Managing the Relationship

A COUNTRY PAPER
CONTRIBUTED BY
THE LEBANESE STRATEGY TEAM
INTRODUCTION

Lebanon is a small densely populated country of just 10452 square kilometers and a population of around 4 million inhabitants. Lebanon’s strategic location has, from the earliest times, made it the center of the Middle East’s vital history. The earliest inhabitants of coastal Lebanon were people who came from the Arabian Peninsula about 3500 BC. The Greeks named these seafaring people Phoenicians and they established city-states and spread their 22-letter alphabet throughout the Mediterranean region. Export led activities in goods and services in Lebanon really started to develop ever since that ancient time.

With the recent and fast moving development in trade proceedings at the global and International level, a profound distress was perceived in Lebanon by many private enterprises, and government administrations concerning the lag of development of a cohesive export strategy, as measured against both the nation’s expectations and performance. This lag in export response, in relation with the ongoing trade liberalization (EU, WTO, EFTA, and GAFTA), induced both the private and public sector pertinent entities to give this distress more attention and to put hands together in order to manage and to synchronize their activities for the benefit of the whole nation. The management of the intrinsic good but disorganized relationship between both the private and public sector became an elemental request.

This paper hopes to share with the participating experts the Lebanese perspectives towards developing its export markets with special focus given to the importance of public and private sector cooperation in the realization of this task.

BUSINESS ENVIRONMENT IN LEBANON

Lebanon is renowned of its long history of trading, being a regional distribution hub, monitoring a stable and entrepreneurial banking and finance sector, possessing good tourism potentials, comprising small diversified and vibrant manufacturing and agriculture sectors. As well as, the Lebanese population is characterized by being young, highly educated, multi lingual, and technologically literate.

Nonetheless, Lebanon is a country that suffered of 16 years of war and turmoil .It is a country that spent the 12 past years struggling to revive its economy, to regain its unique role in the region, to reconstruct its infrastructure, and most importantly to reform its drained, over employed administration.

The main asset and real wealth of Lebanon lies in its:

- liberal economy,
- dynamic and forward thinking private sector,
- Moderate tax rates,
- Liberal investment policies,
- Free movement of Capital
- Free Foreign exchange market
- Worldwide network of Lebanese emigrants.

Lebanon trade is characterized by heavy imports and weak exports, trade statistics over past years have shown a persistent deficit of 6 billion US$. Nevertheless, recent export figures registered a sustainable increase ever since year 2000 to mark a 50% increase in year 2003 compared to year 2002, which is considered as an important sign for optimistic expectations in export growth.

Moreover, Lebanese operating firms are facing a number of constraints contributing to the limitation of their international competitiveness namely:

- outdated legislative environment and Juridical system
- inadequate transparency in administrative procedures
• high operating costs: energy, social fund, transport
• High cost and difficulty to access capital,
• Poor quality control, incapacity to submit test certificates, and lack of access to information on standards
• Political and regional instability

To alleviate the burden of these constraints, and to increase the competitiveness of Lebanese exports, the Lebanese government undertook the following measures:

• Revised most existing trade legislations, for that purpose it organized national workshops with national committees composed from active and specialized members of the private and public sector. The committees worked on drafting laws that comply with the WTO requirements and the EU Association Agreement such as: New Customs Law, Competition Law, Food Safety Law, Consumer Protection, Exclusive Agency Law, Privatization Law, Accreditation Law, and Standardization and Metrology Law.

The private sector participated in all the preparations and follow-ups of the redrafted laws, and their constructive presence was vital for the approval of the parliament on these laws.

• Established the infrastructure to decrease the cost of production by:
  o the privatization of the Telecom sector, which entailed months of discussions, debates, and many fights at all levels (popular, political, social, financial and ethical),
  o Restructuring the public debt, through converting it from internal debt to foreign debt,
  o Automating and streamlining customs procedures, in order to decrease time and cost of product entry at borders. An activity that proved its efficiency and effectiveness,
  o setting plans to restructuring and privatization of the Electricity Company,
  o revising the social security contributions,
  o encouraging the transfer of technology through joint ventures

Many of the policies undertaken were the result of the relentless pressure imposed by Lebanese entrepreneurs on the government.

• Established programs to support private sector development such as:
  o Quality Management Program: which strengthens institutions in charge of providing adequate quality infrastructure; it assists enterprises, promotes awareness, and reinforces coordination between public and private sector players.
  o Small and Medium size Enterprises project: builds capacity and institutional framework for SME development
  o Industrial Modernization (ELCIM): Provides technical and financial (EIB & local banks) support to existing industries.
  o Agriculture Development, intends to increase the income of farmers by improving conditions for production and marketing (fruits, vegetables).
  o Export plus, In order to boost the agricultural sector in Lebanon, the government has launched the Export Plus program through IDAL, The main objectives of the program are:
    • Increase the quantities of the Lebanese agricultural exports to traditional markets
    • Create new export markets for Lebanese produce in non-Arab countries
    • Control the quality of the Lebanese agricultural products set for export and ensure compliance with international standards
    • Transfer know-how and knowledge to farmers and exporters
Beirut Emerging Technology Zone – BETZ: it represents the largest initiative of the Lebanese government in support of the information and new technology sectors. It will incorporate among other facilities, a state-of-the-art infrastructure, an incubator facility, single and multi-tenants facilities, etc.

E-commerce, aims at promoting and developing e-commerce across all its mediums, and to assist successful mature on-line trading in Lebanon through the development of the necessary legal framework for enforcing the trade community’s electronic transactions with the government agencies.

EXPLOITATION OF EXISTING PARTAKING IN TRADE PROMOTION ACTIVITIES

It is true that all the above mentioned reforms helped to a certain extent alleviating the pressures imposed on export led activities, but they were not enough and the list of “Should Do and Have” requested by Lebanese producers and traders is long and extensive.

The basic motive behind Lebanon needs to accelerate its export development could be briefly described as follows:

- To increase the stability and growth of the balance of payment (which is currently positive due to capital inflows from Lebanese emigrants and neighboring Arab countries)
- To help realize the promise of outward oriented development policies, which foster market linkages to best practice technology and skills,
- To take advantage of the Regional and International Free Trade Agreements signed by Lebanon, such as the Great Arab Free trade Area, the EU Association Agreement, EFTA...) by opening additional markets and initiating new opportunities,
- To provide the appropriate allocation of resources to high profitability economic activities,
- To enhance the socio-economic benefits which spillover to the domestic economy.

Different public and private institutions have been operating and performing several fundamental export development activities to actualise this objective and to deal with a number of problems related to various ‘Border’ and ‘Border-In’ issues affecting the competitiveness of the Lebanese industry.

The following section focuses on the export support services or what is known as the trade support networks provided by some government and private business agencies of which there are:

1. Investment Development Authority of Lebanon IDAL

The advantageous and business friendly setting existing in Lebanon was to some extent distorted by red tape and meagre and outdated legislation, which affected the attraction of foreign direct investment into the country.

To solve this dilemma the government initiated in 2001 a new investment law, which entrusts IDAL (an institution that reports directly to the Prime Minister) with a wide scope of responsibilities ranging from investment development, to export promotion, and project development. These are achieved by way of providing Lebanese and international investors with fiscal incentives and offering them several services, such as the issuance of the required permits and licenses through the “One-Stop-Shop” (OSS).

It is noteworthy that IDAL is driven by a board of directors appointed from the private sector. Despite the limitations imposed by the challenging economic and regional environment, IDAL has achieved several success stories during this year such as the above mentioned Export plus program and BETZ project.

The success of IDAL experience encouraged the country to venture into additional mixed projects such as the LEBANESE EXPORT PROMOTION AGENCY that we will talk about in the following section.
2. Trade Information Center- Trade Point Beirut

A technical cooperation programme for the development of trade information services in Lebanon was launched jointly in 1994 by the UNDP and the Ministry of Economy and Trade, along with technical assistance from the International Trade Centre-Geneva.

The TIC started operations in August 1995, at a time when Lebanon was undergoing major administrative reform, infrastructure rehabilitation and development of trade and information systems. The TIC aimed to support the expansion and diversification of trade through providing trade facilitation services, and providing reliable information to support the formulation of suitable trade policies undertaken by the government.

The TIC joined the UNCTAD Trade Point Program in year 1999 as Trade Point Beirut and became an operational member in Year 2000. Given its contributions to the program, Trade Point Beirut- TIC was elected as Vice President of the World Trade Point Federation for the period 2003-2006.

The TIC currently harbors a substantial database of trade and trade related statistics and information. It has good and organized information on trade centers, trade directories, firms. TIC contributed into the organization of a number of International and regional exhibitions, and proved its efficiency in the organization of Buyers – Sellers meetings.

The TIC, however, has not been able to fulfill all of its designated tasks. Due to, on the one hand, its incapacity of attracting qualified human capital with the existing public servant low scheme of salaries, and on the other hand to the limitation of public budget expenditures, which limited the growth and appropriate development of this center.

3. Euro Info Centre

The Chamber of Commerce, Industry and Agriculture of Beirut and Mount Lebanon has been hosting the Euro Info Correspondence Centre Lebanon (EICC) since 1996.

EICC Lebanon offers commercial information. The EICC is also active in partner search and in helping enterprises from countries of the European Union establish all types of business contacts in Lebanon.

The services provided by the EICC are the following:

- Information provider
- Event Organizer
- Match making

4. The Export Promotion Council

The Export Promotion Council is hosted at the Association of Lebanese Industrialists. Among its responsibilities

- Exploring foreign markets and receiving delegations interested in buying Lebanese products.
- Identifying Lebanese manufacturers who are willing and capable of exporting.
- Initiating, and organizing participation in national and international trade fairs and exhibitions. As far as Lebanese industrialists are concerned, the most successful fairs and exhibitions are the ones organized and supervised by the Council.
- Reviewing and analyzing of trade agreements.
- Safeguarding the vital interests of Lebanese manufacturers through dialogue and pressure with concerned parties.
One of the most important achievements of the export promotion council is the creation and management of an Export Centre. This could be briefly described as the country’s permanent exhibition designed to showcase the best of Lebanese industry to both individual traders and official delegations. It features, over a modern space of 8,000 square meters, the commodities of more than 100 local producers. The initiative has created an ideal environment for visitors interested in the local export market and the most convenient venue for direct interaction with the key manufacturers in Lebanon.

**LEBANESE EXPORT PROMOTION AGENCY**

We can realize from the above-mentioned institutions the existence of scattered efforts exerted by both the private and public sector to help the Lebanese traders to develop and enlarge their markets. Many of the services provided by this trade support network are redundant, overlapping, and lacking common vision and definitely focus. A situation that is leading towards an inefficient usage of resources and plenty of lost opportunities.

Given this improper setting, and in the absence of a specialized national institution or organization in Lebanon that deals with trade promotion, and given the conviction that the market has great potential for export promotion activities, an extensive modernization aiming at the fusion of the speckled identical activities into one cohesive entity became a must.

Lebanon needs to formulate a NATIONAL EXPORT STRATEGY.

As a result, an initial project concept of establishing a Lebanese Export Promotion Agency has been developed. It was the joint end product of multitude rounds of discussions between representatives of the Federation of Chambers of Commerce Industry and Agriculture, the Association of Lebanese industrialists, and the relevant ministries in the government (Economy and Trade, Industry, and Agriculture).

This project outlines a strong national vision for the establishment of a serious national export strategy, and reflects the explicit commitment of Lebanon’s private sector producers-exporters and the Lebanese government, to cooperate together to set up exports as a key enabler for economic development and social welfare.

All the previously mentioned elements of the TSN (Trade Support Network) will join effort in one board of directors linked to the prime minister, chaired by a member of the private sector, and financed through predetermined contributions from all stakeholders.

The projected board would have to execute the following main activities:

- Developing a national Export Strategy, which does not explicitly exist for the time being,
- Establishing an appropriate socio economic environment for the support of the national productive sectors specifically in the fields of industry, agriculture, and tourism,
- Assessing the impact of trade agreements undertaken at the bilateral, regional, and international level; providing valid scientific contribution in policy formulation and minimizing barriers to Lebanon’s international trade.
- Suggesting and giving advice on:
  - Border issues (customs procedures, port handling and costs, multi-modal transportation...)
  - Border Inn Issues (Taxation, fiscal deficit, interest rates, banking, utilities and telecommunications, public administration, education...)
- Developing a modern trade information network at the local as well as at the international level, its objective is to provide Lebanese exporters and interested foreign importers with relevant information on Lebanese markets, products and companies,
- Launching support services to small and medium sized enterprises, in order to enhance their competitiveness through training, capacity building, and detection of sources of finance,
- Performing marketing and promotional activities for Lebanese producers through promotional campaigns, exhibitions, business delegations, buyers-sellers meetings.
- Advising and conducting specialized studies upon demand for the Lebanese exporters,
- Developing and managing a modern Trade Support Network through performing a methodical review of the existing entities dealing with export and streamlining their activities.
- Establishing a network of commercial representative offices in Lebanese embassies abroad with the objective of setting up systematic model for the identification of priority sectors for exports, and identifying untapped export markets that are receptive to Lebanese products.
- Developing Linkages and networking with all chambers of commerce, industry and agriculture at the capital and the Lebanese regions, in order to ensure an appropriate flow of information whether technical, commercial, financial, or legal, between the regions and the agency.
- Developing associations with similar agencies regionally and internationally, through cooperation agreements, establishment of joint companies, or shareholding.
- Organizing the commercial relationships between residents and the worldwide spread Lebanese Emigrants.

CONCLUSION

The outcome and results of this project are expected to exemplify the commitment and importance of cooperation between the public and private sectors. Would this new formula of partnership succeed in producing real progress in export activities, and would Lebanon be able to break the difficulty of moving from plans to implementation, from promises to acts?

The logical answer is definitely yes, but only the near future would give us the appropriate answer to this big question.

Nevertheless, we do believe that Lebanon does not have lots of choices, nor enough time to waste. After 16 years of conflict and 12 years of reconstruction, the world had frog leaped into lots of new technologies and methodologies that replaced most of the outdated manual and bureaucratic systems. The existing somehow old-fashioned culture of conducting trade, based on short-term mentality, could not anymore survive and will never be able to face the pressures imposed by the WTO requirements, the Euro-Med Association Agreement, and The Great Arab Free Trade Area. Lebanese institutions, both private and public, are aware of the seriousness of the situation and are convinced that significant efforts are to be exerted in order to foster a collective motivation to change, since they are convinced that their personal existence is at stake.

The wisdom of the World Bank is "just how a nation's company's conduct their business is as important in the world economy as the government of countries". A wisdom, which we do believe in.