Lebanon and the European Union at the Cross-roads: An Interim Assessment of the Partnership Agreement*

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Thank you for inviting me to address this conference dealing with an important issue for Lebanon's future. I would like to thank the Lebanese Center for Policy Studies, the Adenauer Foundation and the World Bank for having organized this symposium. My talk falls into five parts. The first part is a general overview and discussion of the background to the Partnership Agreement. In the second, I will sketch the major dispositions of the agreement. The third part is a brief discussion of the potential costs and benefits of the agreement, with a focus on its economic implications. The fourth part consists of a discussion of economic policy issues and options. Section five of the talk relates to the implications for monetary policy.

1. Introductory Remarks and Background

1.1 This well-timed symposium comes as Lebanon and the European Union are negotiating a Partnership Agreement, which represents a major policy initiative and is of fundamental, strategic importance for the Lebanon. It comes at a time when we are facing a number of challenges as a country: we have come out of a war, we are in the process of reconstruction, we are rehabilitating and rebuilding our infrastructure. The fact that this agreement is coming at a crucial time, forces us to ask some deep policy issues and renders the agreement even more strategic.

1.2 The timing of the Partnership Agreement and of this conference is opportune in view of Lebanon's on-going reconstruction and modernization and the related investment requirements. Those investment requirements are substantial, they extend over more than

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[1] The analysis and views expressed are those of the author and do not necessarily reflect official views and positions.

a decade, cover the major sectors of the economy and are intended to involve all the regions of the country, implying widespread structural changes in the Lebanese economy. From this perspective, an EU- Lebanon Partnership Agreement cannot be identical to the agreements negotiated with other countries of the Southern Mediterranean and the Middle East[2]. Indeed, the proposed EU- Lebanon agreement points to the fact that Lebanon's needs and requirements are different from those of the other countries with which the EU has negotiated such as Tunisia, Morocco, Jordan, Egypt, Israel, Turkey or Algeria. Therefore, as part of the benefits of this agreement, our objectives include two issues: a substantial EU participation in (a) Lebanon's modernization and reconstruction effort and in its funding, and (b) foreign direct investment in the Lebanon.

1.3 My third introductory remark is that Lebanon is facing increased globalization of trade in goods and services, new entrants into the international trade arena, as well as a breakdown of barriers to trade internationally. The major issue to be addressed is: what is Lebanon's international commercial policy going to be? When and under what conditions will Lebanon join the GATT/WTO? When and under what terms will it join the GATS framework calling for increased liberalization of trade in services, a sector which is central for Lebanon?

1.4 This symposium is critically important due to the nature of the EU-Lebanon partnership being discussed. Although we would be entering into a partnership, we would not be members of the European Union. In other words, it is a formal engagement, but it is not a marriage, such as when Portugal and Spain and other countries joined the EU. The proposed partnership agreement is comprehensive in its coverage: there are economic, social, environmental, cultural, technological as well as political and security implications. The agreement is wide ranging; it is a partnership, it is an engagement, not quite a marriage. Nevertheless, an engagement implies a long-term commitment. However, engagements are serious arrangements, particularly if they imply potential marriage. And particularly if one expects to marry only once! If you are proposing a long term commitment, it is necessary, in my opinion, and as part of the normal democratic process, that there be extensive discussion of the issues involved. This is why I welcome the forum of this conference. As we note below, what is being envisaged in the partnership agreement goes beyond a free trade agreement between Europe and Lebanon.

[2] Tunisisa, Morocco and Israel have signed agreements. Jordan, Egypt, Syria and othe countries are in negotiation.

We need mature, non-partisan and serious discussion of fundamental issues relating to the future of our country. It is appropriate that such issues are raised in this forum.

2. Major Provisions of the EU-Lebanon Partnership Agreement

2.1 Let us first examine Lebanon's economic background. Lebanon has a small open economy, dominated by the private sector and with a liberal economic policy regime, including a non-protectionist trade policy regime. All three characteristics are important. Size is crucial, in that Lebanon's markets are relatively small: in order to achieve production efficiency and economies of scale in production, Lebanon needs access and export to wider markets --these include the EU, Syria and the neighboring Arab countries. Moreover, Lebanon is one of the most open economies in the region, as measured by total commodity trade relative to GDP,(about 70%). However, the degree of openness is considerably greater if we take into account trade in services and the international mobility of Lebanese labor, and foreign labor into Lebanon. Openness, liberal economic policy and a non-protectionist trade regime imply a more flexible economy: the cost of adjustment to the EU partnership agreement is going to be quite different for Lebanon than it is for less open economies such as Morocco, Egypt or Algeria and Tunisia or even compared to a relatively open economy such as Jordan.

2.2 The second background factor is that the international economic environment is drastically changing. World trade in goods and services is expanding at a rapid rate, faster than the rate of growth of world output, as a result of deregulation and an increase in the liberalization of world trade, and because of "new entrants" into international trade, such as China. We have now finalized a number of 'trade rounds', the Uruguay round and are now moving to a world trading system based on GATT/WTO and GATS. At what speed will Lebanon participate in the new world trading order and in what form? It is not in Lebanon's economic interest to pursue a protectionist commercial policy that would attempt to isolate the country. As a small open economy, the price of most goods and services are determined on world markets: commercial policy --such as tariffs, quotas and other trade restrictions-- cannot be used to improve the terms of trade.

2.3 The third observation relates to the pattern of international trade: our major trade partner happens to be the EU: more than 50 percent of Lebanon's imports originate in the

EU. It is a major partner both on the import and the export side. Now the EU is no longer the EEC we used to know back in 1977 when we negotiated our trade agreement. The latter called for preferential access but it left out the principle of reciprocity. We have no option to renew our 1977 trade agreement; it is not a live policy option. The EU in line with its Mediterranean initiative advanced in Barcelona, is proposing the Partnership Agreement as the relevant framework for negotiations on economic, trade and other relations. In addition, the economic size and structure of the EU is changing: it is no longer a static EU, it is now allowing the entry of the former Central and Eastern European countries. This forces us to think dynamically: as noted below, the extent and cost of trade diversion may be different with the entry of Eastern European and Central European countries.

2.4 What are the major provisions of the agreement? What are some of the things that are missing? The first part of the agreement is to intensify the political dialogue between the EU and the Lebanon, both on a regional and bilateral basis.

The second major part of the agreement is the progressive liberalization of trade in goods and services to reach a free trade area, as well as increased liberalization of capital movements. The agreement calls for reciprocal free trade in most manufactured and industrial goods, through a time-phased elimination of tariff and non-tariff barriers, and provides for preferential access for some agricultural products.

It is important to note that some things do not change. For instance, the protective approach that the EU has towards its agriculture has not evolved much. Despite the large economic costs and the enormous budgetary burden on the EU of its agricultural policy, and the resulting distortions in world trade patterns and prices --for example by providing disincentives to Eastern and Central European countries from developing their agricultural potential, in which they have a comparative advantage. The EU is not proposing improved access for agricultural products. This issue represents a problem in our negotiations with the EU. The EU can benefit and help Lebanon reduce some of the costs of transition and the adjustment costs of the Partnership Agreement by improving access for Lebanese agricultural products into the EU. Given the small quantities involved, they can easily be absorbed by an expanding EU market.

In addition, there are two positive aspects for Lebanon and the EU concerning agriculture. First, the agricultural areas are poor and had in the past, been partially dependent on growing illicit crops. Expanding export markets for agricultural crops and products would provide incentives to develop alternative crops. Second, the agro-industrial sector

--foodstuffs in particular-- has substantial potential in Lebanon: it has access to a source of cheap agricultural raw materials in Syria, which it can process, market and export. As such, this is beneficial to Lebanon and should help expand regional trade: an objective of the EU's Mediterranean initiative. This is an area in the negotiations requiring flexibility and dynamic vision on behalf of the EU.

2.5 The third essential element is that the agreement harmonizes all trade regulations and provides for EU assistance in introducing and adopting EU and international technical standards. This can improve Lebanon's access to the EU and world markets for manufactured and industrial products, and is itself a major benefit of the agreement.

2.6 The fourth element of the agreement is that it liberalizes the right of establishment and trade in services. To my mind, this part of the proposed partnership agreement is a major innovation. It does not appear in the partnership agreements with other countries. Given the structural importance of services in the Lebanese economy --services reportedly generate up two-thirds of GDP-- this chapter of the agreement is critical for Lebanon's future growth as services may be the main source of Lebanon's comparative advantage. That's why, particular attention has to be given to the rights of establishment and trade in services.

2.7 The fifth element, extremely important, is that the agreement proposes to increase cooperation at the social, cultural, economic, financial and monetary cooperation between the EU and the Lebanon. I will stress on the financial cooperation because it can underlie and sustain the main economic policies that will have to accompany the implementation of the agreement.

2.8 The sixth part of the agreement concerns financial support, grants and aid to the Lebanon, as well as loans from the European Investment Bank. The EU has offered financial support amounting to ECU 4.685 billion in overall grant assistance over the 1995-1999 period to the eligible countries participating in the EU's Mediterranean strategy, along with loans of around ECU 4.7 billion to be provided by the EIB. The grants and financial support from the EU will be provided on a "first-come first-served basis", with country allocations being positively related to three criteria: population, absorptive capacity (or ability and willingness to undertake economic and social reforms) and per capita income (poverty). Note that these criteria do not favor Lebanon, with its relatively small population, its already liberal economic policy system and limited public sector, and relatively high estimated per capita income[3]. They also do not take account of Lebanon's reconstruction requirements. Any long- term agreement between Lebanon and the EU should address the country's structural and infrastructural investment requirements arising from destruction during the 1975-1991 war period .

2.9 There is a seventh part to the agreement which is currently missing. It relates to labor, migration and the rights of workers including social security as well as other social benefits. That part of the agreement is present in the EU agreements with Tunisia and Morocco. The labor and migration sections of the agreement are intended to address the EU's special relationship with the Maghreb countries and reduce the flow of economic migrants into the EU arising from the large disparity in income and overall conditions of life between the two regions. Clearly the agreement cannot change the incentives to migrate created by natural economic forces. It is only over the longer term and if the Maghreb countries are on a sustained growth path of income allowing an eventual "catching up" of expected income, that the flow of migration will slow. However, such considerations are not relevant for the Lebanon: for the most part, it is the high skill, professionals and relatively wealthy entrepreneurs that migrated to Europe. As Lebanon rebuilds itself, it will be attracting back its human capital. Thus, there are no valid reasons for excluding what amounts to basic human rights and worker rights as present in the ILO charter from the EU-Lebanon agreement.

3. Potential Costs and Benefits of the Partnership Agreement

What are the major costs and benefits of the agreement? I address these briefly and in summary form as this is not the forum for an extensive, in-depth analysis and survey of the benefits and costs.[4]

[3]Note that official population and national income statistics are not available. Similarly, there are no national price indices or national product deflators. Reported estimates are based on partial indicators of economic activity and income. Certainly, these estimates are not valid for inter-country comparisons of national income and product or for estimates of per capita income.

[4]The authorities have commissioned the IMF and the World Bank to undertake an in-depth analysis of the implications of the EU partnership agreement. These, as yet, not publicly available examinations, have been completed.

Potential Costs.

3.1 A number of introductory remarks are in order:

(1) Whenever one is dealing with issues relating to economic liberalization or deregulation generally, and specifically international trade issues, it is typically easier to measure the costs than the benefits. The economic sectors and private or public interests (including the bureaucracy administering the protective regime or regulation) benefiting from protection or regulation have the incentive and are quick to publicly denounce the proposed changes and declare their losses. On the other hand, the general public that stands to gain from the deregulation or liberalization has a much more diffuse economic interest and is not organized.

(2) Typically, most of the costs (including the costs of adjustment) come early in the short term, whereas most of the benefits arise in the medium and longer term. The benefits tend to be dynamic, they result gradually over time as adjustment is taking place. They are part of the process, they are not once and for all.

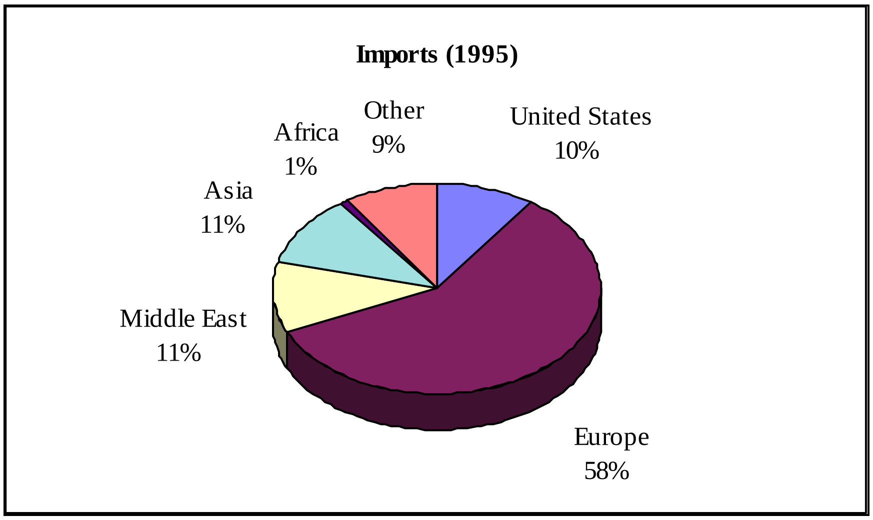
The policy maker has to be careful to distinguish between private sector interests and their expression and the welfare costs or benefits to the economy and the general public.

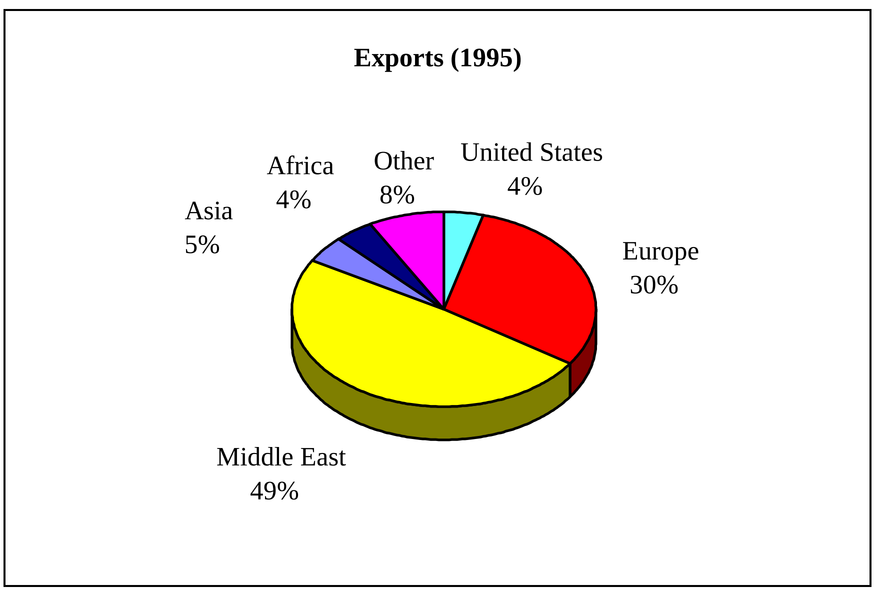
(3) The third remark is that we do not have sufficient information from the experience of other countries to assess the costs and benefits. The agreements with Tunisia and Morocco are just coming into force, as most of these agreements have been signed during 1995 and 1996. Therefore, we do not have sufficient information about the economic consequences of the agreements, and their costs and benefits[5]. We have to rely on simulations of economic models. This raises two problems for Lebanon. We do not have any input-output models or any macroeconometric models of the Lebanese economy in order to simulate the effects of changes in international commercial policy. As a result, most analyses are based on the simulation of economic models of other economies, such as Jordan, Tunisia or Egypt. Such empirical analyses and simulations are making the strong (implicit) assumption that cross-country differences in the structure of economies, economic policies and the trade regimes will not affect the outcome of the simulations and estimates of costs and benefits. This is problematic[6]. Hence while the simulations are a necessary and valuable exercise, we have to interpret the results and any resulting policy implications with caution, particularly so in the case of Lebanon whose economy is highly dependent on the services sector.

[5]See B. Hoekman (1995); Brown, Deardoff and Stern (1995), B. Hamdouch (1995) and B. Khader (1995) for analyses and studies relating to the Maghreb countries.

[6]Not least because trade regimes and protection affects the economy's production and consumption structure.

3.2 Lebanon consistently runs large trade deficits. In 1995 total imports were US$6722 million, while exports were only US$982 million, resulting in a trade deficit of $5740 million. In terms of the direction of trade, Lebanon's external trade is equally unbalanced. In 1995, some 58% of our imports originated in the EU, while the EU absorbed some 30% of our exports. On the other hand, some 11% of Lebanon's imports were from the Arab countries of the Middle East which absorbed some 49% of our exports. There are two economic implications: (a) any change in trade arrangements or commercial policy will mainly have implications for consumption and less for production, and (b) geographical proximity appears important in explaining the pattern of trade.





3.3 The creation of a free trade area between Lebanon and the EU is a preferential trade arrangement that both liberalizes and distorts trade. Trade between the EU and Lebanon is liberalized and expands because it faces lower restrictions, lower tariff and non-tariff barriers, than previously. Lebanese consumers are better off, whereas producers of import-competing goods are worse off, and customs revenues decline because of lower prices. On net, however, *trade creation* results in an increase in welfare that outweighs any loss of tariff revenue.

Trade diversion results when, due to the lower tariffs facing EU products, consumption is diverted away from other foreign producers and towards the EU. If however the EU is not as efficient (it is a higher cost source of supply) as other foreign suppliers, trade diversion may lead to a net welfare loss.

Whether Lebanon stands to gain or lose, whether the benefits of trade creation will outweigh the losses from trade diversion is an empirical matter. Preliminary results and simulations suggest that on net there will be a small net welfare loss, because the EU may be a less efficient, higher cost, supplier than competing suppliers from Asia, North America or elsewhere.

3.4 Which factors could lessen this potential loss of welfare? Trade creation and trade diversion should be viewed in a dynamic context, not the standard static analysis. With the entry of Central and Eastern European countries into the EU there is scope for the entry of low cost, more efficient, producers than existing countries of the EU. This would lessen the potential loss of welfare.

However, the main point is somewhat different. If Lebanon wants to lessen the costs of trade diversion and loss in welfare, it should adopt a more liberal stand and commercial policy towards the rest of the world. It should adopt a multilateral reduction in tariff and non-tariff barriers, liberalizing trade with non-EU countries within the context of GATT and WTO. The policy implication is that Lebanon should seek to extend free trade agreements to Syria, the Arab countries and potentially North America and Asian countries.

3.5 How practical and realistic is this generalized reduction in trade barriers ? Specifically, will it not generate a large fiscal problem because of the enormous loss of customs revenue ?

Table 2: Tax Structure in a number of Mediterranean countries, 1994/95 (% of tax revenue)

Country	***Income & Profits***	***Goods & Services***	***Import Duties***	***Other***	***Tax ratio: % of GDP***
Lebanon	*14.7*	*19.3*	*66.0*	--	*11.2*
Egypt	32.6	49.8	12.7	4.9	20.6
Jordan	19.7	39.4	40.0	0.9	16.3
Syria (1993)	35.5	5.3	14.6	44.5	18.9
Tunisia	18.6	28.1	30.2	23.2	20.0

Source: IMF, 1996.

As the accompanying Table shows, there is a wide variety of tax structures in the Mediterranean countries. Note that the overall tax burden in Lebanon (11.2% of GDP) is the lowest for the region and that the dependence on import duties and charges is the highest. Customs duties and other charges are the main source of government revenue. Given that the EU is our major trade partner with more than 55% of our imports, the potential loss of customs revenue could amount to a major revenue loss between 5 and 6% of GDP.

If Lebanon enters into a partnership agreement with the EU, what can it do to offset the loss of customs revenue ? The policy option is clear: trade liberalization must be accompanied by fiscal reform. The needed reform can be divided in two parts; first, we have to increase our dependence on direct taxes in a way that income and profit taxes represent a higher share of tax revenues. The second part of the fiscal reform is to gradually introduce and phase in over time, taxes on goods and services. These would be an alternative to tariffs which, with gradual reduction, would be replaced by a General Sales Tax (GST). Later this should be replaced by the more efficient, less distortionary Value Added Tax. Clearly, this would require a major structural reform in tax assessment, collection and administration.

I emphasize that these are yet policy options, alternatives that need to be carefully studied and analyzed. Fiscal reform, changing the tax structure and reforming tax administration are costly matters, since they also imply changes in accounting and record keeping for individuals and businesses. They need to be carefully planned and implemented.

3.6 Under the current proposals being negotiated in the partnership agreement, tariff reductions would only happen after a grace period of five years, followed by a reduction in tariff rates over a seven year period, a total of twelve years. Indeed the major reductions would occur in the last three years, the reductions are back-loaded. Consequently, the loss of customs revenue is postponed and delayed. The fiscal impact of any agreement is delayed. This ‘grace period’ should be used for implementing the fiscal and tax reforms mentioned above.

3.7 The third cost of the agreement concerns restructuring of the industrial and agricultural sectors. Clearly as tariffs and other forms of protection are phased out both industry - and to a lesser extent agro-industrial goods- and agriculture will have to undergo structural change. There are transitional costs of adjustment. Industries and factors of production that are adversely affected because of a reduction in their effective rate of protection will experience a reduction in output and incomes, respectively. Gradually, investment and factors of production will move to other sectors that have retained or gained a comparative advantage. Because of the gradual reduction of trade barriers over a twelve year period the required structural adjustment is delayed. Lebanon will have to examine and put in place sectoral policies for industry and agriculture that will anticipate the required structural changes and seek to minimize the costs of adjustment. These should include policies and measures that will raise the rate of adoption of new technology, provide training to labor and implement measures that favor increased mobility of resources across sectors.
In particular, I believe that Lebanon can efficiently develop its agro-industrial sector, including foodstuffs: it could source relatively cheap agricultural raw materials from Syria --which has a comparative advantage in agriculture-- process such materials, and market final products, developing and financing an important export industry. The EU has an important role to play in providing financial and technical assistance in this transformation and development of Lebanon’s agriculture, providing access to and facilitating the adoption of modern agro-industrial technology.

Potential Benefits

3.8 There are a number of potential benefits to the EU partnership agreement. These include increased technical assistance and cooperation. To minimize the possible losses from trade diversion and minimize the costs of adjustment, we have to maximize the benefits that we can derive from a number of the available Euromediterranean programs; such as Med-Urbs, Med-Media, Med-Campus, Med-Techno and particularly Med-Invest. A major promotion campaign should be launched to increase awareness of these programs and their possibilities.

3.9 The second major benefit results from increased integration between Lebanon and the EU notably from technology transfers and the harmonization of product standards. This can lead to an increase in product quality, the adoption of international norms and standards that would allow Lebanon to enter the EU markets and allow Lebanese products to gain international acceptance. Therefore, we have the possibility of our products and services being accepted internationally, increasing our exports as well as our export base. In addition, the harmonization of trade regimes will improve access to foreign markets and increase potential trade and financial flows through Lebanon's banking and payment systems.

3.10 The third potential benefit that would result from the agreement is an increase in foreign direct investment. This should be the major economic benefit of the partnership agreement. Foreign direct investment by EU companies and other joint ventures with Lebanese firms should constitute the backbone of the agreement. The objective should be for Lebanon to become a "regional hub" for international and EU companies seeking access to Syria, the Mashrek's markets and beyond. Lebanon's existing investment climate is favorable to foreign investment. An EU partnership agreement would act as a signal to foreign investors of increased international openness. As trade barriers in the region are reduced and if the area moves towards a potential political settlement, Lebanon will experience above average growth and become a regional hub.

3.11 The fourth benefit is the access to financial assistance, aid and grants as well as to EIB loans. Clearly, this is one of the most important incentives for Lebanon to implement the partnership agreement. However, as noted above, the criteria for providing financial assistance do not favor Lebanon; indeed they tend to penalize Lebanon for having a liberal economic policy regime, not requiring substantial reform. Further, financial and technical assistance must take account of Lebanon's reconstruction requirements, and its need to invest in rebuilding its infrastructure.

3.12 The fifth source of benefits relates to the rights of establishment. These rights are very liberal in Lebanon. Indeed, in many instances they are more liberal than those existing in the EU. Lebanon's laws and practice allow for very limited discrimination between national and non-national residents. Because of that liberal stance, there is a large potential for EU companies to establish in Lebanon. This would be critically important in the services sector as a whole, and should increase the potential for Lebanon to become a regional services hub, providing commercial, financial and other services to the area.

4. Economic Policy Issues and Reforms

4.1 If Lebanon enters into a partnership agreement with the EU a number of policy reforms will need to be implemented. Entering into the agreement inevitably implies a commitment to the process of economic reforms and increases the credibility of policies and policy-makers. To summarize, the major policy issues and options:

- The EU partnership agreement provides an opportunity for Lebanon to identify and determine its international commercial strategy for the next millenium. My personal view as an economist, is that Lebanon should continue its long tradition of being an open economy with a liberal trade stance. As a small open economy, Lebanon should avoid creating preferential trade zones and move towards multilateral tariff reductions in order to avoid the potential losses from trade diversion. As part of this policy, Lebanon should liberalize and increase its trade and external links to Syria and other Arab countries.
- With regard to the fiscal policies, we need to undertake a radical fiscal reform, to reduce our dependence on trade taxes, and introduce alternative indirect taxes on goods and services. We should increase the share of direct taxes -- income and profit taxes-- in total tax revenue.
- Entry into a partnership agreement as well as entry to the WTO implies a replacement of quantitative barriers such as licenses and other trade restrictions on goods -- including agricultural goods-- by taxes, tariff equivalents or tariff barriers.

4.2 The EU partnership agreement suggests a framework, a program for long term monetary and fiscal stability. Specifically, I propose as part of a fiscal reform package extending over the twelve year transition period, to formally adopt the Maastricht criteria for fiscal and monetary policies which I regard to be consistent with the current macroeconomic stabilization policy. Lebanon can adopt the Maastricht criteria as long term policy objectives. On the inflation side, we would be looking at converging to an inflation rate of around 3%, from the current range of 9 to 10% .

On public debt, the Maastricht criterion calls for a maximum debt to GDP ceiling of 60%. I believe it is feasible, as we go beyond the debt "hump" associated with reconstruction requirements, to gradually reduce the debt to GDP ratio towards the Maastricht ceiling of 60% over a period of ten years.

Finally, if the fiscal reform package advocated above is implemented, we can move towards a target objective for the budget deficit relative to GDP of about 5% to 6%. As the debt ratio declines with rising aggregate output, and as inflation falls; nominal interest rates will be declining, converging towards EU levels. This will allow a reduction in total interest payments, which now account for a major part of the nominal budget deficit.

5. Monetary Policy

5.1 No major changes are required in the stance of monetary policy. Monetary policy is geared and should remain geared at controlling inflation. The EU partnership agreement would suggest a benchmark inflation rate, namely the EU average.

At the moment, the inflation average in Lebanon is in the 9 to 10% range. As noted above, with the implementation of the fiscal reform package, we could gradually reduce our inflation rate to the EU average of 3% or 4%. Consistent with this, we would experience a convergence of Lebanese pound and on-shore dollar interest rates towards EU interest rates, allowing increased integration between the money, credit and capital markets in Lebanon and EU's main centers.

5.2 There are two new elements on the monetary policy side. The first would be a link and cooperation with the European Monetary Institute, or the European system of central banks. With an EU partnership agreement in place it would be policy-consistent for the Banque du Liban to cooperate, if not coordinate, with the European Monetary Institute and eventually the system of European central banks. Certainly this would improve regulatory efficiency for banks and financial institutions in Lebanon and the EU.

The other new element on the monetary policy side is linking Lebanon's clearing and payment system with the 'Target' system that the EU is setting up.

6. Concluding Remarks.

The EU-Lebanon partnership agreement should be put in the context of seeking to improve Lebanon's long term growth prospects. The fundamental issue from an economic viewpoint is: will the EU partnership agreement improve our economic prospects, assist in financing our reconstruction requirements, and maximize opportunities for our private sector ?

The agreement is of strategic importance. Lebanon is not just a small, open economy with a liberal economic policy stance; it also a young country. In fact, some 45% of our population is below 21 years of age. Moreover, a substantial part of our human capital, our skilled people have migrated. The proposed EU partnership agreement is a challenge for us to review existing economic and social policies and ask ourselves what Lebanon are we creating for the year 2005 - 2010 such that that Lebanon is attractive enough for us to bring back our human capital, such that Lebanon will be a country attractive to our young people. Both empirical evidence and fundamental studies on economic growth are consistent in their prescriptions: reduce your economic distortions, reduce the size of government and its intervention in the economic process, invest in and use your human capital efficiently. I believe the future is in our hands to create an appropriate environment. So we should use the EU-Lebanon partnership agreement to maximize the potential for ourselves and the coming generations. The EU partnership opens an economic visa of trade and cooperation with an area extending from the Baltics to Saudi Arabia embracing about 870 million people, and rapidly growing markets. It poses both an opportunity and a challenge.

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