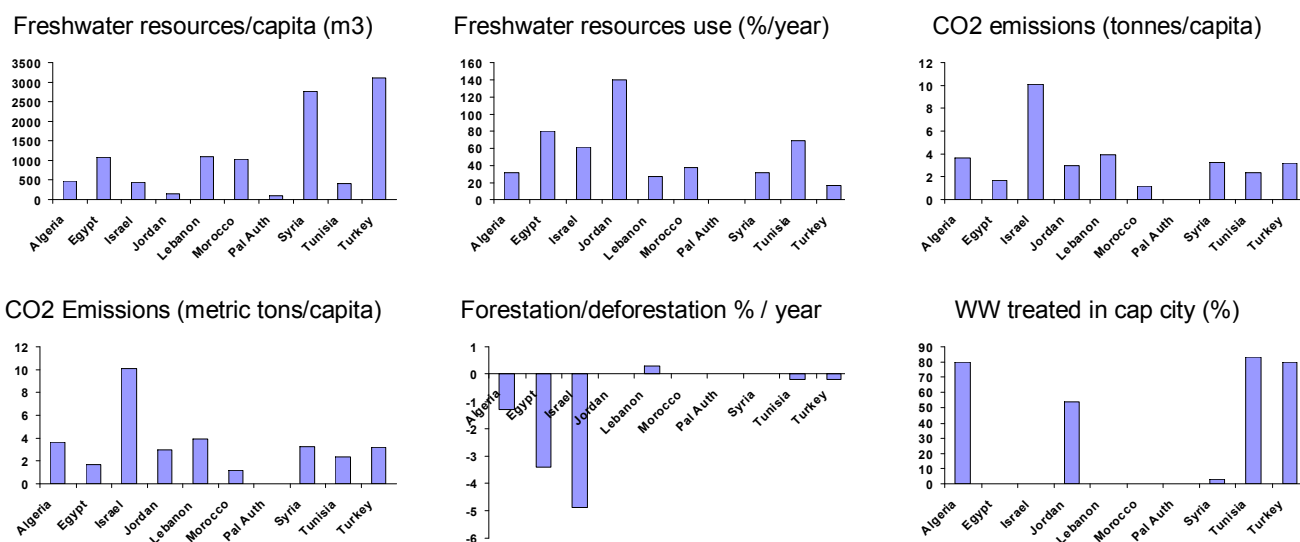
Table 8. Education indicators



	Algeria	Egypt	Israel	Jordan	Lebanon	Morocco	Palest.	Syria	Tunisia	Turkey
Adult literacy %	68.9	55.6	95.3	90.9		50.7		82.9	73.2	86.5
Primary enrolment %	95	90	100	91	90	88	95	98	97	88.0
Secondary enrolment %	62	81	89	80		31	81	39	68	
Education spend % GDP	5.3	3.7	7.3	4.6	2.9	5.1		4	6.8	3.7
Tertiary students in sciences %	50	15		27	17	29	10	31	27	22

Source: UNDP Human Development Report 2004, UNDP New York

Table 9. Environmental indicators



	Source	Algeria	Egypt	Israel	Jordan	Lebanon	Morocco	Palest.	Syria	Tunisia	Turkey
Freshwater resources per capita (m3)	1	470	1,071	449	143	1,109	1,045	100	2,761	408	3,118
Freshwater use (% of resources/year)	1	32	80	61	140	27	37	....	32	69	17
CO2 Emissions (metric tons/capita) 1998	1	3.6	1.7	10.1	3.0	3.9	1.2	....	3.3	2.4	3.2
Kyoto Ratification (2)	2	No	Yes	Yes	Accept	No	Accept	....	No	Accept	No
Water Scarcity Occurred in/Occurs by: (3)	3	1990	2025	1990	1955	....	2025	....	2025	1990	....
Forests (% land area) (4)	4	0.9	0.1	6.4	1.0	3.5	6.8	...	2.5	3.3	13.3
Protected Areas (% of land area)	4	0.04	0.08	0.05	...	0.05	0.06	3.00	...	0.11	0.61
Deforestation % / year 1990-2000	1	-1.3	-3.4	-4.9	...	0.3	0.0	...	...	-0.2	-0.2
Agric Share of GNP	5	10	16.6	2.6	2.3	11.9	18.9	5.5	25.9	13.9	11.8
Agric Share of Water	4	60	86	64	75	68	92	60	94	89.0	72
Urban 1980 % WDI 2002	1	44	44	89	60	74	41	...	47	52	44
Urban 2000 % WDI 2002	1	60	45	91	74	90	56	...	55	66	75
WW Treated in Cap City '98 (%)	1	80	..	....	54	....	....	....	3	83	80
Length of Coasts (km)	4	1200	950	160	27	225	512	83	183	1300	5191

Sources: 1) World Development Indicators 2002, the World Bank; 2) United Nations Framework Convention on Climate Change Website, Kyoto Protocol Status of Ratification, 2 February 2005; 3) Global Environment Outlook 2000, United Nations Environment Programme, 1999; 4) The Short and Medium Term Priority Environmental Action Programme (SMAP), Country Profiles of the 12 Non-EU Mediterranean Partners, European Commission, 2002; 5) Economist Intelligence Unit Country Reports, Oct – Dec 2004

Annex 2. Baseline Trends for the Millennium Development Goal Indicators

Goal	Target and indicators	Northern Africa			Western Asia			Developing countries		High income countries	
		1990-1992	1999-2001	2001-2004	1990-1992	1999-2001	2001-2004	1990-1992	1999-2001	1990-1992	1999-2001
Goal 1. Eradicate extreme poverty and hunger	<i>Target 1: Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day</i>										
	1. Population below \$1 (PPP) per day (%)	2.6	2.0	1.9	1.6	4.2	3.7	29.6	23.2		
	2. Poverty gap ratio [incidence x depth of poverty]	0.5	0.3	0.3	0.4	1.0	0.9	9.5	6.5		
	3. Consumption share of poorest quintile										
	<i>Target 2: Halve, between 1990 and 2015, the proportion of people who suffer from hunger</i>										
	4. Prevalence of underweight children under-five years of age (%)	10		9	11		10	33	28		
Goal 2: Achieve universal primary education	5. Proportion of population below minimum level of dietary energy consumption (%)	5	4		7	10		37 (LDCs)	38 (LDCs)		
	<i>Target 3: Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling</i>										
	6. Net enrolment ratio in primary education (%)	81.7	88.1	91.9	81.0	80.2	82.9	79.8	82.1		
	7. Primary completion rate (%)	83.9	85.6		77.2	76.1					
Goal 3: Promote gender equality and empower women	8. Literacy rate of 15-24 year-olds (%)	66.3		78.5	80.1		85.6	81.1	84.4		
	<i>Target 4: Eliminate gender disparity in primary and secondary education, preferably by 2005, and in all levels of education no later than 2015</i>										
	9. Ratios of girls to boys in primary, secondary and tertiary education										
	primary	0.82	0.90	0.93	0.83	0.87	0.89	0.83	0.87	0.99	1.00
	secondary	0.94		0.96	0.76		0.79	0.72	0.82	1.01	1.02
	tertiary	0.52	0.72		0.66	1.10		0.66	0.75		
	10. Ratio of literate women to men, 15-24 years old	0.73		0.86	0.81		0.89	0.89	0.91	1.00	1.00
11. Share of women in wage employment in the non-agricultural sector (%)	18.9		20.5	17.8		19.2	41.6	44.0	43.1	46.1	
Goal 4: Reduce child mortality	12. Proportion of seats held by women in national parliament (%)	2.6	1.8	6.7	4.6	3.0	4.9	11.5	11.9	13.2	16.5
	<i>Target 5: Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate</i>										
	13. Under-five mortality rate per 1000 live births	87		41	68		61	102	90	11	8
	14. Infant mortality rate per 1000 live births	66		34	53		49	70	63	10	6
Goal 5: Improve maternal health	15. Proportion of 1 year-old children immunised against measles (%)	85		93	80		84	72	70	82	92
	<i>Target 6: Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio</i>										
	16. Maternal mortality ratio deaths per 100,000		130			190			440		20

Goal	Target and indicators	Northern Africa			Western Asia			Developing countries		High income countries		
		1990-1992	1999-2001	2001-2004	1990-1992	1999-2001	2001-2004	1990-1992	1999-2001	1990-1992	1999-2001	
	17. Proportion of births attended by skilled health personnel (%)	39	64		59	64		42	52			
Goal 6: Combat HIV/AIDS, malaria and other diseases	<i>Target 7: Have halted by 2015 and begun to reverse the spread of HIV/AIDS</i>											
	18. HIV prevalence (% population age 15-19)		<0.1	<0.1		<0.1	<0.1		1.4		0.5	
	19. Condom use											
	20. School attendance of orphans											
	<i>Target 8: Have halted by 2015 and begun to reverse the incidence of malaria and other major diseases</i>											
	21. Malaria deaths per 100,000 children		47			26			166		0	
	22. Use of malaria measures											
	23. Tuberculosis per 100,000 population											
		cases	55	54	52	85	83	84		144		
		deaths	4	4	4	9	9	9		31		2
Goal 7: Ensure environmental sustainability	24. Tuberculosis cases under DOTS (%)											
		detected	82	79	81	26	26	25	11	33	22	27
		successfully treated		88	85		81	83	77	82	78	73
	<i>Target 9: Integrate the principles of sustainable development into country policies and programmes and reverse the loss of environmental resources</i>											
	25. Proportion of land area covered by forest (%)	1.0	1.0		3.1	3.1			34.2	34.4	25.7	25.9
	26. Ratio of area protected to maintain biological diversity to surface area (%)	3.8	4.1	4.5	4.1	17.9	18.0		8.6	10.5	8.7	11.4
27. Energy use (kg oil equivalent) per \$1000 GDP (PPP)	202		196	268		327		325	249	233	214	
28(a). Carbon dioxide emissions per capita (metric tons)	1.7	2.0 (MPC)		3.0	3.6 (MPC)			1.7	2.0	12.1	11.3	
28(b). Consumption of ozone depleting CFCs								114	90	618	1	
29. Proportion of population using solid fuels (%)	46	40		46	40			75	75			
<i>Target 10: Halve, by 2015, the proportion of people without sustainable access to safe drinking water and basic sanitation</i>												
30. Proportion of population with sustainable access to an improved water source (%)												
	urban	95		96	94		95	92	92	100	100	
	rural	82		84	65		74	60	69	99	94	
31. Proportion of population with access to improved sanitation (%)												
	urban	84		89	96		95	70	77	100	100	
	rural	47		57	52		49	21	35	99	92	
	<i>Target 11: By 2020, to have achieved a significant improvement in the lives of at least 100 million slum dwellers</i>											

Goal	Target and indicators	Northern Africa			Western Asia			Developing countries		High income countries	
		1990-1992	1999-2001	2001-2004	1990-1992	1999-2001	2001-2004	1990-1992	1999-2001	1990-1992	1999-2001
	32. Percentage of urban population living in slums	37.7		28.2	34.4		35.3		43.0	6.0	6.0
Goal 8: Develop a global partnership for development	<i>Target 12. Develop further an open, rule-based, predictable, non-discriminatory trading and financial system Includes: a commitment to good governance, development, and poverty reduction — both nationally and internationally</i>										
	<i>Target 13. Address the special needs of the least developed countries Includes: tariff and quota free access for the least developed countries' exports; enhanced programme of debt relief for heavily indebted poor countries (HIPC) and cancellation of official bilateral debt; and more generous official development assistance (ODA) for countries committed to poverty reduction</i>										
	<i>Target 14. Address the special needs of landlocked countries and small island developing States (through the Programme of Action for the Sustainable Development of Small Island Developing States and the outcome of the twenty second special session of the General Assembly)</i>										
	<i>Target 15. Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term</i>										
	33. Net ODA, total and to least developed countries, share of OECD/DAC gross national income (all developing countries %)									0.33	0.23
	34. Bilateral, sector-allocable ODA to basic education, primary health care, nutrition, safe water and sanitation (%)									8	17
	35. Untied bilateral ODA of OECD/DAC donors (%)									68	85
	36. ODA received by landlocked countries (% of recipients' GNIs)									6.0	6.4
	37. ODA to small island developing States (% of recipients' GNIs)									2.6	0.9
	38. Developed country imports from developing countries admitted free of duty, excluding arms and oil (% of value)									47	56
	39. Average tariffs imposed by developed countries on agricultural products and textiles and clothing from developing countries (%)										
	Agriculture									10.5	9.9
	Textile									8.1	6.7
	Clothing									12.2	11.5
	40. Support to domestic agriculture by developed countries (%GDP)									1.9	1.2
	41. ODA to build trade capacity (% of recipients' total ODA)										
	Africa										4.4
Asia										3.0	
42. Countries that have reached their HIPC completion point (%)											

Goal	Target and indicators	Northern Africa			Western Asia			Developing countries		High income countries	
		1990-1992	1999-2001	2001-2004	1990-1992	1999-2001	2001-2004	1990-1992	1999-2001	1990-1992	1999-2001
	43. Debt relief committed under HIPC initiative (US\$ b cumulative)									34	41
	44. Debt service as % exports of goods and services of low and middle-income countries							19	18		
	<i>Target 16: In cooperation with developing countries, develop and implement strategies for decent and productive work for youth</i>										
	45(a). Unemployment rate of young people aged 15-24 years (%)	30.7		29.4	19.0		18.7	14.6	12.8	16.7	14.6
	45(b). Ratio of youth unemployment rate to adult unemployment rate	3.2	2.9	3.0	3.4	3.3	3.0			2.4	2.4
	45(c). Share of youth unemployment in total unemployment (%)	51.5	48.8	46.8	55.9	52.3	48.3			30.1	27.6
	<i>Target 17: In cooperation with pharmaceutical companies, provide access to affordable essential drugs in developing countries</i>										
	46. Proportion of population with access to affordable essential drugs on a sustainable basis (%)		83			86					91
	<i>Target 18: In cooperation with the private sector, make available the benefits of new technologies, especially information and communications</i>										
	47. Telephone lines and cellular subscribers per 100 population	2.9		17.0	10.0		42.3	2.4	20.8	45.4	120.8
	48(a). Personal computers in use per 100 population	0.1		1.6	1.2		5.6	0.3	3.2	11.1	44.1
	48(b). Internet users per 100 population	0.0		2.6	0.0		6.3		4.1	0.3	42.9

Derived from: UN (2002, 2003, 2004) Implementation of the United Nations Millennium Declaration: Report of the Secretary General, A/57/270, A/58/323, A/59/282, A/59/282
 Corr.1; CO₂ data from World Bank (2004) World Development Indicators
 Note: date of data varies in the range shown at the top of each column

Annex 3. Country Characteristics

Algeria

Economic indicators

Real income		Fixed capital formation		Employment	
GDP (US\$ bn)	76.8	Gross capital formation (% GDP)	32	Unemployment (%)	25.4
GDP/capita (US\$)	2299	FDI net inflows (% of GDP)	1.02		
Real GDP growth (annual %)	6.1	R%D expenditure (% GDP)	no data		
Per capita GDP growth (annual %)	3.5	Technical articles / m capita	5.4		

Source: Annex 1, Table 1. Data primarily 2004.

Economic development

Algeria's economy is based heavily on oil. Crude oil production is increasing, with an increasing contribution from natural gas, with further increases planned. The government expects crude oil production capacity to rise from 1.4m b/d at the end of 2004 to 2m b/d by 2010. LNG and gas pipeline exports are expected to reach 95bn cu metres/year by 2010, from 65bn cu metres/y in 2003. It is planned to build a trans-Saharan gas pipeline to allow Nigerian natural gas to be exported through Algeria into Europe. Algeria and Nigeria currently rank second and seventh in global LNG production.

Official Development Aid (ODA) and remittances remain significant, although as a proportion of GDP they are lower than in many of the other partner countries.

The government has recently increased its spending on infrastructure projects, including roads, housing, power and water. Electricity production is being expanded with a new power station due to come on stream in 2006. Telecommunications are being modernised with major investments from Kuwait. A telecommunications equipment manufacturing facility is planned, with joint venture investment from China. Other major joint ventures include a vehicle service and manufacturing operation established with Germany, and Kuwaiti investment in a state controlled pharmaceutical company. Other FDI in Algerian manufacturing remains limited, inhibited by a lack of domestic skills and the threat of terrorism.

Unemployment fell significantly in 2004, but remains high, and the government is expected to counter it by creating more public sector jobs. Funding is available from earnings on the country's high foreign assets, as well as from current oil revenues. These have risen significantly with the rise in oil prices.

Economic policy

A long-postponed hydrocarbons bill is expected to be passed, which would liberalise ownership of the oil and gas sector, and progress has been made towards electricity privatisation. There appears to be little government commitment to further privatisations and other economic reforms. Over 95% of total bank assets are in public sector banks, whose lending is largely to loss-making public sector enterprises. Reforms are expected to be slow.

Algeria's oil and gas resources give it a wide range of development options over the next 20 years. Current policies lean towards increasing standards of living through current expenditure from oil revenues. There has been some investment in the development of internationally competitive manufacturing and service industries, but with a lack of strategic development planning.

Trade policy

Algeria expects to join the WTO in 2005, and has started a programme of tariff reductions in line with its EU Association Agreement. This is likely to continue in some form, irrespective of EU ties, in support of WTO membership.

Algeria has not yet joined the Agadir Agreement, but is a member of the Arab Maghreb Union between Algeria, Morocco, Tunisia, Libya and Mauritania. This has achieved little progress, largely due to the dispute between Algeria and Morocco over Western Sahara.

Social issues

Poverty

Despite its high oil wealth, Algeria is the third poorest of the partner countries for the proportion of people living on less than US\$2 per day (15 %), after the Palestinian territories and Egypt. The majority of the poor are in rural areas, where over half the population are poor. Only about 25 percent of the rural poor have landholdings, which are mainly non-irrigated.

Unemployment, at 25 %, is considerably higher than in any of the other partners except for the Palestinian territories. Labour shedding by public enterprises, combined with slow growth of private sector employment, has kept unemployment high.

Education and Health

Primary school enrolment is relatively high at 95%, but for secondary schools it is much lower, at 62%. Adult literacy is higher than in Egypt or Morocco, at just under 70%, but lower than in the other partner countries. Illiteracy is highest for rural women (46%) followed by urban women (29%), rural men (22%) and urban men (13%).

The rural poor, particularly women, face widening disparities in access to health and social services. Infant mortality is the second highest among partner countries after Morocco.

Equity

Many of the country's perceived inequities relate to particular regional groups, with lack of representation and economic power. Significant reforms have been introduced since 1999, including the end of the one-party system and encouraging freedom of the press and freedom of association.

Algerian women have the constitutional right to vote, to be elected, to work, and to be educated. A Ministry for the Family and Women's Affairs was created in 2002, and Algeria has signed the Convention on the Elimination of Discrimination against Women. Significant numbers of women have served as cabinet ministers. New family and nationality codes are promoting greater gender equality. These allow women to request divorce on grounds of incompatibility and establish ages of consent for marriage, and include the removal of guardianship for a woman when she marries.

Secondary school enrolment is lower for the poor and for girls, particularly in rural areas, but the number of girls who drop out of education is lower than that of boys, and women now constitute 54% of university attendance. However, rural areas in particular still suffer from gender-based violence, and from male dominance in the home and workplace.

Environmental issues

Biodiversity: land degradation and deforestation

About two thirds of the usable land area is subject to various forms of land degradation (about 12 million hectares in total), including water and wind erosion and salinity in the irrigated areas. This is exacerbated by ecosystem fragility due to natural and agro-climatic conditions. Slow but steady deforestation (over one million hectares in the past 40 years) continues to be of great concern, and desertification continues to threaten more than 8 million hectares of rangelands, with the associated loss of biological diversity.

Environmental quality: urban environment, waste management and industrial pollution

About 8.5 million tons of municipal wastes are generated in Algeria every year, more than 90 percent of which originates in the northern part of the country. Municipalities are responsible for waste management collection. However, most of the waste is presently disposed of in open dumps (a recent survey conducted by the Ministry of Land Use Planning and Environment showed that there are 2,100 illegal dumps nationwide, 360 of which are located in the 40 most important cities).

Much of the population faces serious health hazards. There have been reported outbreaks of disease due to the combined effects of lack of: waste treatment, fresh water, and waste collection and disposal capacity. Emission into the atmosphere of noxious gases and fumes from smouldering landfills has reportedly generated respiratory diseases, and inappropriate handling of waste by municipal staff and illegal scavengers has also led to skin diseases and other ailments. In addition, contamination of surface and groundwater due to improper landfill design and operation has been reported, as well as illegal dumping of waste in wadis and forests.

The past focus on development of publicly owned and operated heavy industries (e.g., chemical and metallurgical), often close to fragile ecosystems and population centres, has created serious risks to environmental quality, human health and the quality of life. The intensive and heavily subsidised use of energy sources such as diesel and leaded gasoline, the lack of enforceable industrial pollution control and the lack of proper management of solid and hazardous waste, are exacerbating factors. Poor vulnerable groups are particularly affected, as well as the country's cultural and archaeological heritage and coastal resources.

Natural resource stocks: water quantity and quality

Coupled with low and highly variable rainfall, the availability of water resources has declined dramatically over the years, reaching barely 400 m³ per capita per year (less than half the indicator of water scarcity: 1000 m³/pc/yr). Water policy, focused almost exclusively on supply management, has allowed a situation to develop where agriculture uses about 90% of mobilised resources, overall water use efficiency is less than 50%, and ground water resources are being rapidly depleted. Furthermore, water quality has been continuously deteriorating, and domestic consumers are faced with severe shortages and low quality of service.

Political situation

The Islamist insurgency from which Algeria has suffered in the past is currently under reasonable control. There are however isolated pockets of violence, particularly in Kabylia, a Berber-speaking region. The situation is likely to remain tense, but can be expected to ease gradually along with tensions in the region as a whole. As part of its campaign to counter fundamentalism, the government has announced proposals to strengthen the rights of women in Algerian law.

Conflict with Morocco over the former Spanish colony of Western Sahara is a major issue for regional integration. Algeria supports the Baker Plan, drawn up for the UN by former US Secretary of State

James Baker, under which a referendum would offer integration with Morocco, autonomy under Moroccan sovereignty, or full independence. The plan has been rejected by Morocco, which insists on maintaining its current sovereignty. French and Spanish efforts to resolve the dispute have yet to achieve significant progress. Closer economic ties between both countries and the EU may ultimately help to generate a compromise agreement, which may for example give some autonomy under Moroccan sovereignty.

Egypt

Economic indicators

Real income		Fixed capital formation		Employment	
GDP (US\$ bn)	71.9	Gross capital formation (% GDP)	17	Unemployment (%)	11.5
GDP/capita (US\$)	981	FDI net inflows (% of GDP)	1.01		
Real GDP growth (annual %)	2.7	R%D expenditure (% GDP)	0.2		
Per capita GDP growth (annual %)	0.5	Technical articles / m capita	19.1		

Source: Annex 1, Table 1. Data primarily 2004.

Economic development

Tourism and oil dominate Egyptian exports, with more limited contributions to export earnings from textiles, aluminium, iron and steel, pharmaceuticals and agricultural products. Crude oil production is now declining, with LNG exports rising. Spanish investors have a major shareholding in the first large LNG plant, with the bulk of the production to be shipped to Spain. Trade and financial services are now the largest part of the domestic economy, at 22%, with industry and minerals at 20% and agriculture 17%.

Remittances and development assistance contribute about 6% of GDP. Investment from Egyptian and overseas investors is continuing to expand tourism capacity, particularly on the Red Sea coast, and the government is promoting a major expansion on the Mediterranean coast. Despite recent terrorist attacks, the number of tourists has been reported to have reached an all time high in 2004, with 8 million visitors. No severe impact is expected from political unrest, but the industry remains vulnerable.

Economic policy

The government has embarked on a programme of economic reforms which include reducing income tax and corporate taxes, privatisation, and reductions in state subsidies. Reductions in the subsidies for fuel, electricity and water have caused considerable public protest. This has led to amendments to maintain support for subsidies targeted at the poor, but has not affected the overall programme of moving gradually towards market prices. The bread subsidy is expected to remain, but the government has announced that it is considering replacing subsidies on other commodities by direct financial support.

An extensive privatisation programme took place in the 1990s, which slowed with less attractive economic conditions after 2001. The programme is expected to be revived, with fewer restrictions in strategic sectors such as pharmaceuticals, flour and tobacco. Government holdings in several joint ventures are also expected to be sold.

The government has announced a plan to reform the banking sector, initially by encouraging consolidation and enforcement of minimum paid-up capital requirements. Several smaller banks are to be taken over by the four large fully state-owned banks, which is expected to strengthen them sufficiently for possible purchase by the private sector. Privatisation of the state-owned insurance industry has been proposed, although no concrete actions have yet been taken.

Trade policy

Following its accession to the WTO and its Association Agreement with the EU, Egypt has embarked on a programme for lowering customs duties and simplifying customs procedures. Non-tariff barriers which have been addressed include removal of anti-dumping tariffs on steel imports. This programme is expected to continue, in line with WTO requirements and any further measures agreed in bilateral and regional arrangements.

In 2004 Egypt signed the Agadir Agreement with Morocco, Jordan and Tunisia. It also signed an agreement with the US and Israel to establish 'Qualifying Industrial Zones' for export to the US of goods with a minimum local and Israeli content. Egypt is also a member of the Greater Arab Free-Trade Area (GAFTA), which came into effect in 2005.

Social issues

Poverty

The proportion of people living on less than US\$2 a day in Egypt is 44%, the highest among partner countries except for the Palestinian territories. In the next highest, Algeria, the figure is only 15%. More than 3% of the population live in absolute poverty, at less than US\$1 a day. Absolute poverty decreased from 1995-2000, but with significant regional differences. From 1995/96 to 1999/2000 the incidence of poverty in Upper Egypt increased from 29% to 34% in rural areas, and from 11% to 19% in urban areas. Measured by UNDP's Human Development Index, Egypt is the second lowest of the partners after Morocco, and one of the lowest as measured by the Human Poverty Index.

The government has addressed poverty through subsidies on food, water and electricity, through welfare and social security programmes organised by Ministry of Insurance and Social Affairs, and funding through the Social Fund for Development. Total social expenditure increased from 19% of the total budget in 1994 to 40% in 2002.

Education and Health

Adult literacy is the lowest among partner countries after Morocco, at 56%. Education has been made a priority, with government spending doubling from 10% of the national budget in 1990/91 to 20% in 2002. Primary enrolment has risen to 90% and secondary enrolment to 81%, overtaking several other partner countries

Health statistics are poor compared with many other partner countries, but have been improving. Expenditure has increased by 7-8% per year in real terms from 1998 to 2002. Health problems still arise from limited access to water and sanitation, particularly in the poor rural areas of Upper Egypt.

Equity

Egypt has been operating under a state of emergency for over 20 years, which limits progress on the development of civil society. NGO activity is tightly controlled by the government, despite legal reforms in 2002.

Implementation of legislation to support women's rights has improved since the International Conference on Population and Development in 1994 and the Beijing Conference in 1995, and laws have been amended to give women greater rights. The first woman judge was appointed in 2003. Some disparities still remain in education, particularly in rural areas, where the illiteracy rate for girls aged 12-15 years (16%) is almost twice that for boys.

Environmental issues

Biodiversity: land degradation and deforestation

Less than 5% of Egypt's total land area is populated and cultivated, the vast majority being inhospitable desert lands. Agriculture is one of the most significant sectors of the Egyptian economy, with over 50% of the population living in rural areas. Almost one third of the total work force are engaged in agricultural activities. Over the past decade, agricultural activities have expanded beyond the traditional 'old lands' of the Valley and Delta regions. Converting former desert lands into productive agricultural areas has however increased water demand markedly. Poor water management of irrigation practices has led to severe salinisation of the soils, particularly in the Delta. In addition to the problems associated with poor irrigation and drainage practices, applications of pesticides and fertilisers have led to a decline in soil quality. However, pesticide use is on the decline since subsidies for its use were recently abolished.

Environmental quality: air quality

Air pollution is a serious problem in the major cities of Egypt, particularly Cairo. One of the major causes is the large concentration of polluting industries in and around the urban residential areas, particularly in the steel, cement fertiliser and chemicals sectors which contribute to high ambient dust levels and SO₂ that may be between 2 and 10 times maximum safe levels. Vehicle exhaust gases also contribute. The concentrations of total suspended particulates in the air in urban centres are generally much higher than the WHO Guideline value and there is high incidence of asthma.

Urban solid waste burning, industrial waste generation, industrial heavy fuel use and diesel fuel consumption in the transport sector are the major sources of particulate air pollution. Agricultural burning also contributes on a seasonal basis. In addition to its health effects, air pollution impacts the cultural heritage by causing damage to priceless monuments.

Environmental quality: urban environment, waste management and industrial pollution

The urban population of Egypt increased from 18 to 29 million between 1980 and 2000. Increased urbanisation and expansion of urban and rural settlements has resulted in the annual loss of between 5,000 and 10,000 hectares of agricultural land.

Solid waste is a growing environmental problem in Egypt. Inefficient collection, storage and disposal of municipal and hazardous wastes results in the spread of disease and localised pollution. A major proportion of the solid wastes generated in the more affluent suburbs of Cairo (where waste contains relatively valuable components) is collected, manually sorted, and efficiently recycled. In the poorer city areas systems for collection and disposal are poorly developed, and often waste accumulates and is just burned on the streets. Solid waste is deposited in open dump-sites close to settlements in desert areas. In the Delta, waste disposal sites are harder to site, as land values are high, and often waste is just dumped into canals or lakes. Even where suitable dump-sites exist, waste disposal is uncontrolled, and often accumulations of waste are set on fire to reduce volumes.

Egypt has difficulty removing and handling of the 20,000 to 50,000 tons of hazardous and clinical wastes from industry and hospitals. These wastes are currently either burned or incinerated, dumped on areas of vacant land or in canals or lakes. The increasing incorporation of hazardous wastes into the general bulk waste stream poses increasing health risks, particularly for waste collection workers and waste pickers.

Recent initiatives to control industrial pollution through increased monitoring and enforcement of standards at industrial facilities have led to overall improvements in the quality of the River Nile.

Natural resource stocks: water resources quantity and quality

The River Nile supplies almost 97% of Egypt's water resources, approximately 55.5 billion cubic metres per annum. Egypt's total renewable groundwater resources are estimated at a fraction of this (about 4.8 BCM). Moreover in the northern part of the Delta, groundwater is brackish and saline due to all the agricultural return water and because of saline intrusion from the coast.

Water resources are being exploited to their maximum with the ceiling levels of extraction from the Nile already reached, and demand is increasing across all sectors including agriculture, industry and for potable supply. Per capita water availability is likely to reduce from the current level of 950m³ per annum to 670m³ per annum by the year 2017. In future, water demand and usage upstream of Egypt may impact water levels in Lake Nasser, and thereby affect water availability in Egypt. Resolution of conflict in Sudan may lead to rapidly increasing water demand in a water stressed country, which is currently using far less than its allocated share of water resources.

Water quality in the River Nile and canals deteriorates in a northward direction due to the disposal of municipal and industrial effluents, agricultural drainage, and by the decreasing flow as the water is diverted for irrigation. Drainage canals are often heavily polluted, and poor water quality leads to increased treatment costs. The major issue for sustainability will be acute water scarcity and declining quality.

Capacity to manage natural resources and environmental quality

The highest policy level for environmental matters in Egypt is the Minister of State for Environmental Affairs (MSEA), who is also head of the Ministry and a member of the Government of Egypt's Cabinet of Ministers. The executive agency is the Egyptian Environmental Affairs Agency which has a mandate to co-ordinate and work through the line ministries. The Agency has a strong focus on decentralised environmental management, and is promoting the establishment of provincial and local capacity

The first National Environmental Action Plan for Egypt was finalised in 1992 and updated in 2002. It highlighted that, "although Egypt has a long history of environmental legislation, compliance is weak because enforcement is not efficient enough. Egypt needs to strengthen the institutional mechanisms necessary for effective environmental management." It also notes that, "Egyptian environmental laws have not been enforced adequately for a number of reasons, including lack of human resources to carry out inspection and enforcement and lack of public awareness regarding the magnitude of the environmental problems and their negative effects."

Political situation

Political stability is expected to be maintained, with continued intolerance of the strongly Islamic opposition. The recent amendment to the constitution to permit multi-party elections represents a step towards political liberalisation, but the pace is expected to be slow.

Recent terrorist attacks in Sinai appear to have been targeted primarily at Israeli tourists. Speculation that the attacks were linked to al-Qaida were subsequently countered by a government report that they were carried out by a group disaffected Sinai Bedouin. More widespread insurgency does not currently seem likely, although tensions can be expected to continue.

Israel

Economic indicators

Real income		Fixed capital formation		Employment	
GDP (US\$ bn)	114.1	Gross capital formation (% GDP)	16	Unemployment (%)	10.6
GDP/capita (US\$)	16779	FDI net inflows (% of GDP)	2.27		
Real GDP growth (annual %)	3.6	R%D expenditure (% GDP)	5		
Per capita GDP growth (annual %)	1.3	Technical articles / m capita	820.4		

Source: Annex 1, Table 1. Data primarily 2004.

Economic development

Israel's diverse economy has benefited from increasing export demand, particularly for electronics, other high technology goods and services, and chemicals. Processed foods and other lower technology goods are not expected to perform so well, as costs are uncompetitive internationally. There is however some potential for cost-cutting. Tourism has begun to recover, with a reduction in the number of terrorist attacks within Israel. The recovery is expected to continue, with its contribution to the balance of payments partially offset by more Israel tourists travelling overseas.

The country continues to receive significant aid, although the level of ODA has declined to about 0.7% of GDP.

Plans to import natural gas from Egypt have yet to be put into effect, and are likely to depend on improvement of the situation in Palestine.

Economic policy

The government has revived the country's privatisation programme. Shares in government owned banks and oil refineries are being sold, following privatisation of the main pension funds. Other privatisations are expected to follow, including telecommunications, where overseas interest is high.

Plans for privatisation in the electricity and ports sectors are expected to take several years to implement. The government is also considering sale of some holdings in the defence industry, in order to take full advantage of export opportunities.

Since 2003 reforms have been introduced to increase labour market flexibility. This has led to some problems of social hardship.

Trade policy

Israel is a member of the WTO, and has bilateral trade agreements with the USA and Jordan. It is entering a similar agreement with the USA and Egypt. These agreements involve Qualifying Industrial Zones in Jordan and Egypt, for preferential exports to the US of goods with Israeli content.

The Palestinian situation affects Israel's trading relationship with the EU, in respect of goods produced in the Palestinian territories. Rules of origin subject such goods to import duty. They are primarily agricultural produce, and are only a small proportion of Israeli exports to the EU.

Social issues

Poverty

As a high income country Israel has no poverty recorded at less than \$US2 a day, although 14% of households were living in poverty by the Israeli definition in 2001. Unemployment is at the bottom of end the range for partner countries, at 10.6%. As with the other partners, unemployment is

particularly high for young people, at 21% in 2002. The problem is exacerbated by immigration, which has been increasing the labour force by about 3.5% per year.

Education and Health

Education is fairly typical of high income countries, with high primary and secondary school enrolment, and well established universities providing a wide range of courses. University research has a special focus on new technologies related to Israel's advanced industrial economy.

Expenditure on health services is also typical of high income countries, with high standards and similar statistics for life expectancy and the incidence of disease.

Equity

Much of Israel's poverty falls on the Arab minority, which makes up 20% of the population. Among Arab families, 45% are classified as poor, compared with the 14% average. An Israeli Commission has also reported that the Arab minority suffers from discrimination in other areas, including education and health services.

The UNDP gender development index for Israel is towards the bottom end of the range for high income economies, below most EU countries, but higher than in Greece, Portugal and the new member states. Israel has not ratified the Protocol on Discrimination Against Women under the UN Human Rights Conventions. Nonetheless, women are well educated and their representation in the public administration has been increasing, particularly in top management.

Environmental issues

Biodiversity: land degradation and deforestation

The major challenges to sustainable use of land resources remain the scarcity of land, population growth and the loss of agricultural land to other land use designations.

Despite early successes in rehabilitating desertified land and preventing desertification, signs of emerging desertification are noticeable - gully erosion, soil salinisation and reduction in pasture quality. Risks of larger scale salinisation of soil and groundwater may grow due to expansion of irrigation with treated wastewater irrigation or brackish fossil water, and risks of sheet soil erosion due to extensive irrigation practices, road construction and heavy vehicle use on fragile soils.

Israel has had considerable success in reversing the deforestation that had been underway for centuries. When Israel became independent in 1948, there were about 4.5 million trees; today, their number has reached about 200 million. The rate of deforestation has been negative over the last 20 years, so that forest now covers 6.4% of the land area, showing a growth in forest area of 5.9%/year.

Environmental quality: air quality

The Ministry of the Environment has drafted emission standards for a range of air pollutants and priority is accorded to the creation of a comprehensive legal infrastructure that will contribute to reduction of pollution from vehicles, energy generation and industrial plants. Atmospheric pollution especially affects congested urban areas.

Environmental quality: urban environment, waste management and industrial pollution

Israel has become a densely populated nation, in which 92% of the inhabitants live in only 40% of the land area, concentrated around the coast. Various national plans have determined that as much of Israel's future construction as possible should be concentrated in built urban areas, and over 90% of

the population now live in urban areas. Environmental services are generally very good with almost universal coverage of sanitation and waste collection systems. The Planning and Building Regulations of 1982 ensure that environmental concerns are considered in all major development activities, at national, district and local levels. Planning takes account of the 'Urbanity Principle' which helps prevent phenomena the government considers undesirable, such as rural areas turning into suburbs, out-migration of well-to-do populations from urban centres, traffic jams, inefficient land use, and growing social polarity.

The Ministry of the Environment, through its Solid Waste Division and District Offices and the local municipalities, is primarily responsible for solid waste management. Most of the country's unregulated dumps have been closed, and replaced by regional and central landfills that adhere to strict environmental standards.

Natural resource stocks: water resources quantity and quality

Water resources per capita in Israel are estimated at around 449 m³/year, which constitutes scarcity, but use of resources remains within sustainable limits due to comprehensive and effective policies to manage them. The distribution of resources between Israel, the Palestinian territories and neighbouring countries remains an issue. Public waterworks, supplying a per capita average of 90 m³/year, serve all Israeli settlements. Because of a combination of severe water shortage, contamination of water resources, densely populated urban areas and intensive irrigation in agriculture, wastewater treatment and reuse is high on Israel's list of national priorities

Of the total volume of municipal wastewater produced in Israel, about 90% is collected by means of central sewage systems; 80% is treated; and nearly 70% is reclaimed for reuse, mainly for irrigation of non-food crops and animal fodder. By the year 2000, recycled wastewater is expected to provide up to 400 MCM of water per year for agricultural purposes.

Capacity to manage natural resources and environmental quality

Population pressure, shortage of land and the rapid rate of industrial development have encouraged Israel to take a long-range and proactive approach to environmental management. Since the 1990s, environmental aspects have been incorporated at an early stage of the planning process into regional and national plans, in addition to environmental assessment of detailed plans of specific projects. The Ministry of the Environment is increasingly effective and has access to comprehensive legislative framework and state-of-the-art regulatory instruments. It is aided by sector ministries, regional and local authorities and an active NGO sector.

Political situation

The Palestinian situation remains tense. The US backed roadmap is not expected to achieve its goal of a comprehensive settlement by 2005, but there are hopes of progress under the new Palestinian leadership. In February 2005 Israel and Palestine signed a peace treaty which will hopefully pave the way for lasting peace in the region. Hamas, the Palestinian armed group, have however threatened to continue the violence. International and domestic tensions have been heightened by the Israeli proposal to withdraw from Gaza, and the security wall it is building in West Bank. The wall has been ruled illegal by the UN General Assembly and the International Court of Justice, rulings which have been rejected by the Israeli government.

Tension between Israel and Syria also remains high. Issues include the Golan Heights, suspected Syrian support for Palestinian attacks, and Israeli reprisals.

These tensions may be somewhat eased through a combination of the new Palestinian leadership and potential US initiatives, but no short term resolution is foreseen.

Jordan

Economic indicators

Real income		Fixed capital formation		Employment	
GDP (US\$ bn)	10.8	Gross capital formation (% GDP)	23	Unemployment (%)	15
GDP/capita (US\$)	1929	FDI net inflows (% of GDP)	2.79		
Real GDP growth (annual %)	5.1	R%D expenditure (% GDP)	6.3		
Per capita GDP growth (annual %)	1.4	Technical articles / m capita	43		

Source: Annex 1, Table 1. Data primarily 2004.

Economic development

The domestic economy has experienced a boom in the construction industry. This is largely funded by foreign Arab investors, including expatriate Iraqis. Most of the boom is for domestic property, but it also includes foreign businesses setting up intermediary locations for trade with Iraq. This is likely to continue while Iraq achieves stability, but may decline and be reversed thereafter as businesses are established in Iraq itself.

Development aid is the largest source of Jordan's foreign income, followed by tourism. Other significant contributors include exports of potash, phosphates, agricultural products and manufactured goods (largely textiles), and earnings from transport through the port of Aqaba. Most of its trade is in the Middle East, followed by the USA. Remittances from Jordanian workers in the Gulf states provide further earnings and are expected to continue. Inward migrants from Asia, Egypt and Syria provide unskilled and semi-skilled domestic and agricultural labour in Jordan.

Production of phosphates and potash has declined, but medium-scale industry has prospered, partly in response to the boom in domestic construction. Textile and clothing exports have increased markedly, primarily for the US market under Jordan's preferential trade agreement. This sector is now more vulnerable to East Asian competition after the phasing out of the Multi-Fibre Agreement at the beginning of 2005.

If the political situation remains stable, tourism is expected to grow, with continuing spending on infrastructure. Investment in power generation is expected to keep pace with economic growth, and investment in telecommunications is helping to support it.

Economic policy

Jordan has implemented IMF economic policies for many years, and although no longer formally subject to IMF requirements, is likely to maintain this.

The state monopoly in telecommunications ended at the end of 2004, creating prospects for innovative investments. A proposed plan has been announced for gradually removing oil subsidies within the next five years, in ways which are intended to minimise impact on the poor.

Efforts have been made to simplify business start-up approval procedures, with the introduction of a one-stop-shop for registration. As elsewhere in the region however, reducing bureaucracy is likely to be a slow process, constrained by traditional networks within society.

Trade policy

Jordan acceded to the WTO in 2000, and its Association Agreement with the EU came into force in 2002. It is a member of the Agadir agreement with Morocco, Egypt and Tunisia, and has entered into a free trade agreement with the USA. Its principal trading partner is Iraq, followed by the USA.

Gradual implementation of the US-Jordan free trade agreement has been spearheaded by Qualifying Industrial Zones for textiles and clothing, giving preferential treatment for goods with Israeli content. Much of the investment stimulated by this has come from South Asian business, and much of the employment has gone to temporary low wage South Asian workers. These businesses may decline rapidly following the ending of the Multi-Fibre Agreement in early 2005. Other aspects of the US-Jordan FTA are however expected to have increasing influence on trade in other sectors.

Social issues

Poverty

Jordan's GDP per capita is towards the upper end among the partner countries, at just under US\$2000, with relatively low overall levels of poverty. Less than 2% of the population have incomes less than \$1 a day, with about 7.5% below \$2 a day. Deep pockets of poverty persist however, for example among the Bedouin tribes and some of the Palestinian refugees. Unemployment is high at about 15%, and significantly higher by unofficial estimates. It is particularly high for women (22%) and the 15-24 year age group (31%). The 2004-2006 National Social and Economic Plan aims to reduce poverty and unemployment through enhanced investment in rural development, programmes to empower youth and women, and the encouragement of private investment.

Education and Health

Primary and secondary schooling are relatively widespread, with enrolment figures of 91% and 80%. The male illiteracy rate is under 6%, but for women it is 15%. Changes to the national syllabus have included the introduction of human rights, tolerance and peace. Reported R&D expenditure is close to high income country levels, at 6% of GDP, but this is mainly in the public sector. Jordan has 20 universities.

Jordan prides itself on its health service which is widespread and well developed. The health system extends primary and preventive health care at subsidised rates to the entire population through the governmental National Aid Fund. There are some challenges it faces, including financial viability. Jordan has become a service provider for specialised medical treatment in the Mediterranean and the Middle East. Child health is being improved through various initiatives such as nutrition programmes.

Equity

Many of the Palestinian refugees live in camps, but Jordan has done a great deal to integrate them into Jordanian society. Jordan also hosts several hundred thousand Iraqi refugees or migrants, many of whom work in the informal economy.

The cabinet appointed in 2003 had 3 women as ministers and there is a women's quota within the Chamber of Deputies. However, women's participation in parliament currently stands at 7.9%, some way off the MDG of 50%. Violence against women remains problematic. Female enrolment rates in primary education stand at 98%. Jordan's Human Development Report 2000 ranked Jordan as 97 out of 102 countries in their Gender Empowerment Measure in terms of income and participation in the public and private sectors. Unemployment of young women is 82%.

Environmental issues

Biodiversity

Loss of biodiversity is a major issue in Jordan, in relation to its intrinsic value, amenity values, and international recognition of intellectual property rights in relation to medicinal plants and traditional knowledge. Biodiversity is closely related to over-abstraction of water resources in some areas, such

as the Azraq basin and the Dead Sea (discussed further below). The Dana Wildlands is one of several other areas of major biological importance.

Land degradation is a key environmental issue, associated with reduced soil quality, habitat loss, and potential impacts on water resources. Land degradation also reduces food production and damages rural livelihoods, adding to the trend toward increased urbanisation. Over the last few decades, agricultural practices, fuel wood gathering and overgrazing in open access areas have resulted in further soil instability, erosion and accelerating desertification. The impacts on water resources include increased silting, which can affect water quality and erosion of fragile topsoils.

Direct destruction of habitat through deforestation, as well as desertification, drought and hunting, have all contributed to the decline of biodiversity in Jordan. Significant assets that may be affected include the species in the Gulf of Aqaba. This coastal region is home to a rich variety of marine life, including a coral reef.

Environmental quality

Air pollution is a localised, but significant, issue in Jordan. Air quality is deteriorating in urban areas, such as Amman and Aqaba. Air pollution comes from both stationary and mobile sources, such as industry and vehicles, as well as natural sources such as sand and dust storms. The most damaging source, however, is due to the growing fleet of vehicles that emit high levels of pollutants. Poorly maintained vehicles consume poor quality fuels. Vehicle emissions regulations are poorly enforced, and air quality monitoring stations are few and poorly maintained and funded.

The urban population of Jordan has increased from 64% of the total in 1980 to 74% in 2000. Migration from rural to urban areas may reduce pressure on some natural resources (fuel wood, for example) but increases pressure on urban environmental services, especially water resources and sanitation. The situation is compounded by population growth, due to natural growth and a large influx of Palestinian and other refugees. Nevertheless, progress seems to be being made in some areas. The World Bank reported that only 54% of urban wastewater in Amman was treated in 1998. In 2002, according to UNICEF, Jordan achieved a rate of access to sanitation of 100% in urban areas and 84% in rural areas, although maintaining and upgrading existing facilities may be a challenge.

Natural resource stocks: water resources quantity and quality

Water scarcity is Jordan's most pressing issue. The country has effectively "run out" of fresh water resources, with annual consumption greater than annual renewable supply. Jordan lacks any significant surface water resources and its groundwater sources are increasingly deteriorating. Of the water demand, almost 75% is used by agriculture, which comprises only 2.3% of GDP.

Compounding the situation, population growth has increased pressure on water resources. Wastewater for reuse is becoming an increasingly important resource and is expected to displace freshwater use for agriculture in most of the Jordan Valley.

The lack of water hampers agricultural and industrial growth, and produces adverse health effects on the population. Poor quality water has often contributed to a high and growing incidence of dysentery and other water borne diseases throughout the country. Water sources are sinks for substantial municipal, industrial and agricultural effluent. Indigenous geology, agricultural return flows, salinity and pollution from chemicals and heavy metals are the main sources of water quality degradation

A particular issue effecting Jordan and Israel is the Dead Sea, a natural heritage site that both countries border. The Sea is both the saltiest body of water in the world and the world's lowest point, at 400 metres below sea level. Its surface area is rapidly shrinking; from 1,000 km² in the 1960s to 669 km² today. Experts warn that the Dead Sea could disappear in 50 years. This is likely to have adverse environmental impacts for both Israel and Jordan, as the surrounding area is rich in biodiversity,

housing a unique ecosystem that includes several environmentally threatened bird species. A joint Jordanian-Israeli proposal for a channel to bring water from the Red Sea was announced at the 2002 Johannesburg summit. This has been opposed on the grounds that it may itself cause major environmental damage. Disappearance of the Sea would have major economic impacts, as the region provides tourism revenue, along with incomes from both mineral production and cosmetics.

Capacity to manage natural resources and environmental quality

In 1982, the National Environment Commission (NEC) was created and undertook efforts to create an environmental protection strategy for the country, centred on the principle of sustainable development. The NEC issued a *National Environment Strategy (NES)* in 1992. This provides long-term environmental guidelines for government, NGOs, private sector businesses, communities and individuals.

The National Environmental Action Program (NEAP) was issued in 1996, and aims to guide government environmental policy and investment decisions. It gave impetus for a national audit of Jordan's environment, and the delivery of a national State of the Environment Report.

The Law of Environmental Protection, enacted in 1995, provides a basic legal framework for environmental management, in accord with international practice. It does not, however, contain any specific standards or regulations for implementation. As a result, enforcement is difficult, and is constrained further by the lack of capacity. The Law established the General Corporation for Environmental Protection (GCEP), since replaced by a Ministry of Environment. This has principal responsibility for coordination and ensuring that environmental policies and controls are implemented and enforced, with special provisions in the Aqaba Special Economic Zone.

Political situation

Stability is expected to continue, despite continued discontent over support for US policies, particularly in the Palestinian refugee camps. The Jordanian economy is strongly dependent on US and other overseas aid, and is likely to remain so for some time. It is also heavily dependent on subsidised oil from Saudi Arabia. Both relationships leave Jordan vulnerable to terrorist attack. Jordan also receives a significant financial subsidy from Kuwait in lieu of subsidised crude oil.

Militant Islam has not been a problem. The situation has however been complicated by the arrival of wealthy Iraqi expatriates. These are mainly Sunni Moslems, and the majority of Jordanians are also Sunni. Anti-Israeli radicalism is confined mainly to the Palestinian camps. The government has been promoting 'mainstream' Islamic initiatives, in order to discourage militant Islamic groups. Radicals tend to be confined to the Palestinian refugee camps close to Amman, but these pockets tend to focus on demands from Israel rather than have an Islamic State of Jordan as a goal.

It has been estimated that about two thirds of the population is of Palestinian descent, largely assimilated through marriage or business, but with a significant dispossessed minority in the camps. Government jobs and the electoral system are dominated by ethnic Jordanian tribal links, and the government has argued that electoral reforms would undermine the Palestinian right to return. Major reform is unlikely until the Palestinian-Israeli conflict is finally settled.

Lebanon

Economic indicators

Real income		Fixed capital formation		Employment	
GDP (US\$ bn)	18.1	Gross capital formation (% GDP)	17	Unemployment (%)	11.6
GDP/capita (US\$)	4892	FDI net inflows (% of GDP)	1.18		
Real GDP growth (annual %)	3.5	Technical articles / m capita	23.4		
Per capita GDP growth (annual %)	2.5				

Source: Annex 1, Table 1. Data primarily 2004.

Economic development

Services and trade account for over 60 percent of the Lebanese economy, with about 20 percent in manufacturing and construction, and 6 percent in agriculture.

The biggest export product is jewellery, much of which is exported to Switzerland. Re-exports make up a significant proportion of these and other Lebanese exports. The biggest recipient of exported goods is now Iraq, having overtaken the UAE and Saudi Arabia.

Tourism is another significant sector, focused largely on wealthy Arabs from the Gulf states. This has increased in response to their reluctance to visit western countries since the events of September 11 2001. Investment in tourist infrastructure has risen, with benefits for the construction industry.

Remittances from expatriate workers and development aid make large contributions to Lebanon's foreign earnings. Expatriates also have large deposits with Lebanese banks, contributing to bank earnings.

Economic policy

The tax system is undergoing a process of reform to increase revenue through VAT, and an overhaul of the income tax system to include a wider range of earnings and increase collection rates. Tax receipts from real estate have increased strongly.

A privatisation programme has been announced, although progress has been poor. In the limited areas where the government has moved towards privatisation, interest from foreign investors has been low, associated with the uncertain business climate.

A number of bank mergers have taken place since early 2004, but the sector is still highly fragmented.

Trade policy

Lebanon began negotiations for membership of the WTO in 2002, and aims to join in 2005. It has a bilateral agreement with Jordan. In parallel with its Association Agreement with the EU, Lebanon also has a free trade agreement with the European Free Trade Association, signed in 2004.

Much of the country's international trade is focused towards the Gulf States, and now Iraq.

Social issues

Poverty

Lebanon ranks highly by the UNDP Human Poverty Index, after Israel and Jordan. There are however large income disparities, with the majority of the poor in rural areas and in pockets within and around cities. The urban poor are mostly from rural areas, having moved to urban centres in search of

employment. Unemployment is a concern at 11.5%, but lower than in most of the other partner countries. Public welfare programmes and social safety nets are weak and narrowly based.

Education and Health

Adult literacy is relatively high overall at 91%, but with regional disparities. Illiteracy reaches 15% to 20% in parts of the Beqaa valley, South Lebanon and the North, and is particularly acute among women. At tertiary level there were some 21 universities and 40 colleges by 2001, providing a wide range of courses.

National health care policy is weak. 72% of health spending is in the private sector, the highest proportion among the partner countries. The system favours equipment, curative and tertiary services, driven by the private sector, rather than primary health care and prevention.

Equity

There are nearly 400,000 Palestinian refugees in Lebanon, based in camps with poor access to services, employment and adequate living conditions. It is unlikely this situation will be resolved until the Middle East Peace Process is successful. Until then the United Nations is providing basic services to the refugees.

Lebanon compares favourably with most other partner countries on the UNDP Gender Development Index. University graduation rates are similar for both sexes. However, only 2% of parliamentary deputies are women, only 1% of municipal councils are headed by women, and there is no civil marriage law.

Environmental issues

Biodiversity

Lebanon's narrow coastal plain rises sharply up to the Mount Lebanon range, with the Beqaa valley and the Anti Lebanon range in the east. Only scattered fragments remain of the cedar, fir, juniper and oak forests that once populated the mountain slopes. Forest cover is now only about 6% of the country's area, reduced from about 20% in 1975. The Ammiq Swamp is the only sizeable remaining wetland, of national and international importance for migrating birds. Protected areas represent less than 1% of total land area. Many natural areas are fragile ecosystems with low resilience. Soils are prone to erosion, especially in the mountains and hilly lands. Water erosion is significant where the protective vegetative cover has been lost.

Much of the country's arable land has been abandoned, resulting in widespread erosion and desertification. The 2003 National Plan to Combat Desertification estimated that 60% of the land is under high threat of desertification. Arable land decreased from 360,000 hectares in 1970 to less than 250,000 hectares in 1999. Intensive use of chemical fertilisers and insecticides has contributed to high levels of soil and water pollution.

Inadequate landuse planning has resulted in uncontrolled urban sprawl and ribbon development along the coast since the 1980s. It has been estimated that about 10% of the coastline is occupied by illegal private beach resorts and sea reclamation projects, which continue largely unchecked. Coastal waters suffer from direct sewage and industrial effluent discharges and solid waste dumping on the shoreline. Several areas are unfit for bathing due to high bacteriological contamination.

Environmental quality

Industrial air pollution is a concern in only a small number of areas, arising for example from cement plants. Vehicular air pollution is a greater concern in Beirut, where traffic levels and congestion have increased rapidly.

Solid waste collection ranges from about 18% in the South, 45% in North Lebanon, 57% in Mount Lebanon, and close to 100% in Beirut. Most solid waste is disposed of in unmanaged dumps. Plans to set up landfills have often been hampered by disputes over location.

Natural resource stocks: water resources quantity and quality

Per capita renewable water resources are 1,109 cubic meters per year for a population of 4.3 million, which means that water is not scarce although any increase in use might make them so. Agricultural irrigation is the primary water consuming sector followed by the municipal and the industrial sectors. Policies are in place to reduce consumption and it is expected that by 2015, water allocated for irrigation will decrease from 85 percent of available resources to 61 percent.

The situation with regard to quality is more challenging. It is reported that 60 to 70 percent of water resources are contaminated. Major pollutants of surface water and groundwater arise from untreated municipal wastewater discharge, industrial effluents, improper solid waste disposal and agricultural runoff. Though much of the population is served by a sewer system, many systems are damaged or operating over capacity. Potable water networks are frequently polluted by wastewater infiltration. Some 35 MCM of untreated industrial effluent is discharged each year into the Mediterranean, Qaraoun Lake, and the Litani and Berdawni Rivers. High levels of nitrates and phosphorus from agrochemicals contaminate surface water.

Capacity to manage natural resources and environmental quality

The Lebanese Ministry of Environment is relatively weak, with overlapping responsibilities with several other institutions that have direct or indirect involvement in environmental management. These include the Council for Development and Reconstruction, whose prime role has been for the major recovery, rehabilitation and reconstruction programmes since the war. The Ministry of Public Works and the Industrial Development Authority of Lebanon also have environmental responsibilities, without a clear framework for environmental coordination or for national physical planning.

Responsibility for solid waste management is shared by municipalities, the Ministry of Environment, and the Council for Development and Reconstruction. Many municipalities have been ineffective, but some have successfully introduced modern waste management systems and facilities.

An Environment Protection Act was adopted in 2002, but lacks detailed legislation and effective enforcement powers. The Ministry of Environment has followed a strategy of coordination with environmental NGOs, which have supported its efforts to influence more powerful ministries. NGOs tend to focus their efforts on urgent local issues.

The Ministry of Environment has insufficient staff to undertake extensive environmental monitoring and enforcement activities, and monitoring stations and equipment are lacking. The last extensive survey of ozone levels in Lebanon was undertaken in 1997 by a university team. Cases have been reported where modern equipment provided through aid programmes has remained unused, through lack of government funding for operation and maintenance.

Political situation

The assassination of former prime minister Rafik Hariri in February 2005 has led to uncertainty. Since the end of the civil war in 1990 the balance of power has been maintained by an unwritten

agreement that the president must be a Maronite Christian, the prime minister a Sunni Muslim and the President of the Chamber of Deputies a Shi'a Muslim. While the communities have not fully integrated, a high degree of stability has been attained, and Prime Minister Hariri was a significant figure in maintaining the balance. The uncertainties arising from his assassination and the subsequent withdrawal of Syrian troops have yet to be fully resolved.

Following the withdrawal of Israeli troops from southern Lebanon in 2000, the Lebanon-Israel border remains disputed, and the militant Shi'a group Hezbollah has mounted periodic attacks. While Syria receives much of the international pressure to end Hezbollah's activities, Lebanon is also criticised.

These tensions are expected to ease during the 20 year baseline period, and major disruptions are not anticipated.

Morocco

Economic indicators

Real income		Fixed capital formation		Employment	
GDP (US\$ bn)	52.4	Gross capital formation (% GDP)	23	Unemployment (%)	12.1
GDP/capita (US\$)	1685	FDI net inflows (% of GDP)	2.66		
Real GDP growth (annual %)	4.4	Technical articles / m capita	13.7		
Per capita GDP growth (annual %)	2.4				

Source: Annex 1, Table 1. Data primarily 2004.

Economic development

Agriculture is a large part of Morocco's economy, and provides a major contribution to exports. The fishing sector has experienced declining yields due to overfishing, particularly of sardines. Textiles are the other main export sector. Tourism is also a significant component of foreign earnings, followed by exports of phosphates and phosphate products. Remittances make a large contribution to foreign earnings (6% of GDP), and development aid is about average for the partner countries (2% of GDP). Oil and gas production is negligible, but exploration concessions in the Mediterranean have been granted to Australian and British companies. This has raised a territorial dispute with Spain. Spanish access to Moroccan waters expired with the end of the EU's fishing agreement with Morocco in 1999.

Agricultural products include cereals, fruit and vegetables, olive oil, meat and milk. Yields are subject to annual variations due to weather conditions. Citrus fruit exports go mainly to the EU, Russia, Saudi Arabia and Canada. Many farms are state owned, and the government has invited tenders from local and international investors for lease to the private sector. Large productivity gains are available from introducing new methods, which may entail significant loss of employment. Tenders will be judged on price and plans for investment and job creation.

The textile industry is the largest manufacturing sector, and is experiencing difficulties which are expected to worsen as a result of the end of the Multi-Fibre Agreement and loss of competitiveness with Asian countries. The impact may be partially offset by efficiency improvements through technology transfer from European companies, and relocation of production from Europe. Part of the US-owned textile industry in the UK and Ireland has already transferred some textile operations to Morocco and further plans have been announced.

The production of phosphates is Morocco's main extractive industry. Morocco is the world's third largest producer and has three quarters of the world reserves of phosphorite. Calcium phosphate, rock salt, copper, coal, iron ore, lead, zinc, and manganese are also mined. Petroleum refining, food processing, and the production of cement, textiles, and chemicals are also economically important. A new mining law is planned, to stimulate development of phosphate mining through incentives to exploit smaller deposits. The phosphate-derivatives industry has grown, with further scope for moving up the value chain. Plans have been announced to produce phosphorus products for export to Pakistan in a joint venture with Pakistani investors. Morocco is almost entirely dependent on imported crude petroleum but there has been a recent discovery of large oil and gas reserves.

Food processing and the manufacture of mechanical goods have been growing but remain a small component of the economy. The call centre industry is also growing rapidly, established by companies in France, and is expected to provide an additional 10,000 jobs in the next three years.

The tourist industry has recovered strongly from setbacks due to terrorist attacks, partly through offering heavy discounts. Growing foreign involvement reflects good prospects for long term growth.

Electricity output has grown strongly through increased demand, including that resulting from a rural electrification programme, and also from price cuts.

Economic policy

Efforts have been made to improve the business environment by strengthening property rights and reforming labour regulations.

A privatisation programme will continue through the sale of further holdings in the formerly state-owned telecommunications operator, which is already part owned by a French investor. Telecom in Morocco has become a big and profitable business, largely through the cellular network. The state's remaining assets in tobacco manufacture are also likely to be sold, along with many small and medium-sized public companies and hotels. Royal Air Maroc is expected to be ready for privatisation in the next few years. Longer term candidates for privatisation include electricity supply, the airport authority, the port authority, the state-owned railway, road freight, drinking-water supply, the post office and the phosphate industry.

Trade policy

Morocco became a member of the WTO in 1995, and has recently entered into a free-trade agreement with the USA, which promises to boost exports and raise inward investment.

Morocco is part of the Agadir process, with Tunisia, Egypt and Jordan. In 2004 it concluded trade agreements with Turkey and with the US. It also belongs to the Arab Maghreb Union between Algeria, Morocco, Tunisia, Libya and Mauritania. This has achieved little progress, largely due to the dispute with Algeria over Western Sahara.

Social issues

Poverty

Absolute poverty (less than US\$1 per day) is recorded as less than 2% of the population, but poverty at the US\$2 per day level is high, at over 14%. During the 1990s the number of people living in income poverty rose by about two thirds, partly as a result of heavy cuts in public food subsidies. Much of the poverty occurs in rural areas, but urban poverty is also high, at about 12% of the urban population. Unemployment is over 12%, occurring mainly in urban areas, where it was over 20% in 2003.

By the UNDP's Human Poverty Index, Morocco is the poorest of all the partner countries. This reflects poor access to improved water sources and a high level of adult illiteracy, as well as low GDP per capita. The government has prioritised the fight against poverty, but there is still a long way to go. Access to basic services for the poorest and for rural populations is still limited.

Education and Health

Educational standards are the lowest of all the partner countries. Primary school enrolment is similar to Turkey at 88%, but secondary enrolment is extremely low, at 31%, and dropout rates are high. Adult literacy is well below the other partners, at just over 50%.

Health standards are the lowest of all the partner countries. Maternal mortality and infant mortality are the highest of all the partners, and the incidence of disease is high. A large proportion of the total health care spend is in the private sector, and health insurance covers only 15% of the population. As a percentage of GDP, government expenditure on health care is one of the lowest in the region, and GDP is low. Health services are particularly poor in rural areas, where access is limited and quality is poor.

Equity

Morocco has ratified 7 of the 8 core ILO labour conventions, but there are still significant concerns regarding discrimination and child labour. Anti-terrorism laws have been in place since the Casablanca bombing, but press restrictions have been eased.

As measured by the UNDP Gender Development Index, gender equality is the lowest of all the partner countries. The situation is particularly bad in rural areas, where 75% of women are illiterate and only 47% of girls are enrolled in primary school. Urban areas are better, but female illiteracy is still high at 23%, and girls' enrolment rate is 83%. Female participation in the labour force is correspondingly low, between 25 and 30%. Women have less access to quality employment than men, receive lower wages and are less protected. A new family law has been in place since February 2004, and grants more rights to women.

Environmental issues

Biodiversity: land degradation and deforestation

It is estimated that erosion affects more than 70 per cent of the useable agricultural land area and that 22,000 hectares of arable land are lost each year. Another impact of erosion caused by inappropriate farming practices and overgrazing is that the rate of sedimentation in Morocco's major reservoirs has risen to an average of 2 per cent.

Per capita consumption of fuel wood is 38% of the national energy consumption. Loss of forest cover, through use for fuel wood or as a result of overgrazing, has contributed to the erosion and sedimentation problems. There are significant pressures upon biodiversity, including localised extinctions linked to deforestation, and changing ecological conditions due to deterioration of the soil and encroaching desert in the south and east of the country.

Environmental quality: urban environment, waste management and industrial pollution

Currently, a little more than half of the Moroccan population live in urban areas, but this is increasing. Urban problems are now affecting medium and small towns with an average of 15,000 to 20,000 inhabitants, not just the big cities. The rapid population growth in towns is causing high-density development in city and town centres, and unplanned housing on the outskirts. In both these areas, provision of water and other environmental services is poor.

Morocco's extractive industries are potentially highly polluting, and pollution issues also arise in the petroleum refining, food processing, cement and textiles industries. These produce a range of solid wastes and effluents, including hazardous wastes.

Natural resource stocks: water resources quantity and quality

The economy of Morocco depends largely upon renewable natural resources, the most important of which is water. Morocco has a substantial water wealth, and 84 dams whose capacity exceeds 10 million cubic meters. Until the end of the 1960s, all the water supply for human consumption was extracted from groundwater. Since then an increasing proportion has originated from surface water. There has been a growing trend towards water scarcity, due to irregular rainfall patterns, over use and water pollution. The projected doubling of the population over the next 30 years will create massive increases in demand and corresponding decreases in per capita availability. Some predictions suggest that although there is enough water in Morocco in the short-term, the country will experience a water deficit by the year 2020.

Agriculture represents around a fifth of GDP, uses one third of the country's surface area and employs half of the labour force. Two-thirds of agricultural exports are produced by irrigated agriculture, which uses 90% of the country's captured freshwater resources.

Inadequate supply of potable water and sanitation is a major urban household burden and cause of disease that limits productivity, economic efficiency, and educational opportunities. The poor level of water quality can be linked to poor health and diseases, and lack of proper environmental infrastructure (e.g. leaking septic tanks, insufficient number of latrines, unprotected wells, absence of household hook-ups, etc.) and household behaviours (e.g. water transport and storage methods, maintenance of latrines, hand-washing, etc.).

Capacity to manage natural resources and environmental quality

Regulation and protection of the environment in Morocco falls under the jurisdiction of the Environment Ministry. Beside the environment ministry itself, there are environment departments in the ministries active in environmentally relevant areas and the National Environment Council, a central consultative body.

There are several areas which may constitute weaknesses in the country's capacity to effectively manage environmental issues, including that it may be overly responsive to a narrow cross-section of stakeholders and not include regional and municipal decision makers in environmental policy formulation. There also needs to be greater inclusion of the general public in environmental decision making.

Political situation

In 2003 the Kingdom of Morocco experienced violent attacks from Islamist extremists. The situation is currently stable but further violence cannot be discounted. Longer term stability is likely to depend upon reducing unemployment and poverty, and improvements in the status of the Berber population. Investment in housing and other key infrastructure is expected to contribute to reducing the appeal of militant Islam. A mosque-building programme has been initiated, to help win back those who have been attracted to Wahhabism and other intransigent interpretations of Islam. The status of women has been significantly enhanced through legislation passed in 2004.

Diplomatic relations with Algeria have deteriorated through their dispute over Western Sahara. Efforts by France and Spain to resolve the dispute have yet to succeed. Closer economic ties with the EU may ultimately help to generate a compromise agreement giving some autonomy under Moroccan sovereignty.

Palestinian Territories

Economic indicators

Real income		Fixed capital formation		Employment	
GDP (US\$ bn)	3.7	Official development aid (% GDP)	48	Unemployment (%)	40
GDP/capita (US\$)	1110				
Real GDP growth (annual %)	-5.2				
Per capita GDP growth (annual %)	-8.6				

Source: Annex 1, Table 1. Data primarily 2004.

Economic development

Since the beginning of the second Intifada in 2000, the Palestinian economy has gone into severe decline. Almost fifty percent of GDP now comes from overseas aid, with the EU as the most important financial donor. The economy has suffered from a collapse of tourism, the inability of Palestinian workers to work in Israel, and many constraints on freedom to engage in basic economic activities. Investment has declined sharply through the use of savings to finance daily expenditures.

The economy is dominated by Israel, and the movement of goods is severely affected by Israeli restrictions imposed for security reasons. It is estimated that trade with Israel comprises more than 70% of Palestinian imports and some 90% of exports.

Economic policy

Close monetary and economic ties with Israel limit the extent of independent policy. Overall price movements tend to be linked to movements in the shekel and the US dollar.

Several reforms have been implemented to improve government effectiveness, efficiency and transparency. While these are aimed primarily at managing the donor budget, they can be expected to contribute to sound management of the economy when it recovers.

The Palestinian Authority has established systems for VAT, income tax, purchase tax, property tax and excise taxes. Work is in progress to modernise the tax system and the regulatory framework.

Trade policy

An interim Association Agreement with the EU entered into force in 1997, but implementation has been hampered by the outbreak of the second Intifada. Israel has not recognised the agreement.

Trade and co-operation agreements have been signed with Jordan, Egypt, Saudi Arabia and the US, as well as the EU, but these are largely ineffective. They provide preferential access for Palestinian exports, but trade with Israel remains dominant.

Social issues

Poverty

Unemployment at the end of 2003 was reported as 24%, having risen to about 40% after September 2000, when nearly 100,000 Palestinian workers lost their jobs in Israel. The number of people with incomes less than US\$2 per day increased from 21% in 1999 to 60% in 2003.

There are hundreds of thousands of Palestinian refugees living in camps in Lebanon, Syria, Jordan and other neighbouring countries. This presents major uncertainties in relation to future poverty levels

when a Palestinian state is established. This is presumed to occur within the 20 year baseline of the SIA.

Education and Health

Authority for education was transferred to the Palestinian Authority in 1994. West Bank and Gaza are fairly well endowed with primary and secondary schools, with enrolment figures of 95% and 81%. Several universities and technical colleges have been established in both West Bank and Gaza.

A reasonably effective health service is maintained. Expenditure on healthcare is around the average for the region, as are the reported mortality figures and the incidence of disease.

Equity

The principal equity issue for the Palestinian people is the occupation of the Palestinian territories and their relationship to the Israeli people and the occupying forces. Equity issues among the Palestinian people themselves are similar to those in the rest of the region. The UNDP Human Development Index is in the mid range for partner countries. No data are available for the Gender Development Index, but there is significant female participation in the workforce, including at relatively senior administrative levels. Freedom of speech is limited however. The Palestinian authorities regularly shut down media outlets, and censorship is widespread.

Environmental issues

Biodiversity: land degradation and deforestation

The territories of West Bank and Gaza cover just over 6,200 km². Twenty-six percent of this area is devoted to arable crops, and the pressure is intense to grow more food to support the rapidly growing and increasingly urban population, especially in Gaza. Almost all the productive land is already being cultivated, and land availability and viability is under further pressure from a variety of sources. These include land take for urban development as the rural-urban migration continues, overuse of agrochemicals, and loss of tree cover, increasing the potential for erosion and desertification.

Urbanisation, deforestation, pollution, overgrazing and land confiscation have all led to reduced natural plant cover and original species are being replaced by invasive, colonising species. Additionally, in the West Bank, desertification of the Eastern Slopes has reached an advanced stage. Unregulated hunting threatens the few mammal species that remain, and industrial and agricultural pollution, and deforestation, land degradation and competition with domestic stock for scarce plant food threatens all wildlife.

Environmental quality: air quality

Although air pollution may not be as severe an environmental issue as the pressures on water and land resources, this may to some extent be due to a lack of monitoring stations and therefore reliable data, and the institutional capacity to interpret data and take appropriate action. Air quality in the region is on the decline, largely due to the same circumstances that threaten land and water: lack of proper solid waste disposal and the lack of control over industrial emissions. Another important factor is the growing population, using an expanding fleet of vehicles running on diesel and leaded fuel. Some parts of the West Bank are downwind from industrial zones, which further reduces ambient air quality.

Environmental quality: urban environment, waste management and industrial pollution

The area's high, and increasing, rate of urbanisation is an important contributory factor to poor water quality and overall public health. In general, environmental service provision is poor. There is, for

example, very little sewerage infrastructure in either the West Bank or Gaza, and most of the population use cesspits or latrines that overflow into surface drains.

Management of solid waste is extremely inadequate in most of the West Bank and Gaza. Solid waste dumping is open and uncontrolled at unplanned dumping sites that are not lined, fenced, managed or monitored. Wastes in the dumping sites are burned to reduce their volume, which contributes to air pollution and impacts on human health, particularly for the scavengers who collect recyclable materials at the sites. Scavengers are also at risk from the industrial, hazardous and medical wastes which form part of the waste mix.

Natural resource stocks: water resources quantity and quality

Both the West Bank and Gaza lie above aquifers that provide groundwater, the major water resource for both areas. Seasonal rivers and rainwater harvesting provide some limited resources for domestic supply, but only a small proportion of the water extracted is available to Palestinians. Of 362 million m³/year, 340 million m³/year is used by Israelis (mostly for irrigation), and 20 million m³/year by Palestinians. Overall, recharge rates do not match abstraction rates, and the water table is dropping. In Gaza, the Coastal Aquifer is being depleted at an unsustainable rate.

Extremely high population growth and urbanisation are further contributing to the absolute and relative decline in water availability in both the West Bank and Gaza. The current conflict has prevented new wells being dug, and more than 5 million m³ of drinking water are transported into the territories each year. Pollution of the groundwater resource in both areas occurs through domestic wastewater, solid waste leachate, industrial effluents, and agricultural pollution. In Gaza the coastal aquifer is contaminated from intensive Israeli agricultural return flows originating in the coastal plains, and also suffers from seawater intrusion as a result of unsustainably high abstraction rates. An example of the extent of the contamination is that nitrate concentrations in some domestic wells are four times the World Health Organisation limit value.

Capacity to manage natural resources and environmental quality

A mix of working laws and regulations has been inherited from the Ottomans, British and Jordanians, to which have been added some amendments to laws made by the Israeli civil administration. As a consequence, the legislative framework is neither consistent nor coherent. Some detailed environmental policies have been introduced, but do not have the full force of law, which limits their effectiveness. Additionally, since at present the Palestinian Authority is not the government of an autonomous state, it lacks the institutional ability and capability to regulate, monitor, and enforce an environmental framework as a coherent administrative unit.

Political situation

The US backed roadmap towards the creation of a Palestinian state cannot be expected to achieve its goal of a comprehensive settlement by 2005, but there are hopes of progress under the new leadership.

Discontent over the relationship with Israel has been heightened by the Israeli proposal to withdraw from Gaza, the security wall it is building in West Bank, and the consequent separation of Palestinian farmers from their agricultural land. The wall has been ruled illegal by the UN General Assembly and the International Court of Justice, rulings which have been rejected by the Israeli government. Withdrawal from Gaza and resettlement elsewhere may conflict with the goal of a comprehensive settlement.

The combination of the new Palestinian leadership and potential US initiatives may revive the peace process, but no short term resolution is foreseen. The creation of a Palestinian state is however anticipated within the 20 year time frame of the SIA.

Syria

Economic indicators

Real income		Fixed capital formation		Employment	
GDP (US\$ bn)	22.1	Gross capital formation (% GDP)	24	Unemployment (%)	12
GDP/capita (US\$)	1242	FDI net inflows (% of GDP)	0.99		
Real GDP growth (annual %)	0.6	R%D expenditure (% GDP)	0.2		
Per capita GDP growth (annual %)	-2.4	Technical articles / m capita	3.5		

Source: Annex 1, Table 1. Data primarily 2003.

Economic development

Syria's exports are dominated by oil. It has been benefiting from high prices, but production is falling. Exports have declined faster than production, largely because of the cessation of illegal imports from Iraq. Foreign companies have been offered new exploration options and opportunities to invest in enhanced production from existing fields, with limited response. This is partly because of the country's complex geology, and partly because of economic uncertainty related to US economic sanctions. Unless major new discoveries are made, Syria is expected to become a net oil importer within ten years.

Following the war in Iraq, Syria has become a location for Iraqi businesspeople using the country as a base for imports and exports through the ports of Tartous and Latakia. Many relatively well-off Iraqis have also moved to Syria to escape attack from extreme Islamist groups. This is likely to have resulted in an increase in private transfers, through withdrawals of hard-currency savings.

Syria receives less development aid than any of the other partners except Turkey. It draws significant income from tourism. The country's antiquities are a major attraction, although opportunities are restricted by the current political situation.

Economic policy

The present government has announced plans for radical economic reform. A new five year plan is expected to be approved during 2005. The plan is expected to include an overhaul of the subsidy system and promote greater private sector investment. The current system is deeply entrenched, and so reforms are likely to be introduced fairly gradually, continuing the past pattern of gradual reform. This has relaxed the country's monetary policy and allowed the first private banks to operate.

A gradual reform of the tax and customs systems is anticipated, along with a more open approach to foreign investment, particularly in the oil sector, and subsequently elsewhere.

Initial steps have been taken to address subsidies through raising the price of industrial diesel. Further progress is expected to be slow, as raising prices would risk widespread protests.

There are no firm plans for privatisation, but moves have been made to attract private investment in state owned companies.

Trade policy

Syria has applied for WTO membership and has observer status.

Negotiations between Syria and the EU on an Association Agreement were completed in 2004 and the agreement has been initialled for signature, which is expected in 2005. The withdrawal of Syrian troops from Lebanon may ease the process of bringing an agreement into force. In the meantime, the proposals provide a framework for necessary reforms in areas such as financial administration and industrial regulations, and open the way for development aid from the EU to support these reforms.

Syria concluded a bilateral trade agreement with Turkey in 2004, and is a member of the Greater Arab Free Trade Agreement (GAFTA). It has also initialled an agreement with the Gulf Cooperation Council (GCC).

Some significant tariff reductions have been made in relation to these agreements, but non-tariff barriers remain high.

Social issues

Poverty

Despite a low GDP per capita, poverty in Syria is towards the lower end of the range for partner countries, as measured by the UNDP Human Poverty Index. Poverty is concentrated in rural communities in the north-eastern governorates and in pockets in coastal areas.

At 12 %, unemployment is relatively low compared with some of the partners, but is particularly high for those in the 15 to 24 age group.

Education and Health

Primary education is compulsory and enrolment is high, at 98%, but secondary enrolment is low, at 39%. Adult literacy is high by regional standards, at 83%, but illiteracy is much higher for women than men (40% compared with 13%). The problem of girl drop-outs has been identified as a priority concern. The Global Education Initiative has been adopted for implementation in all of the country's 12,000 primary schools.

Infant and under-five mortality rates have declined, and are now in the middle range for partner countries. Life expectancy at birth is relatively high (male 70 years, female 72 years). High immunisation coverage rates have been achieved for polio, and the country is certified as polio-free. The incidence of TB is high compared with other partner countries. Steps have been taken to address HIV/AIDS, with some 200 awareness seminars for youth and health workers.

Equity

Syria has a diverse population, with 90 % Arabs and most of the rest Kurds or Armenians. A large part of the Kurdish population has never been given citizenship and this is still unresolved. The religious mix comprises 74 % Sunni Muslims, 16% other Muslim sects including Alawites, Shiites, Isma'ilis and Druze, and 10 % Christians. The Alawite minority dominate government, in a complex pattern of co-operation with the other minorities. Civil society organisations are few in number, weak, and heavily influenced by government.

Syria acceded to the Convention of on the Elimination of All Forms of Discrimination against Women in 2003, and is in the mid range of partner countries for gender equity as measured by the UNDP Gender Development Index. The ruling Ba'th Socialist Party relies on women for political support, and has promoted gender equality through a National Strategy for Women. In the 1970s, women were actively recruited into the armed forces. Religious tradition and social codes tend to discourage women from entering the public realm, but there are about 30 women members of parliament out of a total 250. Women were only 27 % of the workforce in 2000. While some women have entered the labour force and politics, the majority continue to live a traditional lifestyle.

Environmental issues

Biodiversity: land degradation and deforestation

Almost 20% of Syria's total land area consists of unusable land, rocks or desert, and only one third of land is suitable for agriculture. Good agricultural land is, therefore, a scarce resource in Syria but inappropriate land use and inadequate management have resulted in widespread soil degradation. Wind erosion caused by removal of natural plant cover for cultivation, overgrazing and deforestation, is responsible for around three quarters of soil degradation.

In addition, although agricultural land is in theory protected from development, a considerable area has been built upon either legally or illegally. Also, areas of agricultural land around industrial cities have been polluted by discharge of industrial waste emissions.

The forest areas of Syria, located mainly in northwest, are heavily degraded. At present forests cover around 2% of the total area of the country, down from about 32% at the beginning of the 20th century. Over-exploitation by nomadic people, particularly over-grazing by goats, is widely seen as the main cause, although government agricultural policies may have made a significant contribution.

Environmental quality: air quality

Air quality is generally poor in the larger cities, due mainly to motor vehicle emissions, particularly the old fleet of cars and poor traffic management. Industrial emissions occur mainly in hotspots around industrial sites such as cement plants, quarries, power stations, and the refineries. Emissions from domestic heaters are also significant during the 4 month winter period. Air pollution is likely to have severe effects on the health of exposed populations, especially in urban areas and adjacent to highly polluting industry. In addition, air pollution has impacts on building materials, causing discoloration and physical damage to vulnerable historic buildings.

Environmental quality: urban environment, waste management

A major pressure in Syria is the growth of illegal settlement areas around all large towns, but particularly around Damascus and Aleppo. Proper sewerage systems and potable water distribution systems are often absent, with the result that waterborne diseases such as cholera, typhoid and diarrhoea are prevalent in these areas.

Collection of municipal solid waste and transportation to the disposal site is the responsibility of the governorates, who report collection efficiencies of up to 90% in urban areas but only 64% in rural areas. These wastes usually include commercial wastes plus some waste from agriculture and small scale industries. Wastes from large-scale industry and slaughterhouses are usually transported directly to landfill in privately rented vehicles. There is no segregation of hazardous materials from the waste stream.

The overwhelming majority of collected waste is disposed to land at open dump sites located on the outskirts of towns. Open burning of waste is common.

Natural resource stocks: water resources quantity and quality

Water resources are now nearly fully exploited, and the existing rate of water consumption is unsustainable. Some forecasts predict annual demand growth at around 2% per annum over the next 20 years. This is lower than the projected population growth, but would still require 51% more water to be abstracted yearly by 2015. It is unlikely that Syria's current water sources could meet such a demand.

A further difficulty is that water resources are unevenly distributed. There is a possibility that the Coastal and Euphrates Basins could generate a surplus, but conveying water to other parts of the country basins would be prohibitively expensive, even if it were technically feasible.

Currently agriculture accounts for more than 90% of all water use and irrigation will dominate water demand in Syria for the foreseeable future. Agricultural policy stresses self-sufficiency, especially in basic foodstuffs such as cereals which demand large water inputs.

Effects of unsustainable water consumption can be seen in declining groundwater levels, declining output or drying of freshwater springs, which are used for potable supply in many areas, increasing salinity of groundwater, and declining river flows, except in the Euphrates. This results in poorer water quality and reduction of the ecological and recreational value of the riverside. There are also health impacts and economic costs where poorer quality water has to be tolerated or expensive alternative supplies found.

The main source of pollution is domestic wastewater. Although most cities in Syria have effective wastewater collection systems, functioning sewage treatment plants are often lacking. Sewage outfalls are positioned to discharge either directly into rivers or onto areas of vacant land. Both options lead to bacteriological and chemical pollution of ground and surface waters.

Capacity to manage natural resources and environmental quality

The Syrian government was among the first Middle Eastern countries to establish an independent environment ministry and to incorporate environment into development planning. In addition, an inter-ministerial body, the Higher Council for Environmental Safety (HCES), has been established with responsibility for setting national policy and co-ordinating environmental management activities. For implementation and enforcement of environmental policies at the local level, bodies have been established in water basins and governorates.

There is an Environmental Framework Law, but little experience of drafting, implementing or enforcing environmental regulations. The draft regulations so far prepared are weak and decrees implementing them are widely ignored. Moreover, the environmental management institutions lack capacity and lack experience of modern environmental management practice.

Political situation

Syria's international relationships are still strongly influenced by Israel's occupation of the Golan Heights, which were taken in the 1967 war and annexed in 1981. Syria has discouraged the Lebanese group Hezbollah from attacking Israel, but has not clamped down on the organisation. Israel made an air strike in Syria in 2003 in retaliation for Palestinian attacks in Israel. The US has taken a strong stance against Syria. The country's military withdrawal from Lebanon is expected to ease the situation, but relations can be expected to remain tense for the foreseeable future.

President Bashar al-Assad has introduced more liberal policies on succeeding his father Hafez in 2000. These include easing restrictions on the media, although press restrictions are still in place.

Tunisia

Economic indicators

Real income		Fixed capital formation		Employment	
GDP (US\$ bn)	28	Gross capital formation (% GDP)	25	Unemployment (%)	14
GDP/capita (US\$)	2828	FDI net inflows (% of GDP)	2.42		
Real GDP growth (annual %)	4.7	R%D expenditure (% GDP)	0.5		
Per capita GDP growth (annual %)	2.6	Technical articles / m capita	25.1		

Source: Annex 1, Table 1. Data primarily 2004.

Economic development

Tunisia has a more diverse economy than many in the region, with textiles as the main export sector, followed by tourism and other manufactures. The country has a small oil extraction industry, with steadily depleting reserves, and a mining sector based primarily on phosphates. The economy benefits from remittances from Tunisians working abroad, which have been growing. Development assistance remains significant, at over 2% of GDP. Agriculture and fisheries are an important part of the domestic economy, but with relatively low exports. Agriculture exhibits continuing vulnerability to adverse weather.

Expiry of the Multi-Fibre Agreement has put increased pressure on the textile industry. This is being addressed through restructuring, with greater inflows of investment and sub-contracting from Europe, but the industry remains vulnerable. Newer industries such as those in the mechanical and electrical sectors are expected to offset this, assisted by strengthening external demand through closer ties with the EU. Food processing has expanded, with growing production of olive oil. Investors in the US, Saudi Arabia and Italy have been active in establishing manufacturing operations in the technology park in Bizerte. Products include automotive components, metal containers, and galvanised and laminated metal sheets. A joint venture has been set up between Tunisian and Iranian firms to produce phosphate based fertilisers for export to Iran. The firms also aim to expand trade in raw phosphate and chemical derivatives.

Government contracts have been awarded to build pilot third-generation mobile telecommunications networks. These will enable the government's telecoms research centre to evaluate different technologies for subsequent investment.

Tourism is the country's third biggest employer, and has been growing strongly. This has been partly driven by heavy discounting by hotels, together with an expansion of the countries from which visitors are attracted. Algeria, Russia and China are now beginning to figure strongly, along with more established tourism from EU countries. An agreement between Tunisia and China has made Tunisia an approved destination, along with cooperation on improving air links.

Economic policy

The government's development plan for 2002-06 includes measures to boost domestic investment, partly through privatisations, encouragement for foreign investment, reforms to the financial sector, and improving competitiveness. The plan aims to make Tunisian businesses better able to withstand greater competition from the EU, and from Asian exporters since the end of the Multi-Fibre Agreement. Despite possible privatisations, it is expected that the public sector will continue to play a significant role in the economy, particularly in areas where reforms could increase unemployment or otherwise threaten social stability.

Banks are being encouraged to merge to strengthen their competitiveness. Efforts to privatise the Banque du Sud have not yet succeeded, probably because of its burden of bad debts. Other privatisations have made little progress. The government is expected to proceed with the sale of a

minority stake in Tunisie Télécom some time in 2005, and with possible further sales of stakes in Tunisair

Fuel subsidies have been cut but not removed, with increases in petrol prices.

Trade policy

Tunisia has been a member of the WTO since 1995, and has made extensive progress in implementing its Association Agreement with the EU. This is regarded as having helped to modernise industry and create jobs, but the government is concerned that EU expansion may reduce financial support. Tunisia may seek to strengthen trading ties with the US as a counterbalance to the EU. A full trade agreement between Tunisia and the US is expected within the next few years.

Tunisia has recently signed a free-trade accord with Turkey. Norway has provided export credit to support Tunisian purchases of Norwegian goods and to fund joint ventures. Links with Iran are expected to strengthen following recent discussions. These have led to Memorandums of Understanding in areas such as petrochemicals, broadcasting, trade and investment, and joint committees to promote co-operation, preferential tariffs and credit allocations, a cultural committee, and a technical committee to deal with cooperation in industry, tourism, handicrafts and fisheries.

Social issues

Poverty

Tunisia's relative success in achieving economic growth has been associated with decreasing levels of poverty. Less than 2% of the population have incomes less than \$1 a day, and the figure of 6.6% for those earning less than \$2 a day is one of the lowest among the partner countries. As measured by UNDP's Human Poverty Index however, Tunisia has performed less well. This is associated with relatively large numbers of people without access to an improved water source, and a higher level of adult illiteracy than some of the other partner countries. Poverty occurs primarily in rural areas. Unemployment is about the regional average at 14%.

Education and Health

Primary school enrolment has now reached 97%, but secondary schooling lags behind at about 70%. Adult youth illiteracy remains relatively high, particularly in rural areas, but can be expected to fall as the expansion of education takes effect. The government has introduced initiatives for vocational training, targeted at the skills needed for national development objectives.

Tunisia is one of the few countries in the region to have piloted a youth project for tackling Sexually Transmitted Diseases and HIV/AIDS. It has reached about 10% of the population and is expected to be extended.

Equity

Government policy has led to a relatively high level of women in the workforce, including at senior levels in the public administration. Discrimination does however still occur, particularly in certain parts of the private sector.

Broadcasting and the press are tightly controlled, despite freedom of opinion and expression being protected by the Tunisian constitution.

Environmental issues

Biodiversity: land degradation, deforestation and coastal ecosystems

Tunisia has a great variety of natural environments, varying between the three major regions of Northern Tunisia, Central Tunisia and Southern Tunisia. Pasturelands are sensitive to wind erosion accelerated by overgrazing and cultivation. Between 1971-1992, the annual reduction rate was estimated at 29,000 ha. Natural forests have regressed at an estimated annual rate of 1%. Extensive reforestation and rehabilitation of pasturelands have been undertaken, which has largely compensated the lack of vegetation cover, but this does not prevent the loss of biological diversity. Natural resources protection programmes have however had positive impacts on biological diversity.

Soils are threatened by a fairly advanced level of degradation from water and wind erosion and salinisation. Conservation measures have always been a major concern for farmers in arid areas, and the state has undertaken extensive conservation activities since the 1960s. The frequency of major floods has decreased significantly, and yields have increased on land where measures have been adopted. The threat of desertification nonetheless remains, arising from problems of natural resource use and natural factors, especially chronic and persistent droughts.

Several coastal areas have been classified as ecologically sensitive, including the Gulf of Gabes, the Gulf of Tunis and the Gulf of Hammamet. Dunes and coastal fringes are also classified as sensitive ecosystems. Urbanisation and tourism have led to strong coastal degradation pressures from exploitation and pollution, exacerbated by natural pressures.

Environmental quality: air quality, urban environment and waste management

A large contribution to air pollution comes from nitrogen oxides, associated with transportation and inefficient techniques used in industry. The chemical industry has contributed greatly to air pollution, as well as water and soil pollution. The iron and steel sector is also a major polluter due to high emissions of suspended particulate matter.

A major programme to create controlled waste sites has been undertaken. Other initiatives include composting and the selective sorting of waste.

Natural resource stocks: water resources quantity and quality

Available water resources in Tunisia are estimated at 4,670 million cubic meter (MCM) per year of which 2,700 MCM are surface water and 1,970 MCM are ground water. The per capita renewable water resources currently amount to about 489 m³/year which is below the threshold for water scarcity (1000 m³/year). Around 84% of withdrawn water is allocated to agricultural irrigation. Water with salinity level of less than 1.5 g/l is considered by the Tunisian Government as good water and constitutes around 50% of available water resources. Moreover, it is estimated that more than 75% of the good quality water is concentrated in the north of the country while more than 95% of the available water resources in the south have a salinity level above 2 g/l.

Four desalination plants are presently operational and are used to reduce the salinity of marginal water. Desalinated water is mixed with water of lower salinity and is used as a source of potable water. The volume of desalinated water is around 54 MCM and does not represent more than 1% of potable water demand.

In general water quality monitoring is limited but available data indicate that most water resources are being polluted, including the Medjarda basin that supplies 55% of the population with potable water. The major pollution sources are municipal wastewater discharges, industrial effluents and agricultural activities. Moreover, around 80% of underground water resources have high salinity and nitrate concentrations from agrichemicals.

At present, over 80% of the urban population is connected to sewerage networks and their effluents are treated to the secondary level, although it has been reported that some plants are overloaded and do not provide effective treatment.

With respect to industrial effluents most modern industries have treatment plants for primary treatment of their effluent prior to its discharge, although there is still a considerable number of industries that are not yet connected to the sewerage network as their effluents do not meet the required standards. Untreated effluents from these industries are being discharged into various natural-receiving bodies.

Capacity to manage natural resources and environmental quality

Tunisia has well established environmental authorities under a Ministry of Environment and Sustainable Development, with sufficient detailed legislation to provide significant influence in development planning and approval processes. The authorities are sufficiently well funded to employ reasonable numbers of inspectors, with clearly defined responsibilities for monitoring and enforcement, and the power to impose effective fines for infringements. In support of these, extensive education and training facilities and programmes are available, covering a wide range of scientific, technical and managerial aspects of environmental protection.

A National Commission for Sustainable Development was established under a Presidential initiative in 1993. This is chaired by the Prime Minister and includes major government departments, representatives of the Chamber of Deputies, professional organisations, and NGOs. Detailed programmes have been drawn up in reaction to various observed shortcomings, and priority projects have been defined in six main priority areas. Other strategic initiatives for environmental management and conservation include a national urban development strategy, an action plan for biodiversity conservation, a national action plan to combat desertification, and a national policy for coastal preservation.

Political situation

Continued stability is expected under the current regime. A terror attack on a tourist location took place in 2002. However, although further attacks are possible, the risk of major disturbance is considered to be fairly low.

Turkey

Economic indicators

Real income		Fixed capital formation		Employment	
GDP (US\$ bn)	287.8	Gross capital formation (% GDP)	23	Unemployment (%)	10.8
GDP/capita (US\$)	3981	FDI net inflows (% of GDP)	0.69		
Real GDP growth (annual %)	9				
Per capita GDP growth (annual %)	6.9				

Source: Annex 1, Table 1. Data primarily 2004.

Economic development

Turkey's economy is relatively diverse, but with a high dependence on textiles and clothing for its exports. Manufacturing and tourism are both strong, and remittances from Turkish workers abroad make a significant contribution to foreign earnings. Development assistance is the lowest of the partner countries, at 0.3% of GDP.

There is concern that increased competition from Chinese firms due to the end of the Multi-Fibre Agreement will increasingly damage Turkey's exports, most of which go to the EU. Other manufacturing sectors have however become more competitive, with a large proportion of private investment going into new machinery and equipment, rather than new buildings. Strong growth has been experienced in automotive production, miscellaneous machinery, radio and television equipment and office equipment. Some intermediate goods such as plastics, mineral oils, chemicals and metals have also expanded. The export oriented expansion of the automotive sector reflects recent investments by multinational firms such as Ford, Toyota and Renault.

Tourism has recovered from a trough and is growing. Western Europe continues to provide the majority of foreign visitors, with sharp rises in the numbers from the Benelux countries, Scandinavia, Switzerland and Italy, and also Eastern European and Central Asian countries.

Economic policy

The country's programme of fiscal restraint and structural reform is backed by the IMF. Progress has been made towards restructuring the tax administration, reforms to banking legislation, legislation on state enterprise governance and reforms to the social security system.

A privatisation programme is under way. Sales include alcoholic drinks production, urban gas distribution, fertiliser and mining enterprises. Sale of an oil refinery has been delayed by legal challenges, and other privatisations are in progress, including the proposed sale of a majority stake in Turk Telekom.

Trade policy

Turkey's trade policy is strongly influenced by its candidature for accession to the EU, and its programme for harmonisation with the *acquis communautaire*. Turkey has been a member of the WTO since 1995. It signed its trade agreement with the EU in 1963, and has bilateral trade agreements with Israel and Tunisia.

Social issues

Poverty

The proportion of people with incomes less than US\$1 per day has been estimated at under 2%. At the US\$2 level the proportion is about 10%. Income disparities are still very pronounced, and affect the

East and Southeast in particular. It is estimated that there are 10,000 street children in the Diyarbakır area.

Unemployment rose from 9.3% in 2002 to 10.8% in 2004. It is highest in urban areas, at over 13%, compared with about 6.5% in agricultural areas. Youth unemployment is over 20%.

Education and Health

Primary school enrolment is among the lowest of the partner countries, at 88%. Expenditure is low, although it has been maintained during a period of fiscal constraint. Government measures have been taken to increase the length of compulsory education from eight to twelve years, and secondary education from three to four years, although fiscal problems have hampered this. Tertiary education is highly centralised, with a lack of academic, administrative and financial autonomy. This prevents universities from adapting to the labour market, and there is a high rate of unemployment among university graduates.

Measures of health quality are towards the lower end of the range for partner countries. However, polio has been eradicated, and the Ministry of Health has launched a measles elimination programme. Centres are being established to provide counselling services to people with HIV/AIDS.

Equity

The 15 years of emergency rule in the East and Southeast of Turkey came to an end in November 2002, although many disparities remain. The electoral system makes it difficult for minorities to be represented in Parliament, and discriminatory practices by the authorities have been reported. Kurds, Armenians, Greeks, Assyrians and Roma all face difficulties. Internally displaced people are still in a critical situation, with large numbers living in extremely poor conditions on the periphery of cities and larger villages.

The gap in literacy rates between men (94%) and women (78%) is an indicator of a continued gap in gender equality. Female economic activity is significantly lower than for males, and only half the female population over 15 years is economically active. The majority of these women work in agriculture and not in the urban sectors. Violence against women is still widespread. A new Labour Law recognises the principle of equal treatment, but legislation does not yet guarantee effective prohibition of discrimination in employment. The representation of women in elected bodies remains low, with 24 women out of 550 members of Parliament.

Environmental issues

Biodiversity: land degradation, deforestation and coastal damage

Turkey has a rich biodiversity, with sensitive ecological habitats covering wetlands, mountainous areas, coastal areas and steppes. Over 33% of its flora are endemic species, many of which are threatened. Several mammal and bird species are also threatened. Forests cover about 26% of Turkey's surface area, but there are relatively few major protected areas. It has the largest wetland area of Europe and the Middle East, with many significant bird areas. The extensive shoreline covers the Black Sea, the Sea of Marmara and the Aegean Sea as well as the Mediterranean. The coasts are a major tourist destination, while the mountain terrain has many peaks of over 3,000 metres which attract winter tourists. Rapid tourism development has generated waste and degraded groundwater.

The steeply sloped mountainous topography is prone to soil erosion, which affects about 80% of the total land surface in varying levels of severity. In some areas heavy rainfall causes risk of landslides and floods, while in others, aridity combined with human activity encourages desertification. The intensification of agriculture has also contributed to land degradation. Irrigation and the use of

fertilisers and pesticides have all increased significantly since the 1970s. Earthquakes are a major natural hazard.

Overfishing has been a problem, especially for the Black Sea, while oil spills, the disposal of solid waste and insensitive port and marine developments have all threatened marine resources.

Environmental quality: air quality

Ambient air pollution from particulates and SO₂ declined significantly during the 1990s, mainly through the prohibition of high-sulphur domestic coal and major investments in natural gas networks. Emissions remain high in some areas however, where poorer households are unable to convert to natural gas, and industrial regulation is inadequately enforced. Air pollution from motor vehicles is a growing problem, especially in cities with high population densities.

Environmental quality: urban environment and waste management

Waste collection services reach most households in urban areas, although a large proportion is still disposed of in open dumps, seas, lakes and rivers, or burned in the open or dumped in agricultural land. Open dumps experience problems with leachate getting into surface and groundwater, and have caused fires and methane gas explosions.

The treatment and disposal of hazardous waste is the responsibility of metropolitan governments, but capacity is not sufficient in many areas.

Rural areas are poorly served by sewage treatment, and much sewage is discharged untreated or only partially treated. Seepage from sewage systems and open solid waste dumps are the main causes of degraded water quality. Only low levels of industrial wastewater are treated, and discharges from small enterprises are poorly managed. Industrial zones generally have waste water treatment facilities, but they are often inoperative or incapable of handling the effluent load.

Natural resource stocks: water resources quantity and quality

Turkey is well endowed with water resources. Many large water management and hydropower projects have been undertaken, some of which have generated controversy. The Southeast Anatolia Project entails the construction of 22 dams and 19 hydroelectric plants, including exploitation of the Tigris and Euphrates rivers. When complete it will irrigate 1.8 million hectares of land and produce 23 billion kWh of electricity. Problems have included population displacement, damage to ecosystems, changed disease vectors, loss of historical heritage, accelerated urbanisation and transboundary disputes.

Most established urban areas are well supplied with piped water, but water supply is a problem in some rural areas and illegally settled areas of cities.

Uncontrolled agricultural runoff is a significant source of water pollution, along with uncontrolled leakage from septic tanks and leachate from solid waste dumps.

Capacity to manage natural resources and environmental quality

Turkey has a comprehensive set of law, regulations and standards for environmental management. Responsibility rests primarily with the Ministry of Environment, but with some overlaps with other authorities including the State Hydraulic Works, the Ministry of Agriculture and other sectoral ministries. Local environmental management is through Provincial Directorates of Environment.

The environmental authorities are understaffed in some areas and lack appropriate equipment to discharge their responsibilities effectively. Monitoring of air pollution is limited by a shortage of data collection facilities.

Political situation

Turkey's policies are oriented strongly towards its aim of gaining accession to the EU. Its secular constitution contributes to this, and is reinforced by it, although tensions remain in relation to the country's predominantly Muslim faith. Turkey's support for the UN plan for a Cyprus settlement has removed this as a barrier to accession, but much opposition remains in parts of Europe.

European concerns in relation to the rights of the Kurdish minority in the east of the country have been largely alleviated by moves towards extending Kurdish civil and cultural rights. Political tensions still remain however, and the Kurdistan Workers Party (PKK) remains active under its new name, the Congress for Freedom and Democracy in Kurdistan. Steps have been taken to establish local radio and television stations broadcasting in the main Kurdish language, and extensive resettlement has taken place, with many internal refugees returning to their home villages.