



Monitoring and Analysis of Political, Social and Economic Development in Countries Affected by Conflict*

January-June 2007

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EXECUTIVE SUMMARY

This issue of ESCWA's "Monitoring and Analysis Report of Political, Social and Economic Development in Countries Affected by Conflict" covers the period between January and June 2007, with a special focus on political, social and economic developments in Lebanon, the Occupied Palestinian Territory (OPT) and Iraq.

The main causes of instability in the region in the first half of 2007 include the polarization of regional and national political forces, increasing sectarian tensions, foreign influences on domestic politics and the Arab-Israeli conflict. The ESCWA region continues to suffer from regional power politics, where foreign powers, in particular Iran and the United States, have aligned themselves with strong local actors, who in turn depend on their supporters to enhance their positions at home. Increasingly, local actors find themselves caught up in competing national, regional and international interests at the expense of local political engagement, which reinforces political polarization at the domestic level. Also noteworthy is the increasing presence of religiously based non-state actors in the region.

This state of affairs, set against the backdrop of the Arab-Israeli conflict, is fuelling instability in particular in Lebanon, Palestine and Iraq, and as a consequence prospects for economic recovery in these countries in the next six-month reporting period are low.

In the OPT, the division between the two major parties, Hamas and Fatah and the collapse of the Palestinian unity government in June 2007 reflected local and regional tensions and alliances. Prior to these events, the first half of 2007 showed little change in the downward economic trend triggered by the election of the Hamas-dominated government in January 2006. With the declaration in June 2007 of the new emergency government, international donors have pledged to reinstate political relations with the new government and lift restrictions on aid transfers, while the GOI has begun to release the approximately \$700 million it owes the PA in taxes.

Real GDP growth in the OPT contracted by 8.5 percent in 2006, and unemployment and poverty rates rose in 2007. Economic and social conditions in Gaza in particular in the second half of 2007 will be dictated by whether or not, or to what extent the territorial and political integrity of the PA can be salvaged in coming months. With a politically divided OPT, in the short term there will probably be some signs of economic recovery in the West Bank with a sharp decline in Gaza. In the medium to longer term, it is possible that international pressure and economic necessity will prompt the parties to reconcile.

Lebanon, socially and economically, is still experiencing the effects of Israel-Lebanon War of 2006, and regional power politics continue to have a paralyzing effect on the country. While substantial international support was committed in the Paris III Conference in January 2007, socio-economic conditions will be dictated by a variety of inter-related factors such as an end to the political impasse, the resolution of the Nahr al Bared conflict in the North and the 2007 Presidential elections.

The Lebanese economy experienced overall lower levels of consumer demand throughout the first half of 2007. Real economic growth is expected to reach 2 percent by the end of 2007, after

contracting by 5 percent in 2006. Public reconstruction works and private investments caused gross fixed capital formation to rise, but political instability discouraged inflows of foreign direct investment, and international rating agencies maintained their low ratings for Lebanon. Tourism continues to be one of the industries most debilitated by political instability, and increasing numbers of Lebanese are leaving the country to pursue opportunities abroad. The fighting in the Palestinian refugee camp of Nahr El Bared between Fateh-El-Islam and the Lebanese Army has added another burden to an ailing economy, and has severely affected the lives of almost 30,000 Palestinian refugees who fled the camp.

In Iraq, war and sectarian violence continue to create very difficult living conditions for the Iraqi people. Economic recovery hinges on increased security, which appears unattainable in the medium term future. The weak Iraqi government remains unable to bring together the various ethnic, religious and sectarian communities as militant groups, religious factions and tribal chieftain are gaining power. It also remains to be seen if the US-Iraqi security plan for Baghdad will succeed, as levels of violence continue to be extremely high in comparison with the Iraq of 2003 through 2005.

Real GDP growth for 2006 in Iraq is estimated at 3 percent, lower than the 10.5 percent originally projected. Oil production also did not increase in 2006 as projected, remaining almost unchanged from 2005 at 2.3 million barrels per day. Estimates of unemployment and poverty rates for 2007 are high. Moreover, by June 2007, up to 2 million Iraqis have been displaced internally and 2.2 million refugees have fled to other countries. The situation poses complex problems not only for the displaced and refugees, but also for neighboring countries, the region, the international community and aid agencies. Jordan and Syrian in particular, which host an estimated 750,000 and 1,400,000 refugees respectively, are straining to cope with effects that the influx of refugees is having on their economies and societies.

Into the second half of 2007 and beyond, some analysts express fears that the region could be sliding towards a regional war involving Syria, Iran and the United States and its allies. Other more optimistic observers believe that the region is in transition, with traditional powers in decline as new ones emerge. Whether either of these predictions comes true, the socio-economic conditions in all three countries will continue to be effected by the highly unstable political environment and lack of security, and as a consequence prospects for economic gains in Lebanon, Palestine and Iraq into the next 6-month reporting period are low.

I. INTRODUCTION

This is a third in the series of bi-annual reports on political and socio-economic trends in the ESCWA region. This issue covers the period between January and June 2007, with a special focus on political, social and economic developments in Lebanon, the Occupied Palestinian Territory (OPT) and Iraq.

The purpose of this report is to identify political developments and highlight the implications of major events for countries in the ESCWA region afflicted by conflict and instability. While the Report provides an overview of recent socio-economic developments, its purpose is not to duplicate the in-depth reports prepared by other agencies and organizations detailing the most current socio-economic conditions and statistics in the region. Rather, this report targets the reader who is interested in an analysis of current regional dynamics and their implications for policy making, peace-building and humanitarian and development initiatives. The report relies on a variety of sources, including reports and statistics compiled by governmental institutions, UN agencies, World Bank, IMF, international and national NGOs and news articles.

Section II of the report on Regional Political Developments will feature the main causes of instability in the region in the first half of 2007. These developments include the polarization of regional and national political forces, rising sectarian tensions that spill over national borders, foreign influences in local politics and the Arab-Israeli conflict. Section III of the report describes and analyzes the effects of regional trends on the socio-economic conditions in Lebanon, the OPT and Iraq.

II. REGIONAL POLITICAL DEVELOPMENTS

The ESCWA region continues to suffer from intense power politics, characterized by competing local, regional and international interests that are having a polarizing affect on regional and domestic political forces, at least in the short term. Foreign powers have aligned themselves with strong local actors, who in turn rely on their regional supporters to enhance their positions at home. The two main opposing camps are led by Iran and the United States, with their respective regional and local allies lining up behind. Capitalizing on its influence in a number of countries, in particular Iraq, Palestine and Lebanon, Iran's regional authority continues to grow. Negotiations with the international community, in particular Europe, the United States and the International Atomic Energy Agency, have not dissuaded Tehran from continuing its nuclear programme. The alignment of forces opposing Iran's growing regional preeminence and nuclear aspirations is likely to continue to pressure Tehran through diplomatic and other means. Increasingly, local actors find themselves part of this wider international and regional conflict.

Indeed, the links between domestic political forces and foreign powers have become stronger and more intimate, with the result that dialogue, coordination and cooperation between the local actor and his foreign supporter occurs at the expense of national political engagement. Consequently, political relations at the national level have become polarized and tainted by distrust and mutual recriminations of deception and betrayal. Different religious, sectarian and ethnic affiliations further complicate these dynamics. As a consequence, opposing groups have suspended political

dialogue and negotiations. Also noteworthy is the growing influence and military prowess of religiously based non-state actors in Palestine, Lebanon and Iraq.

The Arab-Israeli conflict continues to be an underlying source of regional conflict and instability. The Arab Summit in March 2007 called on Israel to accept the terms of the Arab Peace Initiative; however, no concrete progress was made in that regard. Israel's occupation of Arab land in the OPT and Syrian Golan, its settlement expansion, system of closures and mobility restrictions, the ongoing construction of the barrier in the West Bank, arbitrary arrests and targeted assassinations continue to anger its neighbors, increase local tensions and intensify polarization.

Occupied Palestinian Territory: Israeli occupation and the intensification of the internal Palestinian struggle between Hamas and Fateh

Internal fighting between the two major Palestinian parties has compounded existing Palestinian hardships caused by Israel's occupation, military incursions and restrictions on movement and access in the OPT. The February 2007 Mecca Agreement between Fatah and Hamas, signed under the auspices of Saudi Arabia, resulted in the establishment of the Palestinian National Unity Government. However, the Government was unable to integrate or coordinate its many security and political branches, and became further entangled in regional and international power politics. Israeli and international economic measures against the Palestinian Authority, put in place after the January 2006 elections, remained in force while foreign powers reinforced their support for their opposing local allies, Fatah and Hamas. Palestinian internal fighting continued sporadically and climaxed at unprecedented levels between 9 and 15 June 2007. In a well-planned and executed operation, Hamas took control of the Gaza Strip. The fighting spilled over to the West Bank, where Hamas supporters were attacked and detained. On 14 June, President Mahmoud Abbas replaced PM Ismail Hannieh with Salam Fayyad, after declaring a state of emergency. PM Fayyad, who has received wide international support, now heads an emergency government of 11 independent ministers that is nonpartisan but nevertheless strongly opposed to the Hamas takeover in Gaza. The fate of the Hamas controlled Gaza Strip and its inhabitants remains uncertain. Neither Israel nor Egypt, Gaza's immediate neighbors, is likely to condone a Hamas controlled Gaza Strip in which Syria and Iran may have a certain degree of influence.

Lebanon: A Scene of Divergent Local and Regional Interest

Syrian-Israeli relations during the first half of 2007 were marked by extensive reports of back door peace negotiations between the two countries. However, these negotiations were coupled with military preparations and maneuver, and in the absence of a willing peace broker, Syria and Israel are bound to remain at loggerheads for the time being. Syria continues its overt support of Palestinian and Lebanese groups, mainly Hamas and Hezbollah. Future action by these groups against Israel could increase tension further and push Damascus and Tel Aviv into a direct confrontation.

Israel's border with Lebanon has remained calm aside from the two Katyusha rockets fired from the south of the country into northern Israel on 17 June. More serious was the attack against the Spanish contingent of UNIFIL where 6 peacekeepers lost their lives. Both of these attacks

received wide spread condemnations and were partly interpreted to be direct attempts to undermine SCR 1701.

Politically, Lebanon continues to be unpredictable, and concerns regarding the deterioration of the security environment are high. The country remains politically split between the so-called 8 March and 14 March political groupings, with each strongly aligned to two or more foreign powers. Significantly, on 10 June 2007, Security Council Resolution 1757 establishing the Special Tribunal for Lebanon entered into force, an event that was interpreted by many as removing a major issue of contention between local political protagonists. Nevertheless, mediation efforts before and after the adoption of the Resolution failed to end the political stalemate as local interests have become increasingly marred by regional as well as international power politics.

After the withdrawal of the five Shiite ministers from the government in November 2006, the legitimacy of Fuad Siniora's cabinet, which has the support of the international community, has been questioned by a sizable percentage of the Lebanese population, particularly the Shiite community led by Hezbollah. Hezbollah, known for its close ties with Iran and Syria, has been demanding a greater share in government decision making, along with the faction led by Maronite Christian leader Michel Aoun. No new government line up has thus far been agreed upon in order to accommodate the demands of both sides. A worrying trend has been the lack of initiative by the Lebanese political leaders to come up with solutions; instead, a dependence on foreign mediation has come to dominate the first half of 2007. The heated political debate in Lebanon has currently shifted to the impending presidential election, which is scheduled to take place by mid September 2007. The seat of president in recent years in particular has been the subject of great controversy, and widely believed to be controlled by Syria.

This political discord has exacerbated the poor security environment in the country, and has had detrimental effects on the Lebanese economy. Political assassinations targeting anti-Syrian personalities as well as explosions targeting commercial and industrial areas have continued unabated. The latest political assassination took place on 13 June, targeting pro-government loyalist and Member of Parliament, Walid Eido. The assassination was interpreted as an attempt to reduce the pro-government parliamentary majority. The assassination reinforced Sunni-Shiite tensions in Beirut, but violent clashes between the two groups were prevented.

In Northern Lebanon, militants belonging to Fatah el-Islam attacked the Lebanese army, and since May 2007 fierce battles between them continue to take place. The Fatah el-Islam force is reported to be composed not only of Lebanese, Palestinians and Syrians, but also a sizable number of Arabs from the Gulf and North Africa. It is claimed that Fatah el-Islam has links to an al-Qaida like jihadi group that is targeting Lebanon, either motivated by their own extremist ideology, as some experts argue, or with the support of one or more state security forces, as a number of other opinion makers maintain. Regardless of their motives, these cells flourish where high unemployment and poverty are prevalent, such as the north of Lebanon, which is composed of some of the most impoverished areas of the country.

Iraq: A battle ground of fierce sectarian fighting, marred by the confrontation of contending regional powers

Al-Qaida like jihadi groups, al-Qaida itself and other sectarian-ethnic militant groups have found fertile ground to operate in Iraq. Currently, an environment for stabilization of the country does not exist. Poor socio-economic conditions and massive population displacement are compounded by the lack of political force to institute a sustainable conciliation process between the various ethnic, sectarian and religious communities in Iraq. Such a process is vital for the creation of a viable political system in which all Iraqi people would have a vested interest. The Government has failed to launch such a process, without which there will be no peace in the foreseeable future. Instead the political discourse remains marred by strong differences over power sharing, the control of Iraq's natural resources and the territorial integrity of country.

As in Palestine and Lebanon, the interests of local protagonists are closely intertwined with competing regional and international interests. The Iraqi state remains weak as factions controlled by religious leaders and tribal chieftains are gaining power. It also remains to be seen if the US-Iraqi security plan for Baghdad will succeed.

Levels of violence remain high in comparison with the Iraq of 2003 through 2005. Sectarian motivated bombings by insurgents and terrorists, added to confrontations with regional and intermediate actors, continue to paralyze the entire country. Such a state of affairs is likely to continue if the grievances of marginalized Iraqis, in particular the Sunni Arabs, are not addressed. Complicating the political situation in Iraq are also the opposing strategic interests of the country's neighbors and the increasingly strained relations between Syria and Iran on one hand and the United States on the other. Increased Turkish fears of an emerging Kurdistan in the northern part of Iraq, also shared by Syria and Iran, further complicate the political situation. Stability in Iraq will remain elusive if key regional actors refuse to work in concert to avert what has the likelihood of turning into an even wider regional crisis that could have profound security ramifications for many of the nations in Western Asia and beyond.

III. SOCIO-ECONOMIC DEVELOPMENTS

1. Lebanon

Overview

Ten months after the end of the Israel-Lebanon War of 2006 and the two months blockade, which derailed the Government's ambitious 2006 economic reform programme and inflicted heavy social and economic damage, it is expected that the economy will continue to be held hostage by domestic and regional political events in 2007. While substantial international support was committed at the Paris III Conference in January of 2007, successful implementation of reform plans will require an end to the political impasse and will be influenced by the outcome of events that are still unfolding, particularly the establishment of the UN Special Tribunal for Lebanon and the impending presidential election. The methodical occurrence of political assassinations and the indiscriminant bomb explosions around the capital, viewed as attempts to destabilize the country, continue to have a depressive effect on the economy,

especially for the investment and tourism sectors. Increasingly, Lebanese are looking for opportunities abroad. Moreover, the targeting of UNIFIL soldiers in the South in June 2007 has heightened concerns over the ability of the country to stabilize sufficiently for there to be any rebound in the economy.

Political deadlock stalls implementation of Paris III commitments

Results of the Paris III conference, which convened on 25 January 2007, were significant, with the international community pledging US\$7.6 billion to support Lebanon. Of this amount, 68 percent is for budgetary support, 20 percent for the private sector, and 12 percent for projects and other purposes.¹ Soft loans comprise 81.5 percent of total aid commitments, and the remaining balance consists of mostly grants for budgetary support. At the conference, the Government presented a reform plan for reducing the public deficit and enhancing debt repayment through a proposed set of fiscal policies and structural adjustments. The plan also proposed the introduction of measures to improve social services and support economic recovery. Implementation of the five-year plan was supposed to begin in 2007. However, in part because the disbursement of aid funds has been stalled by the continued political deadlock, implementation of the plan is not expected to start before 2008.

Instability and lack of security hampers economic recovery

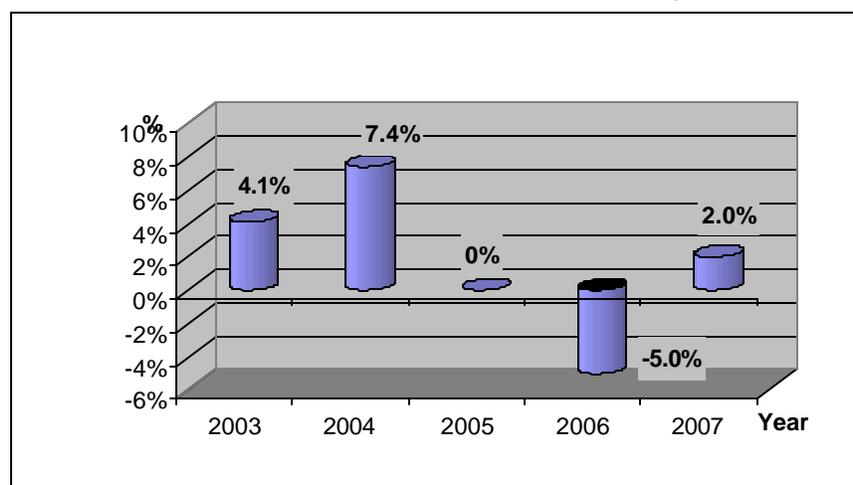
Real economic growth in Lebanon is expected to reach 2 percent by the end of 2007, according to a recent statement by the Governor of the Central Bank.² The Israel-Lebanon War resulted in a contraction in growth of 5 percent in 2006 (See Chart 1, below). Direct costs of the war were estimated at US\$2.8 billion and indirect costs at US\$ 700-800 million.³ Based on perceptions of increasing political stability and enhanced security, there were high expectations for a rebound in GDP growth of 5 to 6 percent in 2007. Instead, the political deadlock intensified after the war and further deterioration in security continued to adversely affect macroeconomic activity. As the situation now stands, a growth rate of at least 5.3 percent is required to restore GDP to its pre- 2006 level. However, thus far the first half of 2007 has witnessed a further slow-down, making a recovery this year unlikely.

¹ Ministry of Finance, "International Conference for Support to Lebanon-Paris III, First Progress Report," 2007.

² The Daily Star, "Salameh predicts GDP growth of 2 percent," 5 May 2007.

³ Ministry of Finance; The World Bank Group, First Quarter 2007, The Republic Of Lebanon, p4.

Chart 1: Real GDP Growth Rates in Lebanon, 2003-2007



Sources: 2003-2004 Presidency of the Council of Ministers, "Economic Accounts of Lebanon 2004," February 2007; 2005-2006: Estimates of the Ministry of Finance; 2007: Projections of Banque du Liban.

Despite short-lived periods of relative stability, the economy experienced lower levels of consumer demand throughout the first half of 2007, and retailers have reported signs of decline in the consumption of durables. For example, the sales of mid range sedans dropped significantly in January 2007 compared to January 2006.⁴ The behavior of consumers can be best described by "wait and see." Producers, on the other hand, have experienced signs of relief in the first half of 2007 due to growth in the external demand for their products. Exports recorded 20.19 percent growth in the first quarter of 2007 compared to the first quarter of 2006.⁵

Investment is affected by two opposite trends. Public reconstruction works and private investments brought additions to gross fixed capital formation, as evidenced by an increase of 32 per cent in imports of industrial machinery in the first quarter of 2007, relative to the same quarter in 2006.⁶ On the other hand, high risk factors created by political uncertainty and lack of confidence in the country discouraged inflows of foreign direct investment, and international rating agencies maintained their low ratings for Lebanon. As a result, investments in projects such as high-end apartment blocks, office buildings and hotels have slowed down significantly in the first half of 2007.

Repercussions of war continue to affect monetary environment

Pressure on prices continues to be present in 2007. The inflation rate reached 6.8 percent between June and December 2006. The shortages in supply and storage space as well as high shipment costs caused by almost two months of blockade in the summer of 2006 led to a hike in the prices of many goods. While the recorded increase in the Consumer Price Index was 1.7 percent in the first quarter of 2007,⁷ the actual inflation rate could be significantly higher taking

⁴ The Daily Star, "Car sales stall as Lebanese wait to see which way the country will go," 28 Feb. 2007.

⁵ Banque du Liban, Dep't of Statistics and Economic Research, "Monthly Bulletin," various issues in 2007.

⁶ Ibid.

⁷ Central Administration for Statistics, Consumer Price Index, www.cas.gov.lb.

into consideration the higher prices paid for imports from Europe, with the increase in the exchange rate of the euro vis-à-vis the dollar, a sharp increase in the prices of construction materials and the fact that the CPI does not cover rents of households, which went up significantly.

The balance of payments registered a deficit of US\$310 million in January 2007 mainly as a result of the decline, amounting to US\$ 579 million, in the net foreign assets of banks and financial institutions.⁸ The month of January witnessed street demonstrations and clashes between groups supporting and opposing the government, leading to a 7.4 percent drop in the deposits of non-residents in the same month.⁹ This drop was short-lived as growth in foreign assets of banks in February and March reflected positively on the deficit, narrowing it down to US\$100.4 million by the end of March 2007. Additional receipts expected in terms of foreign aid and transfers of expatriates will further enhance the position of the balance of payments as the year progresses.

Fiscal concerns still present one year after 2006 Israel-Lebanon War

Government spending expanded by 15.9 percent in the first four months of 2007 compared with the same period in 2006.¹⁰ However, the growth in public revenues was modest at 2.7 percent, resulting in a widening of the budget deficit by more than two folds for the same period. If this trend persists until the end of the year, the budget deficit could climb to an estimated 6 percent of GDP.¹¹ The increase in government expenditures is attributed to reconstruction and rehabilitation works and to an increase in debt servicing, which alone comprises around half of total government expenditures. The repercussions of the 2006 War have also negatively impacted the government's efforts to reduce public debt, which had grown to US\$41.2 billion by the end of March 2007. This represents an increase of 8.5 as compared to the prior year. The projected estimate for debt to GDP ratio by the end of the year 2007 is 1.68.¹²

Impact on the economy of reconstruction of war damage

The construction industry, a major contributor to the economy, was expected to see robust growth due to the need for reconstruction and rehabilitation of the enormous damage left by the 2006 War. However, indicators in the first half of 2007 reveal a mixed performance.

On the positive side, by March 2007, the Government and the private sector completed the reconstruction of 43 out of the 91 bridges and 92 percent of schools destroyed in the summer of 2006. In large part due to this increase in public works, the quantity of cement deliveries in January 2007 rose by 38.2 percent compared to January 2006, and continued to rise into March 2007.¹³ High external demand for cement, mostly from the Syrian Arab Republic and Iraq, also continues to support growth in cement production.

⁸ Banque du Liban, Dept of Statistics and Economic Research, "Monthly Bulletin," no. 152, Jan. 2007, pp 1, 11.

⁹ Ibid.

¹⁰ Ministry of Finance, Fiscal Performance Reports, years 2006, 2007, www.finance.gov.lb.

¹¹ ESCWA estimate.

¹² ESCWA estimate.

¹³ Banque du Liban, Dep' of Statistics and Economic Research, "Monthly Bulletin," no. 152, January 2007, p. 2.

The reconstruction of houses, utilities, and business enterprises, however, did not gain the expected momentum. Preliminary projections show that US\$ 1.49 billion would be needed to repair or rebuild destroyed homes in the South, Bekaa, Southern Beirut and other areas affected by the war.¹⁴ As of May 2007, only 10.58 percent of this amount was ready for payment.¹⁵ Reconstruction efforts are being hampered by the complexities involved in managing such an enormous project, including the difficulties involved in organizing the compensation of the thousands of families who were displaced, many of whom have expressed dissatisfaction with the amount of compensation and the delays in disbursement. Individuals who perceive that the politically unstable environment makes it too risky to reconstruct may also delay reconstruction of homes intentionally.

The construction industry was also negatively affected by the skyrocketing prices of construction supplies, as well as the slow down in demand for built property. Reports indicate an increase in the retail prices of cement and other construction supplies in the local market by 40 to 90 percent and the prices of steel have risen sharply in international markets. The Construction Cost Index had increased by 17.5 percent in March 2007 compared to March 2006¹⁶ and the number of construction permits awarded in Beirut and Tripoli declined by 9.4 percent in January 2007. However, in some other areas including the South, higher demand for housing by international workers and IDPs from the 2006 war was experienced¹⁷. The general direction of indicators could signal an overall slowdown in the demand for housing.

Tourism industry debilitated by political instability

In 2007 tourism continues to be one of the industries most debilitated by political instability. Intra-regional tourism in particular, the largest contributing sector of the industry, has suffered from the lower numbers of incoming visitors. The Ministry of Tourism reported an overall drop in the number of tourists visiting the country by 27 percent in the first quarter of 2007 compared with the same period in 2006.¹⁸ With the continuation of the “sit-in” demonstration in downtown Beirut and hostilities in Nahr El Bared in the North, the political assassination of Walid Eido of the Future Movement, the targeting of UNIFIL soldiers in the South and the indiscriminant bomb explosions in places frequented by civilians, tourists are expected to continue to avoid visiting Lebanon into the height of the 2007 summer season.

Businesses providing recreational services sustained heavy losses in the first half of 2007 due to reductions in both tourist and domestic spending. According to a recent survey, hotels experienced a low average occupancy rate of 48 percent in 2006 comprising a further decline from 52 and 71 percent in 2005 and 2004, respectively.¹⁹ This rate was the lowest occupancy rate amongst 15 Arab cities. Moreover, revenues of hotels are estimated to have declined by 13 percent in 2006.²⁰ Car rental agencies were also severely hit by the decline in the number of

¹⁴ “Payment Analysis According to Data Received from Council of the South,” www.lebanon-support.org.

¹⁵ Ibid.

¹⁶ Banque Audi, “The Lebanon Weekly Monitor,” week 23, 4 Jun – 9 Jun 2007, p.3.

¹⁷ Banque du Liban, Dep’t of Statistics and Economic Research, “Monthly Bulletin,” no. 152, January 2007, p. 3.

¹⁸ Ministry of Tourism data quoted in The Daily Star, “Absent tourists pass harsh judgement on Lebanon,” Friday, 27 April 2007.

¹⁹ HVS International, “Middle East Hotel Survey – Outlook, Market Trends and Opportunities,” 2007, p. 5.

²⁰ Ibid.

visitors. According to the Syndicate of Rental Car Agencies in Lebanon, around 40 percent of the 140 registered car rental companies have shut down or are on the verge of doing so.²¹ The same report estimates revenue losses of the sector at US\$40 million since the 2006 War. In addition, over 80 restaurants and cafes located in the Beirut Central District have downsized or temporarily closed, and 34 have shut down due to the paralysis created by the ongoing protest in the area.²² Domestic demand comprises an important source of revenue for restaurants in particular; however, the most recent episodes of violence have deterred many Lebanese clients from eating out.

More and more Lebanese look for opportunities abroad

“Brain-drain” in Lebanon is a consequence of economic decline caused by political instability. Lebanon has a history of high migration, and the number of highly educated and highly skilled laborers leaving the country has grown consistently over the past three decades. Lack of suitable employment opportunities and good salaries were often the reasons given in the recent past by emigrants for leaving the country. However, a recent survey of mostly young people shows that after the 2006 War, people are also leaving because of the increasing political instability. The survey shows that 60.5 percent of respondents wanted to leave the country, with 68.4 percent saying that the 2006 war had influenced their decision.²³ Moreover, 36.5 percent of respondents feared that the current political instability could lead to another war.

Many respondents revealed that they believed that unemployment (32.2 percent) and poverty (14.9 percent) were the main reasons behind economic instability.²⁴ In fact, it is estimated that in the aftermath of the 2006 war, between 30,000 and 50,000 jobs were lost.²⁵ Experts also estimate that 50 percent of university graduates have left the country over the course of the past two years.²⁶

The social and demographic implications of migration are as significant as the economic ones. First, Lebanon is losing an important segment of its labor force, mainly young university graduates who would otherwise be the decision makers and entrepreneurs of the future.²⁷ Second, the middle class will shrink as more educated people leave, creating a wider and wider gap between rich and poor. Third, the social fabric of the family is weakened by migration. As more males leave the country, more women are left behind. Research shows that the migration of male spouses could challenge traditional gender roles, leaving women with greater pressure and responsibility for the welfare of the family, but possibly more decision-making power while the men are away.²⁸

²¹ The Daily Star, “Lebanon tensions drive car-rental agencies out of business,” 26 April, 2007.

²² *Lebanon Today*, “Lebanon: A Country on the Verge of Collapse,” 2007, p. 14.

²³ Hourani, G., and E. Sensenig-Dabbous, “Insecurity, Migration, and Return: The Case of Lebanon Following the Summer 2006 War”, 2007, pp. 14-15.

²⁴ *Ibid.*, pp. 16-19.

²⁵ Quoted in UN-ESCWA, “Monitoring and Analysis of Political, Social and Economic Development in Countries Affected by Conflict”, July-December 2006.

²⁶ IRIN, Reuters, “Lebanon suffering brain-drain as 1 in 3 want to leave,” 10 June 2007.

²⁷ *Ibid.*

²⁸ UN-ESCWA, ESCWA Centre for Women News Letter , “Gender and Migration”, January 2007.

In the short to medium term a reversal of this trend is unlikely, as the same conditions required to turn around the economy are required for the creation of jobs: political stability and security. Moreover, the network of Lebanese living abroad makes it easier for migrants to leave and adjust in a new country.²⁹ The lack of restrictions on channeling earnings in and out of the country and on returning for business or leisure reduce the social and financial risks of leaving. Indeed, the receipts from Lebanese working abroad has cushioned the current account deficit and boosted household incomes for decades. In 2005, transfers from Lebanese living abroad were estimated at US\$1.4 billion.³⁰ In the end, sustainable political stability is a prerequisite for any slowdown in the number of people leaving the country.

The Nahr El-Bared conflict compounds political instability

The latest outburst of violence in the North and the fighting in the Palestinian refugee camp of Nahr El Bared between Fath-El-Islam terrorists and the Lebanese Army has added another burden to an ailing economy, and has severely affected the lives of almost 30,000 Palestinian refugees who fled the camp.

Palestine refugees in Lebanon already suffer from poor living standards due to overcrowding, poverty, difficulties in accessing education and high unemployment rates. Now, in addition to the deaths and injuries they have suffered from being caught in the crossfire, the residents of Nahr El Bared are facing displacement once again, and the international community and the Lebanese Government are scrambling to provide them with adequate temporary housing, food, water, health care and sanitary conditions. In addition, UNRWA reports that there is extreme overcrowding in the camps the refugees have fled to, and that the population of nearby Beddawi camp, which took in over 20,000 people, has doubled. Most of the refugees were housed in the 5 schools of Beddawi, with up to 50 people per room.

In addition, the North has experienced almost a complete paralysis for over a month. Three of the main exporting routes between Lebanon and Syria were closed as a result of the fighting, and all traffic is directed now through one crossing, at the Masnaa border point in the East. The immediate consequences for the Lebanese economy include higher costs of transportation, delays in delivery of products both ways, and foregone export opportunities for perishable products such as agricultural produce. Exporters also express serious fears about the possibility of the closure of this crossing if relations between Syria and Lebanon deteriorate further. If this happens, it is doubtful that Lebanon will be able to record the expected 2 per cent increase in GDP in 2007.

2. Palestine

Overview

In June 2007, the collapse of the Palestinian unity government, the takeover of Gaza by Hamas and the formation of a new emergency government based in the West Bank has caused a political

²⁹ Hourani, G., and E. Sensenig-Dabbous, "Insecurity, Migration, and Return: The Case of Lebanon Following the Summer 2006 War", 2007, p. 13.

³⁰ World Bank, "Lebanon at a Glance", www.devdata.worldbank.org.

and geographic split in Palestine that will probably have dramatic effects on the economy and social conditions of the Palestinian people, and in particular could have very negative repercussions for Gaza. Prior to these events, the first half of 2007 showed little change in the downward trend triggered by the election of a Hamas-dominated government in January 2006 that resulted in an international boycott of the Palestinian Authority (PA), and drove the economy, which had already been in crisis since the beginning of the Second Intifada in September 2000, towards collapse.

After a full year of suspension of international aid to the PA and the withholding of Value Added Tax (VAT) and customs revenues by the Government of Israel (GOI), the PA is currently in a fiscal crisis. Up until June 2007, this was compounded by the political isolation of the Hamas Government, an increase in the restrictions on movement and access by the GOI and internal factional violence between Hamas and Fatah. However, with the declaration in June 2007 of the new emergency government that excludes Hamas, international donors have already pledged to reinstate political relations with the new government and lift restrictions on aid transfers, while the GOI has stated that it would release the approximately \$700 million it owes the PA in taxes, but in several installments.

Ongoing security measures, including external closures, increasing internal restrictions on movement of people and commodities, especially in the Gaza Strip, and the ongoing construction of the “Separation Barrier” continue to break down the Palestinian society and economy, isolating the West Bank from the Gaza Strip, Jerusalem from its suburbs and the rest of the oPt, as well as towns and villages within the Palestinian Territory from each other. Equally, if not more damaging in the longer term is the severe psychological and social damage inflicted on the Palestinian people, particularly on children, women and on family life in general. In addition, denial of employment opportunities in Israel, land expropriation and destruction of homes and agricultural installations undermine economic development and deepen poverty.

At this stage, it is premature to accurately predict what effect these events will have on the socio-economic conditions in the OPT in the long term, and a number of different scenarios can be envisioned. The most worrisome eventuality is that the West bank economy will be bolstered by a renewal of aid transfers to the PA, which will not filter through to institutions in Gaza. This would result in Gaza becoming even more physically and politically isolated from both the West Bank and the international community, resulting in economic siege, a cessation of international assistance and a breakdown of essential services to the population.

Renewal of international assistance to the PA

In June 2007, the United States and the European Union announced that they would resume their aid programmes to the new emergency PA, including long-term development aid. To date, the parallel payment system set up in June 2006 to bypass the PA (the Temporary International Mechanism: “TIM”), which allowed about \$700 million in external assistance to come into the OPT as of March 2007,³¹ is still in place. However, it is likely that the original intentions of the Quartet to extend the TIM will no longer be necessary, and that aid transfer to the PA will resume in the second half of 2007. This will provide a boost for PA institutions and employees

³¹ World Bank West Bank and Gaza Update, March 2007

in the West Bank, but whether the Government will be able to distribute or allocate those funds in Gaza, over which it currently has no control, will depend on the development of events in the summer of 2007 and beyond.

While total international aid pledged for the year 2006 reached US\$1.2 billion,³² the distribution of funds has increasingly been going to humanitarian and relief aid as opposed to development aid. Such a shift in assistance away from institution-building, while providing immediate and much-needed food and relief aid to a suffering population, in the long term weakens Palestinian institutions and the prospects for self-sustaining democracy and a healthy economy. The announcement of resumption of development aid could be the beginning of a reversal of this trend in the West Bank, but closure plus financial embargo could result in Gaza being cut off from all aid, for either humanitarian or development purposes.

Palestinian economy has continued to suffer

First quarter 2007 estimates for GDP vary from a decrease of 7 to 10 percent; the Palestinian Central Bureau of Statistics (PCBS) estimates that real GDP growth contracted by 8.5 percent in 2006 to \$4.2 billion, with per capita GDP at \$1,164.³³ After a period of recovery in 2003-2005, the withholding of VAT revenues by the GOI amounting to US \$60-70 million per month and the international boycott of the PA led to a sharp decline in the economy in 2006. As a result, by end of year 2006 total PA revenues decreased by 71 percent from the previous year, expenditures by the PA dropped by more than one-third, and the 164,000 workers employed by the Government are estimated to have received approximately one-half of their wages in 2006.³⁴

The combined decrease in public revenues by 14.5 percent with the increase in expenditure of 11.5 percent led to an increase in the public deficit by \$65 million to \$339.8 in the 3rd quarter of 2006 compared with the 2nd quarter of the same year.³⁵ The inflation rate is estimated to be 3.6 percent³⁶ in 2006, changed less than 1 percent from 2005. This reflects prices in Israel and is partially due to the steady gains of the shekel against the dollar in 2006. The shekel to dollar exchange rate appreciated between April and May 2007, from approximately 4.2 shekels to the dollar to 3.9.³⁷

Palestinian analysts were predicting that the ripple effects of this fiscal decline into 2007 and beyond could mirror the classic scenario of economies affected by long term conflict: dramatic increases in unemployment and poverty, lower wages and production levels, and an increase in the income gap between the rich and the poor.³⁸ However, if the new political status quo lasts, aid to the PA resumes and overdue tax revenues are transferred as promised, 2007 and beyond

³² OCHA Special Focus, April 2007.

³³ PMA, PCBS & MAS: Quarterly Economic and Social Monitor, Vo l. 8, April 2007.

³⁴ IMF and World Bank, West Bank and Gaza “Economic Developments in 2006 – A First Assessment”, March 2007; OCHA Special Focus, April 2007.

³⁵ PMA, PCBS & MAS: Quarterly Economic and Social Monitor, Vol. 8, April 2007.

³⁶ IMF and World Bank, West Bank and Gaza “Economic Developments in 2006 – A First Assessment”, March 2007.

³⁷ Bank of Israel, 15 May 2007.

³⁸ PMA, PCBS & MAS: Quarterly Economic and Social Monitor, Vol. 8, April 2007, PCBS Releases Economic Forecasts for 2007, 26/03/2007

could see the beginning of recovery in the West Bank, while Gaza could plunge into even deeper socio-economic crisis.

The effect of closure on humanitarian, economic and social conditions

The most recent reports indicate that as of end of June 2007, with the exception of several truckloads of food and medical supplies from WFP and ICRC, virtually all entry points into Gaza were closed to commerce and humanitarian aid, and that UNRWA containers were awaiting entry at Karni. Moreover, no mechanism to reestablish aid flows had yet been agreed upon.³⁹ This is a reversal of the positive trend that was emerging in the first quarter of the year: in the beginning of 2007 the GOI had actually extended the opening hours at Karni, which had operated at reduced levels during most of the year 2006. The number of trucks allowed monthly through Karni into Israel increased from a low of 135 in the third quarter of 2006 to 1,099 in the first quarter of 2007. Exports into Gaza from Israel also increased from 37 percent in 2006 to 59 percent in early 2007, with the actual value of exports increasing by 81 percent due to easing of the movement of goods across the border.⁴⁰

Earlier in the year, there was hope that such measures, if continued and expanded, could facilitate a modest increase of production and employment into 2007 as a whole. Currently, while there could be a further easing of access restrictions in the West Bank in 2007, as the GOI has given preliminary signs of a renewed willingness to deal with the new PA, it is unlikely that the GOI will show willingness to extend the same policy to Gaza, despite pressure from aid agencies to allow access for humanitarian workers and goods.

Unemployment and poverty gap between West Bank and Gaza likely to widen

While living standards in the OPT as a whole are poor, the gap between West Bank and Gaza in terms of poverty and unemployment is significant, and is likely to grow in the coming year (*see Table 1, below*). The overall unemployment rate (ILO standards) was 23.6 percent in 2006, reaching 34.8 percent in Gaza.⁴¹ In the first quarter of 2007, the unemployment rate in Gaza actually started to improve from 2006, decreasing to 30.4 percent,⁴² a trend unlikely to continue into the second half of the year. In Gaza, unemployment is concentrated among the youth, with 48 percent of those between 15-24 unemployed.⁴³ The number of workers from the West Bank employed in Israel in the first quarter of 2007 was 68,100, whereas no workers at all have been allowed into Israel from Gaza since April 2006.⁴⁴

While daily wages increased by 19.9 percent in 2006 to approximately US \$16.4,⁴⁵ the poverty rate in the OPT rose from 50 percent in March 2006 to 66 percent by the end of the year.⁴⁶ In

³⁹ OCHA Gaza Humanitarian Situation Report, 20 June 2007.

⁴⁰ Institute of Development Studies, *The Socioeconomic Changes, Gaza Strip* (January-March 2007).

⁴¹ PCBS Labour Force Survey, April 2007.

⁴² Institute of Development Studies, *The Socioeconomic Changes, Gaza Strip* (January-March 2007).

⁴³ *Ibid.*

⁴⁴ PCBS Labour Force Survey, April 2007.

⁴⁵ OCHA, *The Humanitarian Monitor OPT*, Number 10, February 2007, p13.

⁴⁶ IMF-World Bank, *West Bank and Gaza Economic Developments in 2006 – A First Assessment*, March 2007

Gaza, the poverty rate is even higher, at 87 percent.⁴⁷ The consumer price index for food in Gaza increased by 6.9 percent in the first quarter of 2007,⁴⁸ and the June 2007 crisis is already driving prices even higher, with an estimated 40 percent increase in the cost of flour, a situation that is compounded by dwindling imported food stocks.⁴⁹

	Poverty rate	Unemployment rate
Gaza	87 percent	34.8 percent
West Bank	59 percent	18.6 percent

Table 1. Comparison of West Bank and Gaza Poverty and Unemployment Rates

Before the June 2007 crisis, the World Bank projected that should the political trends continue as they had been, further economic depressions would bring unemployment to 47 percent and poverty to 74 percent by the year 2008.⁵⁰ With the June 2007 closure of Gaza, and little food left in stores, the consequences could now be much worse.

Strikes threaten provision of essential social services in the West Bank

Despite the recent factional fighting and tight closure imposed by the GOI, health care providers in Gaza have not been forced to suspend services, although medical supplies are likely to be exhausted early in the summer 2007 if the closure continues. In the West Bank, Palestinian health care workers went on strike in February 2007, as the PA had not adhered to an agreement to pay 25 percent of overdue salaries.⁵¹ As a result, all primary health care services were suspended and emergency rooms were accepting only life threatening cases. Further strikes began in April 2007 as a result of the continued non-payment of salaries to include municipal workers. Eventually, the PA reached an agreement with municipal workers, agreeing to provide \$1 million in cash assistance to end the strike.

The situation is still unstable: all PA employees held a one-day warning strike in April 2007 and the PA education staff held strikes on and off throughout the month.⁵² A renewal of the municipal strike could result in the massive accumulation of garbage in the West Bank and an overload of the waste and water networks. However, current signs suggest that the PA may soon be able to resume the financing of its payroll in 2007, and thus avoid a collapse in the provision of basic public services, at least in the West Bank, as was predicted earlier in the year. Whether and how the PA will be able to keep up the provision of services in Gaza is currently unknown.

Sharp economic decline in Gaza probable

The revival of Western approval for the West Bank, Fatah-led PA is juxtaposed against the political isolation of the Hamas-controlled Gaza Strip, allegedly sustained by Iranian support.

⁴⁷ OCHA Gaza Humanitarian Situation Report, 20 June 2007.

⁴⁸ PCBS Consumer Price Index Surveys 1996-2007.

⁴⁹ OCHA Gaza Humanitarian Situation Report, 20 June 2007.

⁵⁰ World Bank West Bank and Gaza Update, September 2006.

⁵¹ OCHA, The Humanitarian Monitor OPT, Number 11, March 2007.

⁵² OCHA, The Humanitarian Monitor OPT, Number 12, April 2007.

This split reflects the regional trend of internal polarization reinforced by foreign alliances. Based on the status quo of a politically divided OPT, the probable scenario in the short term is that there will be further signs of economic recovery in the West Bank with a sharp decline in Gaza. While the legitimacy of the current emergency government has been challenged by Hamas, the international community has voiced strong support for President Abbas and Prime Minister Fayyad, and Israel has indicated a willingness to deal with the new PA and ease restrictions in the West Bank. Arab governments as well have signaled their disapproval of Hamas' unilateral actions in Gaza. The Governments of Jordan and Egypt have publicly supported the Abbas government. Moreover, after the collapse of the Mecca agreement it brokered, the Kingdom of Saudi Arabia has indicated that it would not take the lead in renewed mediations between Fatah and Hamas. In the medium to longer term, it is possible that international pressure, economic necessity and concern for the welfare of Gaza's population would prompt the parties, if not to reconcile, to find some kind of rapprochement.

3. Iraq

Overview

In the first half of 2007, ongoing military operations between the coalition forces and those that oppose them, ethno-sectarian violence and political instability continued to stunt the Iraqi economy. Economic prospects for the short and medium term will hinge on steady and sustainable improvements in security levels, in addition to better government controls over illegal oil exports, to enable the government and the private sector to function effectively. If violence is contained and security improves, the Iraqi government will be able to implement its investment programme this year, the private sector would begin to recover, inflation would be contained and the day-to-day lives of people would improve. Even under this scenario, the process of recovery, reconstruction and rehabilitation would be lengthy. Finally, as detailed in the last section of this report, resettlement or return of the thousands of Iraqi displaced persons and refugees is a complex process that would take years.

Economic growth lower than anticipated

Prospects for the economy and for improvements in the social conditions of the Iraqi people in 2007 are directly linked to the security situation. According to IMF figures,⁵³ real GDP growth for 2006 is estimated at 3 percent, lower than the 10.5 percent originally projected, due mostly to the poor performances of the oil sector. GDP per capita projections for 2006 and 2007 are US\$1771 and US\$2,097, respectively.

There are hopes that the performance of Iraqi oil fields will continue to evolve in accordance with the plans of the Iraqi government, which anticipates increasing oil exports in 2007 from 1.44 to 1.7 million barrels per day. Oil production did not increase in 2006 as projected due to both technical obstacles and security constraints, remaining almost unchanged from 2005 at 2.3 million barrels per day. In addition, government control over illegal oil exports is poor, causing the loss of oil revenues that otherwise would contribute to government income. Nevertheless, the unexpected rise in oil prices more than compensated, causing year-end revenues that were

⁵³ IMF Country Report No. 07/115, March 2007, Iraq

slightly higher than budgeted. Thus, the petroleum industry continues to be the leading economic resource, with total revenue of US\$3,179 billion in 2006, representing a 132 percent increase from 2005. Non-oil economic activity was also above target due to over-performance in non-tax revenue and interest earnings, estimated at a 7.5 percent increase in 2007.⁵⁴

Inflation rates peaked at a high of 66.4 percent in January 2007 in large part due to a shortage in basic commodities, in particular fuel.⁵⁵ In an attempt to counter this trend, a key element of the Central Bank of Iraq's (CBI) economic recovery policy for 2007 and beyond is the elimination of subsidies and the raising of domestic prices on fuel products. Other policy changes by the CBI designed to appreciate the dinar could decrease consumer price inflation to about 30 percent by the end of the current year, political and security factors permitting. In January 2007, the interest rate was increased from 16 percent to 20 percent in an attempt to persuade consumers to increase their savings, with the result that the dinar to dollar exchange rate appreciated from an average of 1,490 dinar to the dollar to 1,277 dinar in March 2007.⁵⁶ The CBI has indicated that if necessary it will further tighten monetary policy in 2007 to reduce inflation rates and strengthen the dinar even more.

For the medium term, economic prospects appear favorable according the IMF, mainly due to the rising oil prices. However, Iraq remains vulnerable to a downward oil shock, especially in view of its recently lower than anticipated production levels, and a scenario consisting of decreases in both prices and production levels would leave the government no choice but to borrow heavily from international markets in 2007.⁵⁷

Social conditions continue to decline

While accurate and update statistics are difficult to compile in such an insecure environment, it is clear that social conditions in Iraq continue to deteriorate. The most recent reports in 2007 on unemployment provide rates that vary from 25 percent to 48 percent.⁵⁸ Rates reported for poverty also vary; however a recent study published by the World Food Programme in May 2006 reports that, depending on the region, poverty rates vary from 7 to 63 percent.⁵⁹

UNAMI has surveyed media reports on gender-based violence, and suggest that honor killings, burnings and shootings of women are on the rise.⁶⁰ Several rape cases by Iraqi security forces were highlighted in the international media during the first half of 2007, exposing an alleged environment of complicity by public officials. These cases are currently under investigation. In addition, 30 percent of Iraqi children are suffering psychological problems⁶¹ and an average of

⁵⁴ IMF Country Report No. 07/115, March 2007, Iraq

⁵⁵ Ibid, IMF, Iraq, March 8, 2007, Supplementary Information

⁵⁶ Ibid, CBI, Special Inspector General for Iraq Reconstruction (SIGIR), quarterly report and semi-annual report, January 2007

⁵⁷ Ibid.

⁵⁸ The Brookings Institute, Iraq Index, April 16, 2007

⁵⁹ Food Security and Vulnerability Analysis in Iraq, 11 May 2006, WFP and COSIT

⁶⁰ UNAMI, Human Rights Report, 1 January – 31 March 2007.

⁶¹ Ibid.

11 percent of children aged 5-14 years are being driven into the labour force in order to help their families survive, many of whom become victims of physical violence and sexual harassment.⁶²

Sectarian violence causes brain drain in education and other professions

Several reports were issued in the first quarter of 2007 on the affects of conflict on Iraq's education sector. Schools and universities have been the target of insurgents' attacks, causing regular suspension of classes. More than 800,000 primary school aged children did not attend school in 2005/2006, 63 percent of which were female.⁶³ Both lecturers and students are threatened and targeted for kidnapping and assassination by militants on ethno-sectarian grounds.⁶⁴ At least 180 teachers were killed between February and November 2006 and more than 100 university students were killed in the month of January 2007 alone.⁶⁵

As a result, academics and other professionals are fleeing Iraq. According to the Brookings Institute, 40 percent of the Iraqi professional class left the country between 2003 and 2006.⁶⁶ The targeting and exodus of academics and other professionals from Iraq constitute a "brain-drain" and may cause Iraq, a country traditionally renowned for its excellence in education, to lose both its contemporary professional class, as well as the entire next generation of educated young people.

Sectarian violence prevents access to health care

Lack of security is taking a heavy toll on the health of the Iraqi people, as well as the healthcare system. UNICEF reports in 2007 that the under-five mortality rate for 2005 was estimated at 125 deaths per 1,000 births, up from 50 per 1,000 in 1990, a change of 150 percent. In addition, 12 percent of children under age 5 in Iraq are moderately or severely underweight and 3 percent are classified as severely underweight. Twenty-three percent of Iraqi children are stunted.⁶⁷

WHO estimates that in 2007 almost 70 percent of patients with wounds admitted to emergency units die because of a shortage of staff and supplies.⁶⁸ Access to health care is becoming increasingly difficult and fraught with dangers for the average citizen. There are fewer and fewer health care professionals available to staff health centers, as many of them are fleeing the country or simply don't take the risks necessary to get to work.⁶⁹ Medical equipment is falling into disrepair and medicine and supplies are difficult to obtain. Moreover, according to the ICRC, armed militants storm hospitals to obtain treatment for wounded fighters, terrorizing staff and patients.⁷⁰ In addition, the shortage of basic services has a detrimental effect on the health of the average Iraqi citizen. According to WHO, 80 percent of the Iraqi people currently lack

⁶² UNICEF, Monitoring the Situation of Children and Women, Finding from the Iraq, Multiple Indicator Cluster Survey 2006 (MICS), March, 2007.

⁶³ UNICEF Iraq, April 2007, *Update on the Situation of Children in Iraq for Partners*.

⁶⁴ UNAMI Human Rights Report 1 January – 31 March 2007.

⁶⁵ Education Under Attack, UNESCO April, 27, 2007.

⁶⁶ The Brookings Institute, Iraq Index, December 1, 2006

⁶⁷ UNICEF: State of the World's Children 2007.

⁶⁸ WHO Press Release, 17 April 2007.

⁶⁹ OCHA IRIN News 05 March 2007

⁷⁰ OCHA IRIN News 28 January 2007

sufficient sanitation services and 70 percent do not have clean water.⁷¹ These factors increase the risk of diarrhea, respiratory infections and other illnesses.

Delivery of Humanitarian Assistance

The delivery of humanitarian assistance has become extremely difficult and extremely dangerous. According to NCCI, a network of national and international NGOs working in Iraq, 88 aid workers have been killed in Iraq between 2003 and May 2007.⁷² United Nations, international and local NGOs that deliver aid are no longer perceived as neutral, and provide services at great personal risk. Car bombs, high-jackings and kidnappings have forced many international aid agencies to evacuate their staff, leaving national staff and local NGOs with huge responsibility and a hazardous workload. Increased and adequate humanitarian assistance is clearly contingent on a political solution to reduce violence and restore some semblance of law and order in the country.

4. Special focus: Iraqi internally displaced persons and refugees

Overview

In June 2007, UNHCR estimated that currently more than 2 million Iraqis are displaced internally and 2.2 million have fled to other countries.⁷³ More Iraqis are seeking asylum internationally than any other nationality. The history of displacement of persons within and from Iraq spans decades. In the past, Iraqis fled their homes to escape persecution under Saddam Hussein's repressive regime and the protracted cycle of internal violence and war in the country. The most recent exodus began when one hundred thousand left their homes in a surge of displacement following the bombing of a Shia shrine in November 2006, sparking wave upon wave of sectarian violence and retaliation, which to date has not abated. UNHCR has noted that this phenomenon is the largest long-term exodus of a population in the Middle East since the displacement of Palestinians in 1948 following the creation of the state of Israel.⁷⁴ The situation poses complex problems not only for the displaced and refugees, but also for neighboring countries, the region, the international community and aid agencies.

IDPs are forced from their homes to escape the violence caused by the ongoing military operations of the coalition forces, by specific threats of violence on ethno-sectarian grounds, or because of forced expulsion by armed groups of one sect or another attempting to take over a neighborhood. Crime, lawlessness, and inter-tribal friction also contribute to internal migration. The problem of sectarian violence is usually described fundamentally as one of Sunni versus Shia, with hardliners on both sides highlighting the history of sectarian conflict. But in reality, different cultures have lived side by side in Iraq for centuries, and it is the moderates who are the real targets and victims, forced to flee or stay and be either killed or co-opted by extremism. With a weak central government, radical groups and militias are able to assert their influence and

⁷¹ WHO Press Release, 17 April 2007.

⁷² NCCI Update, 9 May 2007.

⁷³ UNHCR Press Release, 5 June 2007.

⁷⁴ UNHCR Press Release 8 January 2007.

control over neighborhoods and their populations, posing as both persecutors and protectors of the vulnerable.

Many of the displaced, internally and externally, are women and children.⁷⁵ Iraq's ethnic and religious minority populations, which include Kurds, Palestinians, Turkomans, Christians, Jews, Mandaeans and Yazidi are also highly vulnerable to displacement due to ethnic targeting. UNHCR has recently highlighted the plight of approximately 20,000 displaced Palestinian refugees in Iraq, many of whom were forced from their homes after the fall of Saddam Hussein in 2003, but were refused entry into neighboring countries, leaving them in the border areas between Iraq and its neighbors.

Internally Displaced Persons (IDPs)

Between February 2006 and June 2007, more than 800,000 people have been internally displaced in Iraq.⁷⁶ Most IDPs move from ethnically mixed neighborhoods in the central and southern regions of Iraq to more homogenous communities. As of April 2007, the current distribution of IDPs in the country was 741,900 in the North, 450,000 in the Central provinces and 716,500 in the Southern Provinces.⁷⁷ Shias tend to move from the Center to the South, and Sunnis from the South to the Center, while Christians primarily move to Ninewa and the Kurds to Kurdish areas, increasing ethnic concentrations and polarization of communities.⁷⁸

The International Organization for Migration, an international NGO that monitors IDPs inside Iraq, reports that 22 percent of displaced families are living with friends or relatives, 57 percent are renting homes, while 10 percent live in abandoned or public building and 7 percent are living in makeshift townships. Most IDPs, who have left jobs and the majority of their property and assets behind with little hope of regaining them if and when they are able to return, must rely on savings or the generosity of relatives for survival. Food insecurity is also a growing problem, especially for those 25-40 percent of Iraqis who had relied on rations from the Government's Public Distribution System, and now due to displacement have been unable to access rations.⁷⁹ According to the IOM 45 percent of IDP would like to return to their homes, but the longer the conflict continues, this percentage is likely to decrease.

Most IDPs are women and children

By the first half of 2007, 70 percent of those displaced inside Iraq are estimated to be women and children, many of whom are also orphans and widows.⁸⁰ Family separation due to displacement places women at higher risk of rape, physical abuse, kidnapping and prostitution. Many children have been separated from their families and are living on the street where they face the risk of exploitation and abuse.⁸¹ Children also suffer the most from psychological disturbances, lack

⁷⁵ UNAMI Human Rights Report 1 January – 31 March 2007.

⁷⁶ UNHCR Press Release, 5 June 2007.

⁷⁷ UNHCR Statistics on Displaced Iraqis Around the World, April 2007.

⁷⁸ Iraq Displacement 2006 Year in Review, International Organization for Migration.

⁷⁹ Iraq Displacement 2006 Year in Review, International Organization for Migration.

⁸⁰ UNICEF Iraq, Update on the Situation of Women and Children in Iraq, April 2007

⁸¹ UNICEF, Immediate Needs for Iraqi Children in Iraq and Neighboring Countries, April 2007.

access to schooling, are forced into child labor because of poverty, and sometimes are recruited into militias.⁸²

Movement of IDPs in Iraq burdens communities and disrupts internal ethnic balances

Most displaced Iraqis opt to move into new communities instead of settling in the refugee camps set up by the Iraqi Ministry of Displacement and Migration, which are often insecure and operate at minimum standards.⁸³ The camps lack basic services such as electricity, water, schools and health services, and IDPs usually leave as soon as they find better shelter elsewhere.⁸⁴ In addition, many IDPs have been unable to obtain official identity and travel documents, and so remain in hiding to avoid arrest or detention. These factors serve to partially disguise the massive scale of displacement, and make it difficult to provide assistance to relieve the strain placed on communities that house IDPs.

IDPs are also at risk of being displaced several times over. As of June 2007, UNHCR reports that 10 out of the 18 governorates in Iraq are closing their borders to or restricting entry of new IDPs.⁸⁵ Many communities receiving IDPs have passed the saturation point, and are now facing shortages in housing and other basic services such as schooling, health care, electricity and water. The other reason given for refusing entry or expelling IDPs from governorates in which they seek refuge is the fear that delicate internal ethnic balances will be disrupted.⁸⁶ The danger in the long-term is that such massive redistribution of residency from mixed to homogenous communities will further polarize Iraqi society along ethno-sectarian grounds.

More than 2 million Iraqi refugees in Jordan and Syria

In addition to internal displacement, thousands of Iraqi citizens are fleeing to neighboring countries, mainly in the Middle East, but also to other countries whenever possible. Of the 2.2 million Iraqi refugees, an estimated 750,000 are in Jordan and 1,400,000 in Syria. Some of these move on to other countries in the region, including 200,000 to the Gulf States, 80,000 to Egypt, 54,000 to Iran and 40,000 to Lebanon. Other desirable destinations include Europe, Australia, USA, Canada and New Zealand.⁸⁷

Syria and Jordan in particular are straining to cope with the hundreds of thousands of refugees pouring across their borders from Iraq. The impact on the citizens and economies of these countries, with the costs of providing housing and basic services like schooling and health care, is enormous. The influx of Iraqis has caused a sharp rise in the cost of housing, food, transport and gas, and schools have become overcrowded. Moreover, with millions of Palestine refugees still resident in Jordan, Syria and Lebanon, neighboring countries are reluctant to recognize Iraqis as refugees.

⁸² Iraq Displacement 2006 Year in Review, International Organization for Migration.

⁸³ UNHCR Press release 17 April 2007.

⁸⁴ Iraq Displacement 2006 Year in Review, International Organization for Migration.

⁸⁵ UNHCR Press Release, 5 June 2007.

⁸⁶ Iraq Displacement 2006 Year in Review, International Organization for Migration.

⁸⁷ UNHCR Press Release, 5 June 2007; UNHCR, Statistics on Displaced Iraqis Around the World, April 2007.

Syria implements stricter regulations on entry of Iraqi refugees

In 2007, UNHCR staff on the border report that an estimated 30,000 Iraqis per month are arriving into Syria.⁸⁸ Moreover, while Syria's borders are still open to Iraqis, the government has begun implementation of stricter regulations governing visas. As of January 2007, Iraqis are only given a 15-day permit on arrival in Syria, after which they must apply to immigration authorities for a three-month permit that can be renewed only once. Before the expiry of their residence permits, Iraqis have to leave the country for one month before they can enter the country again. Some categories of people, including students and businessmen, are exempt.⁸⁹

The Syrian authorities have reported that Syria has already provided hundreds of millions of dollars in direct aid to refugees, without counting the cost of providing them with free social services.⁹⁰ As of March 2007, an estimated 75,000 Iraqi students had registered in Syrian public schools, resulting in an increase to 60 students per class. The additional 1.4 million refugees in the country is also putting a strain on the economy and causing a rise in the cost of living for Syrian people. There are reports of rising food and rental prices, as well as soaring health costs.⁹¹ Another recent report estimates that the monthly rent for a two-bedroom apartment had risen from approximately US\$160 in 2005 to US\$400 in June 2007.⁹² The labor market is suffering as well, with Iraqis without work permits working for low wages.

Jordan struggles to cope with Iraqi refugees

The situation is similar in Jordan, which currently hosts three quarters of a million Iraqi refugees. However, unlike Syria, up until quite recently most Iraqis moving into Jordan were middle class, many of them businessmen, and consequently have an overall higher quality of life than most other Iraqi refugees. More recently, with the increasing numbers of destitute refugees trying to cross the border, the Jordanian Government has expressed concern about security, internal political unrest and the strain on public services from the influx. Jordan has reported that it is paying at least a billion dollars a year to cope with Iraqi refugees.⁹³ The prices of commodities, housing, transportation and gas have allegedly tripled over the past three years. This has prompted the authorities to limit the number of residency permits for Iraqis, restricting access to men between age 18 and 35 for security reasons. Also, Iraqis residing illegally in Jordan are detained and those without proper documentation are turned back at the border.⁹⁴ In March 2007, a spokesperson for Jordan's interior Ministry has said it will no longer renew the residency permits of those who hold the old passport, and it has been reported that Iraqis will be required to obtain a visa at the Jordanian Embassy in Baghdad in order to cross the border.⁹⁵

⁸⁸ UNHCR Press Release, 5 June 2007.

⁸⁹ UNHCR News, 12 February 2007.

⁹⁰ Refugees International, Iraq: US Response to Displacement Remains Inadequate, 8 May 2007.

⁹¹ IRIN News, Report 70915, 25 March 2007.

⁹² IRIN News, 28 June 2007

⁹³ Refugees International, Iraq: US Response to Displacement Remains Inadequate, 8 May 2007.

⁹⁴ Iraqi Refugee Crisis: International Response Urgently Needed, Refugees International 5 December 2006.

⁹⁵ IRIN News 1 March 2007, 15 March 2007.

Few options exist for Iraqi refugees

In theory, there are three options for Iraqi refugees: resettlement, repatriation or absorption into local communities. In the short term at least, repatriation is not an option and economic, political and social conditions in Syria and Jordan are not favorable for absorption. Unfortunately, resettlement is neither a short term nor a long term option for most Iraqis. UNHCR has plans to resettle in 2007 some 20,000 of the neediest refugees waiting asylum in Iraq's neighboring countries.⁹⁶ This represents less than 1 percent of refugees seeking asylum, and there is no guarantee that UNHCR will be able to find host governments to accept even this number. Criticized for its lack of humanitarian response, this year the United States has recently pledged to accept 7,000 of the most vulnerable Iraqis.⁹⁷ Many European countries will not recognize Iraqis as refugees under the 1951 Refugee Convention, and have actually revoked the refugee status of those who obtained it under Saddam Hussein's regime, on the grounds that that regime is now dissolved.

In 2007, the international community will be challenged by the obligation to provide enough support to neighboring countries to enable them to host the surge of refugees crossing their borders, which is unlikely to abate in the near future. If this is not forthcoming, 2008 and beyond could see countries like Syria and Jordan either closing their borders to Iraqi refugees completely or their economies collapsing under the strain of supporting them, fomenting internal political unrest of the existing population resentful of the impact on their societies.

IV. CONCLUSION

Political tensions in the ESCWA region continued to intensify in the first half of 2007. The OPT, Iraq and once again Lebanon, are afflicted by internal conflict fueled by regional political dissension and foreign influence in internal affairs. Political trends common to all three nations are the increase of sectarian and/or ideological divisions and fighting between national armies and militias, both sides alleged to be supported and financed by foreign forces, set against the backdrop of the ever-present Arab-Israeli conflict. Exacerbating regional instability is a highly polarized political environment consisting of two seemingly opposing camps, one led by the United States, with its international, regional and local allies and the other led by Iran, supported by Syria and a number of significant local allies. Iran's nuclear programme and its role in Iraq will continue to influence the political and security dynamics in the region, and the discord between the two regional alignments is expected to continue.

Pessimists ask themselves if the region is sliding towards an all out war involving Syria and Iran on the one hand and the rest of the international community led by the United States. Such a scenario would have profound repercussions in the Gulf region, not to mention Iraq, Palestine and Lebanon. Optimists in the region explain that the political dynamics and conflicts are partly associated with the fact that the region is in transition. New regional powers are rising as traditional ones are in decline. The current political and security shockwaves are part of a new

⁹⁶ UNHCR, April 2007.

⁹⁷ UNHCR Refugees magazine, Number 146, Issue 2, 2007.

regional system whose fault lines lie in Palestine, Iraq and Lebanon. On the other hand, new administrations in the UK and soon in the US could stall or reverse an inclination towards war.

The socio-economic conditions in all three countries are directly influenced by the highly unstable political environment and lack of security, and as a consequence prospects for recovery in Lebanon, Palestine and Iraq in the next 6-month reporting period are low.

In Lebanon, the resolution of the conflict between the army and the Fatah al-Islam militants, decisions concerning the location, makeup and functioning of the UN Tribunal, developments in the regional role of Syria and the outcome of presidential elections will be the main factors that will drive socio-economic trends in the next reporting period. Developments in these areas, as well as resumption of international aid, private sector investment and a reduction in violence levels, will determine in particular whether a reversal of negative trends in the investment and tourism sectors can be achieved. In the OPT, in addition to the ever-present question of whether the peace process will be revived, economic and social conditions in Gaza in particular in the second half of 2007 will be dictated by whether or not, or to what extent the territorial and political integrity of the PA can be salvaged in coming months. In Iraq, eradication of illegal oil exports, a reduction in violence and restoration of some semblance of personal security for Iraqi citizens is a prerequisite for any positive changes in current economic trends as well as for finding a viable solution for the thousands of IDPs and refugees.