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LEBANON SECRETS FOR ECONOMIC SURVIVAL AND THE NEED FOR A NEW VISION FOR THE FUTURE RECONSTRUCTION POLICY *

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Lebanon is famous for its economic resilience in front of the worst political and military conditions it had to face in its recent and tragic history. Once considered as the Middle Eastern Switzerland, Lebanon has learned in the hardest way how to survive in the worst circumstances. Its capital, Beirut, “the small Oriental Paris”, although affected by 15 years of uninterrupted violence between 1975 and 1990, has revived and become again one of the most popular places for Arab tourism and for high level political, artistic and academic pan Arab meetings.

Have the painful events of the last two months affected this resilience and will the country recover easily from the last Israeli aggression? To answer this question, one has to analyse with some details the points of strength and weaknesses of the fabric of Lebanese society and they country’s economy.

Too often we tend to forget that Lebanon was a predominantly rural society until the beginning of last century. Its image as a vibrant service and transit economy for the Arab world dates back to the sixties and the seventies. During this period, many Arab countries adopted a closed economic system inspired by socialism (Egypt, Syria, Iraq, Libya) and Lebanon through its liberal economic system and its banking secrecy law attracted those Arab professionals and businessmen escaping from their countries. The Lebanese economy was thus boosted by this inflow of capital and skills, especially in the banking and the industrial sector. At the same time, with the rise in oil prices, countries in the Arabian Peninsula began to develop commercial and financial links with Lebanon. Their lack of adequate physical infrastructure and economic and financial institutions made Lebanon a valuable intermediary with the industrial world.

Lebanese prosperity was thus fuelled by these important developments in the Arab world. But while Lebanon was attracting Arab capital, tourists and businessmen, it was also exporting its skilled manpower and its professionals to the rest of the Arab world, especially when the oil boom created a big demand for human resources, technical skills and services. In addition, inside Lebanon, cheap Palestinian refugees and Syrian manpower was keeping costs under control and generating high profits for investors.

However, the transition from a rural economy to a full fledged modern and competitive economy with well distributed growth between the various regions and the various sectors of the economy was never achieved. In spite of the set of economic, financial and social reforms implemented by President Fouad Chéhab (1958-1964), the Lebanese economy continued to

be characterized by many imbalances. Wealth and economic activity was highly concentrated in Beirut and its surroundings; poor rural migrants moved to Beirut and lived in large slums areas. Agriculture was not properly supported by the Government and the rate of unemployment was high in rural areas. Young Lebanese were thus easily attracted by pan Arab revolutionary ideologies and political parties.

This explains why political instability began to affect Lebanon when Israel initiated its campaign to destabilize the country at the end of the sixties. The first Israeli military attack on Lebanon was initiated in December 1968 when a commando landed on Beirut International Airport and destroyed all the Middle East Airlines fleet of civilian planes. This was a reprisal for a Palestinian guerrilla operation against Israel through the Lebanese southern border. From this date and as the number of Palestinian armed fighters increased in Lebanon after the tragic event of "Black September" in Jordan, Israel continued its crude and disproportionate military reprisal policy against Lebanon in the hope of breaking the country and divide it in different sectarian mini States.

In spite of this new situation, the Lebanese political establishment continued to manage the country along traditional lines as if nothing was changing in the Lebanese environment. This attitude was to prove fatal to Lebanon which began to enter into more destabilization until violence flared in 1975 to an unexpected level all around the country between pro and anti Palestinian military presence in Lebanon. Arab countries tried to mediate in the domestic conflict with no result, except for a short period of time between 1977-1978 when a pan Arab Green Beret force was constituted and sent to Lebanon as part of an Arab League plan to stop the fighting. But when Egypt went its way to sign a separate peace agreement with Israel, violence broke out again on a renewed scale. This led to a first Israeli invasion and occupation of South Lebanon in 1978 and a second one in 1982 that brought the Israeli army to Beirut to eradicate the PLO Head Quarters from the Lebanese capital and compel Lebanon to sign a "Peace" treaty with Israel. The results were catastrophic and Lebanon ended in a state of full chaos that continued until 1990.

How did Lebanon survive these fifteen years of continuous violence and destruction and how was it able to reconstruct and be back on the regional scene with an Arab League Summit taking place in 2002? This is a fascinating story that has yet to be properly researched and written. We will here attempt to underline the main ingredients of the Lebanese resilience that have been at work and to examine how it will be possible to maximize it to face the new dramatic conditions created by the latest criminal Israeli aggression.

The most important factor explaining the Lebanese resilience in all fields is the devotion shown by so many ordinary Lebanese citizens in keeping their country running under the most difficult circumstances. A very large number of both public and private sector employees have always deployed the greatest courage in keeping the economy of the country running in spite of violence and military operations. Thus, banks never closed. Market supplies in essential goods were made to reach all parts of the country under the worst circumstances. Newspapers continued to be printed and distributed. Most essential Government administrations continued to function even when the Government would or could not meet or when there were two different governments (1988-1990). Whenever it was not bombed, Beirut Airport and our national flag carrier, Middle East Airlines, were running and operating as usual even if bombs were falling nearby. The Central Bank did not close its offices one single working day so as to continue to supply the banking system and the Government with required liquidity.

I have called this superb behaviour an admirable “civilian resistance” to war and to the many attempts to divide the country along sectarian lines. Thousand of civilians that are in fact “unknown soldiers” have been, however, killed or kidnapped and never returned home while performing their duty for their country, at a time when criminal militias’ fighters were destroying it. They will have to be honoured someday by the State.

There is no doubt, however, that this positive behaviour by the civil society was also encouraged by the attitude of Lebanese business associations and the workers trade unions that remained united during all the fifteen years of destabilisation and violence. The Lebanese Chamber of Commerce and Industry, the Bankers Association, the Association of Industrialists and other business and professional bodies, as well as all the different trade unions remained united in the worst periods of sectarian violence. No attempt was made to create separate bodies according to sectarian lines. In addition, Lebanese businessmen also devoted their energies to sustaining their economic activities under the worst circumstances, to keep their employees at work whatever their religious or political affiliation. They also redeployed abroad in order to continue to be of service to their country and to traditional Arab clients from the Gulf area or from Syria.

On the other hand, Lebanese emigrants were a great support to the domestic efforts to keep the country running. They increased the amount of their periodical money transfers to help their families remained at home to rebuild their destroyed home, finance the studies of their sons and daughters when domestic sources of family income was lost. They also created many NGOs or supported existing ones to assist the needy Lebanese. In addition, those who became wealthy through their work in the Arabian Peninsula at the time of the first oil boom or in Sub-Saharan Africa invested heavily in the real estate sector during the period 1975-1985 in all regions of Lebanon in spite of war conditions. Investments were also fuelled by demand for new housing from refugees who were compelled to leave specific regions, mainly in the South and the Chouf areas following cruel and dirty massacres or the horrors of the Israeli occupation.

These were exceptional energies that have been again at work during the latest Israeli aggression through active solidarity, support and assistance to the large flows of Lebanese people displaced by Israeli indiscriminate bombing of towns and villages in the South, the Beirut Southern suburbs and the Bekaa Valley. These are the best assets of Lebanon for a new economic renaissance.

Reconstruction after the latest Israeli aggression should, however, take into account the shortcomings of the previous reconstruction policies. Mainly they should take into full account three main factors that have been neglected in the last fifteen years.

Firstly, Lebanese policy makers should realize and accept the fact that Lebanon cannot go back in history and play again the same role of commercial and financial intermediary that it has performed in the past during the 1950-1975 period when it enjoyed a privileged situation in the Arab world. Today, most Arab economies are as advanced as the Lebanese economy and almost as open; they have developed their physical infrastructure to international standards and their economic and financial institutions are now progressing very fast and have strong international connections. Thus, the traditional economic and financial regional role of Lebanon is no more relevant and can not secure an adequate level of prosperity for all the Lebanese people across the whole country.

Secondly, Lebanon should act to overcome its traditional economic imbalances between the different regions of the country and the different sectors of the economy. The Taëf Agreement whose clauses were integrated in the Lebanese Constitution requires the Government to implement a policy of “balanced development” between all regions of the country. Prosperity should not continue to be monopolized by Beirut and some of its surroundings; it should be diffused all over the country. The economy should be diversified and should not be almost exclusively dependent on traditional commercial banking services, real estate activities in the luxury segment, and tourism facilities concentrated in Beirut.

Thirdly, Lebanon never exploited all its huge economic potential, except in time of war and suffering as described above. The country has a very well educated and technically qualified human resources reservoir which is encouraged to emigrate rather than be given a chance to work at home and participate actively in the development of the country. Lebanon is also endowed with abundant water resources and fertile soil in the Bekaa Valley, Akkar and the South. Its archaeological assets are of first importance and well disseminated in the various regions of the country, namely around Tyre, in Tripoli, and in the Bekaa Valley; they are not being used to stimulate the development and prosperity of these regions and their largest towns. Rural areas have an extraordinary potential for craft and tourist activities, but are totally neglected. In addition, Lebanon can become a first class producer of bio-agricultural products to be exported; it can also develop a very strong industry for medicinal plants, given its famous biodiversity. Its agricultural engineers can improve agricultural seeds and it can develop high quality agribusiness export capacity along the line of Denmark or Holland.

In terms of services, Lebanon should move from low productivity services to high value added services in demand on the global market in ITC sectors, in financial research and activities, in medical research and medical care, etc. Given its available human resources that are exported instead of being used at home, Lebanon should design its economic and reconstruction policies so as to become an Arab equivalent of Ireland. Many similarities have existed between Lebanon and Ireland in terms of foreign intervention, massive emigration of skills, existence of a revolutionary movement, etc. Ireland was the most underdeveloped and heavily indebted European country, but in the last thirty years it has become the most productive and dynamic in Europe enjoying full employment of its own human resources and had large in-flows of returning former immigrants. It is true that European financial aid received by Ireland was an important factor, but without a well designed economic policy this aid could well have been wasted.

In this context, Arab aid for Lebanon could play an equivalent role to that of European aid to Ireland. It would, however, require the emergence of a new economic thinking in the country so that the old creed that the Lebanese economy can merely rest on a set of services activities concentrated in its capital and in Mount Lebanon does not anymore prevail. This outdated vision should be phased out to be replaced by a more dynamic economic and financial vision that would place Lebanon again on the regional and world economic scene in a more long term sustainable manner. It is to be hoped that the many friends of Lebanon in the Arab World who have supported the country in its darkest days and under the worst circumstances will help in encouraging Lebanese economic decision makers and political leadership in making the next reconstruction period the cornerstone of a full economic renaissance of Lebanon.

Furthermore, it should be stated that Lebanon is also in need of a full reform of its monetary system which is at present characterized by the use of two currencies simultaneously (the Lebanese pound and the US dollar) with a fixed peg of the pound to the dollar. This system has created a total lack of flexibility in the management of the economy. It has also resulted in the formidable pile up of government debt through the outrageous level of interest rate being charged on the issuance of Lebanese T-bills although inflation was going down sharply after 1994. Moreover, the country enjoyed a massive inflow of capital, while the Central bank was securing to depositors a fixed exchange rate of the pound to the dollar. Thus, the average annual interest rate charged between 1993 and 2004 on the different components of the public debt (T-bills in LP, Eurobonds, soft loans from international and Arab financial institutions, bilateral government loans) has been 16%, i.e. an average of more than 10% risk premium over the average London Interbank Rate on dollar deposits (LIBOR) for the holding of Lebanese sovereign debt.

This inefficient and costly way to manage the monetary and financial system in Lebanon has been the main cause of the debt pile up. In fact, the total fiscal deficit between the end of 1992 and the end of 2004 excluding debt service has not exceeded the equivalent of US \$ 5 billion. If this amount is added to the public debt outstanding at the end of 1992 which did not exceed the equivalent of US \$ 2 billion, we realize that the original capital of the Government debt in Lebanon during the last twelve years has been at the level of US\$ 7 billion. Debt service on this amount has exceeded the staggering figure of US \$ 37 billion during this period, i.e. more than five times the original amount of the debt.

Certainly, such a system has to be reformed as soon as possible. This will need a clear and well planned strategy that should be implemented together with the emergence of a new economic vision for the future of Lebanon. Reconstruction policy should not forget this essential issue.