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THE PROTECTIVE POLICY  
OF  
LEBANON

Thesis submitted to the Commerce Department by

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as a partial fulfilment of the requirements of  
the B.B.A. degree

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## C O N T E N T S

### INTRODUCTION

- I. MINISTERIAL DECLARATIONS AS THEY REFLECT PROTECTION
- II. JUSTIFICATION FOR PROTECTION
- III. PROCEDURES AND GROUNDS FOR PROTECTION
- IV. MEASURES TAKEN FOR PROTECTION
- V. EVALUATION AND CONCLUSION

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## INTRODUCTION

The purpose of this paper is twofold

- 1) to outline what may be called the protective policy of Lebanon and
- 2) to examine this policy.

I say 'what may be called the protective policy' because Lebanon has not yet set a well defined, long-term protective policy nor a general economic policy by which the successive ministries may coordinate their economic activities on its terms. It is true that recently there has been established a "Ministry of General Planning" with an "economic development board", but unfortunately neither the work of this ministry nor the work of its board have been in any considerable degree effective. In the decree establishing this ministry, one of its tasks has been to formulate a general economic policy including the Government's policy towards industry. And in effect the economic board in this ministry has set the broad principles on which the Lebanese economy might rest; it has also suggested certain principles on which to base the Government's attitude towards industry. But these principles, unfortunately, remained in the ministry.

The reasons why this has been the case, that is the reasons why the ministry of planning has not been that effective instrument one would have expected, given the calibre and experience of the men making its economic board, are many and are not the object of this paper. However, one fact might give a clue: the ministry's budget for 1957 out of the ordinary budget was set at LL.492,500 out of a total ordinary budget of LL.170,000,000, that is around 0.3% (1)

1) The Economy of Lebanon and the Arab World, Issue No. 52, April 1957.

In the absence of a well defined, long-term policy, what shall be our guide to determine the Government's attitude towards protecting industry ?

Whenever a new ministry is being formed, its first task is usually to prepare an outline of what it intends to do and what will be its attitude towards various questions of importance to the country. And practically every such outline includes that government's attitude towards industry. But it may be instantly argued, and rightly, that governments often say what they do not do. They promise but they do not act. This is true. But inspite of this fact, we have to examine several such declarations and see if there are any trends in them, that is, whether the successive governments are at least promising more protection or less protection. It can hardly be imagined that where most successive governments promise protection, no protective measures are taken. This task of examining the ministries statements as regards more protection or less protection, I will undertake in the second chapter of this paper.

Before discussing the actual measures that have been taken to protect industry (Chapter IV), I will devote one brief chapter to the justification of protection (Chapter II) as it applies in the case of Lebanon. Why should Lebanon try to develop its industry ? This will be followed by a chapter (Chapter III) on the procedures and grounds for protection. The concluding chapter will be an evaluation of the protective policy of Lebanon (Chapter V).

## CHAPTER ONE

### MINISTERIAL DECLARATIONS AS THEY REFLECT PROTECTION

It has been said by a frequent writer on the subject of the Lebanese economy that the ministerial declarations are about the only official statement of what may form a government economic policy (1). This statement should be accepted but with care because as the same writer suggests governments often promise what they do not do and governments do what they do not promise.

But inspite of such contradictions we cannot avoid noticing the ever increasing promise of the successive governments to protect the home industries. Reference to such protection becomes more and more affirmative and detailed as we go chronologically over these statements.

Thus in June 1951, in his statement, Mr. Abdullah Yafi said concerning the protection of industry:

"In industry our policy is to encourage and enable these industries capable of outliving the difficulties they meet in their growth, by protecting them from foreign competition, (without injuring the consumers' interest), and by facilitating the import of the raw materials and by working to lower the costs of production".(2)

If we move over to the year 1953 (in September) and examine the statement or declaration of the same head of government, we notice the great increase in the amount of attention given in the statement to the affairs of industry and the greater details in the means by which the government wishes to encourage industry:

"... the government is determined to ease the problems that meet the industrialists in the development of their industries in order to enable the employment of the largest possible number of workers and for this end it has decided:

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1) Albert Badr, "The Lebanese Economic Policy". Conferences du Cénacle, 1956, p. 357.

2) Government of Lebanon, Minutes of Parliament Meetings 1951-52, Vo.I, p.24

- a) to limit by way of raising the customs tariffs the import of those products that can be produced by the Lebanese industries in sufficient quantities and good quality but without allowing an increase in the prices so as to protect the consumer from monopoly and unlawful profits and taking into consideration Lebanon's position as a tourist country and a summer resort.
- b) to forbid the import of those industrial machinery which Lebanon already possesses similars after making sure that these machinery produce enough to suffice the needs of the country. This is to be done through licencing and such licences are to be granted only on the light of national interest.
- c) to exonerate all raw materials, equipment and parts intended for industrial or agricultural use from customs duties and to reduce the other duties imposed on them.
- d) to impose on half-manufactured articles an intermediary customs tariff in order to create employment. Each article would be studied separately.
- e) to impose high customs tariffs on those fully-manufactured articles especially those articles that can be manufactured in Lebanon. Each article would be studied separately.
- f) to raise the customs tariffs on luxuries for the purpose of increasing the government revenues... the government will also review the prices of electricity used in the national industries (3)

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These are the major steps that this government promised to take to protect the home industries. We notice in some cases that the measures promised are somewhat vague and too general: "in sufficient quantities and good quality", "taking into consideration Lebanon's position as a tourist country and a summer resort".

Nor does the statement specify what will be the extent of protection: How high will the customs tariffs be ? or on what principle will the government set the height of the customs tariffs ?

It is to be admitted however that in such a statement to the public very few heads of governments set more details. The broad outlines are only set in these declarations leaving the details to the departments concerned of carrying through the government's policy. But these same steps that have been promised are, if examined carefully, based on the recommendations of a committee that was formed in December 1952. The main task of this committee as came in the decree that gave it birth (4) were to set recommendations for the revision of the customs tariffs. This committee outlined certain principles on which the tariff policy should be based and these principles, which are very similar to the measures mentioned in the statement above, will be discussed in detail in the chapter on "procedures and grounds for protection".

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4) Decree No. 86 dated 30/12/52

## CHAPTER TWO

### JUSTIFICATION FOR PROTECTION

The government has done a good deal to protect the national industries (1) but nowhere has it given any reasons justifying its protection for industry in general or any industry in particular. The major form of protection has thus far been embodied in the modification of the customs tariffs: the exoneration from customs tariffs of raw materials and equipment intended for industrial usage and the raising of customs tariffs on imported goods that Lebanese industries are producing similars. But in the laws issued for changing the customs tariffs no mention is made of the reasons why the protected industries have been granted protection.

In the ministerial declarations only incidental mention is made of why the government wishes to protect industry. In the statement issued by P.M. Abdullah Yafi in September 1953 (2) the only justification for protection mentioned was to "enable the employment of the largest number of workers".

We cannot depend in our search for the reasons justifying protection on those reasons that have been expressly made by the government. The need for the development and protection of industry have been recommended by many economists who have studied the economy of the country. Sir Alexander Gibb, in his report "The Economic Development of Lebanon" has this to say on the special role of industry is to play in Lebanon:

"Lebanon's rising density of population and the numbers that are unable to find occupation on the land make it essential that alternative means of livelihood be found. For this reason the

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1) What the government has done will be discussed in Chapter IV.

2) Government of Lebanon, op. cit., p. 31

development of industry is of particular importance" (3).

Speaking of government support to industry, the report says:

"A young industry which has to compete with more mature rivals needs protective tariffs or other forms of government support if it is to survive the difficult first years... Circumstances and the preference given to commerce have meant that industry in Lebanon has not always received the support to which it has been entitled" (4).

Professor S.B. Himadeh speaking on the same subject emphasized the same problem:

"It is not an exaggeration if it is said that the economic development of Lebanon depends to a large extent on the progress of industry. In fact the development of industry is the principal remedy to the major economic problems that face Lebanon, given the density of its population in relation to the cultivable area, and at the same time the constant growth of its population. If we take into consideration the fact that at the present rates the population of Lebanon will double itself in 35 years, and that the possibilities of emigration are limited, and that commerce, tourism and "estivage" contribute relatively little to the absorption of surplus population, we are forced to conclude that there is no hope for an appreciable raising of the standard of living except through the development of industry, it representing the widest field for employment" (5).

Relieving the pressure of population, however, is but one reason for the need of the development and protection of industry in Lebanon (6).

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3) Sir Alexander Gibb & Co., The Economic Development of Lebanon, Beirut, 1948, p.145

4) Ibid., p. 127

5) S.B. Himadeh, "Le Role de l'Industrie dans la Renaissance Economique du Liban, Commerce du Levant", July 3, 1954

6) Not any particular industry but industry in general.

"Another reason is the need to strike a healthy balance between the production of goods (in the industrial and agricultural sectors) and the production of services (in the commercial and services sectors). It is often argued that Lebanon's economy depends very much on the production of services. Since the demand for services is generally more elastic than the demand for goods, the Lebanese economy is thus liable to be affected heavily in times of crisis, especially in times of war. The best proof was given during the last two world wars in which the demand for industrial products became considerably accentuated (7). And already since the Suez crisis, those industries depending on travel and tourism (transport and hotel) have been heavily affected.

A fourth reason for the development and protection of industry is that it creates a greater and more varied demand for agricultural products, and makes the possibilities of the future of agriculture more stable by reducing its dependence on external outlets. The demand for agricultural products when it coincides with the development of industry will not be affected so much by outside factors and becomes by this fact more stable (8).

A fifth reason is that the development of industry contributes to the expansion of commerce and in consequence it creates activities of storage, transport and distribution at the same time stabilizing commerce in reducing its dependence on outside factors (9).

But the objection may be raised that Lebanon is restricted in its development of industry by the limited presence of minerals and raw materials.

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7) S.B. Himadeh, op. cit.

8) Ibid.

9) Ibid.

However, the experience of certain countries (Switzerland, Holland) proves that "the rarity of raw materials, if it limits the diversification of industries, does not hamper the development of those industries dependent primarily on finished products that represent only a small percentage of the cost of production, or those industries using foreign raw materials whose costs of transport do not represent but a small proportion of the finished product" (10).

Some of the reasons justifying the development and protection of industry have already been discussed. It should be realized, however, that these are general reasons: what particular industries should be developed and protected is another question and is not the subject of this paper. "We can produce cheese or certain types of cloth for one, two or three million people of average condition; we cannot produce for them steel, automobiles and airplanes" (11).

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10) S.B. Himadeh, op. cit.

11) Michel Chiha, "Horizons et Raisons de l'Industrie Libanaise", Commerce du Levant, July 3, 1954.

### CHAPTER THREE

#### PROCEDURES AND GROUNDS FOR PROTECTION

The major form of protection has thus far been in the field of tariffs. Quotas are resorted to from time to time but usually this is not for the purpose of protecting industry. The use of licences is restricted to the import of industrial and agricultural machinery to be installed in Lebanon and to a handful of industrial and agricultural products. The ministry of national economy which decides on these licences, tries only to persuade those wishing the import and installation of industrial machinery from doing so if it finds that this measure is necessary for the protection of already existing industries. It does not have the legal power to prohibit such imports because there is as yet no law regulating the installation of industrial machinery in Lebanon. "If the industrialist insists on his action he may raise a case to the High Government Court and will probably win the case due to the absence of such a law" (1). Realizing this weakness the ministry of national economy, department of industry, has prepared a draft law regulating the establishment of industrial enterprises. This draft has not yet been approved and is under study by the departments concerned.

The ultimate responsibility for changing the tariffs rests with the "High Customs Board". Within the framework of Lebanese law changing the tariffs is considered to be a legislative action but the House of Parliament has agreed to delegate to the government (the executive) the power to issue certain laws without referring it for approval. Thus the last authorization granting the government the right "to issue laws in the field of customs legislation" was passed in February 15, 1957 and read as follows:

"The government is granted for one year beginning March 1, 1957  
the right to legislate in the customs field by decrees issued

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1) This information was obtained from a personal interview with Mr. Francis Isha'c, Head of the Department of Industry in the Ministry of National Economy. The author does not assume responsibility for this opinion.

by the Council of Ministers. The government may exercise this right directly or it may delegate it to the High Customs Board" (2).

Consequently the government issued a decree (3) delegating this power to the High Customs Board.

But although the ultimate responsibility is vested with this Board, the latter acts upon the "recommendations" of the ministry of national economy. In this ministry a special committee called the "committee on the protection of national products" has been formed comprising one representative from each of the following bodies:

- 1) the ministry of national economy
- 2) the High Customs Board
- 3) the Association of Lebanese Industrialists
- 4) the Chamber of Commerce and Industry
- 5) a representative for the agriculturists.

This committee studies the demands of those concerned (industrialists, agriculturists, merchants) asking for the raising of the tariffs (or its reduction) on a certain article. It allows each party to present its case and later takes its decision by a majority vote.

However, the work of this committee is only of an advisory nature. Its recommendations are forwarded to the minister of national economy who may or may not adopt the final form of the recommendations. Once adopted he sends his "suggestions" for the modification of tariffs to the High Customs Board. This Board will study these suggestions from a "technical" point of view. What this "technical" point of view exactly means was not made clear by the official (4) who communicated this information to the author, but he gave the following examples:

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2) ~~The Economy of Lebanon and the Arab World~~, No. 54, April, 1957, p. 77

3) Decree No. 15125

4) Mr. Francis Isha'c, Head of the Department of Industry in the Ministry of National Economy.

If it were proposed by the ministry of national economy that the customs duties on silk be raised to say 100% in order to protect the silk industry in Lebanon, the Board might not approve of this alteration if Syria had only a 25% tariff on silk. This is because the Board considers that there would be an incentive to smuggle silk from Syria into Lebanon (which is not a very difficult thing given the length of the borders and the laxity in its supervision). Thus depriving the government from a good deal of revenue and cancelling the effect of raising the customs duties for the purpose of protection.

If the Board disapproves of the recommendations of the ministry of national economy it turns these back giving its reasons for disapproval.

In case there is disagreement between these two bodies, i.e. between the High Customs Board and the ministry of national economy, the Council of Ministers will decide upon the issue. "But it is rare that such a thing happens" (5).

The "committee on the protection of national products" was formed on December 30, 1952 (6) under the pressure of the industrialists and agriculturists. Its main task was "to give its opinion" on the revision of the customs tariffs with the view of making them more protective. After several meetings this committee formulated certain principles on which it intended to base its decisions regarding the revision. The principles were not then made public but since later in 1954 the Economic Planning and Development Board (hereafter referred to as EPDB) was charged with the task of studying the principles formulated, the opportunity was presented for knowing by what principles the government intended to be guided in its revision of the customs tariffs.

In its first report the EPDB passes in review of these principles and comments on their adaptability. These principles are here reproduced together

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5) Mr. Francis Isha'c, Head of the Department of Industry in the Ministry of National Economy.

6) By ministerial decree No. 86.



institutions).

- v) The application of the principle of limiting the import of industrial machinery necessitates the existence of an expert body with enough knowledge and experience to be able to determine the needs of the country for imported industrial machinery together with being able to compare within a reasonable degree of error the damage that would result from increasing the number of equipment in production with the savings that would result from using more efficient machinery in the country.

It is to be noted in this connection (8) that in Lebanon there is as yet no industrial census that would indicate, among other things, the maximum or optimum capacities of the already existing factories; there is as yet no ministry of industry as in other more economically developed countries: only a "department" of industry in the ministry of national economy which is so poorly staffed that some of its statistics, like the statistics for the export of industrial products, have not as yet been grouped and totaled since October 1955 (9).

2. The second principle recommended by the committee was "to subject the import of industrial machinery which do not have similars in Lebanon to a prior licence. The licences are to be granted by the High Customs Board upon recommendation of the ministry of national economy after studying all the plans of those concerned ... and after making sure that the industry to be established is of benefit to the country".

The EPDB approved this recommendation but it proposed that a specialized body be established in the ministry of national economy for the purpose of studying the possibilities of industrialization in the country. It also recommended that

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8) This is a remark made by the author and not the EPDB.

9) This was found by a visit of the author to this department.

the authority of granting licences be vested with the ministry itself and not with the High Customs Board on the ground that it is this ministry which is responsible for the economic policy of the country and not the High Customs Board.

3. The third principle recommended was "to refrain from prohibiting complete entry of foreign goods and their subjection to special restrictions for the purpose of protecting national products and be satisfied with imposing high enough tariffs to ensure such protection. This measure is suggested for encouraging commercial activity in the country".

The EPDB, although it approved the principle of reducing the restrictions on foreign trade, did not approve the application of this principle in an absolute manner. It recommended that in certain cases there should certainly be complete prohibition as when there is fear that industrial unions (cartels) intend injuring a certain national industry by unfair competition with the view of killing that industry in its infancy and thereafter getting hold of the market. And in certain cases imports should be restricted as in the case when there is a deficit in the balance of payments that is harmful to the national economy. And there are cases of complete prohibition that may be imposed by the exigencies of state policies. Finally special restrictions like prior licencing may be imposed for the purpose of facilitating imports from a country that facilitates its imports from Lebanon or when there are commercial treaties that specify a certain amount of imports from the country with whom the treaty was signed.

4. The fourth principle recommended was "the exemption of basic food stuffs and other basic living materials necessary for the poor and working classes from customs and other tariffs (municipal tax, port charges, etc.) or their subjection to reduced tariffs after taking into consideration the local production".

The EPDB saw that the then existing customs legislation fulfilled this exemption or reduction in the tariffs but it did not always take into consideration the protection of agricultural products of the country. It further recommended that

protection should not only cover the similarly imported goods but also those goods that may be used as substitutes: in the case of olive oil, for example, not only should olive oil be protected but also those oils that may be used as substitutes in the manufacturing of soap.

5. the fifth principle recommended was "to exempt all raw materials, equipment and their parts, intended for industrial usage from customs and other tariffs imposed on them".

The EPDB approves of this principle but the author remarks that the application of this principle should be tempered by the ability of the country to supply its own raw materials. Where the needs of some industries are already supplied by local producers, or where it has been found after careful investigation that these needs can be supplied from local sources at competitive prices such exemption or reduction should not be made. The government may thus work towards a fuller exploitation of the natural resources of the country thus creating gainful and more varied occupations for its citizens.

6. The sixth principle recommended was "the subjection of half-manufactured or unassembled products to a moderate customs tariff in order to provide employment in the country (after studying each product separately)".

The EPDB, however, is of the opinion that such products ought to be completely exempted from customs tariffs in order to enable the industrialists and handcraftsmen to be able to stand in the face of foreign competition in the products that are manufactured from these half-manufactured and unassembled products. But where these products are manufactured in Lebanon imports should be subjected to a moderate tariff.

It is to be noted in this connection that present customs legislation fulfills this end to a considerable degree by practically (1%) exempting many of these half-manufactured products from customs tariffs and by subjecting some of them to a moderate tariff (6 to 11%).

7. The seventh principle recommended was "the subsection of fully-manufactured articles, especially those that can be manufactured in Lebanon, to a high customs tariff (after studying each article separately)".

The EPDB approved this principle on the ground that its application protects the already existing industries and helps create new ones.

However, the author is of the opinion that the application of the principle of protecting "the already existing industries" has led in some instances to the excessive and continued protection of these industries with the result that, besides sacrificing the interests of the consumers, the quality of their products has not improved appreciably since their granting this protection. The case of jam industry is often cited as an example of the abuse in the application of this principle. There is one major firm in this industry - the Cortas Jam Manufacturing Company. Many are of the opinion that the excessive and continued protection (manifested in the big difference between the prices of local jam and imported jam) granted to this industry is the chief cause why the quality of its products have not been improving as they would have been expected to were competition a little more keener. At present whatever this industry can produce is automatically absorbed by the local market. This state of affairs is definitely not to the advantage of those consumers to whom quality is of significance.

Another remark that should be made in connection with the application of the above-mentioned principle is that before any new industry to be established be promised any measure of tariff protection its technical as well as economic feasibility should be investigated by an appointed expert body on these two questions. The Industry Institute may form part of this body, it concentrating on the study of the technical feasibility of the new industry. The new industry should be investigated as to whether it can stand in the face of foreign competition after a certain number of years (to be determined by the expert body) when the tariff protection would be removed gradually.

8. The eighth principle recommended was "the subjection of luxuries used mainly by well-to-do people to a high customs tariff".

The EPDB approved this principle for the following reasons:

- 1) its application would help remove the vast difference in income;
- 2) if the increase in the tariffs is not made prohibitive the public revenue would be increased and the consumption of luxuries would be lessened;
- 3) this measure would reduce the great deficit in the trade balance of trade.

The author remarks that the application of this principle without imposing an excise tax on similar home produced goods may lead to the diversion of national resources towards this industry. If the primary purpose of increasing the customs tariffs on luxuries was to reduce the consumption of such luxuries then such an increase without an excise tax would defeat its own purpose.

9. Finally the last principle recommended by the "committee on the protection of national products" was "the protection of already existing national industries by subjecting imports similar to their production to a high customs tariff (after studying each article separately) and after taking into consideration that the customs tariff would represent the difference between the cost of the imported good f.o.b. port of entry and the cost of production of the home produced article; certain local factors are to be taken into consideration especially the inclination of the Lebanese consumer to prefer foreign made goods on locally manufactured ones".

The EPDB approves of the principle of protecting the existing home industries but it makes the following remarks:

- 1) the adoption of this proposed rule as a basis for fixing the extent of protection in an absolute manner and without differentiating between those industries that may be able to stand foreign competition without protection or with a

reasonable degree of protection and between those industries for which such is not expected would lead to a harmful restriction of foreign trade. This measure would lead to the erection of industries with relatively high costs (relative to industries abroad) that would be demanding protection on the above-mentioned principle. The government will not be able to refuse their demands with the result that the national resources would be dissipated and the standard of living declined.

- 2) the adoption of this rule in an absolute manner without taking into consideration the number of factories producing the protected article is apt to encourage monopolization when the number of local producers is small except if this protection is coupled with the government's supervision of the costs of production of these factories.
- 3) in spite of the difficulty of applying this rule as regards the verification of the costs of production or as regards the costs that are to be taken for a basis (given the fact that costs differ with the efficiency of the various factories) in spite of these difficulties the EPDB a proves of this principle on condition that a reasonable profit be included within the cost of production and on condition that the two above-mentioned remarks be taken into consideration.

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These were the nine principles which the government promised it will observe in taking its protective measures. They are the principles by which the government was supposed to have acted since their adoption early in 1953. But

in spite of the fact that the government took a great deal of measures to protect the national industries (some of these measures will be discussed in the following chapter) it is often alleged that these measures depended in many instances on the influence of the industrialists and their Association (9) on the government with the result that some industries not worthy of protection have been granted such protection; some industries have been granted excessive and prolonged protection with the result that the interests of the consumers as well as the interests of other industries have been sacrificed; there has not been a strong incentive in some industries for the betterment of the quality of their products because by excessive protection these industries have been shielded from foreign competition.

This state of affairs is not to the benefit of the country at large although it may be to the benefit of a few individuals. The goal of the government should be to create the largest possible good for the largest possible number of people. It is hoped that our government become more discriminative in taking its protective measures. It is hoped that our government will base its economic decisions on fact ; I wonder how many of our factories keep a proper cost, or even, general accounting system so that the government might determine the extent of protection it will grant to their products; I wonder whether the government has ever asked for such information when it took its decisions.



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9) Association of Lebanese Industrialists.

## CHAPTER FOUR

### MEASURES TAKEN FOR PROTECTION

In this chapter some of the measures taken by the government for the purpose of protecting the national industries will be discussed. However, it should be noted at the outset that the "outlining" of these measures is not meant to be all inclusive: pertaining mainly to tariff protection they date back only to 1953 and are outlined here only with the purpose of drawing a few remarks on them.

The use of prior licencing is restricted to a few industrial articles (1) it being assumed that protection is mainly effected through raising the tariff duties. Following is a list of the articles that are still subject to a prior licence to be granted by the ministry of national economy (the list includes industrial as well as agricultural products):

- Powdered milk
- Cereals
- Barley
- Maize
- Flour
- Tehine
- Halawa
- Conserved apples
- Orange and lemon juice
- Salt
- Salted hides
- Suitcases and handbags
- Rubber boots and heels
- Timber and carpenters' building equipment

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1) Around fifteen. The tariff list of Lebanon includes a total of about 1,000 articles.



Wood furniture

Leather and rubber boots

Metal furniture

In addition, the import of all machinery intended for agricultural or industrial use is subject to the same procedure (2).

Tariffs are number one instrument in taking protective measures in Lebanon. Since the formation of the "committee on the protection of national products" early in 1953 a number of measures have been taken which were intended to give the national industries a greater and greater amount of protection. By a series of decrees issued by the High Customs Board most if not all of raw materials used in industry have been exonerated from customs tariffs. Machinery and equipment that are intended for industrial use and that are allowed to be imported into Lebanon have also been exonerated from customs tariffs. This view is supported by the fact that the question of demanding exoneratiOn for raw materials and industrial equipment in contrast to the situation six or seven years ago is no longer among the top demands of the Association of Lebanese Industrialists, although from time to time some industrialists do demand such exoneratiOn on a few articles. Instead the question of protecting Lebanese industry against the competition of Japanese industry (by applying the normal instead of the maximum tariff to the latter) is their dominating issue. This question will be discussed at the end of this chapter.

Another measure adopted by the government for the protection of national industries is the raising of the tariffs on finished articles that local industries can produce similars. Following is a list of some of the articles on which the customs tariffs have been raised during the period 1953-56 inclusive (3):

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2) Commerce du Levant, No. 287, May 8, 1957

3) This information is based on the "notes" issued yearly by the High Customs Board.

1953

- Job Lots of Summer Silk  
Tariffs raised from 350 to 500 piasters per net kilogram.
- Cotton Job Lots  
... from 100 to 150 piasters per net kilogram.
- Hardened Paper (sheets or rolls)  
... from 5 to 17% (4)
- Glasses intended for optical uses  
... from 10 to 17%
- Ordinary Bicycles without motor and its separated parts  
... from 17 to 23%
- Woolen textiles  
weighing 300 gm. and less per sq. meter  
.... from 20 to 27%

1954

- Sugar Manufactures  
... from 20 to 27%
- Chocolate in bloc or in tablets weighing 500 gm. and over  
... from 140 to 160 p. per kg. 1/2 brut.
- Animal glue except where the glue is extracted from casein  
... from 17 to 33%
- Bottled Beer  
... from 4200 to 5000 piasters per 100 kg. net
- Pipes and Slabs of Eternit  
... from 7 to 17%

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4) This is the effective rate, which is about 2/3 of the official rate. The official rate of the dollar as applied in valuing imports is LL.2.20 or about 2/3 of the actual market rate.

1955

- Canned Fruit and Fruit Juice  
    minimum collection raised from 27 to 33%
- Brushes for shaving and other kinds of brushes  
    ... from 23 to 27%
- Diverse textile fabrics from natural silk  
    ... from 27 to 33%
- Washing detergents conditioned for retail sale  
    ... from 17 to 33%

1956

- Various kinds of tabs  
    ... from 17 to 23%
- Tomato and canned tomato juice  
    ... from 27 to 33%
- Tents and similar items  
    ... from 17 to 33%

These are some of the tariff changes that have taken place since 1953. The items included here have been selected at random since to include all the changes on all products would go outside the scope of this paper. However, most of the items that have been subjected to a 33%, ad valorem tariff have been included here: cotton and silk textiles, sugar manufactures, canned fruit and fruit juice, washing detergents, tomato and canned tomato juice, tents, etc. But this does not mean that these are the only items subject to a 33% ad valorem tariff since many changes took place before 1953.

A more comprehensive and intelligible study would have been made possible if the facts on the basis of which these changes were made were made public.

However, due to the "secrecy" with which most of our government departments work this information was not made available. The author could hardly secure the yearly "statements" of the High Customs Board from the Directory of this body although there "is nothing to fear" since these statements have been published in the daily papers. It was explained that the other type of information was "strictly confidential".

Nevertheless we might make the following remarks on these changes:

- 1) We notice that the minimum amount of protection granted is 13% (5) ad valorem. In fact this is the minimum tariff for an article to be considered as protected. However, it should be noted that there are in addition to the customs tariff other charges like the municipal tax (raised recently to 2% from 1%), the port and other miscellaneous charges which make this rate much higher.
- 2) We notice that the changes in the customs tariffs never exceeded 33% ad valorem (6). In fact, until recently, this was the maximum protection that the government was willing to impose on any imported article. However, this question has been the subject of considerable dispute between the association of Lebanese Industrialists and the High Customs Board, the former demanding that no ceiling be set on customs tariffs but that each article or product should be studied in its own merits. The secretary of this Association (7) affirmed in a recent interview with him that the Customs Board has adopted the industrialists' view. But until now (May 1957) no change in the customs tariffs has been set higher than 33% ad valorem.
- 3) In some cases it is difficult to determine when is the change in tariffs (increase) for the purpose of protection and when is it for increasing the government's revenue. In the case of washing detergents for example, was

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5) At the official rate of exchange this is equivalent to about 20%.

6) At the official rate of exchange this is equivalent to about 50%.

7) Mr. Marwan Nasr.

mentioned in the customs "note" or was it in order to increase the government's revenue on a product that became extremely widely used?

If the first case we ask what industries are producing any washing detergent that can efficiently take the place of the imported washing detergents.

The above mentioned tariffs are what is called the "normal tariff" which applies to most of the countries with whom Lebanon deals with the exception of Japan and the Arab countries. The question of the Japanese tariff will be discussed separately at the end of this chapter.

Lebanon has signed a number of bilateral trade agreements with the Arab countries (Syria, Jordan, Iraq, Egypt, Saudi Arabia) as well as the multilateral trade agreements (8) between the countries of the Arab League in 1953. In the latter agreement industrial products originating in any one member country signing the agreements are subject to 25% reduction from the "normal tariff" applied in the importing country. These industrial products are listed in a separate schedule (called schedule B) which contains around 100 such industrial products.

However, in 1955 the schedules of this agreement were amended and about 20 articles were added to schedule B. Another schedule (called Schedule G) was created which included around 25 industrial articles which were previously in schedule B (that is, enjoying only a 25% reduction) and were made subject to a 50% tariff reduction.

The question of the Japanese tariff has been the subject of much controversy. Japan has been until May 7, 1957, subject to a "tariff maximum" which is double the "normal tariff". However, an agreement has been reached on January 7 of this year whereby Japanese products will be subject to the normal tariff. This agreement was to enter into effect on May 7, thus giving a three months time to the Lebanese industrialists and merchants to dispose of their stocks that are similar

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8) Treaty of Commerce, Transit and Payments between the Arab Countries.

to the Japanese products.

This agreement has been reached amidst the protests of the Lebanese industrialists and it may be well to include the pros and cons of this issue since it lies at the heart of protecting the Lebanese industry.

The arguments developed in defence of the Lebano-Japanese agreement are in essence the arguments against a policy of protection in Lebanon and may be summed up as follows: (9)

- 1) Lebanon is a country eminently liberal and, what is more, it is a centre of distribution of foreign goods in the Middle East. It is not normal for it to defend itself against the Japanese production more than its neighbour Syria which applies the normal tariff against Japanese products. There would be fear that since the tariffs in Syria are lower there would be an incentive to smuggle these products to our markets.
- 2) The Japan of today is no more the Japan of former times. It no more produces inferior products nor does it practice dumping (its socialistic structure which obliges it to pay well its workers does not allow this).
- 3) The competition, susceptible to be made to our production by Japan, will be less violent, less hard than that already made to it by the countries of the popular democracies (Czechoslovakia, Hungary, Rumania) which, given their regime, can sell their products at a loss and they rarely refrain from doing it!
- 4) Lebanon, a liberal country, ought to take into consideration the interests of the consumers and the working classes as well as those of the producers.
- 5) In counterpart to the favor which we have made, Japan made us appreciable favors, notably the technical and economic aid in the realm of silk growing and fishing.

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9) These arguments are based on an article entitled "La Querelle du Tarif Normal sur les Produits Japonais" by Nerry, published in Commerce du Levant, no. 287, May 8, 1957.

The arguments of those against the application of the normal tariff to Japanese products are mainly the following: (10)

- 1) Within GATT (11) 14 important countries, of whom France, United Kingdom and liberal Belgium, have not yet accorded Japan the benefits of the normal tariff.
- 2) Although better treated than before the war, the Japanese worker continues to be the best market in the world. His average monthly salary figures at 45 U.S. Dollars, whereas that of the Italian worker goes up to 63, that of the French 90, the German 94, the British 105, and the American 312.
- 3) Our production, and especially our textile industry, are at present in grave difficulties due to foreign competition. What will happen after the entry into battle of the Japanese products?
- 4) We could certainly negotiate with Japan and accord it the benefits of the normal tariff. But we should have obtained from it more than we did, and notably a treaty of clearing, which would have played to the benefit of our production and compensated, at least in part, to the disadvantages made to our industry.

It is suggested that a compromise might be reached if the tariff maximum is imposed on Japanese silk and cotton fabrics and some other 10 articles that compete heavily with the national industries. The import of these products will further be subjected to a prior licence. It might be argued that it is not fair that only Japan should pay a tariff maximum on these products. It is now a member of the United Nations and this measure is highly discriminatory. This is admittedly true. But was absolute justice ever reached on this earth?

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10) Ibid.

11) General Agreement on Trade and Tariffs.

CHAPTER FIVE

EVALUATION AND CONCLUSION

That Lebanon should devote greater attention to the development of its industry is not a disputable fact among all those who have studied the Lebanese economy. The reasons for this development have already been discussed and need not be recapitulated here.

That a certain measure of protection is necessary for the development of a young industry is also indisputable: underdeveloped countries "need time to raise labor, technical and managerial skills to a level approximating those in the more advanced industrial countries"(1).

But this protection should be built on sound and correct basis. It is true that the government has gone a good step towards protecting the national industries but often this protection has not been based on scientific and objective studies as regards what industries ought to be protected, the extent of this protection and its duration. Often the decision depended upon the influence of the association of industrialists or the influence of the particular industrialists when it came to the protection of their particular products. And although the overall tariff schedule is not considered to be excessively protective it is believed that certain industries have certainly been granted excessive and prolonged protection (one example has been cited in the body of this paper) with the result that the interests of the consumers as well as the interests of some other sectors of production have been sacrificed.

We notice that the "procedures" for taking protective measures are unduly long and tedious. The demand of an industrialist applying for the protection of a certain product will have to pass through several desks and "bodies" before it reaches the ultimate place where any action can be taken. First the demand

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1) IBRD, The Economic Development of Syria, John Hopkins Press, Baltimore, 1955, p. 109.



will have to be submitted to the ministry of national economy. This ministry will refer it to the "committee on the protection of national products". What this committee does in essence is to forward only as a "recommendation" to the minister of national economy. In turn the minister will study the demand (if he can find time for it since he has to be kept informed on all what is going on in his "vast" ministry if he is not charged with some other ministry) and forward his recommendation to the High Customs Board. This Board will again study the demand and even if it approves of it, it cannot issue any (laws) for changing the tariffs. The Board's decision, if one is reached and the demand is not sent back again to the ministry, will also have to be accepted by the Council of Ministers.

This extreme centralization and duplication of work is certainly a loss of time and effort. The government should be more sensitive to the demands of industry. By the time a decision is reached a foreign product might have entered the market and done all the damage it could to the local industries.

Often these government officers are in disagreement concerning a certain issue and this tends to create ill-will between them, and what is more it causes great losses to the parties concerned. This point may be illustrated by the recent case of the Japanese tariff. Many papers allege that it was the opinion of the ministry of national economy that the application of the normal tariff to the Japanese products be postponed another three months (from May 7) so that the industrialists and merchants possessing stocks similar to the imported Japanese products be able to dispose of them, thus avoiding any losses that might be incurred in the presence of cheaper Japanese goods. But the High Customs Board proceeded on due date to apply the normal tariff.

Would it not be more efficient organization if one competent body in the ministry of national economy was set up which would be responsible for the ultimate changes in the customs tariffs since this ministry is the primary responsible for the economic policy of the country?

The theoretical "grounds" on which protection was granted, i.e. the principles which were adopted by the "committee on the protection of national products", were discussed in the body of this paper and some remarks made on them. Here based on these remarks an alternative set of principles is submitted to be used as a basis for tariff protection (2). It is suggested

- (1) that national production be protected against similar foreign production or its substitutes, but taking into account the interests of the consumers and the national interest as large. The extent of this protection should approximately be equivalent to the difference between the cost of production of the national product and the cost of the imported good valued at the borders, on condition that a reasonable profit be included in the cost of production of the national product and on condition that in the future the protected industry will be able to stand in the face of foreign competition without protection or with reasonable protection. Where the number of factories producing the protected article is few the state should supervise the prices in order to prevent monopoly and the undue rise in prices.

Following is a list of some national products for which protection may be accorded:

Grapes in natural and artificial silk, woolen textiles, cotton textiles, hosiery, men's and women's underwear, table cloth, nets and tents, men's hats, umbrellas and parasols, glassworks, ply wood, rubber works, iron furniture and iron doors and windows, petroleum lamps, plates, dishes and other home utensils, brass-founding, fasteners, buckles, lamps, suitcases and bags.

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2) These principles are based on the study made by the Economic Planning and Development Board of the principles adopted by the above mentioned committee, which was referred to previously.

- (2) that complete prohibition of import of a certain article be resorted to in those cases that industrial unions (cartels) intend killing a certain industry in its infancy by practising unfair competition with the view of gaining its market thereafter but on condition that the prices of this industry be supervised by the state in order to prevent their rise above a reasonable level.
- (3) that no article be prohibited from entry or limitation on quantity except in the following cases:
  - a. in case (2) above.
  - b. in cases of using the prior licence referred to in (5) below.
  - c. in cases where the product is detrimental to public health or in cases where the product is infectious.
  - d. in cases of a deficit in the balance of payments that is considered unfavourable to the national economy.
  - e. in cases ordained by the politics of the state.
- (4) that the industries to be established be promised protection only a recommendation of a special body that would study the possibilities on industrialization in the country but on condition that this promised protection be for a definite period after which it will be removed gradually but taking into consideration the level of employment and the narrowness of the market.
- (5) that imports be subjected to special restrictions like the prior licence only in the following cases
  - a. in cases of limiting imports for any of the reasons mentioned in (3) above.
  - b. in cases where the execution of commercial treaties necessitates this.
  - c. in cases of reciprocity.

- (6) that all raw materials for industry be exonerated from customs tariffs except where this exoneration conflicts with the protection of already existing national industries.
- (7) that half-manufactured goods be exonerated from customs tariffs except when such are produced in Lebanon. In this case the imported product will be subjected to a moderate tariff.
- (8) that industrial machinery and equipment and parts thereof be exonerated from customs tariffs on condition that such procedure does not conflict with already existing national industries. The import of industrial machinery will be subjected to a prior licence to be granted only on recommendation of the special body referred to in (4) above after studying the capacity of the existing industries and the potentialities of the markets. As regards the granting of licences for the import of industrial machinery intended for production and the establishment of new enterprises these licences will also be granted on the recommendation of the above mentioned body after studying the potentialities of this industry and its value to the country.
- (9) that an additional customs tariff (an anti-dumping duty) be imposed in cases of "dumping" in order to counterbalance its bad effects on the national industries. Complete prohibition may also be resorted to.
- (10) that customs tariffs on raw materials be reimbursed when these materials have entered a product that has been exported.

These are some principles on which tariff protection in Lebanon might

rest.

Tariff protection, however, is but one major means of protecting the national industries. "The use of direct subsidies is assuming more and more importance in the more economically developed countries as an alternative (indirect) means of protecting the national industries, because government will be in a better position to select the industries it finds to its interest to encourage and because it can use these subsidies as a weapon for pressing for more efficiency among the industries."(3)

However, the present state of affairs in our government bureaus does not encourage entrusting them with such a highly sensitive and powerful instrument and the fact remains that tariff protection remains the major instrument of providing protection to our national industries.

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E N D

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