

# COMMISSION OF THE EUROPEAN COMMUNITIES

COM(77) 584 final.

Brussels, 21 November 1977.

COMMISSION COMMUNICATION TO THE COUNCIL ON THE  
GUIDELINES OF COOPERATION BETWEEN THE COMMUNITY  
AND THE LEBANESE REPUBLIC

COM(77) 584 final.

## COMMUNICATION TO THE COUNCIL

In an Exchange of letters contained in the Final Act of the Cooperation Agreement signed with Lebanon, the Community stated that it was prepared to undertake, in conjunction with this country, the preparatory work on setting cooperation in train and to appraise projects, as part of financial and technical cooperation, so that decision may be adopted as soon as the Agreement enters into force.

Pursuant to this Exchange of letters the Commission is submitting in this communication proposals on the position to be adopted by the Community within the Cooperation Council, which, according to Article 5 (1) of the Agreement and Article 9 (1) of Protocol N° 1 to this Agreement, must define the guidelines of cooperation and the specific objectives of financial and technical cooperation. This proposal has been drawn up in the form of a draft Cooperation Council decision. Its content will have to be approved by the two parties concerned at a meeting of the ad hoc group pending their formal adoption by the Cooperation Council after the entry into force of the Agreement. It is with the guidelines approved in this manner as a starting point that the preparatory work for economic, technical and financial cooperation will have to be done, on the basis of the Exchange of letters referred to above.

The Council will find annexed to this communication a note on the economic and financial situation of Lebanon ; these data were collected mainly during a fact-finding mission undertaken by representatives of the Commission and the IIB. In addition, the Bank has collaborated closely in drawing up the attached proposals on the implementation of financial and technical cooperation.

In drawing up this proposal the Commission took as a starting point the idea that Community aid should not, strictly speaking, be considered as transfers of resources but rather as support for measures to be taken to establish economic cooperation under Article 4 of the Cooperation Agreements. Similarly, the Commission considered that, for both political and economic reasons, one of the principles which it would be desirable to take as a basis for putting into effect financial and technical cooperation with the Lebanese Republic would be the financing of operations within the framework of triangular cooperation.

In the Commission's view the work to be done within the Community on the basis of this communication should be undertaken so that agreement with the partner on the content of the draft Cooperation Council decision can still be obtained before 20 November 1977. This would ensure that projects and schemes are identified and the initial financing requests examined before the entry into force of the Cooperation Agreements in accordance with the Exchange of letters contained in the Final Act to each Agreement.

## Guidelines for cooperation with the Lebanese Republic

1. The following objectives have been adopted as general guidelines for the cooperation to be established between the Community and Lebanon for the benefit of both parties :

- (i) Restoration and development of basic infrastructure with a view to speeding up economic recovery and regional decentralisation ;
- (ii) Development of industrial and agricultural potential with a view to increasing production, improving living and working conditions and reducing regional disparities ;
- (iii) Promotion of industrial cooperation between firms, in particular with a view to facilitating the transfer of technology, the development of investment and the establishment of joint ventures.

2. Technical and financial cooperation will be put into effect in accordance with the following principles :

- (i) Every effort will be made to ensure that Community aid is used to support economic cooperation schemes to be implemented under Article 4 of the Cooperation Agreement.

With this end in view, special attention will be paid to operations which would permit the simultaneous use of different forms of aid, in particular to operations likely to attract technology, capital and other benefits resulting from the implementation of the abovementioned Article 4.

- (ii) Community aid projects will be designed, where possible, in such a way as to encourage other providers of funds to lend their support, in particular within the framework of triangular cooperation.

3. On the basis of the principles referred to at 1 and 2 above and in the light of the objectives of Lebanon's development programmes, the aid specified in Article 2 of Protocol No 1 to the Cooperation Agreement will be used in accordance with the provisions of that Protocol to finance or part-finance projects and measures which correspond to the following economic priorities :

#### I. INFRASTRUCTURE

Infrastructure needed for the re-establishment of economic activity and for regional development, in particular the development of industrial zones outside the Beirut area and the infrastructure needed for the establishment of such zones.

#### II. DEVELOPMENT OF PRODUCTION

##### Industry

- (i) Projects for the modernization, restructuring and decentralization of small and medium-sized firms and for raising the level of competitiveness of Lebanese industry ;
- (ii) Projects fostering the introduction of new technologies.

##### Agriculture

Projects contributing to the development of agriculture, in particular projects to help improve the standard of living in the less developed rural areas.

#### III. TRAINING, RESEARCH AND TECHNICAL ASSISTANCE

- (i) Research schemes for the development of technology adapted to Lebanon's needs.
- (ii) Training and technical assistance schemes, in particular schemes linked to the above objectives.

COMMISSION  
OF THE EUROPEAN COMMUNITIES

Brussels ..... 8 September 1977 .....

EUROPEAN INVESTMENT  
BANK

LEBANON

ECONOMIC AND FINANCIAL SITUATION

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EXCHANGE RATE ON 31 JUNE 1977

1 Lebanese pound (L£) = 0.29 u.a.  
US \$ 0.32

1 u.a. = L£ 3.49



## SUMMARY AND CONCLUSIONS

Bounded by Syria to the north and east and Israel to the south, Lebanon has a coastline of nearly 200 km as the crow flies. In 1975, it had a population of about 3 million, and of that total probably half were foreigners.

On the eve of the civil war, the economy was expanding rapidly owing to growing demand for consumer goods from the Middle Eastern countries, the closure of the Suez Canal and the strategic significance taken on by the port of Beirut as a result, and lastly the importance of the Beirut money market as a conveyor belt for recycling petrodollars. GDP grew by an average of  $7\frac{1}{2}\%$ <sup>1</sup> per annum from 1968 to 1973. This growth was accompanied by a significant decrease in the share of agriculture in GDP (9 % in 1974 as against 12 % in 1964) and an increase in the share of manufacturing (16.6 % as against 12.8 %), a sector consisting mainly of light and small-scale industries. This trend was largely influenced by the arrival of several hundred thousand non-skilled workers who, being badly paid and insufficiently protected by social legislation, did not benefit from the overall improvement in the level of incomes, which was moreover essentially concentrated in the Beirut area.

Supported by the expansion of construction, particularly the building of luxury accommodation for speculative purposes, and industrial infrastructure, gross fixed capital formation reached 22 % of GDP in 1973, but that same year public investment was still only 3 % of GDP. There has been a marked lack of progress in port, road and telecommunications infrastructure, a feature that is even more pronounced in the case of the social services.

Over the last few years, the monetary situation has been marked by an influx of foreign capital and the steady appreciation of the Lebanese pound. Prices rose by an average of no more than  $2\frac{1}{2}\%$  per annum from 1966 to 1972 whereas increases of 11 % were recorded in 1973 and 1974.

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<sup>1</sup> Unless otherwise stated, all growth rates are expressed in real terms.

After showing virtually no growth between 1963 and 1970, exports tripled during the following three years. Lebanon benefited from the growing demand for consumer goods in the Middle Eastern countries and stepped up its exports, mainly to Saudi Arabia and Syria. The trade deficit continued to increase, however, and stood at \$ 910 million in 1974, namely 26 % of GDP. Earnings from tourism, transport and capital invested abroad kept the balance of current payments in equilibrium, except in 1973. On the eve of the civil war, official gold and currency reserves stood at \$ 1 650 million, the equivalent of 11 months' imports. The public external debt was less than \$ 100 million and servicing absorbed only about 1 % of the value of exports of goods and non-factor services.

The civil war has had disastrous effects on the economy. The number of dead comes to between 40.000 and 50.000. A million people left the country and half of them are still abroad. Fixed capital destroyed is estimated at about \$ 1 500 million and losses in stocks at about \$ 900 million.

Beirut suffered the most damage, particularly in the services sector: all the warehouses and handling equipment in the port of Beirut and most of the big hotels in the centre of the capital were put out of use, half the telecommunications network was destroyed, the old business centre was razed to the ground, along with a large number of houses and administrative buildings near the combat zone. The industrial estates in the suburbs, which were very close to the refugee camps, were seriously damaged.

The first task of the new government, which took office in December 1976, was to ensure food supplies and to provide aid for the homeless. It now intends to get the public services functioning again as soon as possible, especially in Beirut, so that the capital can resume normal activity. However, a return to normal would seem to depend to a

large extent on the amount of external aid that can be obtained, and this aid has not been coming through as quickly as expected <sup>1</sup>, causing delays in the public reconstruction programme. The Government does not intend to participate directly in the reconstruction of the private sector's productive capacity. However, it plans to channel external aid to the Industrial Development Bank or private long-term credit institutions, which will be responsible for allocating the aid. The State could supplement this aid by loans from budgetary resources representing up to 10 % of the amount of reconstruction investments. There are also plans to create industrial estates outside the Beirut area; the State would provide the basic infrastructure and would be responsible for developing housing around these estates. A Council for Development and Reconstruction is responsible for coordinating the allocation of external aid and the State's budgetary contributions. It must also draw up a long-term development plan where the emphasis is already known to be on developing regionalization.

Having dropped by 30 % in 1975 and by 65 % in 1976, GDP for 1977 will probably still be 40 % under the 1974 figure. Gold and currency reserves have nonetheless remained at their past level (\$ 1 600 million in May 1976). The Lebanese authorities' forecasts for the next few years, which predict a return to normal as from 1979, are probably already too optimistic. Several factors are acting as a check on recovery, including the following: the lack of strong government, the emigration of a large number of skilled people and the fairly strict division which still exists between the former warring factions.

In the longer term, Lebanon still has a role as a provider of services which is based mainly on its geographical position and its trading tradition, its tourist potential and experience in the field of engineering. But in order to avoid a renewal of the factors which gave rise to friction between religious groups and a recurrence of income differentials between regions and social groups, the State must encourage the

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<sup>1</sup> In June 1977, foreign aid for reconstruction was roughly put at between US \$ 100 million and 150 million.

decentralization of activities by promoting the establishment of industrial firms outside Beirut and by improving the productivity of agricultural holdings, especially in the poorest areas of the country. In order to do this, Lebanon could take advantage of its geographical closeness to markets where demand for industrial consumer products and fresh agricultural produce is strong and make full use of its services infrastructure, which is potentially an excellent asset.

Lastly, the development of these two sectors should preferably no longer rely on the availability of immigrant workers who accept low wages without complaint. Industry and agriculture should be encouraged, by stricter social legislation, to move into lines of production which requires a relatively high level of skills.

Lebanese industry, however, clearly does not have a big enough local market and its success depends on the continuing expansion of demand in the Gulf States and in Syria and on the ability of Lebanese products to cope with growing competition from other Mediterranean countries, which consider the Middle East as the natural market for their exports. In order to get back on its feet again, Lebanese industry must therefore get beyond the level of traditional industries (textiles, sub-contracting construction industries, food processing) and move towards industries requiring high skills, where there is less competition with other countries in the region. This presupposes an improvement in the level of technical qualifications and the signing of many more technical cooperation agreements with experienced foreign firms. It also presupposes greater capital investment, which can only show a return in the long term.

These re-modelling of the Lebanese economy depends of course on a return to political and military stability in the country; it would also be greatly helped by a positive solution to the Palestinian problem and the demarcation of permanent frontiers in the region. Lastly, the Government must be strong enough to impose minimum economic guidelines and the management capacity of the administration must be adapted accordingly.

## I. GENERAL ASPECTS

Bordered by a narrow coastal plain, the Lebanon mountain range covers the greater part of the country, which has a total area of 10 400 km<sup>2</sup>. To the east an inland meseta and the western slopes of the Anti-Lebanon range make up the rest of the territory. Major variations in altitude and the presence of sufficient rainfall mean that a great variety of crops can be grown: fruit and vegetables, tobacco, citrus fruit and banana trees give way higher up to cereals, olive trees and vines, and then pine forests. Lebanon has no raw materials. Deposits of oil and gas were, however, discovered in 1975. The road network is fairly dense, railways playing a secondary role. The ports of Beirut and Tripoli are amongst the largest in the Middle East. Two pipelines, one from Saudi Arabia and the other from Iraq, have their terminals on the Lebanese coast.

Lebanon had 3.0 million inhabitants in 1973. Of this population, 60 % are in towns with more than 10 000 inhabitants and there are 1<sup>1</sup>/<sub>2</sub> million people in the greater Beirut area.

The history of modern Lebanon is marked by intermittent clashes between the Muslim and Christian communities. Just before the presidential elections in 1958, a civil war broke out between Christians and Muslims, which led to the arrival of American forces at the Government's request. The crisis continued at ministerial level until 1961, when a number of officers attempted a coup d'état. Since 1967, political activity has been disrupted by the consequences of Palestinian guerilla strikes against Israel carried out from Lebanese territory and by Israeli raids as far as the heart of Beirut. From 1971 onwards the crisis worsened with the arrival of Palestinians from Jordan. Civil war broke out again in April 1975; after a few months of respite the country once again witnessed violent fighting which carried on until November 1976, when the Syrian armed forces entered Beirut. Mr Sarkis, the new President of the Republic elected by the Parliament, formed a government in December. Although the presence of the Arab peace-keeping force is allowing a

gradual return to basic economic activity, the separation of the two communities along the former battle lines means that many activities cannot be resumed. Continuing clashes in the South have hampered the restoration of confidence, and have blocked initiatives and the influx of massive aid for reconstruction from the Arab countries.

## II. ECONOMIC SITUATION ON THE EVE OF THE CIVIL WAR

Since 1959, economic growth in Lebanon has been fairly strong, probably around an annual average of 5 % to 6 %. Growth accelerated at the end of the sixties to reach an average of 7<sup>1</sup>/<sub>2</sub> % during the period 1968 - 73. This expansion can be explained by the development of exports of goods and services to the oil-producing countries and strong growth in the construction and banking sectors, stimulated by contributions of Arab capital. This trend, which essentially benefited the Beirut area, was accompanied by an influx of several hundred thousand non-skilled immigrant workers, who were not sufficiently protected by social legislation and who, more often than not, lived in the shanty towns surrounding Beirut. At the root of considerable social problems, this growth was eventually hampered by the congestion of Beirut, and the imbalances were heightened by inadequate administrative reforms and outdated public services.

In the agricultural sector, the rapid improvement in production in the more fertile areas, such as the coastal strip and the Bekaa plain, was partly offset by the fact that the less fertile land was abandoned, with the result that the average growth in agricultural production did not exceed 2<sup>1</sup>/<sub>2</sub> % per annum from 1964 to 1970. It was greater for fruit and certain vegetables, but cereal and meat production decreased.

The attraction of employment in other sectors of the economy caused people to leave the land and by 1970 the agricultural population represented only 19 % of the total working population as against 49 % in 1960; the area under cultivation decreased from 260 000 hectares in 1965 to

210 000 in 1972. The lack of manpower in the fertile areas was remedied by the arrival of between 200 000 and 300 000 immigrant seasonal workers, coming mainly from Syria. The State set about making the abandoned land productive again and extending the irrigation network and the plantations of fruit trees; this was done mainly through the "Green Plan", one of the many offices which come under the Ministry of Agriculture but are administered autonomously. It was hoped that these projects, in particular the irrigation schemes, would bring about accelerated growth as from 1977.

The secondary sector's contribution to GDP is 21 % and it employs 25 % of the working population. Manufacturing industry has a 15 % share in GDP. Set up by tradespeople who wanted to manufacture products which had previously been imported, it only really got under way at the beginning of the seventies when it started concentrating on exports to the Middle Eastern markets. The firms were primarily small-scale<sup>1</sup> and were concentrated in the suburbs of Beirut; they specialize in food processing, building materials, metal and plastic processing, textiles and clothing. The only big undertakings were two refineries and one cement works. The State's outward-looking economic policy, the creation of a free zone in Beirut, the six-year profits tax exemption and flexibility in the application of labour law (around 140 000 immigrant workers without work permits, that is about half the working industrial population), were all factors that encouraged rapid expansion in this sector, where fixed investments doubled (at current prices) between 1970 and 1973.

The construction industry's share in GDP is around 4.5 %. Public investment has remained very low and growth in this sector, especially over the last few years, has been in housing, owing to the stimulus provided by Arab capital seeking speculative investments. Demand consequently turned towards luxury apartment blocks, which remained partly unoccupied, while the freeze on the lowest rents and the inadequacy of the State programme for subsidized housing created a lack of accommodation, in particular for Palestinian and Syrian immigrants.

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<sup>1</sup> According to the 1970 census, the average number of employed per firm was 12.

The services sector employs 56 % of the working population and has a 69 % share in GDP <sup>1</sup>. A third of these services are exported. As the gateway to the Mediterranean for several Middle Eastern countries, Lebanon has taken advantage of its geographical situation to develop trade and transit activities (more than half of the trade crossing its frontiers is transit trade), and the wealth of scenery and archeological sites has encouraged the creation of a tourist industry (around 1 million tourists par annum). Lastly, Beirut has become an important money market over the last few years and the big international banks have set up there. The majority of the big Lebanese banks have been bought up by foreign banks and there are now foreign interests in the capital of all of them.

Owing to transfers from expatriate Lebanese and the influx of Arab capital, gross fixed capital formation gradually increased its share in GDP (18 % in 1968, 22 % in 1973), but public investment remained well below the needs of the economy (3 % of GDP) causing severe congestion in port, road and telecommunications infrastructure and in the public services, together with considerable delays in the building of schools and subsidised housing.

The central government's budget regularly shows a surplus, representing an average 1 % of GDP annually. The impact of public expenditure on the economy is moderate (in 1973 it represented a mere 20 % of GDP, and of this only 14 % was for the central budget).

Over the last few years, the monetary situation has been marked by an influx of foreign capital attracted by the steady appreciation of the Lebanese pound, the banking facilities and an increase in fixed deposits, which in 1973 were 72 % of GDP as against only 45 % in 1969. Private sector credit usually takes the form of short-term loans; in order to develop long-term credit, the Government created the National Bank for the Development of Industry and Tourism in 1973, but it had hardly got under way before the civil war broke out.

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<sup>1</sup> Transport: 7 %; housing: 9 %; finances: 4 %; trade: 3 %; public administration: 7 %; other services: 11 %.



Consumer prices increased by 11 % in 1973 and 12 % in 1974 as against an average rise of only  $2\frac{1}{2}$  % per annum since 1966. Previously the appreciation of the Lebanese pound in relation to other currencies had softened the impact of the rising prices of imported products, whereas salaries were showing only a moderate increase.

The balance of payments showed a growing surplus in spite of a worsening of the trade deficit.

After showing virtually no growth between 1963 and 1970, exports tripled during the following three years <sup>1</sup>. Taking advantage of the rapid increase in purchasing power in the Middle East, Lebanon greatly developed its industrial exports based on semi-finished imported products (71 % of total exports in 1972, 58 % in 1967). The appreciation of the Lebanese pound from 1971 to 1973 (an increase of around 32 % against the dollar) only had a limited effect on the volume of exports; it was the availability of a low-paid labour force that enabled Lebanese products to remain competitive.

The trend of imports, which doubled in value in dollar terms between 1970 and 1973, was principally dictated by the needs of processing industry and by substantial stockpiling in anticipation of price rises on the world market during 1973 and 1974.

The trade deficit went from \$ 360 million in 1969 to \$ 670 million in 1973 (23 % and 25 % of GDP respectively). The current balance of payments, however, has remained virtually in equilibrium since 1969 - except in 1973 when there was a deficit of almost \$ 100 million - owing to earnings from tourism (\$ 150 million in 1972), transport, income from capital invested abroad and other invisibles.

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<sup>1</sup> Calculated in current US \$.

The quadrupling of net capital inflows (\$ 280 million in 1973) caused a rapid increase in gold and currency reserves. By the end of 1974, official reserves had risen to \$ 1 650 million <sup>1</sup>, of which one quarter was in gold.

The public external debt is very low; it stood at less than \$ 100 million at the end of 1973 <sup>2</sup>. Servicing absorbs only around 1 % of exports of goods and non-factor services.

On the eve of the civil war, Lebanon - with a per capita GDP of around \$ 1 080 - was thus enjoying a relatively high standard of living by comparison with the other non-oil-producing Arab countries. However, the rapid economic growth which began at the end of the sixties caused regional and socio-economic disparities to widen and reawakened bitter feelings between religious groups. This kind of growth was the result of the experience and talent of Lebanese businessmen, the availability of a low-paid labour force, and the Government's laissez-faire policy. The corollary to this total lack of State involvement was a civil service that was unable to implement the reforms which should have accompanied the new growth in the economy and by a budget that was too small to finance the economic and social infrastructure work needed for balanced development.

### III. CONSEQUENCES OF THE CIVIL WAR FOR THE ECONOMY

Of Lebanon's population of 5 million before the civil war, around 1 million left the country during the fighting and around half of these are presumed to have left permanently. Moreover, about 250 000 people were displaced within the country, because of the geographical divisions between the different communities.

The number of dead was between 40 000 and 50 000 and around 100 000 were wounded; most of the casualties belong to the younger sections of the working population.

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<sup>1</sup> Imports over eleven months of the year.

<sup>2</sup> of which only \$ 56 million paid.

Fixed capital losses are put at a minimum of \$ 1 500 million including three-quarters in the private sector (losses in stocks - livestock, goods stolen or destroyed - come to more than \$ 900 million). These losses were felt most greatly in Beirut, where the longest and most violent fighting took place.

In agriculture, fixed capital losses come to \$ 100 million, these affected the pumping stations in the irrigated areas of the Bekaa plain, livestock for breeding and the relevant installations, dairies and plantations of citrus fruit and bananas, where lack of upkeep cause irreparable damage in some cases.

In the industrial sector, the destruction of equipment and buildings came to more than \$ 220 million, and was restricted to the industrial suburbs of Beirut which contained mostly light, small-scale industries (textiles, woodworking and plastics). Around 25 % of the country's whole industrial potential was affected by the war.

The generating stations were spared, but the power supply network and the transformer stations were for the most part put out of use; the losses incurred by the Lebanese Electricity Board come to a total of \$ 25 million.

In the services sector, severe damage was sustained by the port of Beirut, which handled two-thirds of the goods traffic<sup>1</sup>; all the warehouses - apart from the grain silo - and most of the handling equipment were destroyed. Losses are put at around \$ 70 million. The business centre of Beirut was razed to the ground and the big hotels in the city centre and most of the banks were put out of use (total cost of losses in this sector: around \$ 400 million). Lastly, a large number of apartment blocks (\$ 300 million) and administrative buildings (\$ 300 million) in the combat zones were destroyed. Three-quarters of the capital's fleet of buses are out of action,

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<sup>1</sup> The two other ports - Tripoli and Sidon - mainly handle oil shipments.

Beirut's telephone network is only working at 40 % strength, and the telex centre has been destroyed. The fleet of public works vehicles has been completely written off, and some bridges and other structures in the countryside have been destroyed. A hospital was destroyed in Tripoli.

This destruction has had the further effect of preventing movement of either workers or goods and the drop in the level of activity during the hostilities resulted in a loss in GDP of 25 % to 30 % for 1975 and 60 % to 65 % for 1976. By comparison with 1974, the level of value added in each sector developed as follows:

	<u>1975</u>	<u>1976</u>
Agriculture	70 %	50 %
Industry, construction, electricity	70 %	20 %
Services	70 %	40 %

As fighting progressed in the Beirut port area, Lebanon's external trade fell rapidly:

(in L\$ million at 1974 prices)	<u>Exports</u>	<u>Imports</u>	<u>Trade balance</u>
1974	2 100	4 220	- 2 120
1975	1 320	2 960	- 1 640
1976	410	1 230	- 820

The country's gold and currency reserves stood at \$ 1 600 million at the end of 1976 as against \$ 1 400 million at the beginning of 1975. Despite the fact that the Lebanese pound remained fully convertible throughout the hostilities, it dropped in value by only about 20 % against the dollar between April 1975 and March 1977.

The scarcity of local agricultural products and imported products resulted in an increase in price levels; inflation had the effect of doubling prices on average, though there has since been a drop of around 30 %.

#### IV. RECOVERY MEASURES AND PROSPECTS

As soon as it took office in December 1976, the Government drew up a list of priorities:

1. Aid to the war victims: food aid initially and aid to rehouse the homeless (around 300 000 people).
2. Measures to restore the public services - port of Beirut, water supplies, electricity, public transport, and telecommunications - to normal functioning so that the capital can resume its former activity.
3. Reconstruction of productive capacity.
4. Recovery of the economy.

Food requirements were met rapidly, whereas the reconstruction of housing will be helped by long-term 2 % loans and by the creation of a Housing Bank. A return to normal in the public services sector would seem to depend to a large extent on the amount of external loans that can be obtained. In this context, the port of Beirut has received aid from the IBRD (\$ 25 million) and US AID (\$ 5 million), and the Lebanese Electricity Board will be receiving \$ 25 million from the AFESD and the Abu Dhabi Fund; the World Bank will also finance the programme for the reconstruction of the postal and telecommunications networks, probably to the tune of \$ 17 million, and is likely to cover the purchase of road repair equipment too (around \$ 6 million).

The Government does not intend to participate directly in the reconstruction of the private sector's productive capacity. Up to now it has merely granted a few loans for reconstituting stocks in the agricultural and industrial sectors. The Government plans to help toward the reconstitution of fixed investments with loans of 5 to 20 years' duration granted through the Industrial Development Bank or private banks. This financing could cover the whole cost <sup>1</sup> of reconstruction projects and the interest rate will depend on the terms on which the corresponding foreign aid is obtained. The Government has also set up a National Institute for Investment Guarantee, which will cover damages caused by a civil war or any

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<sup>1</sup> Of which 10 % in direct loans.

other public disorder. There are also plans to create industrial estates outside the Beirut area, in order to promote a regional policy. The State would provide the basic infrastructure and would be responsible for developing housing around these estates.

A Council for Development and Reconstruction, directly answerable to the Council of Ministers, is responsible for coordinating the activities of the ministries and the various aid received, but its main task is to introduce a long-term development plan. The objectives of this plan have not yet been defined, but it is already known that the emphasis will be on regionalization.

Since the end of the civil war, the economy has been gradually reorganizing itself, but the level of activity remains 40 % less than that for 1974. Industrial production has reached around 50 % of its pre-war level; the port of Beirut is operating at two-thirds of its capacity, made possible by direct unloading from ships into lorries. Since January most banks have been open for business again and the Government's administrative departments, with a few exceptions, are carrying out essential duties.

Tax revenue for 1977 could come to L£ 1 100 million, which is approximately the 1974 level. This will not, however, prevent the appearance of a considerable current deficit, to which must be added expenditure on reconstruction and capital projects.

Foreign aid, in particular Arab aid, was not so generous as the Lebanese authorities had hoped following the war. In June 1977, it was estimated according to the information available that firm commitments of foreign aid for reconstruction were no higher than \$ 100 - 150 million. Much larger sums had been promised by the oil-producing Arab countries, but their actual commitment seems to be dependent on the restoration of total peace in the south of the country and the re-establishment of a stable political régime whose authority would not depend on the presence of the Arab peace-keeping forces. European Governments also seem to be slow in getting export credits flowing again.

Over the next few years, the Lebanese authorities forecast a return to normal economic activities according to the following programme:

Value of GDP, as % of 1974 GDP

	<u>1977</u>	<u>1978</u>	<u>1979</u>
<u>GDP</u>	<u>69 %</u>	<u>86 %</u>	<u>105 %</u>
Agriculture	77 %	90 %	105 %
Industry, electricity, construction	68 %	88 %	106 %
Services	69 %	85 %	104 %

It is very probable, however, that several factors will contribute to slowing down the rate of recovery, amongst which are the following:

- (a) the frequent fighting in the south, the lack of strong government and the absence of reforms to mitigate the imbalance between the communities are acting as a check on the return of foreign banks, new ventures by Lebanese industrialists and the return of tourists;
- (b) reconstruction work is not progressing as fast as planned (inadequate aid or difficulty in reaching a consensus on new reconstruction projects, such as the one for the centre of Beirut);
- (c) the available workforce is small because the religious demarcation lines are still very difficult to cross (with the result that there are now high-unemployment areas alongside very high-wage areas) and also because a significant proportion of qualified people, who had left the country during the war, prefer to remain in their new places of employment (mostly the Gulf countries);
- (d) the absence of Lebanese firms in international banking operations and on export markets over the last few years has meant that rival money markets have been developed, thus reducing foreign demand for Lebanese services or products.

These factors will also influence the trend of the balance of payments and the recovery of exports can be expected to be much slower than planned, while imports could drop slightly.

Official foreign trade forecasts

(in US \$ million at 1974 prices)

	<u>1974</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>
Exports	902	540	690	880	1 110
Imports	<u>1 814</u>	<u>1 250</u>	<u>1 840</u>	<u>2 390</u>	<u>2 860</u>
Trade balance -	912	- 710	-1 150	-1 510	-1 750

Over and above the problem of economic recovery, the introduction of a new economic policy which would guide the country along new economic lines comes up against the administrative inadequacies of the country and the difficult parliamentary balance which is holding up the preparation of the necessary legislative reforms.

The structure of the economy must certainly continue to rely on a large services sector. Lebanon is in possession of permanent factors which favour the development of such activities:

- its geographical situation and cultural context place it at the very crossroads of two worlds;
- a trading tradition which extends beyond the frontiers of the country owing to the large Lebanese community abroad;
- an open economic policy which excludes any protectionist measure on the part of the state;
- dynamic and competent businessmen and executives;
- considerable experience in the fields of consultancy and engineering;
- a climate, scenery and archeological treasures which are ideal for tourism.

However, as in the past, the expansion of services could entail serious income differentials between Beirut, where most service activities are to be found, and the rest of the country, especially the hinterland, and also between the social groups. Consequently, harmonious development requires the setting-up of a genuine regionalization policy, the creation of new development centres based on industrial activities; at the same time an improvement in the productivity of the poorest agricultural areas should bring income levels closer together.



Lastly, the diversification of the economy should compensate for slower growth in the services sector than in the past, partly because the confidence needed for international trade can only be restored very slowly, but also because the reopening of the Suez Canal and the fact that the Gulf ports are less congested, have reduced the importance of the port of Beirut.

As regards agriculture, the main objective must be to reduce disparities in income levels between the agricultural population and people working in other sectors. With this in mind, modern methods must be applied to increase productivity, in particular further irrigation work, measures to encourage the use of greenhouses and the development of stockfarming, especially poultry farming.

The development of industrial activities must go hand in hand with the halting of industrial expansion in Beirut and its suburbs (where 75 % of the country's manufacturing firms are located at present). Bearing in mind the generally small size of Lebanese firms, this objective can only be attained by the creation of industrial estates with good links to the port and the business centre in Beirut backed up by adequate social infrastructure.

Industrial development can rely on the following:

- i. rapidly expanding demand in neighbouring Middle Eastern countries, in particular Saudi Arabia, Syria and Iraq<sup>1</sup>;
- ii. a labour force which is qualified and efficient, although numerically insufficient;
- iii. dynamic businessmen with a solid trading background.

Lebanese industry, however, clearly does not have a big enough local market and its success depends on the continuing expansion of demand in the Gulf States and in Syria and on the ability of Lebanese products to cope with growing competition from other Mediterranean countries, which consider the Middle East as the natural market for their exports. In order to get back on its feet again, Lebanese industry must therefore get beyond the

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<sup>1</sup> These three countries absorbed 70 % of Lebanon's exports of manufactured products in 1974.

level of traditional industries (textiles, sub-contracting construction industries, food processing) and move towards industries requiring high skills where there is less competition with other countries in the region. This presupposes an improvement in the level of technical qualifications and the signing of many more technical cooperation agreements with experienced foreign firms. It also presupposes greater capital investment, which can only show a return in the long term.

Annex 1 - ORIGIN OF GROSS DOMESTIC PRODUCT

	In Ls million at current prices					Average annual growth rate from 1954 to 1974		% of total	
	1954	1971	1972	1973	1974 <sup>1</sup>	at current prices	at constant prices <sup>1</sup>	1954	1974
- Agriculture <sup>2</sup>	<u>321</u>	<u>495</u>	<u>531</u>	<u>675</u>	<u>745</u>	<u>5,2</u>	<u>3,1</u>	<u>11,9</u>	<u>9,2</u>
- Industry	<u>653</u>	<u>1 137</u>	<u>1 333</u>	<u>1 473</u>	<u>1 843</u>	<u>10,9</u>	<u>na.</u>	<u>20,6</u>	<u>22,7</u>
. Manufacturing	411	750	824	1 023	1 350	11,3	8,1	12,8	15,6
. Construction	178	219	290	300	325	5,4	2,3	5,6	4,0
. Electricity and water	63	113	129	140	173	8,2	5,0	2,2	2,1
- Services	<u>2 151</u>	<u>3 225</u>	<u>4 431</u>	<u>4 947</u>	<u>5 514</u>	<u>9,9</u>	<u>na.</u>	<u>67,5</u>	<u>68,1</u>
. Transportations and communications	293	433	473	513	567	7,6	4,5	8,1	6,9
. Trade	1 023	1 723	2 007	2 241	2 500	9,3	6,1	32,1	30,7
. Finance and insurance	133	197	215	235	310	10,2	7,0	3,4	3,8
. Ownership of property	250	425	533	610	635	11,1	7,9	7,8	8,4
. Public administration	245	451	477	507	550	7,8	4,7	7,6	6,8
. Other services	272	522	675	731	932	12,3	9,0	9,5	11,5
GDP at market prices	3 200	5 333	6 365	7 190	8 157	9,2	6,0	100,0	100,0

1 Estimated

2 A change in the statistical basis added Ls 150 million to the added value in this sector in 1972.

Source : Central Department of Statistics.

ANNEX 2 - NATIONAL PRODUCT AND ITS USE

	In LC million at current prices					% of total	
	1965	1970	1971	1972	1973	1965	1973
Consumption	3 491	4 325	4 742	5 652	6 250	90,0	83,0
- private	(3 081)	(3 811)	(4 201)	(5 031)	(5 640)	(79,7)	(79,4)
- Government	(400)	(512)	(541)	(571)	(610)	(10,3)	(3,6)
Investment	955	505	1 059	1 237	1 540	24,1	21,7
Gross domestic expenditure	4 446	5 223	5 811	6 949	7 790	114,1	109,7
Resource gap	- 547	- 352	- 412	- 524	- 690	- 14,1	- 9,7
(+) Exports of goods and non-factor services	1 041	1 535	1 822	2 192	2 610	25,9	36,8
(-) Imports of goods and non-factor services	1 583	1 837	2 234	2 776	3 300	41,0	45,5
Gross domestic product	3 857	4 855	5 399	6 355	7 100	100,0	100,0
Net factor income from abroad	128	155	195	230	250	3,3	3,5
Gross national product	3 985	5 051	5 595	6 585	7 350	103,3	103,5

Source: Central Department of Statistics.

ANNEX 3 - BALANCE OF PAYMENT (1969-73)  
(in £ million at current prices)

	1969	1970	1971	1972	1973
Imports	1 054	2 044	2 435	2 953	3 518
Exports	810	943	1 150	1 551	1 776
Trade balance	- 1 044	- 1 101	- 1 285	- 1 402	- 1 742
Travel, tourism	236	267	350	330	330
Transportation and insurance	175	131	200	220	250
Other non-factor services	309	323	370	410	445
Interest and dividends	133	140	160	175	200
Emigrants' remittances	65	70	75	80	105
Other transfers	70	75	80	90	95
Balance on services and transfers	973	1 051	1 235	1 355	1 425
Balance on current account	- 51	- 40	- 50	- 47	- 317
Capital balance, errors and omissions	230	524	971	807	725
Net change in reserves (increase: -, decrease: +)	197	494	921	760	403

Source: Central Department of Statistics.

	1959	1970	1971	1972	1973
Beverages (000 l)	46 732	45 613	45 541	49 907	-
Tobacco (t)	1 928	1 659	1 365	1 209	1 114
Wood (m <sup>3</sup> )	45 342	46 545	48 739	56 655	73 366
Textile fibres (t)	6 629	6 725	7 256	7 079	7 599
Fertilizers (t)	52 870	-	-	-	-
Cement (000 t)	1 252	1 339	1 499	1 626	1 656
Petroleum products (000 t)	1 756	1 882	1 905	2 012	2 165
Electricity (kWh)	1 139	1 230	1 375	1 548	1 791

Source : Ministry of Planning, Central Department of Statistics.