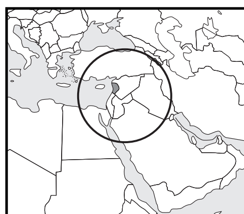
The disappointing "growth" decade

ADIB NEHMEH[1]



This report looks at Lebanon's economic and development performance in the last decade in order to assess the effectiveness of economic growth that closely accompanies the neo-liberal globalisation process. Despite its particularities, the Lebanese experience is a practical case study, because it embodies the general characteristics of this type of international policy.

The Lebanese civil war ended in 1990. After a short transition period, basic macroeconomic policies stabilised with successive governments assuming the same fundamental principles. With the exception of one two-year period, Mr. Rafic Hariri, appointed to head the cabinet in 1992, has held this position throughout. For the first time, Lebanon has had stable and systematic government economic policies for almost a decade. This allows methodological examination of this decade as an integrated unit and evaluation of the results of policies adopted throughout the period.

An overview of policy detail is beyond the scope of this report. In essence, policies are embedded in the globalisation process and fall within a general neo-liberal framework, adhering to particular economic prescriptions, namely, monetary stabilisation and structural adjustment programmes. Lebanon did not adopt a well-defined programme for structural adjustment, however, because the Lebanese economy is already highly liberalised. The private sector plays the primary role, the market is practically unregulated, and there is almost no supervision of different economic sectors. Economic concepts and policies follow the prevailing line of economic globalisation, blindly fostering the notion of economic growth with respect to problems, objectives and solutions.

In this context, Lebanon adopted a currency stabilisation strategy in the early 1990s to resolve large fiscal and monetary imbalances and to resolve the increasing budget deficit. The result was high inflation and collapse of the local currency.

Disappointing results

The first cabinet that took office in Lebanon's development decade prepared a ten-year construction and development plan (1993-2002). The government projected a 9% economic growth rate, a shift from a fiscal budget deficit to a surplus by the year 2000, and a 100% improvement in the standard of living. Now that decade is over, an objective comparison between the actual and the targeted results can be provided. It suffices to examine the most important indicators in accordance with the plan itself (GDP, public debt and budget deficit) to show that the results are disappointing.

In terms of domestic production, economic growth registered 7% and 8% respectively in 1993 and 1994, a normal growth level in a post-war economy when military activity ceases and reconstruction starts. After 1994, the growth rate started a downward slope and reached 0% in 2000.

The budget deficit was supposed to be erased and turn into a surplus in 2000. It reached 48.7% in 1992, then 38.5% in 1994. In 1995 it surged to 57% and stayed at that level throughout the decade to attain 47.6% in 2001.

Finally, the decade started with a total gross public debt level of USD 3,005 million (1992) accounting for 54.2% of GDP and ended with a USD 25 billion gross public debt in 2000 accounting for 176.1% GDP. Servicing this debt, at present, amounts to USD 2,785 million, which is around 92.2% of treasury and budget revenues.

Financing growth

The Lebanese economy seems like a "hollow container". The government thinks that economic problems result from insufficient financial resources. Thus, government policies gave priority to finding internal and external financial resources and creating new mechanisms for collection, in order to limit chronic budget deficits and contain spiralling indebtedness.

In fact, Lebanon cannot rely on domestic production and manufacturing to secure important foreign reserves. Lebanon suffers from a persistent trade deficit that has increased as time passed. Export to import ratios dropped from 30% in the mid 1970s to between 10% and 12% in the 1990s. The trade deficit reached USD 5,514 million in 2000 (USD 6,228 million of imports and USD 714 million of exports), which is around 33% of GDP. There is little sign of national policies aimed at building the productive base in the country and increasing exports, which would be needed to reduce the trade deficit.

Ministerial statements, budget proposals, ambitious projects, and monetary and fiscal policies have all fostered increased external borrowing and rising foreign investments in Lebanon, which are considered to be the driving force of the domestic economy. However, capital inflows have been invested mostly in real estate or in the financial and banking sector, namely in Treasury bills that provide high yields and safe returns. Continuous tax incentives and the other measures to encourage investment in the productive sector remain insufficient. More than marginal measures are required to attract foreign direct investment (FDI) that entails setting up local branches, employment creation and upgrading the manufacturing base. FDI is encouraged primarily by stability, medium and long-term incentives, and other measures related to political and legislative bodies and labour force characteristics.

1 The author is grateful to the assistance of Ms. Zeina Abla.

TABLE 1

Selected key indicators 1992 - 2001

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001*
GDP (USD million)	5,545	7,537	9,110	11,122	12,996	14,957	16,167	16,400	16,641	16,709
Growth rate (%)	4.5	7.0	8.0	6.5	4.0	4.0	3.0	1.0	0.0	1.3
Budget deficit (%)	48.7	38.5	56.9	48.2	51.1	59.0	43.7	42.4	56.3	47.6
Deficit GDP (%)	11.4	8.9	19.4	15.7	18.8	23.5	14.1	14.5	23.4	16.5
Balance of paymentS (USD million)	54	1,169	1,131	256	786	420	-487	266	-289	-1,205
Inflation rate (%)	120.0	29.1	8.0	10.6	8.9	7.8	4.0	0.3	1.3	0.0
End of period exchange rate	1,838.0	1,711.0	1,647.0	1,596.0	1,552.0	1,527.0	1,507.5	1,507.5	1,507.5	1,507.5
Net public debt (USD million)	2,385	3,003	4,934	7,142	10,481	14,411	17,125	19,814	23,240	29,408
External debt (USD million)	247	327.5	771.8	1,304	1,856	2,375	4,165	5,512	6,968	N/A
Debt service/total expenditure	23.3	26.0	28.6	32.0	36.7	36.9	42.4	42.9	40.3	48.7
Gross Public debt var. (1993=100)	77.3	100.0	159.3	227.7	325.2	440.6	644.7	762.1	840.4	979.1

Source: 1998 budget proposal, Banque Audi Research Department. * 2001 are projections by the IMF Staff Appraisal report

TABLE 2

Imports and exports 1992-2001 (in USD millions)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001*
Imports	3,688	4,940	5,990	7,303	7,559	7,456	7,060	6,206	6,228	6,542
Exports	803	458	572	824	1018	642	661	677	714	798
Exports / imports (%)	13.7	9.27	9.55	11.28	13.47	8.61	9.36	10.91	11.46	12.19

Source: 1998 budget proposal, *Banque Audi* Research Department. * 2001 are projections by the IMF Staff Appraisal report.

These factors remain weak in Lebanon and other Arab countries, which consequently received only a minimal share of FDI. As a result, the country had to resort to the traditional means of financing, *ie,* external borrowing and predominantly commercial bank lending at increasing interest rates, risking successive downgradings by international rating agencies. For these reasons, the financial means that Lebanon selected (external and internal borrowing) have depleted rather than boosted its financial resources.

The government's response to the crisis

The government does not deny the existence of an economic crisis but provides a strange response to the difficulties. The Lebanese government, like other developing country governments, attempts to keep in line with the prevailing international trend of economic globalisation, with its accompanying economic directives and pre-arranged remedies. Some developing countries have state-led economies, others have quasi-interventionist policies and another group mixes liberal policies with basic interventionist policies, particularly in foreign trade, currency stabilisation and social services provisioning. Since interventionist policies and measures hamper the movement of capital and goods, the "remedies" emphasise the need to replace them with the liberal alternatives of openness, trade liberalisation and privatisation. These "remedies" are meant to cure an "affliction", which is characterised by trade restrictions and controls on private sector activities.

The case of Lebanon is quite different, however. The economy has been characterised by extreme openness with no restrictions on capital movement and a banking secrecy law as the cornerstone of the banking system. Lebanon considers itself a pioneer in trade activity and imports around 90% of its domestic consumption. The private sector leads the economy, including the basic social service sectors, education and health. Over two-thirds of services and social institutions are provided by the private sector.

Lebanon is suffering, not from interventionist policies, but from problems resulting from an open economic system, the dominance of the private sector and free market relations. Still, it is applying remedies that were elaborated for interventionist economies. After a lost decade, basic government jargon revolves around a few common "clichés":

- Privatisation to finance the budget deficit and reduce the public debt: the electricity company (*Electricité Du Liban*) is a primary privatisation candidate. The government spent around USD 2 billion in the last 10 years for the company's rehabilitation and reconstruction, yet the company remains in difficulty and is nominated for privatisation at a value of no more than USD 800 million.
- The restructuring of the public debt by shifting from high cost local currency borrowing to external borrowing in order to benefit from interest spreads.
- The signing of the Euro-Med partnership (initiated in January 2002 and expected to be finalised in April 2002), though most government officials had not looked at the agreement's content, nor had any economic or public entities.
- The speeding of the procedure to join the WTO (Lebanon is currently an observing member).
- The restructuring of the public sector with a plan focused on cutting jobs and laying off surplus labour, which will raise unemployment and increase social problems.
- The adoption of a value added tax starting in February 2002 at a single 10% rate. The VAT faces general opposition for various reasons from limited income to weak preparation for the implementation of such a step. The government's fiscal objective for the VAT is to increase resource mobilisation, although tax cuts prevailed in previous years to encourage investment and reduce evasion. Taxation for income and wealth redistribution is not now, and has never been, part of the government's objectives.

Lebanon has embraced current policies to meet globalisation prerequisites and to integrate with global markets. Lebanon's policies are not based on any needs assessment or priorities identification that suit its economic features, difficulties and crisis. Thus, its difficulties are being treated with the same prescription that caused its woes in the first place. The policies that the government is using today to resolve the crisis are the same ones that caused it.

As if time were standing still. ■

Centre for Development Studies (MADA)
<annd@cyberia.net.lb>