

AMERICAN UNIVERSITY OF BEIRUT

EXPLORING THE INDUSTRIAL SECTOR IN LIGHT OF  
THE ECONOMIC CRISIS IN LEBANON

by  
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# ABSTRACT OF THE PROJECT OF

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Lebanon has been facing an unprecedented economic crisis since 2019 which has devastating economic and social implications for the whole Lebanese population. This crisis didn't come from a vacuum, on the contrary, it is due to decades of implementing governmental public policies that obtained a service-oriented rentier business model for the economy and society, hence leading along with other deep root causes to the crisis we are enduring. Indeed, Lebanon witnessed in the post-TAEFF accord phase a huge balance of trade deficit in its monetary accounts that led to the depletion of massive amounts of dollars to exit the country to cover the huge amount of imports the Lebanese purchased whether for basic or luxurious needs. On the other hand, there was an absence of public policies for the development of industrial promotion in Lebanon due to the absence of political will on one hand, and to the conflict of interests of the ruling political and economic elite, as well as the central bank monetary and fiscal policies that favored this economic social attitude of consumption. Hence, here comes the importance of this project to fill the gap in the relation between the neo-liberal policies adopted since the 1990s after the TAEF accord with the decline of the industrial sector share and importance, along with the implications of that on the economy and society.

Then to answer my research question to what extent does the promotion of the Industrial sector (as a public policy approach) represent an efficient strategic reform for the Lebanese economic crisis based on a specific case study which is the success story of BEESLINE industrial company in Lebanon?

In this project, I took a case study which is the BEESLINE company to show the capacity of Lebanese producers to increase their share in the economy and to provide some needs of the Lebanese population, and shed light on their work, especially after the economic crisis in the field of para -pharmaceutical industry. Also, I tackled in-depth interviews with the decision makers whether in the government or with international organizations delegates such as the IMF and WB, as well as interviews with economic experts in addition to interviews with the prominent figures of industry in several sectors.

The main objectives of this project were to shed light on the importance of the adoption of an industrial promotion strategy as a public policy approach in the economic reform plan of the Lebanese government based upon an analysis of the BEESLINE company case study from the Lebanese industry to show the challenges and opportunities this industry faced. And to show the need to diversify the business model in Lebanon from a service-oriented direction to a multi-direction in which a productive economy is rebuilt again. Also, to study the government executive reform plans and the legislative actions and measures adopted or needed to develop an industrial promotion strategy.

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# CHAPTER I

## INTRODUCTION

In its fall 2020 issue of the Lebanon Economic Monitor (LEM hereafter), the World Bank argued that the economic depression in Lebanon was self-imposed, i.e. imposed onto the general population by the elite that has long ruled the country. It has also captured the State and its associated economic rents (LEM 2020, 11). This capture continues despite an economic crisis that ranks among the three severest economic collapses in the world since the 1850s, also despite what often amounts to massive popular movements (Ibis). The dire socioeconomic situation, coupled with the absence of a fully functioning executive authority, has been exacerbated by highly inadequate policy responses, due to a lack of political consensus over effective policy initiatives, and political consensus in defense of a bankrupt economic system, which benefited a few for so long (LEM 2020, 28).

“Lebanon faces a dangerous depletion of resources, including human capital, and highly skilled labor is increasingly likely to take up potential opportunities abroad, constituting a permanent social and economic loss for the country,” said Saroj Kumar Jha, World Bank Mashreq Regional Director. “Only a reform-minded government, which embarks upon a credible path toward economic and financial recovery, while working closely with all stakeholders, can reverse further sinking of Lebanon and prevent more national fragmentation.” (LEM 2020,30).

Hence, as Lebanon has been confronting a massive economic crisis since 2019 this situation has worsened due to the COVID-19 pandemic and the Beirut port blast in 2020, with many negative implications for the Lebanese economy. This resulted in the collapse



of the currency rate that made the Lebanese population suffer bad conditions in all aspects of life: education, cost of living, inflation, medication, job opportunities, as well as access to water and electricity.

Moreover, the political instability and the conflict of personal interests between the main political leaders have led to a failure to create an environment of coordination to launch reform policies and initiatives to help in fixing the situation. Indeed, the personal interests in the political elite is related to the “Muhassasa” system that was established post TAEFF accord in which every sect had its own fund that in reality finance the political organization it represents such as “the council of the south (shiaa)- displaced persons fund (for druze)- solideire company (for sunni) etc.. Hence, this led to an ongoing dispute between the actors of this political economic elite in which consensus is a matter of obligation to reach any kind of decision in the decision making process inside any government. For example, two governments were formed from the beginning of the crisis in 2019 until now in which several economic reform plans were published by the government, such as the reform plan of Hassan Diab affiliated with the international Lazard financial company. Also, the government of prime minister Najib Mikati published in 2022 a comprehensive economic and fiscal reform plan, in which both governmental plans did not implement the stated measures and policies, due to the clash on the responsibility of the losses of the depositors. Moreover, Prime Minister MIKATI's government reached a preliminary agreement with the IMF in which also all of the stated policies that the IMF called for implementation were never done. In this context, those reform plans should be then approved by the parliament in which the new Lebanese parliament (especially after the elections in 2022) was not able to legislate the minimal laws required for such reforms such as capital control and the restructuring of the banking

system. On the other hand, the fiscal audits that were done inside the central bank such as ALVAREZ and MARSEL did not lead to any accounting for any related official in the state.

For instance, all the sectors in Lebanon were struggling especially during the crisis. In this regard we refer to the industrial sector in which its contribution to the GDP during the period between 2004 and 2016 is estimated at an average of 8.9% (excluding the extraction item). This is according to national statistics issued by the Central Statistics Department.

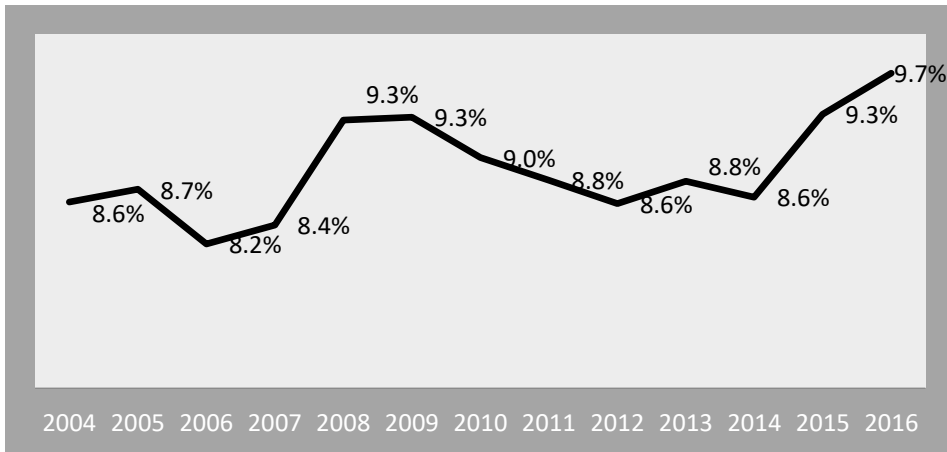


Figure 1: Industrial sector to GDP

The number of licensed factories in Lebanon reached 4,703 as of June 2017, according to statistics from the Ministry of Industry, distributed among 26 different industries. Food products factories constituted 25.9% of the total of these factories, followed by building materials factories 11.7%, chemical industries 8.0%, wood and furnishings industry 7.8%, and metal and electrical technical products industry 6%.

In a comparison of industrial export numbers since the beginning of the crisis, it turns out, according to data from the Industrialists Association, that the volume of exports in 2019 amounted to 3 billion and 731 million dollars. It declined by 5 percent in 2020 to

\$3 billion and 544 million, and grew by 9.65 percent in 2021 to \$3 billion and 886 million, then returned and declined by 10.16 percent in 2022 to \$3 billion and 491 million, that, to lower levels<sup>1</sup>.

According to the statistics of the Ministry of Industry, which is the body responsible for granting licenses to establish new factories, the number of licenses related to establishing and investing in new factories after the crisis reached 98 licenses in 2020, and 112 licenses in 2021, in the year 2022 new license factories were distributed among 117 licenses in Mount Lebanon, 25 in Baalbek-Hermel, 31 in the Bekaa, 33 in Nabatieh, 31 in South Lebanon, 8 in Beirut, 9 in North Lebanon and 2 in Akkar.

The food industry sector attracted 101 new factories, chemical industries 61, rubber and plastics 13, mine and quarry products 9, mining materials 5, machinery industry 10, water extraction and distribution 20, primary metals industry 3, paper industry 2, various tools and equipment industry 13, Textile products 4, publishing, printing and advertising media 4, electrical and metal products 2, recycling 1, building materials 10, furniture and wood industry 6, leather industry 2, production of electrical machines and equipment 5. All of these examples show the opportunity to enhance the industrial sector after the economic crisis in Lebanon.

In contrast to such opportunities, by reviewing the annual budget of 2024 published by the government we notice that the budget of the Ministry of Industry for 2024 is less than 750 thousand dollars (67 billion Lebanese lira) constituting just 0.02% of the total budget in which it increased 3.83% compared to the budget of the year 2022. The 750 thousand dollars represents only the operating expenses of the ministry meaning the salaries of the

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<sup>1</sup> Lebanese industrial association report 2023.

employees. Hence, this simple unnoticed budget represents the lack of any economic vision related to the industrial sector.

Hence, in the context of the ongoing economic crisis comes the importance of studying the industrial sector reality, challenges, and opportunities it may have. The main objectives of this project is to shed light on the importance of the adoption of an industrial promotion strategy as a public policy approach in the economic reform plan of the Lebanese government based upon an analysis of a success story of BEESLINE company case study from the Lebanese industry to show the challenges and opportunities this industry faced. And to show the need to diversify the business model in Lebanon from a service-oriented direction to a multi-direction in which a productive economy is rebuilt again. Also, to study the government executive reform plans and the legislative actions and measures adopted or needed to develop an industrial promotion strategy.

In summary, the crisis in both its economic and political dimensions urged me to orient my readings and research to find the technical issues behind the crisis and the most suitable public policy approaches to be implemented to solve the economic crisis Lebanon is facing.

## CHAPTER II

### BACKGROUND OF THE ECONOMIC CRISIS AND THE IMPORTANCE OF INDUSTRY

To better understand the reasons behind Lebanon's economic financial and living crisis, we must first look into a historical interpretation of the series of internal and external events that comprise a necessity for better understanding. Second, to examine basic indicators such as the balance of payments (BOP) and the balance of trade (BOT) in Lebanon which are methods used as indicators for the strength or weakness of the economy. Third, by going back to recent statistics, we ought to understand the reality of the Lebanese economy, trade, and transactions. Lastly, we conclude this chapter by proving that the trade balance deficit in Lebanon constitutes a public policy problem, for which we suggest a policy option.

#### **A. Historical Interpretation of the Lebanese economic crisis**

Earlier last month, the World Bank published a study prepared by economist Shadi Bou Habib entitled "Globalization, the Dutch Disease, and Vulnerability to External Shocks in a Small Open Economy: The Lebanese Case between 1916 and 2019."<sup>2</sup> The study says that Lebanon has been suffering from the "Dutch disease" for 100 years<sup>3</sup>, and explains the symptoms and consequences of the disease by comparing the economy of "Mount Lebanon" in the late nineteenth century until the 1916 famine, and the economy of

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<sup>2</sup><https://documents1.worldbank.org/curated/en/099324301312410845/pdf/IDU16cf9281c16b28145b51b4fa17b1af694b7a9.pdf>

<sup>3</sup> It is a term that first appeared as a description of the crisis that struck Dutch society in the 1950s. On that day, large quantities of gas were discovered on the North Sea coast, and as a result, the Dutch economy turned into a rentier economy that focused on gas revenues and neglected other sectors such as agriculture and industry. Likewise, the behavior of the Dutch individual has become consumerist, not productive. Prices rose in conjunction with an increase in unemployment rates.

Lebanon in the early twentieth century until the crisis of 2019. It concludes that crises will always appear, as long as Lebanon's economic model depends on external flows that produce an increase in internal prices, reduce job opportunities, reduce production, and impose immigration as a basic option for young people to a basic “production line” in the flows coming from abroad. Lebanon has been in this cycle for more than 100 years, and it has exploded in the form of famine or mass migration.

### **B. The luxury of Mount Lebanon**

Bou Habib quotes a phrase from a Turkish governor in Mount Lebanon in 1918, to indicate the history of Lebanon’s dependence on foreign inflows: “The wealth and luxury that you see in this mountain do not come from its land, but from the money saved for the Lebanese in the diaspora.” At that time, the share of the silk industry was about 48% of the output, compared to 54% for remittances from expatriates in the Americas (North and South). At that time, the trade deficit reached 30%. Most of what Lebanon exported was silk, and everything else was imported. This import is financed with remittances from expatriates that were only invested in non-exchangeable sectors such as real estate, and this was a primary reason for raising land prices. However, this structural disease made the economy of Mount Lebanon vulnerable to external shocks. The silk sector collapsed, then famine spread in World War I, and then immigration occurred.

### **C. The Civil War: Before and After**

The remittance sector continued to play an important role in Lebanon's economy between 1920-1950. This matter was reinforced in the early 1970s with the oil boom in the Gulf. Then came the civil war of 1975-1990, which prompted massive migration abroad, and

increasing dependence on foreign flows. In 1972, external flows and capital transfers represented 20% of GDP, a large portion of which was invested in accumulating foreign currency reserves and buying gold. The proportion of exports from the gross domestic product was 38%, the proportion of imports from the GDP was 46%, and the proportion of consumption from the output was 78%. In 1994, the percentage of flows from the domestic product reached 70%, which raised the percentage of imports from output to 66%, consumption to 111%, and exports decreased to 8%. In all these periods, investments were poured into unproductive sectors such as real estate. The impact began to appear more clearly in 2004 when the sectors producing tradable goods in agriculture and industry recorded a significant decline in their share of the domestic product. On the other hand, the sectors producing non-tradable goods in the service sector and the public sector developed strongly.

#### **D. Lebanon's economy returned to 1912**

Bou Habib focuses on the period between 1994 and 2004 to indicate the broad impact of foreign flows on the structure of the economy. He chose the year 2004 specifically because he identified this year as the end of the post-war reconstruction phase, the time in which former Prime Minister Rafik Hariri was assassinated. After that, no political-economic project was proposed, but rather the rulers focused on prolonging the life of the rentier service-oriented business model inherited from Hariri until its collapse by the end of 2019.

Bou Habib conducted a simulation of the effects of external flows on prices, where it became clear to him that any increase or decrease of 10% in foreign flows is directly reflected in local prices and incomes as well. But what is astonishing is that there is a

similarity in the results between 2020 and 1912, that is, between the year of comprehensive crisis and the year of famine. He concluded that the dependence on external flows in the post-reconstruction phase gradually distorted the Lebanese economy until it returned to what it was about a century ago. The results were similar in adaptation and community depletion through famine in the nineteenth century and through migration in the twenty-first century.

#### **E. Towards the crisis with a decision**

What the two economies had in common in 1912 and 2020 was a reliance on financial transfers from abroad. However, the similarities do not extend to fiscal and economic policies. 100 year ago, political options were not available because Lebanon was part of the Ottoman Empire, but in the post-civil war period, political decisions were clear by fixing the exchange rate of the lira against the dollar and adopting a dual currency system, whereby the dollar and the lira were used equally in all types of transactions. These policies essentially allowed banks to attract capital that politicians benefited from by directing it to voters. Importers, that is, merchants, encouraged policies that expanded markets for their products. Also, bankers and realtors pushed for the overvaluation of real estate assets to be widely used as collateral in lending operations.

Bou Habib concludes: These deliberate political choices paved the way for the crisis in 2019, and the impact of the reversal of financial flows was unprecedented on society since the famine of 1916. Instead of famine, Lebanese society is now depleting its vital forces through mass migration.

Hence, based on the above it is correct to diagnose Lebanon as having contracted the



## **F. Lebanon's reality of the BOP and BOT and its reflection on the economy**

Dutch disease because it relied for a long period on a service-oriented economy and on foreign remittances and neglected other sectors. Therefore, the availability of local labor is scarce due to the migration of young people, and most residents of Lebanon wait in line to withdraw remittances from immigrants.

With respect to the Lebanese rentier economy it's vital to study the balance of payments and the balance of trade because both accounts represent important indicators to the strength and durability of the economy.

### ***1. Balance of payments (BOP)***

Suppose that Lebanon is a wallet through which we receive and pay our dollars. If this wallet is full at the end of the year, it means that it received more dollars than it spent, and at the end of the year, we can take these dollars and put them in a safe. However, if our wallet is empty and we have payments due, it means that we spent more dollars than we received. In this case, we must resort to the safe, in which we have collected our money over the years, to cover this shortfall in dollars. This safe represents the Central Bank.

The BOP in Lebanon, if negative, means more dollars are leaving the country than entering it. For Lebanon to cover this difference or deficit, it will have to resort to the Central Bank for assistance in foreign currency. In turn, the Central Bank reserve comes from several sources including the private banks, which use the money of depositors. Moreover, Lebanon needs this reserve to maintain a stable price of the Lebanese pound (role of the central bank) and to finance the import of goods.

The Lebanese BOP includes income and expenses.

- On the income side, we have funds entering Lebanon from: remittances of expatriates, tourist spending money in the country, foreign projects and investments, export borrowing from external parties, and aid.
- On the expenses side, funds are leaving Lebanon for the following reasons: import, transfers of Lebanese and foreign workers in Lebanon to abroad, Lebanese spending on travel and tourism, funds covering external debts, consultation, and external obligations.

One of Lebanon's grave problems is the large and continuous volume of imports. Over the years, Lebanon's imports have been seven times more than its exports. Moreover, the Lebanese government primarily focuses on services, such as banking financial services, and tourism, yet neglects to build a productive economy and support industry and agriculture. Despite that, Lebanon has a large production potential owing to the availability of many factories that operate in various fields and have high production capabilities in terms of quantity and quality. Hence, Lebanon is capable of saving billions of dollars and keeping them in its economy by encouraging and supporting its food and non-food industries, for purposes of both local consumption and exporting.

From 2002 to 2010, the BOP was positive, i.e. more dollars were entering Lebanon than leaving it. In 2011, the BOP turned negative becoming -1.9 billion dollars. In 2016, the financial crisis was exacerbated due to the increase in imports, alongside the increase of squandering, corruption, and smuggling. The Central Bank tried to intervene to increase its foreign currency reserves, by attracting dollars from abroad, to contribute to financing the BOP deficit.

To attract dollars to Lebanon the Central Bank devised in 2016 a plan called 'financial engineering'. This engineering is based on granting banks and large depositors high

interests in exchange for transferring some of their deposits from abroad to Lebanese banks to operate them there. This process succeeded in achieving a BOP surplus, but for only one year, 2016. In 2016, 1.5 billion of a surplus was recorded. However, the experts considered that such a step would weigh heavily on the economy, because a high-interest rate mean also a high cost of loan interest, leading to a slowdown in the economy and an economic activity paralysis. It also encourages lazy investment, since a bank deposit would become the easiest investment. Moreover, raising interest rates leads to additional interest on public debt.

Indeed, Lebanon (post-civil war especially the reconstruction phase and the assassination of Prime Minister Rafic Hariri) was able to continue importing using dollars entering Lebanon from:

- The contribution of expatriates through money transfers, increasing their deposits in banks, and buying real estate. Remittances from expatriates increased from 3 billion in 2002 to 8 billion in 2010 and remained constant until 2018.
- Foreign investments in companies, hotels, and malls.
- Revenue from tourism reached 10 billion dollars in 2010, so large amounts of hard currency were entering Lebanon by this simple means.
- Borrowing from abroad through Eurobond or conferences, such as Paris 1 in 2001, Paris 2 in 2002, and Paris 3 in 2007. From the Paris conferences, about 7.6 billion dollars entered Lebanon in loans in return for Lebanese promises of reforms. However, the billions from the Paris Conferences evaporated, as did the Lebanese governments' promises of reforms. Thus, Lebanon succeeded in wasting billions and missing the opportunity.

## ***2. Reality of Lebanese Trade***

According to the Chamber of Commerce, Industry, and Agriculture, along with the statistics of the General Directorate of Customs, and the Center of Economic Studies, the prepared report on external trade for 2020 (1 year after the crisis) shows that:

### **a. The BOT**

The value of Lebanese imports in 2020 amounted to about \$11.3 billion, and the value of exports amounted to \$3.5 billion, so the BOT deficit was \$7.8 billion, i.e. a decrease of 50 percent compared to 2019, when the BOT deficit reached \$15.5 billion<sup>4</sup>.

### **b. The most important export markets**

Switzerland ranked first on the list of the most important Lebanese export markets in 2020, accounting for 30 percent of total exports, followed by the UAE with 13 percent, Saudi Arabia with 6 percent, Syria with 4 percent, and Iraq with 4 percent.

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<sup>4</sup> Why did the deficit decrease? Due to the collapse of Lebanese currency value, imports became more expensive and exports became cheaper. Therefore, the BOT deficit decreased, but eventually despite the crisis, the deficit increased again in the next year.

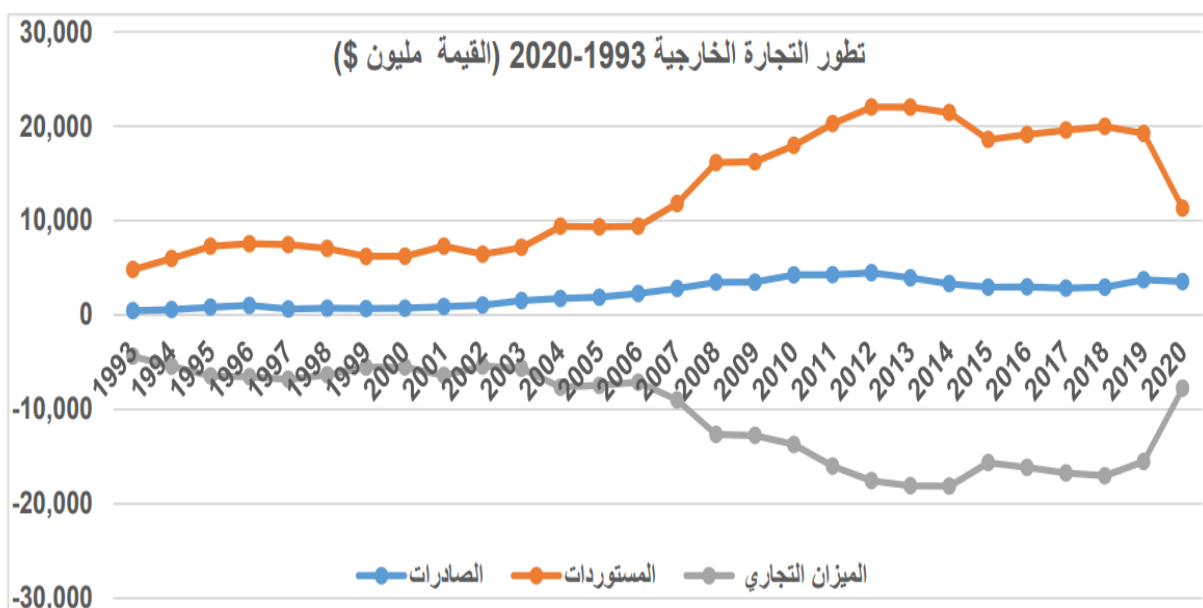


Figure 2: Development of foreign trade (1993-2020)

c. The main sources of import

The United States topped the list of Lebanese import sources in 2020 with a rate of 8 percent, followed by China with a rate of 8 percent, Greece at 7 percent, the Russian Federation at 7 percent, and Italy at 6 percent.

d. The most important exported commodities

The most important commodities that were exported in 2020 were jewelry, at 40 percent, and appliances and machine tools, at 6 percent, vegetables and fruits, at 4 percent, produce and citrus fruits, at 3 percent, and machinery and electric appliances, at 3 percent.

e. The most important imported goods

Imports of petroleum products accounted for about 28 percent of the total Lebanese imports in 2020, followed by pharmaceutical products at 10 percent, jewelry at 8 percent, appliances, and machine tools at 5 percent, as well as cars and bikes at 4 percent.

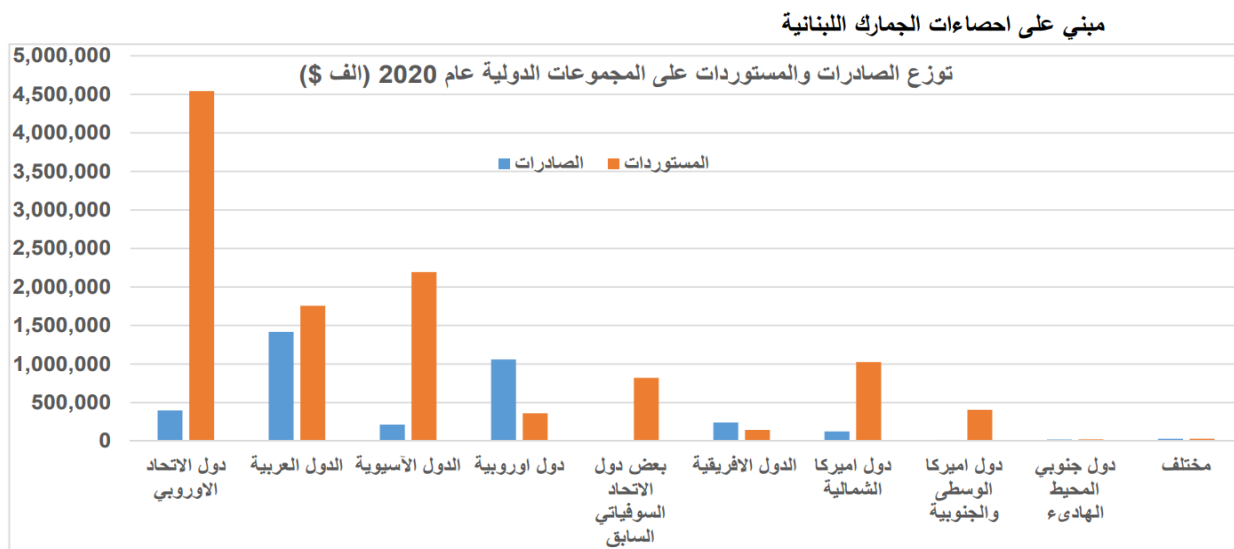


Figure 3: Exports and imports distribution among international groups

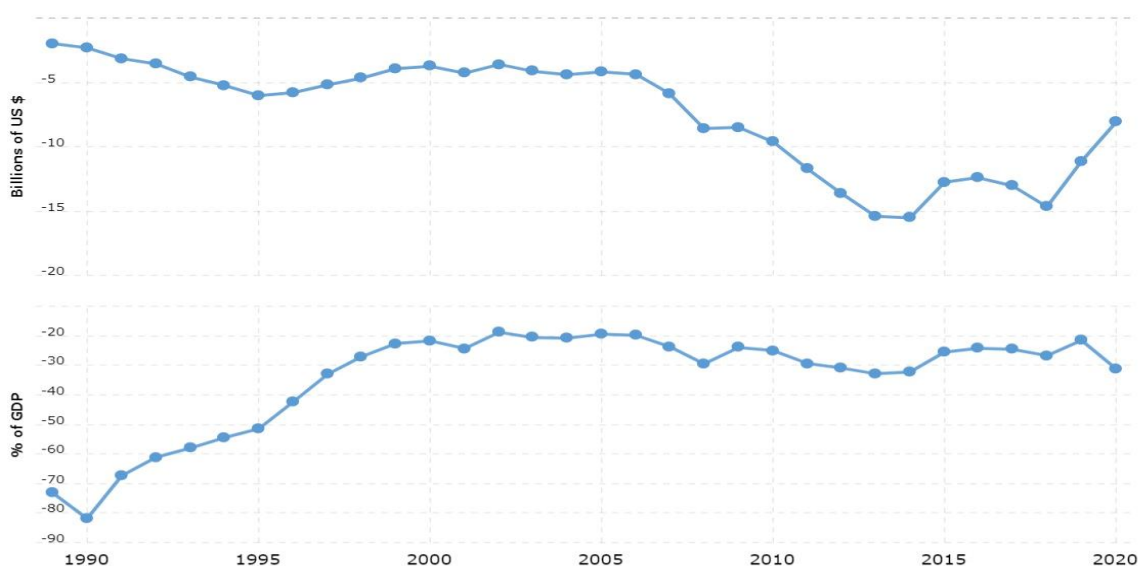


Figure 4: Percentage and value of Lebanese GDP from 1998 to 2020 (www.macrotrends.net. Retrieved 2022-11-23)

Table 1: The most important exports from the Lebanese markets

المرتبة	أهم أسواق الصادرات اللبنانية عام ٢٠١٩	القيمة (\$ ألف)	النسبة (%)	أهم أسواق الصادرات اللبنانية عام ٢٠٢٠	القيمة (\$ ألف)	النسبة (%)
١	سويسرا	١٠٠٦١,٨٠٥	%٢٨,٥	سويسرا	١٠٠٥٤,٠٢٣	%٣٠
٢	امارات عربية	٤٣٨,٦٠٧	%١١,٨	امارات عربية	٤٦٠,٣٠٦	%١٣
٣	سعودية	٢٤٥,٩٨٣	%٦,٦	سعودية	٢١٧,٧١٠	%٦
٤	سوريا	١٩٠,٠٢٠	%٥,١	قطر	١٤٢,٢٥٠	%٤
٥	عراق	١٤٦,٢١٤	%٣,٩	عراق	١٣٢,٥٦٦	%٤
٦	قطر	١٢٨,٠٢٧	%٣,٤	سوريا	١٠٧,٤٥٢	%٣
٧	اردن	٨٩,١٧١	%٢,٤	ولايات متحدة	٩٨,٧٠٩	%٣
٨	مصر	٧٨,٠٩٨	%٢,١	مصر	٩٧,٥٩٧	%٣
٩	ولايات متحدة	٦٩,٣٤٦	%١,٩	تركيا	٨٥,٩١٥	%٢
١٠	افريقيا جنوبية	٦٨,٧٢٥	%١,٨	يونان	٧٦,٧٧٥	%٢
١١	كويت	٦٧,٦٥٩	%١,٨	اردن	٧٣,٧٨٧	%٢
١٢	يونان	٦٣,٣٣٢	%١,٧	كويت	٧١,٦٢٤	%٢
١٣	تركيا	٦١,١١٩	%١,٦	جمهورية كوريا	٤٧,٨٤٦	%١
١٤	فرنسا	٥٢,٦٠٢	%١,٤	ايطاليا	٤٤,٩٦١	%١
١٥	جمهورية كوريا	٤٧,١٦٠	%١,٣	اسبانيا	٤١,٦١٦	%١
١٦	المانيا	٤٤,٧١٩	%١,٢	المانيا	٣٨,١٩٩	%١
١٧	هونغ كونغ	٤٤,١٦٢	%١,٢	ساحل العاج	٣٧,٥٨٢	%١
١٨	اسبانيا	٤٢,٣٥٨	%١,١	مملكة متحدة	٣٣,٤٨٩	%١
١٩	كونغو	٣٧,٧٤٠	%١,٠	هونغ كونغ	٣٣,١٢٨	%١
٢٠	مملكة متحدة	٣٦,١٧٨	%١,٠	فرنسا	٣٢,٨٥٧	%١
٢١	عمان	٣٤,٤٥٢	%٠,٩	هولندا	٣٠,٤٢٣	%١
٢٢	بنغلادش	٣٣,٨٩٧	%٠,٩	كونغو	٣٠,٠٤٩	%١
٢٣	ساحل العاج	٣٣,٦٠٢	%٠,٩	نيجيريا	٢٧,٣٣٢	%١
٢٤	جزائر	٣١,١٢٤	%٠,٨	كندا	٢٦,٨٥٠	%١
٢٥	ايطاليا	٣٠,٨٣١	%٠,٨	عمان	٢٥,١٠٦	%١
	بلدان اخرى	٥٥٤,٤١٩	%١٥	بلدان اخرى	٤٧٦,٣٤٣	%١٣
	المجموع	٣,٧٣١,٣٥٠	%١٠٠	المجموع	٣,٥٤٤,٤٩٥	%١٠٠

The political and financial crisis deepened after the 2019 economic crisis, the dollar became scarce and the banks have imposed restrictions on banking transactions and

withdrawals in dollars. Thus, the demand for hard currency increased, and the devaluation of the Lebanese pound began.

This year, the trade deficit returned to levels similar to the previous ten-year average of \$16.6 billion. At the end of August 2023, it recorded a deficit of \$8.58 billion, and in 2022 it reached \$15.5 billion. This comes after a decrease in the deficit to \$7.7 billion in 2020 and \$9.7 billion in 2021. The difference between the average and the 2020 deficit is \$8.9 billion, and the difference with the 2021 deficit is \$6.9 billion, while it will not exceed \$1 billion in 2023. What does that mean?

In 26 years, Lebanon bled about \$311 billion in trade deficit. This comes because the Lebanese economy depends on imports to cover its local consumer needs. In the period between 1997 and 2023, Lebanon imported a total of \$390 billion, while it exported \$79 billion. This pattern raises an obvious question: From where was this huge deficit in the trade balance financed, given that importing goods requires foreign currencies, especially the dollar, which is used in most global commercial transactions? Lebanon's external account numbers indicate that the trade deficit was covered by expatriate remittances coming from abroad, capital investments (most of which were in real estate and for specific periods), funds invested in sovereign debt from abroad, in addition to bank transfers (deposits). Deposits bore the brunt of this coverage, which resulted in huge losses in the banking sector. The significant size of the trade deficit over the years explains the huge bank losses amounting to \$80 billion. These deposits were used to maintain a fixed exchange rate, by pumping dollars according to demand. The exchange rate is the result of a process of supplying foreign currencies against the demand for them, and the equilibrium point between this supply and demand is what achieves the market



exchange rate. In this way, deposit dollars covered the need for imports, and thus the trade deficit.

Table 2: Lebanese trade balance (in million dollars)  
(Lebanese customs)

الميزان التجاري اللبناني (مليون دولار)			
الميزان التجاري	تصدير	استيراد	السنة
-7387	893	8280	1997
-6732	858	7590	1998
-5643	937	6580	1999
-6400	1130	7530	2000
-8260	1170	9430	2001
-5200	1370	6570	2002
-6059	1950	8009	2003
-7600	2220	9820	2004
-7290	2340	9630	2005
-7400	2800	10200	2006
-9130	3470	12600	2007
-12830	4370	17200	2008
-13170	3930	17100	2009
-14510	4890	19400	2010
-16430	5570	22000	2011
-17640	5060	22700	2012
-18780	4720	23500	2013
-18100	3300	21400	2014
-15700	2900	18600	2015
-16130	2970	19100	2016
-16800	2800	19600	2017
-16950	2950	19900	2018
-15470	3730	19200	2019
-7760	3540	11300	2020
-9720	3880	13600	2021
-15510	3490	19000	2022
-8585	1700	10285	2023
-31186	78938	390124	مجموع

المصدر: الجمارك اللبنانية

The choice of 1997 to study the trade deficit is because in that year the exchange rate began to be fully and officially fixed (in an unofficial decision taken by the government but through coordinated measures by the central bank and the ministry of finance) and dollarization began to take a different direction than it had previously, in addition to the fact that in that year the state began to borrow from banks in dollars (euro bonds). In that year, the price of the dollar stabilized at 1,500 liras and remained that way until 2019,

when a monetary-financial bubble burst in everyone's face. This was a major factor in the trade deficit. Fixing the exchange rate made the market value of the currency higher than its real value, meaning that it inflated the purchasing power of the Lebanese pound, which was followed by an increase in nominal wages as well. In other words, the purchasing power of Lebanese wages has inflated in two ways: An increase in the volume of nominal wages and an increase in their purchasing power, meaning that the value of a million liras has become greater in dollar term (the delusion of the lira equal to the dollar). This "inflated" purchasing power led to an increase in consumption, and thus the individual began to deduct a larger portion of his income for consumption, since Lebanon is an importing economy, this led to an increase in imports. In parallel, inflated wages were occupying a larger share of the cost of production, and thus production costs rose, making local products less competitive in the local and foreign markets, which contributed to killing any opportunity for export growth in proportion to the growth in imports.

In addition to the monetary policy followed (fixing the exchange rate and raising the nominal value of wages), trade policies (trade agreements with Europe and Arab countries), contributed to the weak consumption of local products. Imported products have become less expensive than those produced in Lebanon. The agreements included the cancellation of customs duties on a large number of goods coming from countries with which Lebanon has established trade agreements so that the scene became as follows:

Lebanese production is expensive due to the high cost of labor and other factors, in exchange for foreign products whose production costs are low and are not subject to

customs duties. The result was that imported products invaded the Lebanese market and hit Lebanese production. Thus, imports have also accelerated.

In general, the Lebanese trade balance was already in deficit. However, stabilizing the exchange rate was a catalyst for the expansion of this deficit. It is true that this monetary policy made the purchasing power of the Lebanese greater and contributed to a more comfortable life for them, but at the same time, it was accumulating huge losses. The cumulative deficit in the trade balance, which reached more than \$300 billion, is evidence of this. Knowing that the Lebanese did not benefit from this luxury equally, while the annual average per capita trade deficit was about \$2,200 per capita, many residents benefited much less than this rate. On the other hand, a few residents were able to benefit from this policy in the form of consuming luxury goods.

#### **G. Current situation as a public policy problem with expert opinions**

Based on the above, the positive BOP has always been based on the surplus of the capital balance that covers the BOT deficit, since Lebanon is a large importing country. Lebanon even has to import most of its raw materials to produce exported goods, as well as equipment, energy, and others.

This means that attracting capital in foreign currencies is the backbone of meeting the country's needs for foreign currencies, as well as maintaining its economic resilience.

Practically, Lebanon was able to maintain the BOP balance based on basic sources of dollars, which are attracting deposits from abroad, financial investments, and foreign investments, especially investment in the real estate sector, which witnessed a golden period. This comes alongside the tourism activity revenues, especially the large spending in foreign currencies by tourists coming from the Gulf countries. Together, these elements

led Lebanon to an increase in the BOP surplus to more than 7 billion dollars in 2009, before the sharp decline and transformation into a deficit of about two billion dollars in 2011.

Since then and based on public debates I decided to refer to several actions and events that took place and affected the Lebanese situation leading to the ongoing crisis since 2019 which can be summarized as the following in a chronological timeline:

- The start of the Syrian crisis in 2011, in light of which Lebanon entered a new stage of political turmoil and uprisings (resigning of the government- Hizbollah military intervention in Syria) that led to a decline in investments in Lebanon, especially from the Gulf countries. It also led to a decline in tourism revenues. Moreover, land borders and border crossings with Syria closed, and with them, land routes for Lebanese exports to the Arab and Gulf countries shut down. Hence, the industrial and agricultural sectors suffered from setbacks as exports to Arab markets declined.
- We cannot neglect the absence of State budgets in Lebanon from 2005 until 2017, which increased the chaos of calculation-less expenditure.
- The resignation of former Prime Minister Saad Hariri from Riyadh in 2017, produced a political shock that curbed the transfer of deposits from abroad. The impact of the resignation revealed the change in the political position of the Gulf countries especially Saudi Arabia toward Lebanon. Thus, about 2 billion and 600 million U.S dollars in deposits were taken out of Lebanon according to bank estimates. At the same time, the chaos of financial expenditure was still ongoing, and corruption reached a record high in 2017. In this particular year, Lebanon

ranked 143<sup>th</sup> out of 180 countries in the Corruption Perception Index (CPI), according to a poll conducted by Transparency International.

- The garbage crisis (2016) that piled up in the streets affected tourism and reduced its revenues.
- In 2019, the BOP further deteriorated, recording -4.63 billion dollars.
- In 2019, international agencies downgraded Lebanon's credit rating (Moody's-Standard and Poors). With the downgrade, interest rates increased, and the negative repercussions on economic growth and the cost of paying the external debt increased. This downgrade represented a black mark in Lebanon's financial record.
- The U.S. applied sanctions on Jamal Trust Bank, foreign investment became non-existent, and tourism revenues declined further.
- According to experts, the lack of confidence led to the withdrawal of about \$27 billion from banks in 2019, and part of this money belongs to major donors and politicians.

Accumulation of political and non-political crises such as the event taking place in Kabrshmoun in the elections campaign<sup>5</sup>.

- The October 17 revolution in which the protests started and the bank owners decided to close their banks in front of the depositors, simply because the liquidity needed for the money of depositors was not found and vanished.

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<sup>5</sup> It was a political clash between the free patriotic movement and the progressive socialist party during the electoral campaigns in 2018 in the village of kabrshmoun in mount Lebanon, in which this clash between the supporters of both parties turned into a sectarian problem that endangered the civil peace in Lebanon and inconsequence affected the market and economy.

- The resignation of the government led by Saad Hariri after the October 2019 demonstrations.
- The failure of the government led by Prime Minister Hassan Diab was not able to curb the deterioration of the exchange rate of the Lebanese pound.
- In the context of this political Lebanese and regional frame, Lebanon witnessed an accumulation of billions of dollars worth of deficits, except for 2016, during which an ‘artificial surplus’ was recorded in the BOP, as a result of attracting dollars from abroad to be employed locally, specifically in the form of Eurobonds, and via the Central Bank’s certificates of deposit in foreign currencies through ‘financial engineering’ schemes, in an attempt to buy time in the absence of actual financial and administrative reforms. These efforts also aimed at renewing the Central Bank’s reserves in foreign currencies to continue stabilizing the exchange rate in light of the continued rise in dollarization even throughout the 22 years of fixing the exchange rate, until we reached the current financial collapse after the 17<sup>th</sup> of October demonstrations, that is marked by the deterioration of the currency exchange rate, the decline in the purchasing power of citizens, and the fall of hundreds of thousands of families below the poverty line.

On the other hand, I interviewed several scholars who addressed the economic crisis each with his perspective suggesting several approaches to conduct public policies to manage the crisis.

## H. Expert opinions

### 1. *Mr. Mohammad Zbib*

**(economic expert- editor chief of “sefr economic magazine- previously was the economic page chief editor in al-akhbar news paper).**

First of all, Mr. Zbib acknowledged that whatever led to this collapse was a result of intentional political and economic decisions and not a state of non-decision. Decision-makers were aware of all the risks and consequences. Therefore, these decisions were not an accident, but they were made intentionally and oriented toward some personal benefits and interests.

On the Lebanese economic reality, Mr. Zbib explained how Lebanon continuously suffered starting with two existing factors:

- Twin deficit:
  - Internal deficit: Related to the budget of the state and its debt.
  - External deficit: It is a deficit in each of BOT/Current Account/Financial Account, which indicates the Lebanese external debts.
- Dutch Disease:
  - Definition: It is the apparent causal relationship between the increase in the economic development of a specific sector and a decline in another sector (this disease appeared in the Netherlands in 1959 after the discovery of gas in the country).
  - Analogy: Mr. Zbib believes that Lebanon suffers from that disease due to the accumulation of capital coming from abroad without any production or productive work in return (as if it were a gift), so this surplus in capital causes a decline in investments, industry, agriculture, production and raise the unemployment.

In addition, Mr. Zbib summarized the composition of the BOT deficit in 5 components:

- Fuel costs that constitute a huge part of Lebanese imports (around \$5 billion).
- Pharmaceuticals: imported at a cost up to 70% more than that in the country of production.
- Cars and car accessories 500 million dollars annually (in the year 2022 more than 40 thousand cars were imported before implementing the decision of the government to increase the rate of the customs in which the dollar is evaluated as its free price in the market).
- Industrial and agricultural food that is imported despite the ability to produce it locally.
- Jewelry and gold

The BOT includes the balance of goods and services. Despite the deficit in goods, there is a surplus in the services sector. That being said, services usually come at the periphery of goods and are never independent of them. Therefore, here stands the importance of enhancing the production of goods and benefiting from the developed services sector to achieve an improvement in the balance of goods, leading to a decrease in the BOT deficit.

In the end, Mr. Zbib insisted on a few ideas to promote the industry, reduce costs, and enhance Lebanese trade:

- Creating a developed transportation network and linking regions, for instance: linking Hermel to Tripoli and Marejeyoun to Shtoura, for products to reach wider markets.
- Developing the infrastructure, and creating a decent reliable network of public transport, as well as making cities walking-friendly areas.



Finally, all these suggestions can only be implemented after resolving the electricity problem, knowing that electricity factories despite their ability to operate on gas still operate on more expensive fuel, just to maintain some personal interests of decision makers in power and ignoring the public interest.

## ***2. Dr. Kamel Wazni***

**(Economic expert- member of the Lebanese monitoring committee of the banking system in Lebanon since 2020)**

After intensively going over the causes and composition of the BOT deficit, I met with Dr. Kamel Wazni, a member of the Banking Supervision Committee at the Lebanese central bank, Banque Du Liban (BDL), to hear his take on industrial promotion as a means to correct the BOT deficit.

Dr. Wazni started by stating that economic matters in Lebanon functioned against an economic backdrop. He assured that industrial promotion needed: State support, and a broader, innovative vision.

After stressing the importance of enhancing sectors related to the State's national security, such as the fields of pharmaceuticals and foodstuffs, Dr. Wazni suggested adopting a more modern view of the industrial process: tech industries.

Dr. Wazni referred to the semiconductor war currently taking place between major players in the international arena, and to tech giants such as Apple Inc., speaking of the cosmic returns of such industries.

In terms of industrial promotion, Dr. Wazni advised going beyond the traditional idea of manufacturing, towards the modern sphere of AI, technology, and software. He said that such industries provided a competitive edge and a larger yield. One of the means he mentioned for delving into this lucrative field is starting with the educational institutions

in Lebanon, of which he mentioned the American University of Beirut, to orient the youth towards such studies and research.

In conclusion, on industrial promotion, Dr. Kamel Wazni assured the importance of enhancing fields pertaining to national security on the one hand and, on the other, the need to venture beyond the traditional idea of the industrial sector, towards fields that give Lebanon a competitive advantage and a larger yield compared to traditional industries.

### ***3. Dr. Charbel Nahhas***

**(Charbel Nahhas former minister of telecommunication, economist and engineer and the general secretary of citizens in a state – political party established in 2016)**

Dr. Charbel Nahhas defines two ways to address crises. The first is devising a peripheral solution, such as modifying the current model to sustain attracting capital and financing the fiscal deficit. The second is a core solution, which requires research on how to increase exports to reduce dependence on external flows of capital and to provide foreign currencies from exporting locally produced goods.

In conclusion, after gaining a clear understanding of the Lebanese economic crisis with its deep historical, political, and economic roots, we can say that this overall rentier non-productive business model relying on cash inflows from abroad leads to an economic social attitude of consumption of the individuals that opens the way for a huge balance of trade (BOT) deficit, this amounts to a public policy problem.

After being diagnosed, the problem in question requires a public policy entailing the execution of plans to maintain dollars inside Lebanon, to curb the devaluation of the Lebanese pound. The plan must seek to increase Lebanon's productivity and diminish its

imports. A means to this end is promoting the industry. Therefore, we suggest industrial promotion as a public policy option to address the diagnosed crisis.

All in all, and based on the ideas stated from the experts we can summarize that Lebanon has a chronic disease which is the Dutch disease that reveals the rentier business model of the economic system in which it lead to the import of most of Lebanon needs in goods and commodities. This system was not able to survive and the crisis that evolved in 2019 represented the real death of such economic public policies, hence the experts advocate toward the diversification of this business model toward a productive economy and to promote the industrial sector share in the business cycle of the economy. In this regard we decided to focus on the industrial sector reality in Lebanon and to study a success story in this industry (BEESLINE company) to show the capacity of such sector in the country.

## CHAPTER III

### INDUSTRIAL ENHANCEMENT AND PROMOTION

#### **A. BEESLINE Company (a success story)**

BEESLINE is an independent company fully owned by Lebanese entrepreneurs. The company manufactures its products mainly in Lebanon and in other Arab countries and distributes them across 12 markets in the MENA region: Lebanon, Jordan, Iraq, Egypt, KSA, Kuwait, Qatar, UAE, Oman, Tunisia, Nigeria, and Libya.

The journey started in 1993 when the founders' mother experienced a harsh reaction to a luxury skincare product. The two siblings—a Chemist Mohammad Araisay (AUB student) and Pharmacologist Maha Araisay soon realized that the majority of the beauty products on the market were full of harmful chemicals. They decided to turn their passion into purpose: making conscious, safe, and healthy skin care solutions accessible to everyone around them.

After two years of scientific research and studies, they decided to formulate all of their products from the bee derivatives.

Now, the company's products are located on all five continents in 24 countries. Also, the company products reached China and Saudi Arabia which according to Nielsen<sup>6</sup> they are number one in roll-on deodorant products, also in Egypt according to Nielsen BEESLINE products are the most innovative cosmetic brand in the pharmacies.

In the year 2022, BEESLINE won the innovation prize for the organic and natural products in Bologna (Italy) in which more than 7000 exhibitors were participating.

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<sup>6</sup> A global leader in audience insights, data and analytics.

Indeed, without any media campaigns since the 1990s the consumers especially in Lebanon tried the company products and examined their efficiency through the years the reputation and trust were earned.

The success of BEESLINE is attributed to its team according to Mr. Araisy, “through their efforts they managed to be resilient to the economic crisis that started in 2019.”

The company products are in the categories of face care, body care, and hair care, also they are developing four different directions for disruptive cosmetic products. All of our products are environmentally compliant.

According to Mr. Araisy, they are committed to:

- Our formulas are made with up to 100% natural origin ingredients. Along with bee byproducts, we use fresh botanical extracts to create highly effective green formulations, based on the science of apitherapy<sup>7</sup>.
- We are certified cruelty-free by PETA<sup>8</sup>. This means that neither our products nor our ingredient suppliers conduct, commission, or pay for any tests on animals for our ingredients, formulations, or finished products.
- By choosing to work exclusively with certified ethical suppliers, we are ensuring that the farmers behind our ingredients uphold their rights and have ethical working conditions. It also ensures that our ingredients come from sustainable sources.

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<sup>7</sup> Apitherapy is a branch of complementary and alternative medicine that uses honey bee products, including honey, pollen, bee bread, propolis, royal jelly, beeswax, bee venom and larval bees.

<sup>8</sup> The PETA approved vegan certification authenticates that the products offered by these brands are free from animal derived materials.

- Our formulas are free from toxic materials and harsh chemicals such as mineral oils, paraben, paraffin, SLS, aluminum, silicones, and phthalates. They never included any of the banned ingredients listed by both FDA and EU associates.
- All our products are dermatologically tested on sensitive skin and comply with the EU's strict guidelines.

Also, BEESLINE is officially a participant in the UN Global Compact and is fully committed to endorsing the 10 principles of Human Rights, Labor, Environment, and Anti-Corruption, and to taking actions that advance societal goals (the UN 17 Sustainable Development Goals). The company signed the CEO statement of support for Women's Empowerment Principles and became a WEPs signatory.

To sell in international markets BEESLINE has to abide by international regulations and safety standards. API France is a licensing research company that validates the company formulas for regulatory and research standards.

According to Mr. Arais, the economic crisis was an opportunity for the company not only a threat in which the policies that were implemented had been planned always for 5 years ahead, hence the company was already ready to deal with the crisis in 2019. After the crisis, they focused on local production through their factory located in Bshamoun.

Since the purchasing power of the Lebanese declined because of the devaluation of the Lira currency, the rate of Lebanese consumers to BEESLINE products increased radically depending on very efficient products for the company. Also, the company in Lebanon which is composed of 198 employees received their salaries since the beginning of the crisis in fresh dollars<sup>9</sup>.

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<sup>9</sup> Fresh dollar is a term used in the banks after the crisis in Lebanon in 2019 referring to dollars that are deposited in new accounts after the crisis in which the depositor can withdraw them without any limitation in contrast to the old dollars that cannot be withdrawn unless with certain measures done by the banks.

BEESSLINE used solar energy several years before the crisis to overcome the electricity problem in Lebanon hence lifting the subsidies on all the oil products after the crisis did not harm the company and did not increase the operational cost in the factory<sup>10</sup>.

BEESSLINE now has 7 factories also outside Lebanon which are operated by Lebanese directors. The products are distributed in more than 32 countries worldwide.

For the owner of BEESSLINE, the main problem for the promotion of his industry especially after the crisis is the lack of professional competencies because the Lebanese youth are leaving the country. For Mr. Araisy putting restrictions on imported cosmetic products is not the cure to enhance his industry because his added value is related to the quality of the products of BEESSLINE that earned the trust of the consumers. On the other hand, the company can still benefit from any financial support that can be done by the government to increase its capacity in Lebanon.

Moreover, the company through its work in Lebanon became a vital part of the commercial cycle since it is buying from the owners of the Lebanese bee most of their production that indeed is not sufficient to fulfill their production capacity in the factory inside Lebanon.

The company is managed in an entrepreneurial approach depending on research, innovation, and technology in which all departments work together to innovate new products for the local and world market (for example more than 2000 products are distributed in the Paris pharmacies).

In conclusion, for Mr. Araisy the economic crisis in Lebanon represents an opportunity for the Lebanese industrial sector to adopt certain governmental policies such as

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<sup>10</sup> Solar energy is considered to be one of the major alternatives to the electricity crisis in Lebanon because it will lead to the invention of electricity with limited cost and committed to the green economy. According to the EDL (electricity de Liban) more than 650 million dollars of solar energy equipment were imported in Lebanon after the crisis to overcome the raising of the cost of fuel.

providing financial support, certain restrictions on imports, reforming the energy sector, ensuring the quality of the products based in the world wide high standards, and to maintain the quality of the education to have the efficient skilled workforce inside in Lebanon.

## **B. Reality of the Lebanese industrial sector**

The contribution of the Lebanese industrial sector to the GDP during the period between 2004 and 2016 is estimated at an average of **8.9%**. This is according to national statistics issued by the Central Statistics Department.

The number of licensed factories in Lebanon reached **4,703** until June 2017, according to the statistics of the Ministry of Industry, distributed among 26 different industries. So the food products factories constituted 25.9% of the total of these factories, followed by the building materials factories 11.7%, the chemical industries 8.0%, the wood and furniture industry 7.8%, and the metal and electrical technical products industry 6%.

As for **industrial exports**, they amounted to about **two billion six hundred thousand dollars in 2017**, a decline from the level of 2012-2013, as a result of regional crises, especially the Syrian crisis and political relations with Arab countries.

On the other hand, according to the Minister of industry GEORGE BUSHUKIAN, we also see that after the crisis more than 400 new factories opened in the country whether licensed or not, and this is because of the changes that emerged after the deterioration of the purchasing power of the Lebanese. These factories were concentrated in the fields of food and pharmaceutical industries. Indeed, the path of informal industry increased significantly after the crisis in which it did not wait for the governmental new policies to be adopted. Moreover, as an example of this industry, several political partisans in



Lebanon launched strategic industrial projects such as the pharmaceutical factory in BEKAA by HIZBOLLAH to cover the needs of his population, this project will cover more than 70 percent of the pharmaceutical needs of the population related to the chronic and non -chronic diseases.

### ***1. The challenges and difficulties facing the industry in Lebanon<sup>11</sup>***

According to a survey done by the consultancy center for public policy with more than 160 owners of factories in Lebanon in 2020, the owners in general stated that one of the most important difficulty in the industrial sector is the lack of well-equipped industrial zones at acceptable prices. Then comes the weakness of appropriate infrastructure and sufficient necessary services, which leads to obstruction of production and weak investment.

Moreover, the high cost of production due to the high cost of energy (recently), land, telecommunications, and high-interest rates, which leads to a weakening of the competitiveness of Lebanese products in the internal and external markets.

Also, the overland exports significantly decreased due to the war in Syria, which increased the cost of transportation tremendously negatively affected export levels, and inflicted losses on Lebanon in foreign markets, especially Arab ones.

And the incompatibility of many disciplines in universities and technical institutes with the needs of the labor market, especially in the absence of awareness of the importance of the role of vocational education and its impact on the economic cycle.

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<sup>11</sup> Survey done by the consultancy center for public policy with more than 160 owners of factories in Lebanon.

## ***2. Objectives and policies to modernize and develop the industrial sector***

- Enhancing the competitiveness of the sector, in terms of prices and quality in order to increase the appealing of the local crowd and its social attitude toward such local produced items.
- Addressing the existing problems and obstacles in the fields of administration, infrastructure, production cost, financing, marketing and dumping competition, efficiency, and productivity..
- Creating the appropriate conditions to adapt to the challenges of opening national markets to foreign products, in accordance with the Arab Free Trade Area Agreement and the Mediterranean Partnership Agreement. These challenges require making exceptional official and private efforts to help the industrial sector perform its role efficiently and with minimal losses since most of these international agreements are not in favor of the Lebanese economy, on the contrary they lead to the dumping of the market by the imported goods.
- Investing the available differential advantages, in terms of qualified human resources and scientific energies, allows Lebanon to specialize and gain competitive advantages in some fields of delicate technological industries, and also enables it to attract Arab scientific expertise and non-resident Lebanese competencies.
- Raise the relative share of industrial output to at least one-third of the gross domestic product.

## C. Lebanese economic reform plans analysis

### 1. *The Lebanese Government's Financial Recovery Plan (Prime Minister Hassan Diab- April 2020)*<sup>12</sup>

#### a. Action Plan related to the industrial sector:

- Establish and promote a brand for quality products “Proudly Made in Lebanon” up to European standards with an annual budget of \$2M (2021+);
- Develop multiple industrial zones offering world-class infrastructure and services (\$130M over three years);
  - Based on developing existing plans (Tripoli Special Economic Zone, three industrial zones proposed by Ministry of Industry / UNIDO);
  - Other zones across Lebanon, among others by renting Municipal and State land for nonpolluting industries at below market prices based on agreed-upon quality production geared towards export;
- Make government lands available to support the Agroindustry.
- Increase export potential by:
  - Adopting, enforcing, supporting, and enforcing compliance with industry state-of-the-art quality standards;
  - Waiving taxes on any produce for the quantity exported (2020+);
  - Leveraging the Commerce Attaché and Lebanese diaspora to open up new markets (2021+);
- Provide a 10-year tax break on profits as fiscal incentives for new investments in the industrial sector (starting in 2021);

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<sup>12</sup> file:///C:/Users/user/Desktop/ppia-%20aub/sharbel%20nahhas-%20economic%20crisis%20in%20lebanon/20200430%20FINAL%20program%20as%20approved%20by%20COM.pdf

- Provide a 3-year 50% reduction on NSSF fees for graduated employees under 25 who are employed for the first time in the industrial sector (starting in 2021);
- Provide subsidized loans (\$3.55B throughout the plan) to promote investment in target industries (e.g. generic medication, food processing, prefab, recycling, etc.).
- Guarantee the funds, liquidity, and investments as outlined for loan guarantees (\$300M), knowledge and Technology Industry (\$100M) direct loans and support of raw material (\$750M), SME enterprise (\$300M), rural and craft industries (\$100M), incubators (\$60M), labs (\$20M), etc.

## ***2. Lebanese economic reform policies (Prime Minister Najib Mikati- September 2022)<sup>13</sup>***

### ***a. Industry***

There is an effort to develop a competitive, high-value, high-quality sector, which is an issue that depends on the rehabilitation of infrastructure, including energy, as well as the provision of support services, whether institutional such as integrated regulatory centers, or sector-specific and production-oriented such as cold storage facilities for processing Food.

The immediate focus should be on implementing existing plans such as the Special Economic Zone in Tripoli, as well as establishing industrial zones (including one focused on building technology) in other regions (Beirut, South Lebanon) focusing on priority sub-sectors.

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<sup>13</sup> Lebanon - Government recovery Plan Sep 09- 2022.pdf خطة التعافي الاقتصادي والمالي للحكومة اللبنانية

The Minister of Industry issued an official definition of micro, small, and medium industrial projects. Therefore, the industrial license and industrial certificate are currently being reviewed to create an easier and simpler version for micro, small, and medium industrial projects, to motivate them to join the formal sector, and this will also help create a register for all industrial companies, which will be of great benefit in the future. The current shortage of skilled labor can be addressed by supporting technical/vocational training schools and establishing partnerships between certain industries and academia to bridge the gap in the specific skills and qualifications required.

### ***3. Comments on the governmental reform economic plans for both Hassan Diab and Najib Mikati:***

Both plans focused on:

- the rehabilitation of the infrastructure especially the energy sector which is one of the biggest problems the industry faces.
- the establishment of well-equipped industrial zones.
- financing the industrial projects through subsidized loans and ensuring liquidity.
- Reduction of taxes especially on profits as fiscal incentives.
- Promoting the quality of industrial products to commit to the world's quality standards.

On the other hand:

- Both plans did not mention the role of Banque Du Liban in taking all the needed measures to reduce the imports and to limit the exit of money to lower the balance of trade deficit.
- Both plans did not focus on enhancing specific strategic industrial sectors such as the food and pharmaceutical industries.

- The plans did not focus on taking measures to obligate public administrations such as the Ministry of Health, the Social Security Institution (NSSF), and others, to purchase their needs, such as medicines, from the local market and not through import.

In general, the plans focused on measures and actions to develop the industry, but without taking any macroeconomic measures related to reducing consumption, especially in strategic or luxury goods. That is, the plans maintained the economic model based on free exchange with abroad without radically changing this model.

#### **D. IMF agreement with Lebanon <sup>14</sup>**

It is important to study the IMF agreement because it will shape the economic reform plans in Lebanon in the future. On the otherside, we can see that the IMF agreement did not mention at all the industrial sector promotion as an option

##### ***1. Nature of the agreement***

For context on the Staff Level Agreement:

On April 7th, 2022, the IMF announced that its staff had reached a preliminary agreement with Lebanon on a comprehensive economic reform policies program supported over a 4-year 3 billion dollars extended fund facility (EFF) package. Which is still subject to:

- Approval by the IMF's management and Executive Board.
- Confirmation of International partner's financial support.
- Finally, Timely implementation of the critical reforms for which the Lebanese authorities have agreed to undertake, and we will circle back shortly on that

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<sup>14</sup> SLA.pdf

This EFF aims at allegedly supporting the authorities' reform strategy to restore growth and financial sustainability, strengthen governance and transparency, and increase social and reconstruction spending.

In this regard, the authorities' strategy was drafted and based on 5 ambitious key pillars:

- Restructuring the financial sector to restore banks' viability and their ability to efficiently allocate resources to support the recovery.
- Implementing fiscal reforms that coupled with the proposed restructuring of external public debt will ensure debt sustainability and create space to invest in social spending, reconstruction, and infrastructure.
- Reforming state-owned enterprises, particularly in the energy sector, to provide quality services without draining public resources, in other words, privatization
- Strengthening governance, anti-corruption, and anti-money laundering frameworks to enhance transparency and accountability, including by modernizing the central bank legal framework and governance and accountability arrangements.
- Establishing a credible and transparent monetary and exchange rates system.

## ***2. Interview***

After searching for both opinions, I interviewed Mr. Jihad AZOUR (IMF Director for the Middle East and Central Asia). AZOUR states that:

- Lebanon needs a guaranteed sponsor, and that sponsor is the IMF. This need is essential to regain the trust of the Lebanese economy toward the international economic and political system

- The measures and policies of the IMF are debatable, and the Lebanese government can have independent negotiations with the fund directors and refuse what is unacceptable in Lebanon
- There is an international will to help Lebanon with the least conditions needed in comparison with the IMF agreement with Egypt
- Lebanon without this agreement is going to a complete economic collapse with all of its social, political, and security consequences.

### ***3. Remarks on the IMF agreement with the Lebanese government***

#### **a. The crisis in the balance of payments**

The policies and procedures it includes want the state to decide in the end which interests it will show and which interests it will forfeit. Who has priority in payment, or rather: How will the Fund's loans and other loans related to it be disbursed? Will it be allocated to ensure supplies for the population, or to pay debt installments and interest? Is the priority for trade and capital transfer, or for financing the necessary needs for consumption and production?

The economic and financial policy memorandum, which was negotiated by the Lebanese government and the Fund and was initially agreed upon “at the personnel level”, contains sufficient evidence that families of the middle and working classes and the poor in general will pay a very heavy price, and most of them will be stripped of any protection or support to withstand their ordeal. While the capitalists, merchants, bankers, and creditors, will catch their breath again and have the liquidity available to continue capitalization and international trade.



b. The fund recipe

The government and the International Monetary Fund want to settle the accounts of the balance of payments, by controlling the current account deficit and the public finance deficit, and there are many different ways to achieve this, according to choices, interests, and social positions, but the fund's recipe requires adopting the following method: reducing purchasing power, floating the exchange rate, austerity canceling subsidies, adjusting wages and pensions, downsizing the public sector, restructuring debts and capitalizing the banking system. The government has committed to its initial agreement with the Fund to implement its prescription exactly, and what the rams are going around today is the method that the government will adopt in implementing it, as it is clear The political and economic elites seek to adopt a method that avoids bearing their share of the cost and responsibility, and the banking wing still has enough political influence to block any method that does not suit it.

In the case of Lebanon, the senior management of the fund is of double political importance, as the structure of the fund reserves the dominant role for the United States of America, and therefore the position of the fund cannot be objective unless this issue is taken into account.

c. Recapitalizing banks

Recapitalization of commercial banks to settle the losses resulting from the restructuring of sovereign debts and the obligations of the Banque du Liban, the default of private sector loan portfolios, and the impact of the unification of the exchange rate on the budgets of these banks, all of this will require large contributions from the shareholders and creditors of the bank other than the owners of deposits. However, this will not be

enough to restore the banks to health, especially given the scale of the losses. Given that there are no other options, it will require huge contributions from large depositors.

The Monetary Fund does not oppose the proposal to establish a “sovereign fund” or “recovery fund” and give it ownership of public assets and resources to return part of the large deposits. The whole thing is that the mathematical model adopted by the fund's employees does not give the mathematical result that makes it a feasible proposal. It leads to an additional reduction in state revenues, and thus an increase in the public finance deficit, and it generates returns in pounds, not in foreign currency, and it will not excuse the write-off of a much larger amount of deposits that may be recovered through this fund. Therefore, and contrary to what is rumored, the Fund does not take a strict position against transferring bank losses to the afflicted people, as it does not include such a position as a structural standard binding on the state, but merely a wish mentioned in the policy note calling on the state to “limit any path that leads to resorting to public resources, in line with debt sustainability, and in a manner that aims only to improve the capital position of the Banque du Liban.

d. Austerity

The IMF agrees with the government on quantitative standards, with the aim of “reducing public debt to less than 100% of GDP by 2026, and to 76% by 2032, and this will be achieved through a set of measures, including adjusting public finances, debt restructuring, and reducing the total financing needs to about 9% of the GDP for the period between 2022 and 2032. And given Lebanon’s inability to access global financial markets, almost all the funding the state obtains will be from official international sources.

According to the Memorandum of Economic and Financial Policies, it will be achieved by "making cumulative adjustments in the primary balance equal to 6% of GDP."

What the primary balance in the state budget means is the difference between what the state collects from people (taxes in particular) and what it spends on them (public spending without calculating interest on debt). We do not need a long explanation to understand that seeking to achieve a primary surplus requires that people pay onerous taxes and fees without any compensation on the part of the state, to give it sufficient financial space to continue borrowing and servicing these debts and to put creditors, not the population, in priority over the needs of the population in allocation of public spending.

On the revenue side, the agreement includes a series of tax measures, including:

- "Increasing the value-added tax from 11 to 15% over two years, and reforming customs tariff policies."
  - "Increasing the electricity tariff to the level of cost recovery by 2025
- On the other hand, the agreement includes a series of measures aimed at restructuring the entire state, including the reduction of the public sector and public employees and the abolition of all forms of generalized subsidies, especially electricity subsidies.

The IMF and the government recognize that the austerity prescription is unbearable to broad social segments, and its symptoms will be serious. However, the agreement between them is clear to cancel every form of support or generalized social protection and to replace it with "programs targeting the poorest groups who have been severely affected by this crisis.

e. Violent social engineering

floating the exchange rate and depriving the public treasury of a basic source of financing for it is an inflationary recipe par excellence, added to an austerity recipe, the first reducing the purchasing power of wages and the second reducing the existing social wages. These two recipes form the basis of the government's agreement with the IMF. Where the residents pay an exorbitant bill without any promise that their sacrifices will secure them a better standard of living in the future.

In conclusion, with respect to the IMF agreement with the Lebanese government, it focuses on a variety of monetary and fiscal policies that do not lead to the change of the economic model in Lebanon. On the contrary, mostly in the experiences of the countries that resorted to him, led to a worsening of the economic and social conditions, and his loans were used to save creditors, bankers, and large depositors, and the policies followed under the title of “reform” led to more from poverty and debt, and fueled hostility to reform and change.

## **E. Reforms**

After all of this analysis of the economic reform plans, in my opinion, I can propose some required interventions in the industrial sector

### ***1. Industrial sectoral institutional and administrative reforms:***

- Activating the Ministry of Industry (a short-term measure) by taking the following measures:
  - Filling vacancies with the necessary competencies and training employees to increase their productivity.

- Creating an information department to automate the administration's work and increase its productivity.
- Creating a department for legal affairs.
- Update the industrial survey data periodically.
- Establishing an Industrial Informatics Center and linking it with other specialized centers and global networks, to rationalize industrial policies, provide information to industrialists, and attract investments.
- Setting the conditions for the treatment of goods and commodities produced and their application in the free zone and the industrial warehouse (short-term measure).
- Emphasis on strengthening cooperation between the Lebanese Ministry of Industry and Customs, the Central Statistics Department, and the Ministry of Economy and Trade to develop a comprehensive information base on foreign trade that includes commodities, markets, and companies and put them at the disposal of investors and industrialists through the aforementioned Informatics Center (medium-term measure).

## ***2. Industrial sectoral legislative reforms:***

- Implementation of Decree No. 1660 of January 17, 1979, relating to the creation of a public institution called “the Authority for the Establishment and Management of Industrial Clusters” to manage special economic zones, including industrial zones. The authority was given the right to own the real estate needed to establish the centers, equip them, sell, rent, and invest them (short-term).

- Proposing special tax deductions and exemptions to encourage industrial products with high added value and technological content, as well as institutions concerned with research and development operations, training of workers, technology transfer and localization, and establishing new industries in industrial zones and establishments in free zones, in addition to those that provide housing for their workers. It uses alternative energy sources (short-term).
- Adoption and implementation of a series of legislations encouraging investment and competition (short-term), including:
  - Anti-monopoly competition law, especially since monopoly is at the forefront of obstacles to innovation and the development of production in terms of quantity and quality. In this regard, the law abolishing protection must be applied to exclusive agencies, as these agencies are one of the most prominent forms of monopolies existing in the country.
  - Amending the Intellectual Property Protection Law to suit the needs of industry and production in general.
  - Investment Promotion Law.
  - Implementation of the anti-dumping law.
  - Implementation of the provisions of the National Production Protection Law.

### ***3. Measures to reduce production costs:***

- Exempting raw and semi-manufactured industrial inputs that are not manufactured in Lebanon, as well as machinery, equipment, and supplies imported from international markets, which constitute about 80% of industry inputs, from all

customs duties and value-added tax, or reducing this tax to only 5%. This is within mechanisms to ensure that these inputs are used for (short-term) industrial production purposes.

- Support to reduce the cost of energy used in industrial production, especially electricity and fuels. In this regard, it is possible to return to the adoption of a special incentive tariff that was previously applied. In addition to the need to provide all industrial areas with energy around the clock to avoid additional costs resulting from securing alternative energy (short-term).

**4. *In terms of financing:***

- Increasing the volume of medium and long-term financing for the industrial sector and expanding its sources to increase investment.
- Enhancing and developing industrial equipment leasing laws, in what is called leasing (short-term).
- Enhancing the capabilities of the Kafalat Foundation and modifying its systems to enable it to provide soft loans to small and medium-sized productive enterprises, similar to large (medium-term) institutions.
- Enhancing tax incentives to encourage and develop self-financing in industrial enterprises (short-term).
- Establishing an industrial investment fund aimed at developing specific industries and industrial zones, within the framework of a balanced sectorally and regional development process, provided that this fund is funded primarily from the regional and international funding available to Lebanon (medium term).

**5. *In terms of marketing:***

- Strengthening the role of economic consuls at the Ministry of Foreign Affairs abroad to promote and study new outlets for products and services of Lebanese origin, in addition to exploring and facilitating the establishment of permanent (short-term) international exhibitions.
- Creating supermarkets in the Lebanese regions in cooperation with the municipalities to facilitate the marketing of agricultural and industrial products. These markets serve as a direct link between consumers and producers away from brokers and commercial middlemen (medium term).
- Creating a regulatory framework to support exports, such as establishing a national council for export development, which brings together the concerned authorities in the public and private sectors, i.e. the Ministries of Industry, Economy, and Trade, the Chambers of Commerce, Industry, and Agriculture, the Industrialists' Association, the Ministry of Foreign Affairs, Customs, the Tripoli Fair, the Syndicate of Exhibition Owners... One of the tasks of this council is to coordinate industrial policies and measures, especially in terms of production, marketing, specifications, and standardization, in addition to formulating programs for export development in accordance with the provisions of the World Trade Organization and expressing an opinion on bilateral and multilateral trade agreements that are being negotiated between Lebanon and abroad (medium term).

**6. *In terms of enhancing efficiency and quality:***

- Cooperating with the private economic and academic sector to set up incubators for technology businesses and innovative entrepreneurial projects, to assist



innovators in completing their scientific research and transferring it to the stage of marketing and production. As well as to help local small and medium industries to absorb and localize imported technologies (medium and long-term).

- Work to take additional important measures to enhance the competitiveness of Lebanese industries (short and medium term), including:
  - Stimulating local industries to apply international quality and standards (ISO) standards and standards, and to abide by quality and public safety standards in line with those specifications. In cooperation with the relevant institutions and unions.
  - Develop certificates for mutual recognition of standards, specifications, and rules of origin with our most important trading partners.
  - Development and standardization of import and export certification and certification systems.
  - Activating the work of the National Accreditation Council, which was established by Law No. 572 in 2004.

### ***7. Role of Banque Du Liban***

Although the main role of the Lebanese central bank is to maintain the monetary stability and the value of the Lebanese Lira, the central bank has a decisive role in implementing policies to divert the business model in Lebanon from a service-oriented sole approach toward a diverse business model in which industry is a core part of it. This cannot happen unless the central bank takes measures to lessen and discount the use of the dollars for imports, especially for strategic commodities and products such as medications and food products.

This policy will be rejected by a huge portion of the Lebanese merchants and also by the Lebanese consumers who are socially linked with an economic attitude related to consuming imported products, but indeed without this new public policy, Lebanon will continue to circle in what we described previously as the DUTCH disease.

Moreover, enhancing the industrial sector should be a part of a comprehensive economic reform plan that paves the way for restructuring of the private banking sector to boost the economy again. All of this will not happen unless there is a political will in the government to go through this path.

## CHAPTER IV

### CONCLUSION

In these chapters we managed to tackle the ongoing economic crisis since 2019 in which we explained the deep roots of the crisis in a historical context, also discussed the reality of the balance of trade in Lebanon then we showed that the balance of trade deficit is a public policy problem. Hence, we suggested that industrial promotion is a public policy approach in which the Lebanese authority and population can path as a vital solution for economic reform and to alleviate the devastating consequences of the crisis on the Lebanese people.

Moreover, we analyzed the case of BEESLINE company as a success story to show that Lebanon can divert the threats and challenges coming out from this crisis into a real opportunity to divert the service-oriented business model of the economy into a multidimensional economy in which industry and production can be an integral part of it. Also, we discussed the reality of the industrial sector, and the challenges it faces pre- and post-economic crisis, then we analyzed the comprehensive economic reform plans the governments had proposed along with the staff-level agreement signed with the IMF using the information and ideas of several experts. After that, we proposed several measures and actions that can contribute to industrial promotion in Lebanon.

Based on the above, we conclude that the economic crisis paved the way for the enhancement of the informal economy in which since 2019 the industrial sector projects increased. Indeed, the lack of centralized governmental policies did not prevent the industrial promotion.

In addition, we can clearly show that the decision making process in Lebanon is linked to the relation between the political economic elite interests with the political relations between the various factions and sectarian sects. This linkage renders the technical solutions of the crisis in which it is decisively related to the political consensus between the political groups as it is shown through the incapacity of the Lebanese government or parliament to legislate the preliminary reforms needed such as a comprehensive reform plan, the capital control law, and the restructuring of the private banks system, etc.

These concepts (informal economy, Lebanese decision making process) raise the question on the suitable way forward to regain the state, in other words, to solve the economic crisis and to prevent another one coming, is the cure needed is technical related to the policy choices or it is directly related to political reform the political system of the country? And what are the implications of a set of reforms suggested in a such political economic system in Lebanon.

All in all, the moment of the Lebanese economic collapse suggests an opportunity rather than a threat, the way for that is to implement governmental and legislative public policies to change the business model in Lebanon. On the other hand, even if the state in Lebanon didn't manage to make this diversion through the formal economy, we assume that the informal economy in Lebanon will go through the path of industrial promotion for its interest, and this is related to the political history of Lebanon that always show that the sectarian communities were always stronger than the state and managed to make its solutions for the problems the society faced as the issue of the electricity and security, etc.

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