

Q&A: Georges Corm



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The former Lebanese minister of finance discusses the opportunities and challenges laying ahead for the country's economy in 2005

Despite regional instability, a soaring public debt and the threat of international sanctions under UN Resolution 1559, the Lebanese economy experienced its strongest growth in seven years, largely due to a record number of tourists, increased exports and vigorous real estate activity. Yet, according to Georges Corm, the key to sustainable economic growth and greater competitiveness for Lebanon lies elsewhere. EXECUTIVE finds out why the former minister of finance is advocating a radical shift in the mentality of the nation's economic dogma.

E: Broadly speaking, what are the major economic issues you see facing the new government for the year 2005?

Bearing in mind that this government will only be in power for a very short period of time, it will nevertheless have to tackle challenges such as the budget issue, the refinancing of the public debt, the electricity problem, and try to solve, if it has time, various problems relating to social security. Generally speaking, the social issue in Lebanon is become more and more acute, despite the improved economic performance.

E: Lebanon did indeed benefit from its strongest growth since 1997 in terms of GDP this year. Largely thanks to exports, tourism and the construction industry, the economy grew at 5%. Do you foresee this growth as persisting in 2005?

Figures of growth are very political in Lebanon - they are not based on any serious national accounting. They take a few indicators and make their own basket, giving a certain weight to each component, and according to how much weight you give to the various components, you may end up with figures indicating a negative growth, or a very positive growth. Thus, I would not give too much importance to this 5% figure of growth. Just the other day in the paper there was somebody from an industrial association saying that the figures for exports are artificially boosted by the price of gold for instance, because we export a lot of raw gold. There hasn't been any real improvement in the productive capacity in the country.

E: What about the boom in tourism and construction? Has it not played a crucial role in boosting the economy?

The tourism industry has indeed benefited from significant growth, but I wouldn't say the same for construction. There have been a lot of Arabs buying nice flats or pieces of land, which for me is quite preoccupying because we have a law that restricts ownership of land by foreigners and it is no longer being respected in this country. I am not at all in favor of selling land to foreigners - this is too small a country, we need to strike a balance. When you have a group of people with so much wealth coming in and buying up large parts of Beirut and plots of land in the mountains, it has a very negative impact.

E: What sort of negative impact? What are the economic ramifications of this?

Firstly, it means that the money doesn't stay in the country - it goes abroad to these people or to Lebanese real estate traders whose profits primarily go to accounts abroad - they are not being reinvested in the country. Secondly, if you take downtown Beirut, this was an area where you once had 150,000 to 250,000 Lebanese owners and renters. Today, you see that the Lebanese are no longer there - most of the buildings are owned by foreigners. This is an expropriation of the capital from the Lebanese, who can no longer afford to live there. It doesn't bode well for the future. Some Lebanese are making large profits from this, but it does not benefit the economy as a whole in the long run.

E: In your view, has this hailed economic growth had any significant impact on society at all?

The impact has been extremely limited. You may be recruiting more waiters in restaurants, or more personnel in hotels, or have a few luxury shops selling more, but overall, this constitutes 10% to 20% of the economy. What is happening with the rest of the economy? What is happening with regions such as the Bekaa, or the north, or the south? You have high unemployment, a permanent social crisis, a brain drain of all the bright students who graduate from our universities and don't find jobs here. And with this terrible brain drain, the productivity of the economy goes down.

E: Does this mean that the current drivers of economic growth are simultaneously holding Lebanon back from becoming a high value-added economy?

The problem is that the reconstruction policies that were adopted in this country were extremely short-sighted. Believing that launching big infrastructure projects in Beirut would enable the country to get back in business the way it was before the war, was a demonstration of unbelievable short-sightedness, even if it had the support of some 80% of the population. And many people still refuse to see how this policy reduced the productive capacity of this economy.

E: What do you see as the necessary policy measures to reduce the unemployment problem of the country, and improve productive capacity?

The entire economic policy, including the tax policy, of this country has been geared towards the banking, trade and tourism sector. There has been no vision as to how to encourage the productive sectors of the economy, nor how to take advantage of the highly qualified professionals that come out of the universities here. We have a reservoir of human capital that can enable us to go into the high value-added service and industry sectors. We can invest in medicinal plants - Lebanon is known for its biodiversity - we can invest in high-end organic agricultural products, to name but a few. We have everything to succeed, and we are not taking advantage of it. You need to invest outside the real estate sector. Since the end of the war, more than 80% of our investments have gone into construction and related contracting work. This is not what is going to get the Lebanese economy booming again - there is no value-added to this.

E: What industries do you think the government should focus on promoting, and in which Lebanon might have a comparative advantage?

Industries such as agribusiness, medicine and pharmaceutical products, data processing and subcontracting for international software companies, upscale textile industries, bio-organic foods.... There are many areas we can expand into, which would be extremely valuable.

E: What can the government do to promote the development of these industries?

It's not just a question of what the government can do, it's more than that. It's a question of changing the mentality of the economic establishment, which is presently only focusing on trade, construction and banking. The banking sector has actually been a huge burden on this economy, with its high interest rates and its reluctance to provide financing for venture capital. They stick to very traditional types of lending, at outrageously high interest rates. It's not just the government that is suffering from this, it is also affecting the private sector. The fact that you have the equivalent of three times the GDP in banking deposits is a burden on the economy. It has siphoned the profits of the private sector. And as a result of this policy, the Lebanese have become accustomed to the additional income coming from interests - even those with small bank deposits. I call it the "premium addicted depositor."

E: Do you believe that Resolution 1559 is likely to have an impact on the economy?

Without a doubt. It has already raised alarm among people about the stability of the Lebanese pound. And there are some ruthless politicians who have made public declarations about the central bank losing its foreign reserves, despite the fact that the level of reserves remains quite high. This made people nervous. Furthermore, Resolution 1559 has created sharp divisions within the Lebanese political class, which increases public perception that there is a risk. The government has not been taking the resolution seriously enough. They have not done enough to show international public opinion, and the UN itself, the negative aspects of this resolution, notably that it sets a very dangerous precedent in international law - allowing the UN to interfere in domestic parliamentary affairs.

E: The government is hoping Lebanon will enter the WTO in 2005 - how likely is this to happen?

It is likely to happen if certain people stop giving such a negative image of the present state of affairs in Lebanon. Some people are describing Lebanon almost as a socialist economy, despite the privatization of hundreds of public enterprises. It is ridiculous. Lebanon has traditionally had one of the freest economies in the world.

E: Will the Lebanese businesses be capable of competing successfully once the trade barriers are brought down?

No. They won't be until they've changed their mentality so as to be able to survive in a globalized world. We have to become productive, we have to be able to sell something more than luxury flats and five star hotels for tourists. There is a change in atmosphere that needs to take place. We have proven ourselves capable of being productive in the past - during the war, the private sector was exceptional. The banks, the industries, everybody was making incredible efforts to continue to produce, to reach clients, to secure services to people. So, I know we have tremendous capabilities. They are simply being suppressed by the primacy of the tourism and real estate sectors. And I think only a big economic crisis can bring about the required change in mentality.

E: Could the public debt of the country potentially bring such an economic crisis about? And if so, what can be done to reign it in?

The debt is the biggest challenge facing the current government, although it won't have time to do much in six months. If you want to reimburse the debt and avoid a financial collapse in Lebanon, you have to produce. The official debt now stands at 190% of GDP - if you take the official debt figures - and it will continue to increase. There is still a big reservoir in terms of government revenue that remains untapped - all rent income is virtually tax exempt. Furthermore, the fixed phone lines need to be privatized, as do a number of other companies: MEA, EDL, the management of the Port of Beirut, the management of the airport. The previous government never even discussed any of this - all we ever heard about was the mobile phone companies. The government also needs to come to an agreement with the banking association to cap the debt service at a certain percentage of tax receipts. We can't continue having a debt service that is eating away 80% of our tax revenues - this is unsustainable. The banks did become more reasonable after Paris II, but following the recent political disturbances, the interest rates have gone up again, swaps are being made at a higher cost, and a higher portion of the debt in Lebanese pounds is being transformed into US dollars, which is extremely dangerous for the government. If the debt is in Lebanese pounds you can service it, but if it's in dollars, you need to ensure that the dollars are brought in. When I was minister, I committed myself before parliament not to let the US dollar portion of the debt exceed 35% of the total debt amount. Following the previous government, the percentage now stands at 50%. And the governor of the central bank recently told AN NAHAR we are about to go up to 60%. This is an irresponsible policy. The banks are more comfortable with having more assets in US dollars, but we cannot have the entire economic and fiscal policy of this country be determined by the level of profits the banks can make from lending.

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