

Discussion Forum on

“Why Trade Matters in Development Strategies?”

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Lebanon's Experience of Integrating the Trade Dimension into its National Strategy as well as in Bilateral and Multilateral Assistance Plans

Lebanon is a relatively small country with a diverse population of about 4.3 million inhabitants and is considered to be an Upper Middle Income Country by the World Bank. It is extensively recognized for its strategic geographical position in the MENA region and at the global level. At the regional level, it has a leading role as a meeting point for the Arab world and Europe while it's widely dispersed and abundant diaspora of approximately 16 Million have played an important role in developing strong business relationships around the world. Its economy has traditionally followed a laissez-faire model that is mainly service orientated, whereby major growth sectors include banking, tourism and to a lesser extent manufacturing and agriculture. Wholesale and retail trade however constitutes 15% of Lebanon's total GDP, also making it an important source of growth for the economy.

Lebanon's main policy guidelines and priorities, as highlighted through the "Paris II", "Paris III" and most recently, "Economic and Social Reform Action Plan" programs, have been to encourage and enhance private sector investments in order to create high value added jobs in the "real economy". As each Ministry submits its sector strategy and priorities to the Council of Ministers (CM) for approval, the resulting government package of reforms within the agreed frameworks has generally aimed at:

- Improving the investment climate
- Supporting private-led growth
- Expanding Exports
- Rehabilitating infrastructure- access to electricity, transportation, water supply and sanitation, and information technology and telecommunications
- Furthering human development- access to education, health care and social protection
- Improve Governance
- Strengthen the nation's statistical capabilities

The implementation of these reform packages takes place at the level of the Ministry in coordination with the Presidency of Council of Ministers (PCM). Individual project proposals are submitted by each ministry-- either unilaterally or jointly with the relevant stakeholders (such as EU, UN agencies, USAID, World Bank etc.)—to CM, who then takes the appropriate decision.

According to UNCTAD, Goal 8 of the Millennium Development Goals – "*to develop a global partnership for development*"- accounts for the economic dimension at the international level and hence, is the goal that integrates the concepts of trade and productive capacity into the development framework. As such, two market access indicators were developed by UNCTAD to reflect the two targets that were specifically designed to deal with trade:

- **Target 1**, which calls for the "further development of an open, rule-based, predictable, nondiscriminatory trading and financial system"
- **Target 2**, requesting the international community to "address the specific needs of LDCs"

In light of these two market access indicator targets, the Lebanese government has been actively seeking to integrate trade and productive capacity into its development agenda.

First, it has devised and implemented economic strategies throughout the years that aim to encourage the development of an open trading and financial system in compliance with international and regional trade agreements. Such agreements include:

- Association Agreement with Europe (AA), including the European Neighborhood Policy (ENP)
- European Free Trade Association (EFTA)
- Greater Arab Free Trade Area (GAFTA)
- Bilateral Framework Agreements

In addition, efforts to join agreements at the regional level, such as the Agadir Agreement, and multilateral mechanisms, such as the accession to the World Trade Organization (WTO), continue to be a work in progress.

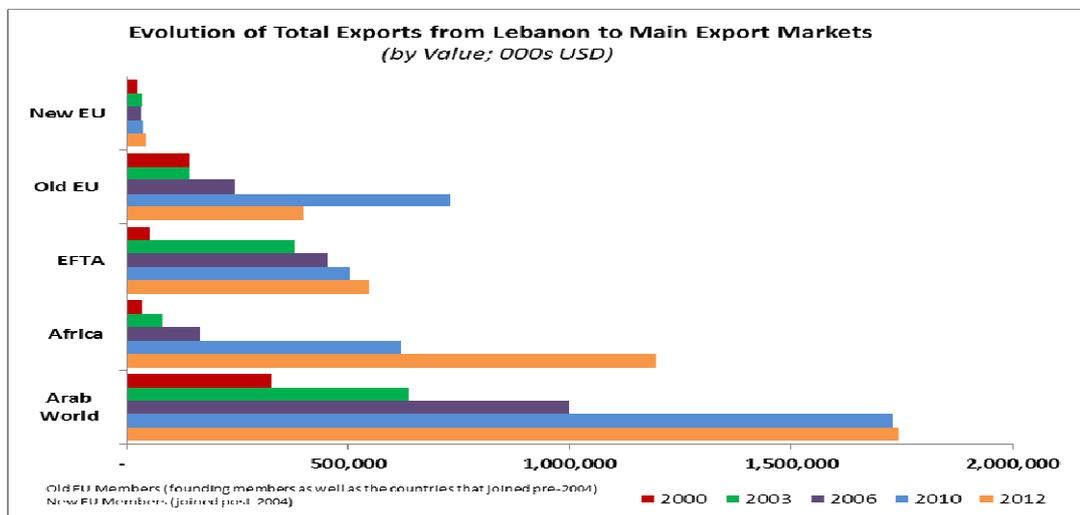
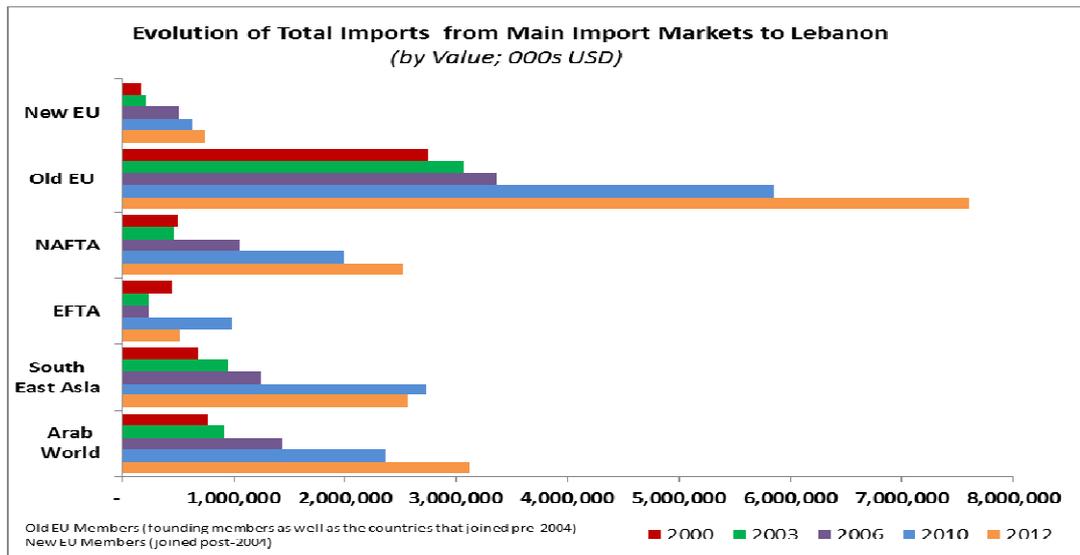
Such agreements expanded Lebanon's open economy by i) *liberalizing trade even further*, ii) *upgrading export requirements so that they conform to regional and international standards and norms*, and iii) *creating a mechanism that efficiently contributes to economic development through the allocation of technical and financial assistance*, through the following measures:

- a) The reduction tariff and non-tariff barriers to trade
- b) The further development of international growth strategies over the years at the domestic level

A. Reducing Tariff and Non-Tariff Barriers

- i. Tariff Barriers: As a result of domestic policies and trade agreements, significant steps have been made at reducing tariffs.
 - Today, more than 83 percent of imported goods are subject to duties equal to or below five percent due to a domestic policy to reduce tariffs in the year 2000.
 - The Interim Agreement that was initiated under the AA encouraged the tariff dismantlement on EU exports into Lebanon with a 5 year grace period.
 - Among the objectives of the EFTA is that all customs duties on trade in industrial goods and fish and other marine products will be reduced by March 2015.
 - GAFTA has encouraged its members to reduce inter-customs fees on Arab Products to 0% since 1/1/2005.

Furthermore, the graphs below clearly portray the expansion in imports from and exports to the major markets Lebanon trades with, especially since the relevant trade agreements were agreed upon.



- Bilateral trade between the EU and Lebanon has been increasing steadily over the past years, with an average annual growth of 13.6% since 2008.
- *The Arab World* saw imports more than triple while exports saw an increase of almost threefold since the signing of the GAFTA in 2005.

ii. **Non-Tariff Barriers:** Steps have been taken to reduce non-tariff barriers:

- **“NAJM Customs Reform Project”** to help facilitate trade, enhance control and align procedures with international standards. This was achieved through the adoption of International Harmonized System tariff ASYCUDA for Lebanese Customs, a declaration form based on the Single Administrative Document (SAD), Simplified Clearance Procedure, Tax Identification Number TIN, Post Clearance Audit NAR, etc.
- **“Quality Standards and Regulations”** to help improve quality standards and regulations so that they are in compliance with international standards and norms. This was achieved through the development of a standards, compliance and production database at Lebanese Standards Institution (LIBNOR) and Industrial Research Institute (IRI).

B. Encourage the Development of International Growth Strategies by improving the business environment and supporting private led growth and Promoting and Diversifying Exports. Projects include:

- “One Stop Shop” initiative initiated by the Investment Development Authority in Lebanon (IDAL) and set to be carried out by the Customs Administration. It aims to:
 - Facilitate and accelerate investments by short-circuiting and bypassing lengthy bureaucratic and administrative procedures and providing investors with a single point of contact for all dealings with the Lebanese Government
 - Guide investors through a step-by-step procedure to successfully develop and implement their projects in Lebanon
 - Support investors in the post-implementation phase, through a wide range of aftercare services to ensure successful operations of the project
- “Improving the Business Environment in Lebanon (IBEL)” initiative, carried out by IBEL Working Group which includes representatives from World Bank, IFC and the Presidency Council of Ministers. This focuses on improving many components, including:
 - Starting/closing a Business
 - Getting Credit/Secured Lending
- “National SME Strategy Development” project carried out by the Ministry of Economy and Trade (MoET). It aims to build the competitiveness of the SME sector and ensure a strong Public Private commitment for that purpose by:
 - Stimulate the “entrepreneurial mindset” of the Lebanese so that they are channeled towards more innovative driven activities
 - Improve Access to Finance
 - Build the skills and capacities of Human Capital
 - Enhance and promote Technology and Innovation
 - Boost the support provided to institutions and programs
 - Develop Access to Markets
 - Encourage Public-Private dialogue and coordination between all entities
- “Export Promotion Services” carried out by the Investment Development Authority in Lebanon (IDAL). As per its mandate, IDAL is responsible for assisting in the promotion and marketing of Lebanese products, in particular, agricultural products and materials used in the agro-industry in Lebanon, as well as Lebanese agro industrial and ICT products. Subsequently, its export promotion services are based upon:
 - Providing data on export markets and potential export opportunities
 - Supporting companies in accessing external markets
 - Providing technical assistance to exporters in selected fields
 - Subsidizing participation in foreign fairs

Projects such as Agri-Plus Program, Agro-Map and ICT were put in place by IDAL to provide support to the three sectors.

- “Reinforcement of the Lebanese Private Sector Competitiveness– Quality Component: Strengthening of Quality Management, Capabilities, and Infrastructure in Lebanon”, carried out by the Quality Department at Ministry of Economy and Trade (Qualeb). It aims to:
 - Build and improve the quality infrastructure in Lebanon by improving specifications in compliance with international standards and norms so that Lebanese Products are more competitive on international markets.
 - Specifications include those at the level of metrology, standards, testing, quality management as well as the certification and accreditation needed for conformity assessment of products and services in the voluntary and regulated areas. It includes both public and private sector institutions and the regulatory framework within which they operate.

- “Agriculture and Rural Development Program”, carried out by Ministry of Agriculture (MoA), European Union, and the Council for Development and Reconstruction. It aims to support MoA in the implementation of its reform policies to enhance the overall performance of the agriculture sector in order to achieve sustainable food security and improve the livelihoods of rural and farming communities by:
 - Strengthening the capacity of national institutions to work on a coherent agricultural/rural development vision and to better implement agriculture strategic orientations
 - Supporting and empowering local rural actors (farmers and cooperatives) by increasing access to credit and to infrastructure

Second, Lebanon has applied the UNDAF Framework for the year 2010-2014. As such, the UN country team is strategically aligned with key national actors in government and civil society to influence national priorities and support UN actions. Based on national policy and planning documents and the identified UN Country Team comparative advantages, the UN Country Team selected the following five UNDAF outcomes:

1. Democratic governance and institutional development
2. Socio-economic development and regional disparities reduction
3. Environmental sustainability
4. Human rights
5. Gender

Despite such programs and initiatives, some challenges still prevent the process of growth in trade from achieving its full potential:

1. Procedural Problems
Many laws are still awaiting ratification in Parliament and hence, delays are faced when implementing new strategies and agreements.

2. Family Businesses
In Lebanon, family businesses constitute 85% of the private sector. The nature of the private sector in Lebanon presents a challenge in that it is reluctant to change. Family businesses in Lebanon do not always think of growing their businesses at the international level and hence, do not focus on developing an export strategy. As such, it is important to

educate SMEs of the benefits of venturing into equity financing and creating an enabling environment to encourage this. This can be done by:

- a. Developing the Stock Exchange and create differential listing requirements to encourage SMEs to list, or even create a parallel market for SMEs with less stringent requirements especially those related to financial disclosure
- b. Promoting and accelerating the development of equity financing, venture Capital and business plans by:
 - Developing co-investments schemes between the government and VC funds
 - Providing soft loans or long term debt to VCs
 - Offering tax incentives and exemptions such as capital gains tax for start-up funds at exit

3. High Production Costs

Many sectors are often unable to match foreign competition due:

- a. *Higher production costs*, related to high energy and labour costs
- b. *Lower access to credit*
- c. *Higher bureaucratic costs* either locally or internationally, which is related to the nature of the Lebanese business sector being dominated by SMEs. SMEs are reluctant to change due to they are less likely to take advantage of economies of scale. As such, they do not have the capacity to undergo costly administrative procedures or react quickly to regular and ad hoc EU guidelines.

4. Standards and Quality Requirements

Despite efforts taken by the government, the lack of accreditation and certification, the poor performance of local laboratories, and the high cost of upgrading production processes to meet international standards pose a major challenge to industrial exports, especially the agro-industry.

5. Limited Data Collection and Management Methods

There is a need to develop data collection and management methods at all levels of the economy. This can be done by:

- Providing assistance to Public sector institutions to computerize and streamline data
- Supporting the implementation of the National Statistical Master plan
- Providing technical assistance to have the needed resources to collect and manage the required linkages to measure and assess policy recommendations.
- Developing Specialized Information Centres

Until now, Lebanon has received technical assistance from various entities with regards to many of these challenges. However, more is needed to train, equip and develop the capacities of the institutions dealing with trade and productive capacity so that they are able to perform activities and responsibilities in line with international guidelines and standards.

Based on a Trade Needs Assessment carried out by MoET, a list of major needs to improve the trade dimension in Lebanon’s development framework have been identified, and are as follows:

	Trade Needs	Expected outcome
1	Supply Chain Studies and Policy Reform /Food Traceability	Improved traceability system, supply chains and trade facilitation of agriculture exports
2	Technical Assistance to Train Stakeholders on the Negotiations of the Agriculture Euro Med Rabat Road Map	Higher capacity in trade negotiations and impact analysis
3	Harmonization of rules of origin with the EU	Improved trade analysis and capacity of negotiation
4	Institutionalize “Registration-as-Licensing” rule to minimize waiting time for licenses after company is officially registered	Improved investment, business , and trade environment
5	Trade Liberalization Impact Assessment	Technical capacity and awareness are enhanced among stakeholders
6	Study service sector liberalization and benefits/costs of liberalization on the various service sectors	Improved institutional capacity trade and competitiveness
7	Parliamentary Legislative Support	Legislative trade environment improved

This list is solely based on the needs of MoET. However, it is also important to consult other institutions such as Customs, Ministry of Transport and Ministry of Finance to get an overall perspective of the required needs.