

A New Dawn for Lebanon: The Challenges of Rebuilding a Modern, Competitive Economy, Polity & Society

By Dr. Nasser Saidi

Lebanon's resilience and the ability of the Lebanese people to rebuild and renew are a matter of record and admiration, if not awe. Few peoples have been exposed to as many opportunities, conflicts, tensions and challenges throughout their history. Few peoples have survived the challenges with as much self-reliance and defiance. We live at a confluence of civilizations, of geographical regions, of continents –indeed; plate tectonics have been one of the determinants of our history! – of religions, of races, of contrasting and occasionally clashing economic and political regimes. We have always, and continue to live in a geo-strategic location and area of the world. Ours is a turbulent, unstable, often violent neighborhood. Since WWII it is a region with a high frequency of wars –both, domestic and international- civil unrest, various forms of coup d'état, revolutions and other expressions of civil unrest.

We live in a small-sized country with limited natural resources, but relatively high population density. Our population has benefited from the inputs and contributions of peoples from virtually all continents, races, ethnic groups and communities: Darwin would have nodded approvingly at the characteristics of our gene pool!

These factors, geography, location, size, the forces and random accidents of history, have been major sources and determinants of Lebanon's economic growth and development and of its comparative advantage among nations. The dearth of natural resources implied increased investment in human capital. The variety of original populations and languages resulted in a diversity of skills, talents and human capital resources.

For a small country exposed to a multitude of risks, investment in human capital acted as an insurance policy; it is a hedge against various forms of risk and uncertainty. Human capital is more mobile than fixed, physical capital and other forms of investment. Human capital can pick up and leave if economic, social, political or other conditions negatively affect the rate of return on investment. The Lebanese have, accordingly, invested in themselves in the form of schooling, education and training; they have the highest educational attainment rates of the region. Higher education institutions and universities like AUB were major centres and contributors: they were in many ways the “factories” of Lebanon, manufacturing human capital, our capital goods industry.

Small countries (with a *caveat* for land-locked or distant islands) tend to be more open to the rest of the world. Small countries tend to be more specialized in terms of production. International trade provides the variety of goods required for consumption. This has been systematically true in Lebanon's case: imports plus exports of goods and services represent more than 60% of GNP. Historically, Lebanon has always been a trading nation, as befits its size and its geographical location. Similarly, it has also been open to the movement of capital: Lebanon has always allowed the freedom of movement of capital and payments in and out of the country. It has pursued such liberal economic policies even in the most difficult of economic, security and political conditions. Its banking and financial sector has evolved into a sound, well regulated, well-capitalised system.

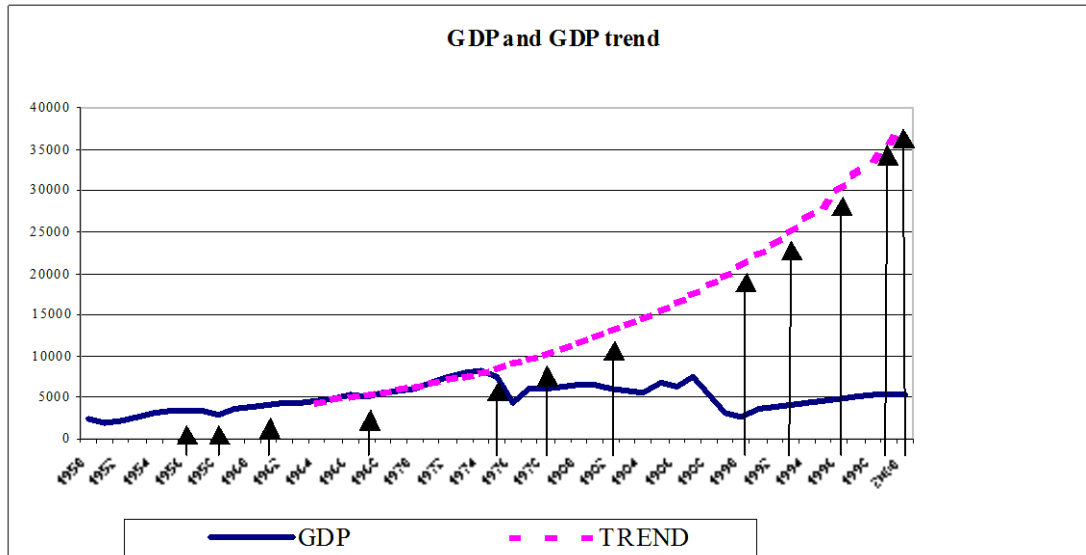
The relative abundance of human capital has also implied a comparative advantage of Lebanon in the sector of services: trade and marketing, tourism, banking and financial, contracting, health and hospital care, education, the media, various forms of consulting services (accounting, management, engineering) among others. Indeed, the structure and sources of production in Lebanon are characteristic of post-industrial, modern economies: services contribute about 70% of GDP, whereas industry and agriculture contribute about 18% and 12%, respectively. This production structure has been characteristic of the Lebanese economy since the 1960's, long before the evolution of the industrialized economies. There were some short-term changes and interruptions to this pattern of production during the war period, 1975-1990, when agriculture and industry experienced an increase in their share of output. This was a result of the decline in real wages pushing down costs in industry, while increased poverty and urban insecurity led to a revival in agriculture.

The relative lower cost of mobility of human capital allowed Lebanon to weather and adjust to economic, political and security shocks, whether domestic or foreign. In response to such disturbances, the Lebanese emigrated. Indeed, there were several, large emigration waves in the XIXth century and continuing during the periods following WWI and WWII, as well as during the recent war period, 1975-1990. Typically, the Lebanese emigrated to seek better opportunities abroad, searching for a higher return on their human capital, as well as to escape from perceived difficult political and social conditions and developments. This result is a spread of Lebanese émigrés, the Lebanese Diaspora, estimated at more than 12 million, spanning all continents: active, successful, entrepreneurial, dynamic groups that have integrated well in the economic, social, cultural and political dimensions, into their new habitats and communities. The Lebanese émigré network should be developed much more extensively and intensively as Lebanon's exo-economy, its extended economy. In today's jargon, it should become a true network, *Lebanon.com*. Already our émigré population, our human capital invested abroad, is a major factor in Lebanon's international trade; they represent the main source of remittances, capital inflows, "foreign" direct investment, and the major investors in our external debt issues, Eurobonds and other.

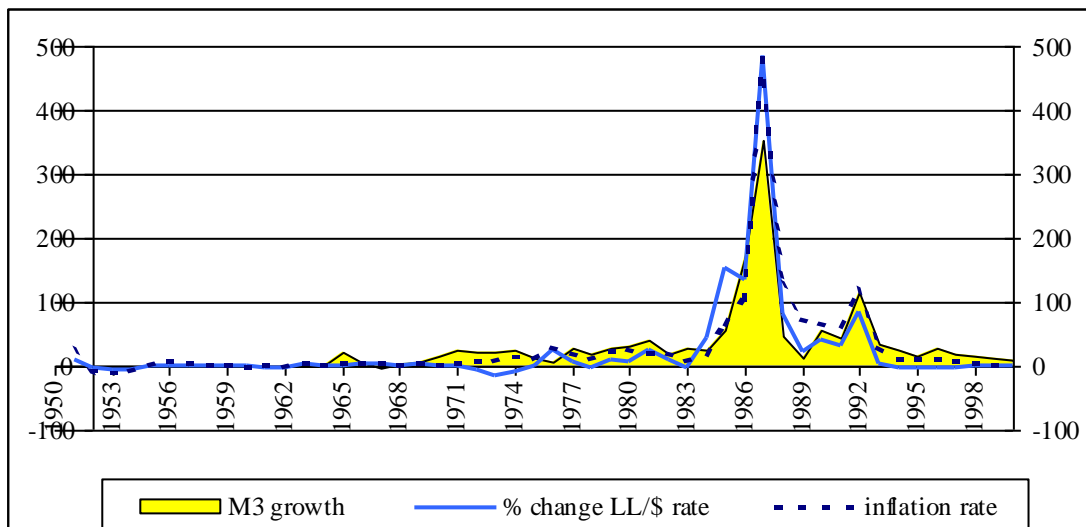
How have Lebanon and its economy fared over the past fifty years? The accompanying graphs are worth a thousand words¹. The first shows the evolution of estimates of real GDP over the period 1950-2000. The economy expanded at a relatively rapid pace during the period 1950 to 1975, with a trend growth rate of 5.5%. It benefited in particular, in the 1970's from the oil price boom in the Arab world. Even during this relatively prosperous period, domestic crises, external shocks and political developments affected economic outcomes. However, the dramatic change in economic fortunes resulted from the destruction and losses generated by the wars of the period 1975-1990, and the series of Israeli attacks and invasions leading to average negative growth rates of minus 2.8%. Apart from the direct physical and human losses, the foregone output, had the economy remained on its pre-war trend represents more than 50 times 1993 real output. To date we have not recovered from

¹ The reader may want to refer to the papers in Eken, S. et. al. "*Economic Dislocation and Recovery in Lebanon*", International Monetary Fund, Occasional Paper 120, Washington DC 1995; Eken, S. and T. Helbling, eds. "*Back to the Future, Postwar Reconstruction and Stabilization in Lebanon*", IMF Occasional Paper 176, and Saidi, N. "*Growth, Destruction and Reconstruction: Macroeconomic Essays on Lebanon*", Lebanese Center for Policy Studies, Beirut 1999.

the wars, and some estimates suggest that it may take us between 34 and 69 years to converge to three-quarters of our long-term real per capita income. It will take steady growth at high rates over several generations to make for the damages of the wars and destruction! In this Lebanon's experience would be similar to the historical experience of post-conflict situations, such as the South of the U.S.A. following the civil war.



The second graph shows the close relationship between money growth, inflation and exchange rate changes. The pre-1975 period shows low and stable inflation, accompanying a stable exchange rate, and monetary expansion in line with real economic growth and an expanding banking and financial sector. Wars and conflict destroyed public finances, administration and the public sector. Large budget deficits and their monetary financing resulted in inflation and exchange rate depreciation – with two major episodes in 1985-87 and 1991-92. The graph illustrates the importance of getting the public finances house in order.



Where do we go from here? How do we build a modern, democratic polity and society, a dynamic economy able to compete internationally in an increasingly globalised world economy? We need to maintain elements that have served us well, but rebuild our institutions and provide new infrastructure and frameworks. The

answer I believe is in *@-lebanon*. The vision and strategy for recovery and growth rest on the following building blocks.

- An open economy with free trade, payments and capital movements needs to be strengthened by entry into the World Trade Organization (WTO), active promotion of the Greater Arab Free Trade Area (GAFTA) and an Arab Common Market (ACM), as well as a Partnership Agreement with European Union.
- Liberalize and deregulate the economy, and allow markets to operate. This implies creating the framework for the private sector to participate in the provision of infrastructure and its services, and pursue the privatisation of public utilities and services. This will have to be accompanied by the introduction of new regulatory structures and independent regulatory authorities. This will force a fundamental review and reform of the role of the state and its responsibilities. Fundamentally, free markets and economic freedom, civil liberties and personal and political freedom are inseparable and indivisible.
- We need to invest rapidly and extensively in Media, Information and Communication Technologies (MICT). This is not just a matter of bridging the “digital divide”. ICT investments are critical so that Lebanon can become the region’s provider and centre of *@-services*. The form, content and delivery of the services in which Lebanon has a comparative advantage –banking and finance, tourism, trade and marketing, health, education, the media and all forms of management and consulting – have to re-engineered. The same is true of government goods and services: we need to rapidly implement *@-government*. Government has to become an efficient provider of goods and services, delivered with transparency, by accountable officials and civil servants. Importantly, the new technologies, MICT, allow the cross-border delivery of services. The traditional distinction made between traded and non-traded goods and services is becoming less relevant both because of the large reduction in transport and communication costs, and due to new MIC technologies. This offers Lebanon the enormous opportunities offered by the markets of the Lebanese Diaspora as well as the Arab world.
- We need to modernize and introduce new laws and regulations. Geography and location will no longer be as important as in the past. Countries will compete by the soundness of their institutions and by the flexibility of their laws and regulations. Property rights and their protection will play a determining role in the location and development of economic activities. I venture to forecast that quite likely, WIPO will become the most important of the world’s international organisations.

At this start of a new century and new millennium, we are entering a ‘brave new world’. I believe that we can enter that world and help fashion it, confident in our abilities. I believe that *@-lebanon* is our vision to make true for future generations and us.

Nasser Saidi
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