

Lecture

Observations on The Lebanese Economy in the Context of Prospective Regional Developments^(*)

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Introductory Remarks

My remarks on the Lebanese economy in the context of prospective regional developments will pertain to three main points:

The first refers to the economic significance of the Middle East to Lebanon and the need to re-identify its comparative advantages.

The second deals with the expected political development in the region and the position of the Lebanese economy and the third takes up briefly the question of Arab vs. Middle East economic blocks.

I. Lebanon and the Middle East Market-past and present

Economic Significance

The Middle East has been and continues to be of great economic significance to Lebanon. To illustrate, at the trade level Lebanese exports to the Middle East accounted in 1993 and 1994 for over one half of total exports. One can also refer to the domains of capital or financial flows and investments as well as employment opportunities.

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- The Changing Middle East and Lebanon's Comparative Advantage.

The Middle East has changed at both the economic and political levels.

Lebanon's past competitive edge is no longer the same. The national economies of the region have developed. their financial expertise has expanded and so have their connections with the industrial economies.

These are matters that have to be taken into account as we try to identify our **new comparative advantage in the region**. For example, it is no longer sufficient to restore Beirut as a financial center, other regional financial centers have emerged. The question is what are the new financial services that Beirut can hope to develop that will make it attractive to investors and financial dealers in competition with other centers? What human expertise should we develop? These questions apply to all other areas including industry, technology, information systems, trade, agriculture and tourism. I would also add the realm of education where we have some obvious advantages not least of which is-so far at least - **academic freedom, and liberal education**.

The answer to these questions can either be left totally to the market to resolve-let the test of market viability determine the outcome, whatever that outcome may be. Or we can make an effort to define some major targets and formulate appropriate policies which will help achieve those targets while acknowledging the primary role of the market in determining viable outcomes. Let me give a simple illustration. Tourism is considered as potentially a very important Lebanese resource. If we don't plan to develop it as an important future industry, with time it may cease to play its expected role in the national economy. In other words unless environmental issues are properly tackled, the beauty as well as the historical legacy of the country are preserved, and tourist organizations are obliged to strictly enforce quality control and other regulations, then why should tourists flock to Lebanon? To be exposed to

pollution and look at mountains made of concrete? **Other examples** can be cited: what type of financial institutions and **industries** should we encourage? What agricultural activities have a **potential for growth**? The market, on its own, will ultimately render its judgment. **But**, based on proper research and development, we can try to **identify** areas with potential comparative advantage for Lebanon and **formulate** the appropriate policies which will help in their development.

This matter goes beyond the obvious and I **mean by** that the development of the country's infrastructure-roads, **electricity** and water networks, communications, etc... important as **these are** for the development of the national economy.

II. The Expected Political Environment in the Region and the Position of the Lebanese Economy

Let me first clarify what I mean by the expected political environment in the region.

By this I mean (i) the emergence of a political settlement **acceptable** to all the parties concerned and particularly to Syria and **Lebanon** and (ii) that such a settlement does not necessarily accord special **economic** privileges to Israel on the part of the neighboring Arab countries **but only** normal relations as is applicable to third (non-Arab) parties. **This** raises the question of Arab vs. so-called Middle Eastern blocks to **which** I refer later.

As to the Lebanese position, I should like to mention briefly three aspects pertaining to it:

(1) The first I have already alluded to namely **the necessity of re-identifying our potential comparative advantages and the requisite policies** that need to be taken to assure that we take **advantage** of them.

(2) Economic Stability

To be able to compete with countries of the region **as well as** other countries, it is imperative that we establish a firm **basis for economic**,

political and social stability. The conditions for **economic stability** are well known which I need not enumerate. However, let me refer in passing to two issues: (i) the urgency of controlling the budgetary deficit which-according to official data-amounted for the first nine months of this year to over one half of total budgetary expenditures. In practice, control of the deficit implies its gradual annual reduction which itself implies strict control of planned annual expenditure in relation to the targeted revenues: and (ii) the formulation of clearly defined public debt policy-both external and internal-which at once points to the borrowing capacity of the national economy and accordingly debt profile that is consistent with the aim of reducing the budgetary deficit.

There are a number of other conditions which should be elaborated but time limitations do not permit me to do so now.

(3) Political stability: apart from stressing its obvious importance, the conditions for political stability in Lebanon are an engaging and complex subject that perhaps should be left for the experts in the field. Nonetheless, in the context of emerging world trends, one cannot but observe that the conditions for such stability and, in consequence **social stability**, must include:

Firstly, a continuous identification of public interest, and that in cases of conflict between private and public interest, the latter shall prevail. The question of course arises as to who is expected to be engaged in and monitor this task. The answer clearly includes those who represent the people and those in Government who act on their behalf. But perhaps more importantly it includes the thinking intellectuals of this country and all those concerned with the public good. It is in Universities and Research Institutes where concepts are formulated and critical issues - at all levels - are analyzed. And it is in organizations - outside the Universities,- engaged in all sorts of activities that the concepts of public interest are tested. In a word, the continuous identification of the public interest and the pressing for its realization is a matter that concerns all segments of society; and

Secondly, for a political system to be stable - in the long run - it must possess general acceptance by the political body; in this day and age of economic and political liberalization, opening of national economies and greater inter - dependence among nations, the notion of general acceptance also carries with it the notion of convergence towards a really democratic system that guarantees human rights and assures equal rights and obligations among citizens.

Lebanon's future ability to successfully compete on the regional and world stages is intrinsically linked, in my opinion, to its ability to fulfill the conditions for economic, political and social stability.

III Arab vs Middle East blocks

As we all know the envisaged political settlement for the region has carried with it for many - particularly non -Arab - quarters the notion of Middle East or regional economic cooperation though what is in fact intended by the "region" appears to be vague. Does the region for example, include Iran alongside Israel?

Whatever definition the propagators of this approach have in mind, the fact remains that Lebanon and the other countries of the Arab East must carefully consider its implications. This subject calls for a detailed analysis which I cannot indulge in here. But I would like to offer the following brief observations:

On the assumption of a political settlement acceptable to all parties concerned, regional competition in the future will be transformed from the political domain to the economic, financial and technological domains; in turn, this will manifest itself in competition as to who will emerge as the technological leader and economic powerhouse. **Obviously it is in the interest of Lebanon and the other Arab countries not to be transformed-economically and technologically - into periphery countries.** Accordingly, it is in their interest to widen their markets as well as opportunities for economic and technological development by forming their own separate economic block or market rather than joining one regional block comprising all countries of the region including Israel.

The Arab block approach - with which many Arab economists agree - will at least give Lebanon and the other Arab countries better opportunities to:

- (i) advance their own economic interests in competition with the other countries in the region,**
- (ii) lay a stronger basis for their future technological development and**
- (iii) permit them to negotiate from a stronger position vis-a-vis the rest of the world than otherwise would be the case as separate and weak individual economies.**

I will immediately add that this approach is based on dynamic and not static considerations, i.e. on how things to be (what our objectives should be) rather than on the basis of how things presently stand. To attain this goal a number of conditions have to be achieved. But this constitutes the subject of another talk.