

Rafic Hariri

STATESMANSHIP
IN GOVERNMENT

*Emerging from war
and
entering the future*

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in Government**

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Publisher's Note

On July 23 - 24, 1999, the Lebanese newspapers* published a comprehensive political and economic essay by former Prime Minister Rafic Hariri that dealt with Lebanon's exit from the war period and its entry into the era of national reconciliation. The essay elaborates on the prevailing conditions at the end of 1992, prior to Mr. Hariri assuming office, and on their political, economic, social, financial and administrative ramifications. The essay also identifies the various options faced by the successive Lebanese Governments to address the vestiges of the war years, and enunciates the policies and programs adopted and the results achieved from the beginning of 1993 until the end of 1998.

In addition, the essay clarifies the costs of emerging from war and entering into national reconciliation, thereby enabling Lebanon to regain its position on the Arab and international political and economic map.

The essay, therefore discusses in detail, the public expenditure incurred to rebuild the State with all its facilities, its administrative and military and security services, as well as the expenditure that went towards economic revival and social advancement.

The essay concludes by presenting a view of the future that reaffirms the political and economic identity of Lebanon

and outlines the available options to confront the challenges emanating from the dynamic international and regional conditions.

In publishing this essay, it is our hope to highlight to the Lebanese, Arabs and all the friends of Lebanon the issues faced by Lebanon and their political, economic and social ramifications. Also, we hope to highlight the essay's confident outlook in Lebanon's future and in the ability of the Lebanese to confront challenges and overcome difficulties, as well as the essay's attachment in a democratic system and a free market economy as the only framework for the pursuit of progress and development.

* Al-Safir, L'Orient Le Jour, The Daily Star, Al-Hayat, Al-Moustaqbal, dated 23 and 24 July 1999.

INTRODUCTION

The tenth anniversary of the successful conclusion of the Taif Accord marks the end of a critical period in the modern history of Lebanon. This period witnessed a massive nationwide effort whose purpose was to transform Lebanon from a state of war and civil strife into a state of peace, unity, reconciliation, reconstruction and national revival. To a large extent, this effort has been successful despite the fact that this endeavor was undertaken in the absence of comprehensive and uninterrupted stability. Lebanon successfully overcame many difficult challenges, which included:

- * Renewal of confidence in Lebanon's democratic system;
- * Reconstruction of the Lebanese state and its civilian and military institutions;
- * Establishment of a delicate internal political balance;
- * Resolution of the problem of the displaced;
- * Establishment of the principles of national reconstruction;
- * Steadfastness in the face of continued Israeli aggression;

* Enhancement of the special relationship with Syria, and:

* Reassertion of Lebanon's role in the Arab world.

What was most noteworthy in regard to the Israeli aggression of April 1996 was the ability of the government to extract positive developments from this setback. With the entire world recognizing our right to resist Israel's occupation and due to the support of President Hafez Al-Assad and the French government and President Jacques Chirac, we were able to conclude the "April Understanding". To this day, the Understanding is considered a major achievement despite the fact that Israel continuously attempts to undermine it. The unity of the whole population at the time enabled the government to reach out to the international community for support. Spear headed by U.S. President Clinton, the entire international community subsequently rallied to provide assistance to Lebanon, through the "Friends of Lebanon" conference that was held in Washington, during which Lebanon obtained valuable and tangible support. Shortly thereafter, the United States lifted the travel ban it had previously imposed on Lebanon.

The successive visits of high-ranking Arab and foreign officials was a clear indication of the international community's trust in the achievements of Lebanon and a vote of confidence in the policies it had adopted. The list of high-ranking officials included his Holiness Jean Paul II, and President Jacques Chirac, who reaffirmed the special relationship that exists between France and Lebanon. Visitors also included Italian President Oscar Scalvaro, President of Argentina Carlos Menem, President of Algeria

Al-Shatheli bin Jadid, His Excellency the Emir of Kuwait, Sheikh Jaber Al-Ahmad Al-Sabah, His Excellency the Crown Prince of Kuwait, Sheikh Saad Al-Abdallah Al-Sabah, the Prime Minister of Egypt, Dr. Kamal Al-Janzoury, the Prime Minister of Italy, Romano Prodi, the Prime Minister of Malaysia, Dr. Mahathir Mohamed, the Secretary of State of the United States, Madeleine Albright, the French Foreign Minister, Hervé de Charette, the Egyptian Foreign Minister, Amr Moussa, as well as, several other foreign ministers and delegations from many friendly countries.

The visit of His Royal Highness the Crown Prince of Saudi Arabia, Prince Abdallah bin Abdelaziz, warrants special mention because it reconfirmed the excellent relationship between Lebanon and the Kingdom of Saudi Arabia.

Additionally, several meetings took place between the Syrian and Lebanese governments, and Lebanon was visited several times by the Syrian Vice President, Abdel Halim Khaddam, the Prime Minister of Syria, Mahmoud Al-Zou'by, the Foreign Minister of Syria, Farouk Al-Sharaa. During the same period the harmonious relationship with Syria was reinforced by the constant, and guiding patronage of Syria's President Hafez Al-Assad. Indeed Lebanon's special relationship with Syria was reaffirmed, as was its role in the region, and its open and friendly policies with the rest of the world provided the impetus needed to drive the economy forward.

Lebanon's many political and economic achievements were to a large extent made possible because of the common

stance shared by the President of the Republic, the Speaker of Parliament, the Cabinet and members of Parliament. This common stance was based on a deep sense of national responsibility and enjoyed unanimous support among the people, as well as among the various political, social and economic groups.

Today, Lebanon enters a new era and faces a new set of internal and external challenges. It is an era that requires genuine and strong commitment to the foundations of national reconciliation on whose basis Lebanon can further develop its political system with a view to strengthening its democratic society and protecting it from potential threats. Indeed, the call to protect Lebanon's democratic society is a call to confront the repercussions of confessionalism at every level of political activity. In reality confessional democracy represents the negative side of the Lebanese political system and is its Achilles heel. In this regard, it has always been our view that the best manner to confront those who hope to satisfy their personal interests by aggravating confessional sensitivities is the continuous reassertion of Lebanon's national identity.

The Taif Accord confirmed and guaranteed that identity. Ever since its signing, the Accord has served as the principal historical and cultural pillar of the Lebanese constitution and the foundation upon which the negative aspects of confessionalism in all their political, administrative and intellectual facets can be contained and overcome. However, this is not to imperil the historic and traditional values of the pluralistic religious beliefs that form Lebanon's spiritual

framework along with a deep commitment to the unity of the Lebanese state and to the well-being of its democratic system.

In this context, Lebanon can successfully confront the regional challenges ahead provided that a deep and thorough recognition of, and a commitment to, the principles of the Taif Accord are maintained and provided that there is awareness of the hard lessons that the various Lebanese political and spiritual leaderships should have drawn from the period of war and civil strife. Indeed, one hopes that by now it is widely recognized that confessionalism represents weakness rather than strength, division rather than unity, uncertainty rather than stability. Indeed, confessionalism is a fertile ground to implant dissent that can reduce nation states to a group of squabbling political factions.

With this in mind, we must never lose sight of the fact that the opportunity afforded Lebanon at the end of the 1980s by the successful conclusion of the Taif Accord is a precious possession to which the Lebanese political system must afford continuous protection from regional pressure and threats. In this regard, it is imperative to recognize the critical role played by Syria, under the leadership of President Al-Assad in initiating, supporting and providing the successful ingredients of this crucial opportunity, as well as in defending it from internal risks and from the threat of continued Israeli occupation.

Consequently, the Lebanese political system must recognize the dimensions of the challenges confronting it. The system equally bears a responsibility to consolidate the

many political, constitutional, security, economic, and national developments that have occurred over the past ten years. Those multifaceted achievements have increased the immunity of the Lebanese political system and made it better able to confront international and regional challenges. This heightened immunity has been reinforced by the close cooperation and coordination with Syria in confronting Israeli occupation and in resisting Israel's continuous aggression against Lebanon's territory, its people and its sovereignty.

However, we should not allow the imminent political confrontation in the region to overshadow the main economic challenges and their financial, social and developmental implications. In this respect, it is imperative to highlight the existing link between the political and economic challenges confronting Lebanon. Political achievements of the past decade have become an integral part of the spirit, ideology and conduct of the political system and have helped forge Lebanon's identity and position among the Arab countries and in the rest of the world.

With this in mind, it is crucial to protect and build on those political achievements to enhance future social stability and economic growth. Indeed, the priority following the ratification of the Taif Accord was to rebuild what decades of war had destroyed and to launch an economic reconstruction and revival plan that would enable Lebanon to reintegrate into the global economy.

The cost of war and the challenges of peace

Today, Lebanon is witnessing a growing debate regarding the acceleration of debt and the difficulties in containing the large budget deficits. Some argue that our current challenges stem directly from the growth-oriented policies of the past six years that led to a significant rise in public debt. Others, however, believe that the existing financial difficulties are a direct consequence of the success in overcoming the far more difficult and serious problems of the immediate post-war era. The demands at that time necessitated movement along multiple fronts, including the need to reconstruct, to redress social dislocations, and to improve living standards, while rebuilding the military and security capabilities of the state. Improvement along these multiple fronts required dynamic action that was continuously hindered by Israeli aggression.

The years of war and turmoil between 1975 and 1990 had a devastating effect on the Lebanese economy, on society and on the national institutions, including the political, administrative, educational, military, and security

establishments. As a result, no sector of the Lebanese economy or society was left unscathed. The total damage of physical assets sustained during that period was estimated by the World Bank at US \$25 billion, which was equivalent to more than eight times the size of Lebanon's GDP in 1990. Moreover, the country's economic base was eroded. Its once vibrant and dynamic services sector collapsed or relocated abroad, its industrial sector was all but eliminated, its agricultural sector was severely damaged and left highly unproductive, and its tourism sector (which once constituted 20% of GDP) was paralyzed. Successive bouts of inflation, along with rising unemployment and underemployment, wiped out confidence in the Lebanese Lira and led to the emergence and dominance of a parallel and illegal economy. The impact on social conditions and on human resources was equally grave. By 1990 real per capita income was about one third of its 1975 level.

Perhaps the largest loss to Lebanon during the years of turmoil was the opportunity cost of wasting almost two decades of potential development, with all the implications on human capital, technological progress and national advancement. Consequently, total direct and indirect losses suffered by Lebanon exceeded US \$100 billion. Indeed, as Lebanon regressed into chaos and destruction the rest of the world progressed and embraced the phenomenal innovations of the global economy. In practical terms, Lebanon lost its comparative advantages with respect to the rest of the world and especially with respect to the Arab World. Indeed, Lebanon's former open, liberal, and highly flexible market economy that constituted the financial, business, cultural,

educational and health center of the Middle East was converted into an archaic, over-bureaucratic, highly regulated, backward and inward-looking economy. Most significant, however, was the total collapse of the public sector and the complete disarray of the civil service, with the consequent constraints that this placed on all private sector activity.

Looking back at the situation on the eve of forming the first government towards the end of 1992, one recalls that the value of the Lebanese Lira reached LL2,800 for each dollar, inflation exceeded 120%, average interest rates on Treasury Bills reached 34%, and commercial bank lending rates exceeded 51%. At the same time, the capabilities of the Lebanese military and security services had declined dramatically and threatened to adversely affect the country's security. In addition, most public social provisions, including health, education, and social services, had declined to a level that gravely jeopardized social stability.

The suffering that resulted from the deteriorating state of the physical infrastructure remains engraved in the memory of the Lebanese people. Indeed, electrical power shortages were pervasive and rationing was the norm. Only a few hours of electricity were available throughout the country, including the major cities. Similarly, telephone lines were scarce and available only to those able to afford prices in the black market and at parallel communication centers. This was due to the damage inflicted upon the telephone network, rendering telephone communications all but impossible and the ability to obtain a new line contingent on exceptional

efforts and phenomenal influence. In addition, the water and sewage systems were practically non-existent for most populated areas in Lebanon and the inability to collect and treat solid waste converted the main cities of Lebanon into garbage dumps. Furthermore, the deterioration of the major and peripheral road networks led to the collapse of the transport sector in Lebanon as traffic congestion and the absence of modern transportation facilities and connections minimized economic and social interaction across the country.

Also, the war years severely damaged Beirut International Airport, the Port of Beirut, the Lebanese University, and Sports City, as well as government buildings, including schools, institutes, hospitals, and various ministries, rendering these facilities almost unfit for use.

Indeed, Lebanon in early 1990 was a devastated country: the physical infrastructure was in shambles, the military and security services were extremely weak, tens of thousands of families were displaced, emigration was hemorrhaging the country of its human talent, the middle class faced extinction, the standard of living of the lower income people was declining alarmingly, and the Israeli occupation and aggression had adversely affected every facet of national existence.

Many people today underestimate the total gravity of the situation in 1990 and some may underplay both the challenges that confronted Lebanon and the achievements realized by successive Lebanese governments to date. Clearly the current economic difficulties facing Lebanon are

preoccupying all the Lebanese and appear to be overwhelming many of them. However, we must place the current difficulties in their proper perspective and in the context of both what Lebanon had to undergo during the war years and of the achievements of the post-war period. Only through this process can we begin to address the current challenges with confidence and certainty, and begin to chart Lebanon's path towards the third millennium.

It may be useful at this point to recall the prevailing situation on the eve of our first government.

On assuming office, the government was confronted with the daunting challenge of converting a devastated, demoralized, economically contracting and hyperinflationary situation into one of growth macro-economic stability, and reconstruction. We recognize, however, that the preceding governments of the post-Taif era had been successful in normalizing the country's security and in reasserting the authority of the state over public institutions. The Lebanese people expected their government to improve markedly their living conditions, to spend on social and economic stability, to enhance security, and to embark on a comprehensive human resource and physical infrastructure development program. In the meantime, the country was suffering from continuing Israeli occupation and aggression.

The situation at the time required rapid progress on all aspects of life in Lebanon: security needed to be maintained and enhanced; the damaged physical infrastructure needed to be rebuilt and expanded; public services and the provision of basic needs in health and education needed to be re-initiated;

the problem of the displaced needed to be resolved; support for the south needed to be expanded and accelerated; the civil service required revitalization and modernization; the legislative and regulatory framework needed upgrading and updating; and, most significantly, social harmony and national reconciliation needed to be buttressed and enhanced.

Naturally, progress on, and investment in, all these sectors required massive financial resources that were not readily available to the Lebanese treasury, which was already running severe deficits. Indeed, according to Finance Minister George Corm's statement to parliament (dated July 12, 1999) total public debt at the end of 1992 was approximately LL4,650 billion (of which foreign currency debt amount to US \$327.5 million) and constituted 49% of GDP. At today's exchange rates this debt amounts to US \$3 billion. In addition, interest rates on Treasury Bills reached 34% while the budget deficit represented 49% of total government expenditures, which included only salaries and wages, debt service, and other minor recurrent operational expenditures. This situation clearly indicated the inevitability of debt accumulation and rising debt-to-GDP ratios, especially if the government were to have embarked on a contractionary macroeconomic policy package.

Indeed, despite the sizable decline in domestic interest rates brought about by our stable exchange rate policy, the pre-1993 debt stock, along with the cost of servicing this debt, would have, by the end of 1998, exceeded LL11,000 billion (US \$7,600 million) and reached 41% of GDP.

Options available to the Lebanese Governments

In light of the above and on the eve of assuming office, the Lebanese government in 1992 was confronted with three distinct options:

Option 1: Wait

The government could have decided to wait for foreign aid to become available before embarking on a massive reconstruction and economic revival program. Since as far back as 1977, the year which saw the first apparent end of hostilities, successive Lebanese governments have recognized the importance of foreign assistance and have actively pursued foreign aid to help rehabilitate and reconstruct the Lebanese economy. Indeed, these successive governments decided for various reasons to wait for foreign aid to become available before commencing reconstruction.

Hence, pursuing this option would have automatically led to an aggravation of the deficit, a major expansion in public debt, a contraction in the size of the national economy, and

a steep rise in interest rates. Within three years debt to GDP would have exceeded 100% without undertaking any investment expenditure to improve living standards, the physical infrastructure and economic growth.

Option 2: Reduce expenditure and raise taxes massively

We could have decided to embark on a major contractionary fiscal strategy by seeking to dramatically reduce expenditures while simultaneously attempting to significantly raise revenues. In other words, the government would have abstained from developing and strengthening the military and security services, investing in rehabilitating and expanding the basic infrastructure, and from addressing the existing social dislocations, while simultaneously raising taxes and charges. This strategy would have had as its goal a rapid and aggressive balancing of the budget in the hope of realizing surpluses in the medium-term, which would then be used to finance reconstruction. Such a strategy, albeit enticing to some from a theoretical viewpoint, is totally unrealistic and completely contradicts basic economic realities. Indeed, the Lebanese people, completely exhausted by the war years, were eager to have their government rapidly raise living standards, without requiring them to forgo at least another decade of lost opportunities before an attempt was made to restore public services, including electricity, communications, schools, hospitals, universities, roads... etc. Moreover, a strategy based on massively raising taxes in a devastated and impoverished post-war economy or in an economic recession would be ineffective, as incomes

and profits would be reduced to a level too low to tax effectively while capital inflows and investments would have been scared away.

Hence, such a strategy was totally unrealistic. Clearly, it would have, as in the case of some East European countries, completely damaged the Lebanese economy and pushed it into a severe recession, excessively delaying if not permanently eliminating economic revival. In fact, the conditions of the Lebanese post-war economy, viewed objectively, and the urgent and pressing needs of the Lebanese people precluded such a strategy. The post-war Lebanese economy was confronted with the daunting challenge of catching up with the rest of the world and reintegrating into the global economy. Hence it could not afford several years of hibernation and economic regression. Just as important is that such a strategy would have severely strained social harmony and national reconciliation.

Option 3: Growth, development and reconstruction

The adopted option was the only possible strategy to address the following basic challenges:

- 1 - Rebuilding, unifying, expanding and modernizing our military and security services;
- 2 - Reviving publicly funded social services, including health, education, vocational and technical training, return of the displaced, and support for the South and Western Bekaa to withstand Israel's occupation and continued aggression; and
- 3 - Embarking on a major public investment program to

construct a modern basic infrastructure, which is a prerequisite for any attempt to revitalize the economy.

This option is based on a growth-oriented strategy that emphasizes the importance of rapidly restoring domestic and international confidence in the Lebanese economy, and creating an environment conducive to capital inflows and investment. It is also based on achieving reconstruction and economic revival with a view to improve the living conditions of the Lebanese people and to reclaim a role for Lebanon in the Arab and global economies. This was the only strategy that would have led to an appreciation of the assets in Lebanon, thereby raising markedly the wealth of the Lebanese. This naturally entailed heavy reliance on domestic resources, namely local borrowing and capital inflows while continuously pursuing international financial assistance and prudently tapping the international capital markets.

This strategy was neither unusual nor unique. In fact, many other countries have relied on debt financing, especially those countries that endured severe dislocations similar in magnitude to post-war Lebanon. Indeed, the Lebanese people on the eve of the post-war period were exhausted and the prevailing economic and social conditions precluded the ability to withstand an increase in taxes and charges.

Our strategy was aimed at regaining the confidence of the domestic and international community in the future of the Lebanese economy and in its potential to play a leading role in the Arab economy. Consequently, we stabilized and

strengthened the Lebanese pound, thereby dramatically reducing inflation, and adopted a growth-oriented public expenditure policy that targeted the reconstruction and economic revival of Lebanon. This macroeconomic policy mix, coupled with the successful reintegration of Lebanon into the international financial system, stimulated significant capital inflows and balance of payments surpluses that provided most of the required resources for the growth-oriented public spending.

Most importantly, our strategy was based on re-establishing and strengthening one of the fundamental pillars of the Lebanese economy, namely the free, open, liberal and democratic nature of our system. It is a system strongly committed to the principles of free market economies and to the tradition of adopting private sector friendly policies. Lebanon's strength and *raison d'être* is based entirely on its protection of individual civil liberties (including the freedom of political belief and social behavior, as well as freedom of speech), private ownership rights, freedom of exchange, banking secrecy and complete independence of the judiciary. We must be unyielding in our efforts to safeguard these sacrosanct Lebanese traditions, which represent the major foundation for the country's future growth and development.

At this point, it is important to emphasize that our first priority was to restore and maintain confidence in the economy by re-establishing the Lebanese Lira as a strong and stable currency, thereby markedly reducing inflation. In this way macroeconomic stability, the linchpin of any

reconstruction and modernization drive, was achieved. Indeed, soon after we took office, capital inflows began to accelerate, the Lebanese Lira appreciated markedly, inflation rates declined, interest rates fell gradually, and substantial foreign reserves were accumulated. Also, the financial sector thrived as deposits multiplied from US \$7 billion in 1992 to US \$30 billion in 1998, while capital funds increased significantly, multiplying by a factor of 14 by the end of 1998 to reach US \$2.4 billion. This enhanced the ability of the banking sector to provide medium-term financing, housing loans, and consumer loans to the private sector, as well as to satisfy the public sector's financing needs.

A multi-faceted development program

In our efforts to achieve economic growth, we embarked on an emergency infrastructure development program that primarily targeted improving the provision of public services. In addition, we initiated significant social service programs, including the expansion of services for health, education, vocational training, the return of the displaced, support for the South and improvement in real incomes levels, along with re-establishing security throughout the country by significantly increasing spending on all our military and security services. Indeed, the political leadership has continuously supported and nurtured the Lebanese Army, to enable it to preserve public order internally, and to confront the challenges of continued Israeli occupation and aggression.

In the context of our efforts to satisfy the abovementioned needs, under the prevailing and pressing conditions, the criterion adopted in our public expenditure management policy was predicated on the necessity and inevitability of spending rather than on a pre-conceived view of raising or reducing public expenditure, particularly when it came to matters related to safeguarding the unity and security of the state.

In this regard, it is noteworthy that total spending on the military and security services between the end of 1992 and the end of 1998, including their share of retirement benefits and end-of-service indemnities, amounted to US \$5 billion and constituted about 92% of all spending on basic infrastructure and on agriculture, industry and tourism, which during the same period amounted to US \$5.4 billion. However, this ratio is expected to increase in the coming years due to the spiraling cost of the military and security services and their share of retirement benefits and end-of-service indemnities. In the 1999 budget alone, spending on these services represents 22% of the entire budget, and 25% of all that was spent on these services from the end of 1992 and the end of 1998.

We also embarked on investment projects encompassing a wide spectrum of sectors, including electricity, post and telecommunications, roads and highways, public health and social affairs, education, water supply and waste water, solid waste, public transport, airport and ports, and irrigation.

Today the Lebanese people have started to recognize the effect of that public spending, be it in terms of new highways and roads, the new Beirut International Airport, the new sports complex, or the rehabilitation and expansion of the electricity sector, which was reduced to a mere 450 megawatt capacity after the war. It was rehabilitated to its previous 1350 megawatt strength. Subsequently, it was expanded by an additional 950 megawatt capacity, thereby allowing a doubling in electricity consumption. Naturally, this enhanced economic activity and improved living

conditions. Moreover, the pre-war telephone network, with a capacity of 300,000 lines, was rehabilitated and expanded by an additional 1 million lines, along with 550,000 cellular lines.

In the education sector, the government rehabilitated 1,280 public schools and refurbished many with new equipment and scientific laboratories. Also, work commenced on building 25 new public schools and expanding 26 existing ones. The government also built and rehabilitated 15 hospitals and more than 26 health centers throughout the country.

Furthermore, most government buildings were rehabilitated, including all the schools and institutes and the campus of the Ministry of Vocational and Technical Education. Also, plans were under way to build 31 vocational and technical schools, in addition to the Faculty of Sciences of the Lebanese University in Hadath and Fanar. The UNESCO Palace and the National Museum were rehabilitated and work also began on the new University City of the Lebanese University, which should prove to be a major milestone in enhancing public university education. Most significantly, public educational programs were totally overhauled and modernized by the National Center for Research and Development, while efforts were underway to modernize the vocational and technical training programs.

It is crucial to emphasize that the reconstruction and economic revival strategy was comprehensive, broad-based and spanned every region of the country. Indeed, previously under-developed and under-privileged areas experienced for

the first time electricity, telephones, roads, schools, hospitals and running water. Also, given the prevailing state of affairs, all these investments were of immediate priority and commanded a significant consensus.

The cost of reconstruction: facts and figures

Over the past several years - and more recently - a lot has been said regarding the public expenditure on basic infrastructure and its actual cost and magnitude. At the outset, it is imperative to recall that the majority of public works undertaken were either fully or partially financed by multilateral organizations or bilateral lenders, including the World Bank, the European Investment Bank and the various Arab funds. These institutions closely monitored the procurement process and insisted on having their guidelines adopted when any of their resources were used. At the same time, the national implementing agencies are also subjected to pre- or post-audit procedures from the Court of Accounts, independent auditors, and government representatives. Of the greatest significance, however, is the fact that the major procurements were awarded at prices well below prevailing international prices. Finally, it is important to recall that US \$1.5 billion of the total spending on basic infrastructure was financed through borrowing in foreign currencies at interest rates well below those prevailing on the Lebanese Lira.

The major construction projects in critical areas will be detailed below as an example of the way contracts were awarded in the reconstruction and expansion of basic infrastructure:

I) Electricity: In the context of expanding Lebanon's power-generating capacity the Bedawi and Zahrani plants were constructed at a total cost of US \$536 million. In addition, the gas turbines in Baalbek and Tyre were installed at a cost of US \$60 million, while distribution and transmission lines were installed at a cost of US \$282 million. In this context World Bank studies show that the internal rate of return on these projects amounted to 25%. More significantly, the cost of one KVA in the Baddawi and Zahrani plants amounted to US \$500, which was below prevailing international prices by up to 15%.

II) Telephone Sector: International technical consultants hired by the Lebanese government estimated the total cost of each new telephone line in Lebanon to range between US \$800 and US \$1,200. However, the government succeeded in reducing this cost to US \$550 per new line and was able to obtain switch lines at the low cost of US \$85-\$100 per switch line. By comparison, the cost of new telephone lines in many countries in the region reached US \$2,700 while the cost of a new line in the U.S. ranges from US \$1,000 per line in urban areas to US \$2,300 per line in rural areas, with switch lines in rural areas costing US \$230 per line. Furthermore, the cost of a new line in several Latin American countries amounted to US \$3,250 per new line in rural areas. Clearly, the cost of installing a modern telephone

system in Lebanon was well below prevailing international prices and markedly below the estimate of the international consultants.

III) Beirut International Airport (BIA):

After updating the plan to modernize Beirut International Airport developed by the Paris Airport Institute decades ago, the government embarked on expanding BIA to absorb six million passengers per year at a cost of US \$551 million. The new airport project consists of a terminal building at a cost of US \$115 million, secondary and supportive buildings at a cost of US \$65 million, and runways, along with their seafront protection, costing US \$310 million.

When comparing the total cost of this project to similar projects in Thailand, Argentina, New York City, Washington D.C., China, Hong Kong, Greece, the Czech Republic, and Hungary, we find that the average cost per passenger at BIA (US \$83) is well below that of other projects (ranging from US \$93-\$171 per passenger). Moreover, the cost of the terminal building per passenger at BIA (US \$19) is also well below the comparative cost at other airport projects (ranging from US \$27-\$68).

In sum, the above highlights the government's ability to implement sophisticated, state-of-the-art, investment projects at a cost below prevailing international prices.

Enhancing Lebanon's economic and financial relations

Investing in the reconstruction of basic infrastructure constitutes an essential prerequisite for economic growth. All sectors in the economy require a modern, state-of-the-art infrastructure to operate and develop. Consequently, there was no choice but to rebuild and expand the country's basic infrastructure, given the limited availability of external grants and concessionary financing and despite our continued efforts to acquire such funding.

Given the magnitude of the needs for reconstruction, military and security spending as well as, social spending, funding of the initial phase of post-war reconstruction and recovery was to a large extent based on a domestic effort. Indeed despite our continued efforts, external grants and concessional financing were limited. As a result we mobilized resources domestically through the issuance of treasury bills. However, we also set to mobilize concessional funding from the international financial community. Indeed, our ability to do so increased markedly as we established a solid track record in the design and implementation of

sophisticated, multifaceted physical and human infrastructure programs. We also successfully tapped the international capital markets. Indeed, Lebanon was the first country in the region to successfully mobilize funds from the international capital markets at highly attractive rates. During my tenure, the Republic of Lebanon issued eight bond transactions totaling USD 2.85 billion. We also continuously outperformed countries with similar credit ratings and our bonds exhibited phenomenal stability during the recent emerging market crisis. Most important in 1998 when no emerging market borrower was willing to even contemplate launching a bond issue, Lebanon successfully borrowed USD 1.45 billion at highly competitive rates.

In addition, and soon after we assumed office, we embarked on a major campaign to revitalize Lebanon's relations with the international financial community, including major multilateral organizations such as the World Bank, the IMF, and the European Investment Bank, as well as the major international private financial institutions. Moreover, and to enhance foreign investment further, Lebanon joined the Multilateral Investment Guarantee Agency (MIGA). We reactivated the National Institute for the Guarantee of Investments, which was set up to provide insurance coverage in the form of compensation for losses resulting from non-commercial risk. We also established the Investment Development Authority of Lebanon (IDAL) and free zone areas designed to enhance Lebanon's transit potential. We planned to introduce industrial zones to enhance industrial output and to increase domestic employment opportunities. We supported the productive

sectors by subsidizing their cost of borrowing by 500 basis points, which encouraged these sectors to modernize their operations and introduce new technologies, thereby improving their competitiveness and creating new job opportunities. Most importantly, our government re-opened the Beirut Stock Exchange and began overhauling the relevant regulatory procedures and public accounting laws. In this regard, our government also adopted international accounting and auditing standards to enhance transparency on the one hand, and to provide the necessary environment for private sector activity, particularly in the financial and stock markets, on the other. A law on the revaluation of assets to allow corporations to account for the current value of assets, along with laws on fiduciary deposits, the diversification and expansion of the investor base of banks, and new regulations for the issuance of debt instruments by banks were passed.

The government also submitted to Parliament a draft law establishing a loan guarantee agency to encourage the development of small and medium size enterprises. This draft law was recently passed by Parliament.

In this context, it is crucial to underscore that our success in placing Lebanon once again on the international financial map and in re-establishing domestic and international confidence in the Lebanese economy was mainly due to our success in attracting top quality expertise from the large Lebanese expatriate community and placing these internationally recognized and consummate professionals in the main economic institutions, such as the Central Bank, the

Ministry of Finance, the Ministry of Economy, the Council for Development and Reconstruction and IDAL.

However, we also recognized that it was not possible to satisfy all the demands facing Lebanon within the expected time frame. Therefore, the crucial task was to redefine the respective roles and responsibilities of the public and private sectors. In this regard, it was inevitable that the private sector would need to play a growing role through Build-Operate-Transfer (BOT) schemes, as well as through the well-targeted and properly-monitored introduction of commercialization.

Measures to encourage private sector activity

In light of the above, we needed to concentrate the public sector's attention on those areas that would induce other parties to share and assume a larger role in the overall economic recovery effort. Hence, the government started to create the necessary conditions to encourage greater private sector participation. Indeed, this was the only way to ensure that most of our agenda would be achieved within an acceptable timeframe. To this end, our strategy was geared toward using the government's own resources to catalyze the incorporation of the domestic and foreign private sectors into the reconstruction and modernization program.

A glowing example of the enhanced role of the Lebanese private sector in the reconstruction process is the establishment of “**Solidere**”, the private company entrusted with reconstructing and rehabilitating the devastated private and public properties in the Old Beirut City Center.

Here, it is important to recall that in 1963 under President Fuad Shehab, the Lebanese government took steps toward the establishment of a private company to rebuild and rehabilitate private and public property in the "Ghalghoul"

district of Beirut. However, those efforts were halted when the Shehab presidency came to an end. It was, therefore, only natural for us to take into account this experience when we decided to rebuild Beirut's destroyed city center.

This project, which has significant national, social, and economic dimensions and consequences, is one of the largest construction projects in the Middle East. "Solidere" is in the midst of transforming 135 hectares of desolate ruins separating the two parts of the city of Beirut into a modern financial and commercial center. More importantly, its work symbolizes the rebirth of the country and the determination of the Lebanese to rebuild their capital, allowing it to assume a leading role in a region experiencing far-reaching changes. In addition, this project has attracted more than US \$3 billion in investments over the past six years.

To revitalize the Lebanese private sector, we took upon ourselves the creation of a regulatory and tax environment conducive to promoting private sector activity, thereby rendering the private sector as the main locomotive for growth. The government subjected the tax system to sweeping reforms with a view to encouraging private sector investment, enhancing revenue collection, and easing the tax burden on the lower income sector of society.

This policy was also meant to enhance the rate of return on all investments in Lebanon through reducing tax rates and Customs duties on all citizens, institutions, and companies without discriminating between existing and new investments or between one sector and another.

The income tax reform that became effective by the

beginning of 1994 reduced tax rates significantly on both profit and income from a top marginal rate of about 50% to a top marginal rate of 10%. It also reduced the tax on the distribution of dividends from 12% to 5%. The new regulation reduced and rationalized the various tax brackets. Taxes on inheritance and on income from rental property were reduced along similar lines. Additionally, the Budget Law of 1995 provided tax reductions and tax exemptions for holding and offshore companies. A new set of Customs tariffs was adopted with a view to streamlining the number of categories and the rates. (These measures bore fruit as treasury revenues increased markedly).

Furthermore, we negotiated treaties with many friendly countries regarding trade, the promotion and protection of investments, and the avoidance of double taxation. In the same spirit, we worked to negotiate free trade agreements with many trading partners, including the League of Arab States and the European Union. In this context, the Euro-Lebanese dialogue has progressed considerably. However, throughout this constructive dialogue we have been careful to ensure that the transitional economic costs of a free trade area are reduced to an extent that does not destabilize the Lebanese economy. In this realm, it is important to note that our European partners, and especially France, have been extremely sensitive to our concerns and have worked closely with us to achieve this objective. We concluded two significant free trade agreements with Syria and Egypt that dramatically expanded the Lebanese domestic market and rendered the forthcoming Euro-Med Association Agreement far more meaningful.

In essence, our strategy was primarily based on an outward-looking approach, with a view to benefiting from global economic trends while attempting to contain any transitional costs resulting from these trends.

Schedule of Progress 1992 - 1998

A quick look at the table below is sufficient to observe the significant progress that Lebanon has experienced during the past six years. The Lebanese pound stabilized, interest rates significantly declined, inflation was practically eliminated, and GDP almost tripled from US \$5.5 billion* at the end of 1992 to US \$16.3 billion at the end of 1998. In other words, per capita income increased to US \$4,500, transferring

	September 1992	End 1992	End 1998
Exchange rate LL/\$	2,800	1,838	1,508
Average interest rates on LL Treasury Bills		34%	14%
Interest rates on commercial bank loans		51%	20%
Inflation rate		120%	4%
Treasury revenues		US \$619m	US \$2,938 m
Central Bank Foreign Exchange Reserves	US \$545 m	US \$1,448 m	US \$3,318 m
G D P		US \$5,545 m	US \$16,253 m
Domestic debt *		LL 4,031 billion	LL 21,686 billion
External debt **		US \$327.5 m	US \$4,127 m

* As per Finance Minister Corm's statement to Parliament on July 12, 1999.

** Including accumulated arrears up to December 31, 1998 amounting to LL1,242 billion relating to the Ministry of Defence, Fund for the Displaced, Council of the South, CDR, Internal Security Forces, Council for Investment Projects, Public Sector Employees Co-operative, Municipal Fund, EDL, and the Telephone Company

Lebanon into the group of advanced developing countries and significantly improving living standards.

Clearly, public expenditure had to markedly increase to finance the reconstruction, security and social requirements. Given the limited availability of resources, and despite a significant improvement in revenue collection, large budget deficits emerged, which in turn led to a continuous build up of public debt. This was a natural consequence of spending on reconstruction and on social needs, as well as military and security spending in a post-war economy. However, this should not present insurmountable obstacles as long as the economy continues to grow and the capacity to finance these deficits remains strong. Indeed, it is the absence of growth and the drying-up of capital inflows that constitute the main obstacles to addressing the budget deficit problem.

Moreover, during the period in question, Lebanon was subjected to many traumatic internal and external shocks that necessitated an unforeseen increase in public expenditure. At times, the emergency spending led to a decline in market confidence and to an increase in interest rates. The most dramatic examples of the many shocks Lebanon experienced were the 1993 and 1996 Israeli aggressions.

It is noteworthy that during these aggressions the Israeli leadership publicly stated that it "would not allow the Hariri government to continue the reconstruction process if Lebanon did not sign a separate peace treaty with Israel".

Public Spending:*

Total expenditure between the end of 1992 and the end of 1998, including extra-budgetary expenditure and the draw-down of external loans, amounted to approximately US \$28 billion (including the accumulated arrears as of December 31, 1998). As mentioned earlier, total debt at end 1992 was approximately LL4,650 billion (of which US \$327.5 million was in foreign currencies). Despite the decline in interest rates brought about by our monetary policy, the debt service of this pre-1993 debt stock amounted to LL6,937 billion or US \$4.6 billion. In addition, the service of the new debt incurred after December 31, 1992 amounted to LL 6,593 billion or US \$4.37 billion. The composition of total spending during that period was as follows:

* Most of the data used is derived from the closing of the Budget Accounts approved by parliament, the 1999 Budget, The government Fiscal Adjustment program and the Offering Circular of the US\$ 550 million bond Issue dated March 8, 1999.

Total expenditure Jan. 1, 1993 to Dec. 31, 1998
(in US \$ millions)

	Amount spent	Percentage of total
1- Debt service of old debt (pre Dec. 31, 1992)	4,600	16.4%
2- Debt service of new debt (from Jan. 1, 1993 to Dec. 31, 1998)	4,372	15.6%
3- Total debt service	8,972	32.0%
4- Total spending on military services, their salaries, benefits, retirement pensions, and end of service indemnity	5,428	19.4%
5- Total spending on health, education, vocational and technical training, the Lebanese University, social services, housing, Fund for the Displaced, Council of the South, and electricity subsidy (including salaries and wages and benefits)	5,005	17.9%
Of which :		
Fund for the Displaced	689	2.5%
Council of the South	487	1.7%
6- Total spending on basic infrastructure and on tourism, industry and agriculture	5,430	19.4%
7- Total spending on the Presidency of the Republic, the Presidency of Parliament, the Presidency of the Council of Ministers and the Ministries of Justice, Foreign Affairs, Finance, Labour, Information, Economy, Petroleum, Emigrants, Environment, Municipal Affairs and the Constitutional Council	3,170	11.3%
Total Expenditure (3+4+5+6+7)*	28,005	100%

* Total expenditure includes accumulated arrears up to December 31, 1998, amounting to LL1,242 billion

Looking at total expenditure over the past six years we find that the government spent approximately US \$16 billion (56% of total expenditure) on three major requirements:

1- Military and security services	US \$5,005 billion
2- Social spending	US \$5,428 billion
3- Basic infrastructure, agriculture, industry and tourism	US \$5,430 billion

These three major areas absorbed roughly equal resources. Spending on these needs commanded, and continues to command, a consensus among all the Lebanese people. The remaining public expenditure is divided into debt service on old and on new debts (32%), and expenditure on the Presidencies of the Republic, Parliament and the Council of Ministries, and on the Ministers of Justice, Foreign Affairs, Finance (including civilian retirement compensation and end-of-service indemnity) Labor, Petroleum, Emigrant Affairs, Environment, Municipal and Rural Affairs and the Constitutional Council (12%).

A comparative analysis of public spending in 1998 with budgeted expenditure for 1999 is as follows:

	1999 budget	Actual 1998 spending
1- Military and security spending	22%	20%
2- Social spending	14%	18%
3- Basic infrastructure, agriculture industry and tourism	7%	12%
4- Debt service	47%	41%
5- Spending on other ministries	10%	9%
Total	100%	100%

Henceforth, Lebanon will have to address the challenges of debt service and of the growing cost of military and security expenditure as a significant part of the infrastructure has been completed. Also these figures clearly indicate that debt service, military and security spending and operational expenditure of the State constitute approximately 79% of total spending and are non-discretionary items. Thus, cuts in expenditure can occur only in investment spending, on basic infrastructure, and on social spending. However, such reductions would not significantly reduce the budget deficit although they would adversely affect economic growth. Consequently, they would also reduce budget revenues and indirectly increase the deficit. Cutting social spending would adversely affect social stability due to the resulting decline in social services. Indeed, the current cuts in investment expenditure have contributed to the economic recession which led, and continues to lead, to a decline in revenues and a worsening of the fiscal deficit.

In contrast, a quadrupling of treasury revenues took place between the end of 1992 and the end of 1998 as indicated below:

Treasury Revenue * (in LL billions)

	1993	1994	1995	1996	1997	1998	Total
Treasury revenues*	1,855	2,241	3,033	3,533	3,753	4,430	18,845

* including budget and treasury revenues.

Hence, total Treasury revenues from 1993 until end 1998 amounted to LL18,845 billion or US \$12.5 billion. Whereas total spending during the same period amounted to LL42,232 billion (including LL1,242 billion of accumulated

arrears) or US \$28 billion, total new debt accumulation amounted to LL23,386 billion or US \$15.5 billion as shown below:

1- Old debt (pre Jan. 1, 1993)		US\$ 3,000 m
2- Total spending between Jan. 1, 1993 and Dec. 31, 1998	US\$ 28,005 m	
3- Total Treasury revenues between Jan. 1, 1993 and Dec. 31, 1998	US\$ 12,497 m	
4- Total debt accumulation between Jan. 1, 1993 and Dec. 31, 1998 (3-2)		US \$15,508 m
5- Total Debt at end Dec. 31, 1998 (1+4)		US \$18,508 m

Applying the same proportion of spending over the past six years, after subtracting the old debt and its debt service, the components of total debt as of Dec. 31, 1998 will be as follows:

Components of public debt as of Dec. 31, 1998
(in millions of US \$)

	Amount	% of total
1- Old debt (pre Jan. 1, 1993)	3,000	16%
2- Debt service on old debt up to Dec. 31, 1998	4,600	25%
3- Old debt and its debt service up to Dec. 31, 1998 (1+2)	7,600	41%
4- The share of total debt of military services, along with their salaries, benefits, retirement benefits, end of service indemnities and the cost of debt service of this share	2,868	15%
5- The share of total debt of health, education, vocational and technical training, the Lebanese University, social services, housing, Fund for the displaced, Council of the South, electricity subsidy including salaries and benefits as well as the cost of debt service of this share	3,109	17%
Of which:		
- the share of total debt of the Fund for Displaced along with the cost of debt service of this share	393	2.1%
- the share of total debt of the Council of the South along with the cost of debt service of this share	273	1.5%
6- The share of total debt on basic infrastructure agriculture, tourism and industry including the cost of debt service of this share	3,109	17%
7- The share of total debt on the Presidency of the Republic, the Presidency of Parliament, the Presidency of the Council of Ministries and the Ministries of Justice, Foreign Affairs, Finance, Labour, Information, Economy, Petroleum, Emigrants Affairs, Environment, Municipal and Rural Affairs and the Constitutional Council along with the cost of debt service of this share	1,822	10%
Total debt (3+4+5+6+7) *	18,508	

* including accumulated arrears up to Dec. 31, 1998 and amounting to L.L.1.242 billion.
* Note: Central Bank foreign exchange reserves increased from US \$545 million at Dec. 31, 1992 to US \$3,318 million at Dec. 31, 1998.

Nevertheless, had we been able to forge a more solid consensus on the reform effort including the removal of the obstacles created by a weak civil service, we would certainly have achieved more rapid economic growth and development, as well as a speedier and more efficient reconstruction pace. Nevertheless, it would not have been possible to substantially lower the overall level of public expenditure.

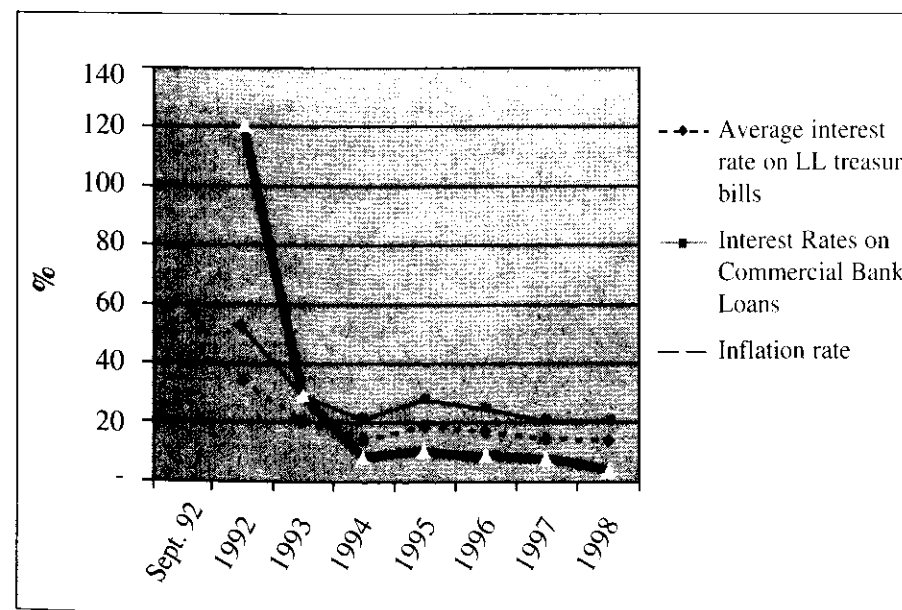
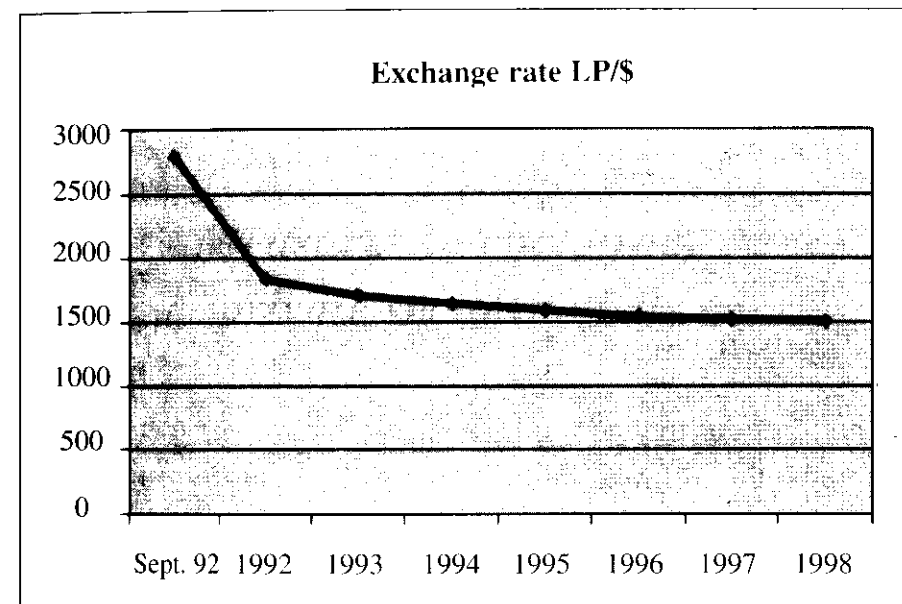
Turning to our nominal anchor exchange rate policy, this policy raised severe criticism from certain quarters. This criticism is based on a hypothetical calculation of the financial cost of such a fixed exchange rate policy on the Lebanese Treasury. Nevertheless, this calculation remains purely theoretical as the stability of the Lebanese Lira represents a critical component of the confidence in the Lebanese economy, both domestically and internationally. It also represents a major incentive for capital inflows and the main tool to combat inflation, reduce interest rates, protect the savings of the middle class and preserve the purchasing power of the underprivileged segments of society. Consequently, and irrespective of the theoretical cost that some may wish to attach to this policy, it remains a crucial factor in the successes achieved since the end of 1992.

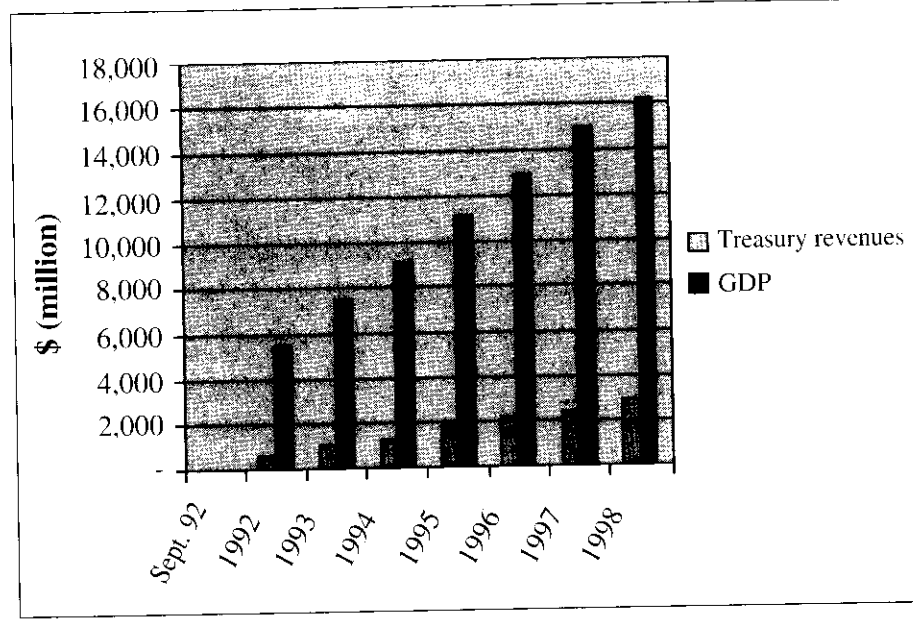
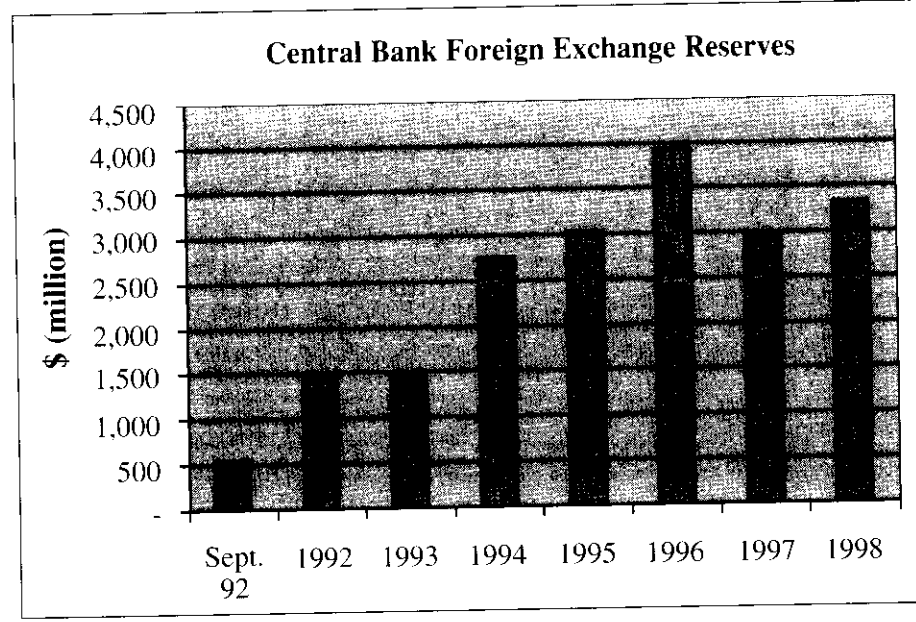
In conclusion, it is important to place the current deficit and debt challenges in the context of other post-war economies. The historical experience of other countries emerging from turmoil highlights the daunting challenges of reconstruction and economic normalization. Indeed, the

experience of post-war Europe and Japan underscores the potential difficulties of these tasks, particularly in the absence of adequate resources to finance the reconstruction and rehabilitation agenda. Post-war Europe represented a catastrophe in the making had it not been for the mobilization of massive foreign aid and external assistance that was provided on a continuous basis over several years. Indeed, the debt to GDP ratio in the United Kingdom in 1946 reached 260% and it rose to 120% in the United States of America. However, post-war Europe was provided with very sizeable grants coupled with far greater concessionary financing that enabled it to rapidly overcome its reconstruction pains.

Germany and Japan had unique experiences. Because they did not have to incur military expenditures, they were able to relatively increase investment expenditure, which allowed their economies to grow at a faster pace than the rest of Europe. Nonetheless, according to IMF estimates, by the end of 1999 debt to GDP ratios in Germany and Japan are expected to reach 62% and 130% respectively.

Despite the fact that foreign aid was not sufficiently forthcoming, Lebanon relied on itself and borrowed domestically and internationally. Lebanon was, therefore, able to launch its reconstruction program, rebuild its political institutions, and focus its attention on developing and expanding its military and security services, which represent the gateway to ensuring stability and public order.





Lebanon between the End of 1992 and the End of 1998

<i>Needs at the end of 1992</i>	<i>OPTIONS</i>	<i>Achievements by and 1998</i>
<p>Reactivating political and constitutional life</p> <p>Exchange rate stability</p> <p>Attracting investments</p> <p>Revitalizing the private sector</p> <p>Combating inflation</p> <p>Averting financial and economic collapse</p> <p>Raising the standard of living</p> <p>Restoring the middle class</p> <p>Return of the Displaced</p> <p>Repatriation of emigrant expertise and security services</p> <p>Expansion and enhancement of the military and security services</p> <p>Launching reconstruction and development projects</p> <p>Restoration of external confidence</p> <p>Resistance to occupation and Israeli aggression</p>	<p>Either</p> <p>Wait for external aid</p> <p>Or</p> <p>Reduce expenditure and Massively raise taxes</p> <p>Or</p> <p>Embark on a Growth-oriented program and restore confidence in the economy</p>	<p>Holding parliamentary and municipal elections</p> <p>Investments across all sectors and balance of payments surpluses</p> <p>Advanced and active private sector</p> <p>Slashing inflation</p> <p>Declining interest rates, coupled with economic activity and growth</p> <p>Raising income levels, increasing social services and improving quality and standard of living</p> <p>Growing middle class</p> <p>Addressing the problem of the displaced</p> <p>Return of emigrant expertise</p> <p>Strong military and security services</p> <p>Modern infrastructure</p> <p>External confidence in economy and political system</p> <p>Steadfastness against Israeli occupation and aggression</p>

A view towards the future

Determining Lebanon's economic and political identity

Looking ahead towards the opportunities of the third millennium, Lebanon can clearly overcome its current economic challenges as it has already confidently confronted far more difficult problems and achieved far more ambitious objectives. However, Lebanon in the year 2000 differs greatly, in terms of needs and thus in terms of economic policies and future horizons, from the Lebanon of 1989 or 1992. Back then, it was still addressing the consequences of two decades of war, destruction and civil strife. Regional developments now are such, that determined efforts are under way to reinvigorate the peace process in a manner that is no less dynamic than the momentum of the Madrid Conference.

In the early 1990s, immediate post-war Lebanon was economically isolated, its human capital dispersed throughout the world, its physical infrastructure destroyed, and its major ports under illegitimate control. It also suffered from a gap of 20 years during which the rest of the world was progressing while Lebanon was regressing into chaos and destruction.

Since then, Lebanon has dramatically changed and has regained the fundamental prerequisites of a fully functioning state, capable of facing the future with all its requirements

and potential on every political and economic level. Nevertheless, Lebanon must solidify its domestic front to better prepare itself to interact with the international community and must recognize both the reality of regional developments and the redrafting of regional roles and economic potential.

Over the past 20 years global and regional economic developments, including the information technology revolution and its impact on productivity, the emergence of Asia as a major economic power that has altered the global competitive structure, the universal acceptance of market economics, and the decline in transport and telecommunications costs have led to the globalization of production and marketing. At the same time, Arab economies have developed significantly. Consequently Lebanon faces new challenges that must be addressed in the context of the war decades and the post-war revival period that rendered Lebanon, once again, among the group of advanced middle income countries.

Furthermore, these global and regional developments have altered the rules of international comparative advantage. Production, trade, and finance have become far more dependent on human talent, initiative, quality, and innovation rather than on natural resources, geographic location or mass production. As a result, many countries across the globe have experienced rapid economic growth despite the paucity of their natural resources

The economic fate of nations is no longer determined exclusively by the availability of natural resources. Countries can now play a far more active role in creating their own

comparative advantage. Hence, small, resource-poor countries, like Lebanon, now have broad opportunities to grow and develop. It is, therefore, imperative to convert these new challenges into national and economic opportunities.

The main challenge facing Lebanon today is the revitalization of its economy so as to enhance its competitiveness, create job opportunities, and improve the standard of living of the Lebanese through balanced development. Achieving these goals depends on the following factors:

- 1- Maintaining democracy, freedom, the rule of law, and the independence of the judiciary.
- 2- Renewing confidence in the Lebanese economy and reinforcing its attributes.
- 3- Establishing a foreign policy with economic returns.
- 4- Addressing the fiscal issue.
- 5- Reducing the cost of production.
- 6- Efficient use and development of human capital.
- 7- Enhancing social services and rendering them more efficient and effective.

1. Maintaining democracy, freedom, the rule of law, and the independence of the judiciary:

Clearly this first factor is political. The world has entered a new era whereby it is practically impossible to pursue economic strategies independently of politics. It is by now obvious to all political leaders, international civil servants, fund managers, and investors that economic revival is contingent on the rule of law, a total and complete respect for individual freedoms, including those of convictions, belief

and expression, and the complete independence of the civil and administrative judiciary from political interference and pressure.

Overlapping jurisdictions and mandates, intervention in the judicial system, infringement of civil liberties, and the discretionary pursuit of certain groups, scare foreign investors away and create an environment of instability, circumspection, and pessimism among the Lebanese people.

Indeed, Lebanon and the Lebanese should draw lessons from the experience of many countries that have used the judiciary as a tool to attack individual and public liberties. These attempts created grave political and economic tremors which, after more than half a century of darkness, overturned the balance of power and re-established democracies in Eastern Europe. Justice in implementing laws is complementary to justice in practising freedoms. In this context, they meet in one equation, namely parliamentary democracy, which is the source of strength of the Lebanese political tradition and its first and foremost guarantor from the concerns and doubts that surround it.

2- Renewing confidence in the Lebanese economy and reinforcing its attributes:

Enhancing the comparative advantage of the Lebanese economy is contingent on reasserting Lebanon's economic identity, (a matter of national consensus since independence), and on avoiding any initiative, call, or measure that contradicts this identity, in light of its implications on mobilizing Lebanese, Arab and Foreign investments and capital flows. In this context, it is crucial to reinforce Lebanon's fundamental

economic strengths namely:

- * Support for individual initiatives;
- * Free mobility of capital;
- * Freedom of currency exchange;
- * Legislative and tax stability;
- * Banking secrecy laws; and
- * A free and liberal market economy.

Therefore, it is extremely important to reconfirm the economic philosophy agreed on by all the Lebanese and to avoid seasonal and irresponsible threats that reconsider this economic consensus. Hence, we should reconfirm Lebanon's economic outlook once and for all, and adopt clear policies aimed at developing the capacities of the Lebanese and at broadening the economy's horizons. This can best be achieved through a tax system that encourages economic growth and investments while protecting the interests of the less fortunate and the middle class. Such a system would also create job opportunities, thereby absorbing new entrants into the labor force and encouraging the return of skilled professionals from abroad. It is also imperative to turn away from policies that obstruct growth, economic activity, and productivity, and impose obstacles in the face of personal initiative.

Here, it is important to recall that interventionist anti-growth policies are not new. They were tried and tested by many developing countries in the 1950s and 1960s and without exception failed. Indeed, most of these countries continue to suffer from the repercussions of these misguided policies, which deter investors and propel the private sector into paralysis; the end result being economic contraction, a

reduction in the standard of living, and undermining public confidence in the future. It is my conviction that the Lebanese who have hitherto avoided the adoption of such heavy handed policies will not agree today to adopt them. Indeed, today even those countries that used to advocate such policies are themselves reversing them and attempting to eliminate the negative implications on their economies.

The underlying current of such interventionist and outdated policies is best illustrated in the claim that Lebanon's economic problems emanate from the excessive consumption of the Lebanese people and the public sector. The direct consequence of this misdiagnosis is an inevitable decline in the standard of living of all the Lebanese under the banner of correcting the trade deficit. However, reducing the trade deficit should not be reached through a reduction in the standard of living of the Lebanese nor through instigating an economic recession under the guise of a reduction in spending. This relocation must come only through encouraging economic growth and productivity gains. Moreover, the problem in the balance of payments today is not due to the trade deficit but to the decline of the capital account. In other words, it is due to the drying-up of capital inflows brought about by a drop in the level of confidence in the new economic policy mix, including the instability in tax legislation and the translucency of the new economic directions. Indeed what benefit could possibly emerge from a decline in the trade balance when it occurs at the expense of economic activity?

Consequently, we must focus our energies to regain and enhance confidence in our economy, domestically and

internationally. Indeed the level of confidence has been compromised by the conflicting statements of various officials regarding financial and tax issues and by their lack of precision on priorities.

We must recreate an environment conducive to capital inflows and balance of payments surpluses, thereby permitting an expansion in the money supply, and an increase in liquidity, while maintaining exchange rate stability.

We must continue the reconstruction program and consolidate it through expanding our implementation capacity and building on the newly constructed basic infrastructure to encourage greater private sector participation in the economic modernization effort.

We must revitalize the public sector and increase its productivity, modernize its systems and procedures, streamline official transactions and reduce their cost to Lebanese citizens and the private sector. We must also make the public sector a vehicle that encourages economic growth, not one that obstructs it, given that it is the duty and obligation of public service, not only to avoid imposing obstacles, but to positively foster a conducive environment for investment and growth.

3 - Establishing a foreign policy with economic returns:

The global economic developments mentioned above have intensified economic competition among countries, which in turn has transformed foreign policy into an effective tool in the economic contest and in the race to open markets for national products, to attract foreign investments, and to obtain grants and concessionary loans. Consequently, small

countries such as Lebanon can no longer afford to ignore this new economic tool, which is based on an effective foreign policy in the service of the national economy.

In this regard, Lebanon possesses strong assets including the Lebanese diaspora, our intrinsic ties to the Arab world, and our many friends in the international community. Nevertheless, Lebanon is at a stage which makes it imperative to reconsider its diplomatic corps in terms of skills, talents and the management of a foreign policy with economic returns. Most significantly, nurturing foreign friendships and relations has become an integral part of the responsibility of national leaders because of their critical role in providing concessionary financing.

Indeed, over the past six years, due to bilateral relations and ties with the international community, Lebanon succeeded in rapidly developing foreign economic relations and in concluding economic treaties with many friendly and brotherly countries. Consequently, building on these achievements and enhancing Lebanese diplomacy in the service of the national economy is a must.

4- Addressing the fiscal situation:

The assistance provided to Lebanon since the end of the war is greatly appreciated. We are committed to pursue the mobilization of such assistance, particularly from the Arab World which is wholly aware of Lebanon's role in the defense of Arab interests and of the price that Lebanon paid in that regard. Nevertheless, an objective view of the evolution of the global economy indicates a growing scarcity of official assistance and increasing recourse to foreign investment as a vehicle for economic growth.

However, a significant difference exists between the types of incentives required for official assistance and for foreign investment. The former is motivated by support for a country and the desire to assist at times of natural disaster or of human suffering from wars and poverty. The latter depends on the establishment of institutions and the pursuit of economic policies that provide investors with an attractive rate of return, labor skills in the host country, and the opportunity for technology transfer.

Hence the intensity of international competition necessitates the creation of institutional, legislative and tax conditions that are conducive to foreign investment. It is my conviction that Lebanon can compete in this regard, with full confidence, due to developed and sophisticated human talent, and a longstanding tradition of cultural openness. Nevertheless, if we are to succeed in this endeavor we must develop further our statistical data base and an appropriate, stable and sustainable legislative framework, free from unnecessary complications. Most importantly, we need to establish an independent civil and criminal judiciary that reassures investors of their ability to obtain a just and efficient settlement of disputes. However, the most critical element in this process is a coherent, unified, and enlightened economic team that does not yearn for the obsolete policies of the 1950s and 1960s, and is capable of confidently and vigorously interacting with the rest of the world.

Hence, to tackle the fiscal situation successfully, the above-mentioned policies should be adopted to promote economic growth, and to encourage capital inflows. In turn, this will allow for an expansion in the money supply and a

reduction in interest rates, thereby fostering greater economic growth that lower debt service costs, create more job opportunities, and lead to a decline in the fiscal deficit.

Indeed, economic growth is the best vehicle to combat the fiscal deficit as it will allow the government to increase its revenue share from a growing economy without adversely affecting the current income level of the Lebanese people. However, attempting to increase the ratio of public sector revenues to GDP is not feasible in the context of a contracting economy, as it would only lead to a decline in total revenues and an intensification of the recession. Consequently, there is no alternative to placing the economy on a sustainable growth path and thus providing new job opportunities for thousands of young Lebanese.

Unfortunately, however, the current economic policy stance appears to focus on one objective alone, namely reducing the fiscal deficit and controlling public debt. While this is a worthy objective and constitutes an essential element in any economic policy mix targeting sustainable growth, it should remain a means to an economic goal and not a goal in itself. Hence the concern emanates from overplaying this objective at the expense of the national economy and of the standard of living of the Lebanese. Indeed, when a means becomes an end, it turns into an obstacle and an impediment to the original objective.

Therefore, the solution to our current economic difficulties rests on a growth-oriented policy mix and not on a contractionary strategy. Clearly, the current preoccupation with austerity as the main pillar of economic policy, has led to a major contraction in economic activity and to a

significant economic downturn. It has also fostered an environment which discourages investments and capital inflows without reducing the fiscal deficit, given the inevitability of government expenditures and the elasticity of government revenues.

The 1999 budget, which is based on austerity and on a major increase in tax rates, aims for a deficit of approximately US \$2.3 billion and a deficit to expenditure ratio of about 40%. This policy mix, coupled with the various declarations and measures adopted by Government officials, has contributed and continues to contribute to a significant decline in economic activity. This, in turn, will inevitably lead to projected revenues that are far lower. Moreover, the marked increase in income taxes, coupled with the declared intention to impose taxes on incomes generated outside Lebanon, will not lead to an increase in tax revenues. The new tax rates, coupled with other business costs in Lebanon, exceed costs in other countries in the region. This not only discourages new investment in Lebanon but provides a tangible incentive for many existing businesses and professionals to relocate their operations elsewhere. As a result, the Lebanese economy will lose these investments and expertise, and the treasury will lose the taxes on their incomes and profits.

Furthermore, the 1999 budget failed to take into account non-budget treasury expenditures. Hence the budget deficit is expected to rise to about US \$3 billion and the deficit to expenditure ratio to exceed 50%. Total debt is projected to increase by about 17% and the debt to GDP ratio by an even higher rate in view of the current economic recession. It is

therefore clear that a deficit reduction strategy based on abstinence and economic contraction is counter-productive, or ineffective at best.

After having completed most of the investments in basic infrastructure and after achieving a quantum leap in expenditure on the military and security services and social spending, it would have been possible to stabilize expenditures or even reduce them provided there was continued economic growth. Within that context, a reduction in expenditure could have occurred through enhancing the role of the private sector in the national economy and in the reconstruction and modernization process, through the continuation of the policy of debt restructuring, and through a comprehensive reconsideration of the size and role of the public sector.

Clearly, a combination of a modern basic infrastructure, sustained confidence in the economy, expenditure stabilization, revitalization of private sector activity, and a revised public sector role constitute together the appropriate policy mix that promotes economic growth and encourages capital inflows. This, in turn, would have led to a reduction in domestic interest rates - while preserving exchange rate stability - and to the ability to increase treasury revenues while expanding job opportunities. This policy mix allows for a soft landing of the economy and for a gradual and orderly reduction in the deficit and in the debt burden.

Unfortunately, however, the current attempt to stabilize expenditures has not proved feasible as it has been undertaken in the context of austerity and policy obstructionism, thereby generating a marked decline in

economic activity and a sizable increase in unemployment. Consequently, the deficit and debt problems have been worsened while the potential to raise treasury revenues has been undermined. Most significantly, the resulting mood of pessimism and uncertainty has dramatically reduced the value of assets in Lebanon and thus inevitably lowered the income and living standards of the Lebanese people.

In other words, the need to increase treasury revenues leads to two distinct options:

Option 1: Promote sizable and sustainable growth in the national economy, resulting in a natural increase in treasury revenues and in the ability to increase the ratio of treasury revenues to GDP without adversely affecting current living standards.

Option 2: Raise the share of treasury revenues to GDP in the context of a stagnant or contracting economy, thereby transforming the public sector into a competitor to other sectors in terms of attempting to obtain a larger share of GDP for itself at their expense.

The difference between these two options is not purely theoretical, as the adverse consequences of the second option are wide-ranging and include damage to the middle class which constitutes the backbone of political stability. Indeed, raising treasury revenues in a contracting economy can only be at the expense of businesses owners and employees and thus at the expense of the overwhelming majority of the Lebanese people.

Option two is one that effectively destroys the ability of the middle class to save, invest, and consume, and restrains the ability of the poorer classes to join the middle class. This

option is an attempt to change the social and economic features of Lebanon in a manner that we cannot agree to, and directly contradicts modern Lebanon's tradition of social mobility through personal initiative, activity, and innovation. This option also contradicts our efforts, first to prevent the collapse of the middle class and eventually to expand its scope.

5 - Reducing the cost of production:

Enhancing economic growth requires efforts to reduce the costs of production, which have increased significantly in Lebanon and which adversely affect the competitiveness of the most productive sectors including industry, agriculture, tourism and other services. To reduce the costs of production, the following policy initiatives are required:

A : Privatization:

At the outset it is important to highlight our support for privatization in principle. However, privatization must be viewed as a complement to fiscal adjustment in the context of economic growth rather than as a principal means to break the vicious circle of budget deficits and debt accumulation. Moreover, austerity and economic contraction will adversely affect the privatization strategy. Indeed, privatizing public assets in an economic downturn will not lead to a marked reduction in the debt to GDP ratio as the growth of public debt over the next three years will exceed privatization returns. Consequently, the fiscal position will return to its current state after having wasted the privatized assets.

As for the details of the privatization strategy, we must not only develop the appropriate regulatory framework but also

introduce legislation to liberalize the economy and enable it to adjust to continuing global economic developments, thereby creating a conducive environment for investments in the sectors to be privatized. In this context, wide international experience with privatization indicates that the income stream from privatization is directly proportional to investor confidence and the growth prospects of the economy in question.

We believe that it is beneficial to postpone the privatization of the telecommunications sector due to continuing technological innovations which should increase the value of this asset in the medium term. Also, there is great merit in the suggestion to introduce a strategic partner with a 10%-20% share through international competitive bidding, with a view to modernizing and developing this sector prior to its eventual full privatization.

As for the electricity sector, it is not feasible to initiate privatization prior to major improvements in the capacity to collect electricity bills which only the public sector can implement. Before this is achieved it makes no sense to begin the privatization process. The privatization of other public assets could be initiated at any moment.

Naturally, greater private sector participation in the provision of public services such as electricity, telecommunications and water promises to improve productivity and efficiency, while providing the necessary additional investment. Enhancing the role of the private sector in these areas could also provide additional support to the treasury. Nevertheless, any private sector participation in these sectors should be predicated on a strategic view of the

particular sector and on the condition that the quality and cost of these services be far more attractive to consumers. This, in turn, will increase the productivity and competitiveness of the private sector and thus enhance economic growth.

B: Administrative reform:

Lebanon is now at the stage where serious efforts to modernize the public sector can be considered. Such attempts should not merely focus on changes in senior civil servants. The real reform of public administration would be through significant simplification and streamlining of laws, systems, and procedures. Administrative reform also requires the establishment of a mechanism that allows for the recruitment of candidates for positions in the civil service and in the public enterprises on the basis of their qualifications as well as procedures to train and evaluate these officials. Naturally, this should be coupled with a major drive to expand the role of information technology in the provision of public services and the electronic transfer of documents and information between citizens and the public sector. Only through the simplification and modernization of our systems and procedures, coupled with reducing the need for excessive interaction between citizens and employees, and by minimizing and eventually excluding middlemen, would the public sector become transparent and efficient.

In addition, it is now time to redefine the role and the size of the public sector and the extent of its cooperation with the private sector and the community. The public sector should concentrate on what it can do efficiently and effectively, and

should establish the appropriate competitive framework for a growing private sector activity in areas where it is far more capable of performing in a cost effective and productive manner.

However, modernizing the public sector should not be viewed as the exclusive responsibility of the state and its institutions but should also involve the non-government sector with all its talents and its energies. Indeed, there is an urgent need to include the community at large and the NGO community in particular in public affairs generally, and in the reform of the public sector more specifically where complementarity and convergence exist between the objectives of the state and the interests of the private sector.

It is high time for the public sector to focus on its primary responsibilities rather than to intervene in areas in which it cannot excel, and that adversely affect its efficiency, productivity and success. This should reduce the surplus staff in the public sector and thus reduce the fiscal deficit while creating new job opportunities through expanding the role of the private sector.

In the same spirit, the public sector would not be able to play a major role in the development process if it is dilapidated, unable to benefit from modern expertise, and subject to political intervention. While integrity, honesty, and a sense of national duty are essential attributes among civil servants, reluctance and the abdication of personal initiative due to fear of punishment derails and obstructs economic development. Indeed, other standards such as professional qualifications, productivity, implementation capacity, and the avoidance of decisions that paralyze the

economy or demotivate the private sector are equally important. Ignoring them would be at the expense of economic rejuvenation and the role that Lebanon hopes to play in the regional and global economies.

C: Encouraging the productive sectors

One of the main policies that would enhance the competitiveness of the Lebanese economy is to encourage the productive sectors. However, this also requires simultaneous movement on other fronts, including privatization and administrative reform. Clearly, reducing the cost of electricity, water and telecommunications through privatization would significantly promote the productive sectors. Moreover, determined efforts to reform the civil service would render the public sector a strong supporter of private sector activity.

Clearly, the latter requires a state that facilitates productivity through regulations, systems, and procedures that would eliminate complications, while rewarding modernization.

That being said, there are broad opportunities for enhancing the growth of the productive sectors and the creation of new jobs capable of absorbing the talented youth of Lebanon. However, this hinges on the ability to respond to the regional economic changes that have occurred over the past two decades. Clearly, the expansion and development of the Arab economy provides Lebanon with far greater opportunities than those available in the 1970s. However, to realize the full potential of these opportunities we must avoid competition with the various Arab economies and strive

instead to develop the complementary aspects between our economies.

This can best be achieved through the following measures:

First: Building on previous achievements to encourage and develop the services sector with particular emphasis on Lebanon's geographic location and its natural characteristics; thus the importance of investing in tourism. Special attention is required to preserve our historic treasures and our environment, to revitalize our external information campaign, and to expand our tourist markets toward Asia and other emerging market economies. It is also critical to increase the role of the Ministry of Tourism in quality control, and to establish tourism offices abroad and throughout Lebanon. Moreover, it is crucial to develop the level of services provided in the industry through enhanced technical and vocational training and greater attention to meeting all the needs of a modern tourist industry. Also, the protection and the preservation of the environment, which represents the main attraction for tourism in Lebanon, are of paramount importance. Additionally, there is a need to modernize the road network and public transport.

In this context, the development of transportation (land, air, and sea) takes special significance, as the entire services sector is contingent on modern transportation facilities. The expansion of Beirut International Airport to enable it to act as a hub for various airlines and developing services related to air travel will contribute significantly to this endeavor.

Developing commercial and tourist ports and enhancing the land links between Lebanon and Syria and through to the

rest of the Arab world are also essential for the development of tourism.

Furthermore, we should build on previous efforts to develop the trade and shipping sectors through the introduction of information technology and raising the level of public services in the port and airports. This naturally requires greater progress in eliminating most of the routine administrative controls, in simplifying all trade and transit procedures, and in maintaining competitive fees and charges. This sector also requires greater co-operation with the other trade centers in the Arab world, such as Dubai, to benefit from the complementarity of Asian and Mediterranean trade.

Second: Increasing Lebanon's competitiveness in information technology, the fastest-growing sector internationally. This can be achieved through the modernization of existing legislation to conform to international standards. It also requires upgrading and expanding the communication and information technology infrastructure and reconsidering the fees charged for its use. In addition, the establishment of specialized technology institutes and the creation of conditions needed to attract human expertise provide incentives for growth in this sector. Moreover, it is important to link all public sector agencies and institutions to each other and to the private sector institutions, non-profit organizations and NGOs within the context of an information highway, as well as to begin to establish the foundations of a center for information technology in Lebanon. Furthermore, it is important to encourage the development of technology parks that possess state of the art communications infrastructure and to support

them through appropriate tax exemptions and legislation that would help attract the required investment and technical expertise.

In a similar vein, the satellite television sector, coupled with the public relations and advertising industries, have grown considerably, enabling Lebanon to expand its share of a growing regional and international market. It is, therefore crucial to further support and encourage these sectors and provide them with the widest possible margin for maneuver. Hence, no effort should be spared to avoid any measures that could hinder or limit the freedom and growth of these sectors in the domestic, regional and international markets.

Third: Revitalize the productive sectors through the provision of low-cost financing mechanisms that would enhance their growth along the lines of the previous government's interest rate subsidy to promote tourism, industry and agriculture, or through the expansion of credit facilities to these sectors. It is important here to underscore the need to encourage small and medium size enterprises through financing facilities along the lines of the Loan Guarantee Agency proposed by the previous government. Also the establishment of business incubators that provide small and medium size enterprises with legal, financial, accounting, and managerial expertise should prove highly beneficial. In addition, the establishment of associations for small- and medium-size enterprises would play a major role in fostering greater co-operation between these enterprises and their counterparts in Arab states and among friendly foreign countries. The productive sectors would also benefit significantly from export promotion schemes, including the

rebate of Customs duties on raw materials for goods eventually exported. Finally, these sectors would also benefit from improvements in the quality, and reduction in the cost, of existing social security schemes once major efforts are underway to modernize and reform the social security system in Lebanon.

Fourth: Given that modern agriculture and industry are no longer dependent on mass production and are now heavily affected by quality considerations and the development of niche markets, both sectors could be reinforced and expanded through a restructuring of their enterprises and the adoption of modern technologies. Furthermore, these sectors can be supported by the services industries, including financial services, marketing, packaging and the introduction of brand identification, thereby creating new comparative advantages for Lebanese products. It is also important to speed up the establishment of industrial zones with modern infrastructure, accompanied by legislation allowing for innovative schemes with efficient private sector participation in social security and retirement funds, thereby expanding employment and enhancing competitiveness.

Fifth: Thanks to the trade agreement with Syria, negotiated by the previous government, it is now both in the capability and interest of Lebanon to carefully study the potential for complementarity between the agricultural and agro-industrial sectors of Lebanon and Syria. It would indeed be pointless to support Lebanese agricultural products that compete with Syrian agricultural products that are tantamount to domestic products in the context of a free trade agreement. It is more useful to encourage co-operation

between Lebanese and Syrian producers to gradually attain complementarity in this sector. Lebanese producers could thus specialize in products that are not available in Syria while Lebanese agro-industries could add value to Syrian agricultural production in which Lebanon has no comparative advantage, and vice versa.

Moreover, the Government can encourage partnerships between Lebanese producers and foreign distributors whereby Lebanese products would be guaranteed export markets, subject to quality requirements and specific technologies, including organic agriculture. Furthermore, efforts should be undertaken to gradually convert specific product subsidies into indirect support for job creation in the agricultural sector and for limiting rural migration to the towns. Additionally, research and extension programs can be developed and expanded through greater co-operation between universities and the Ministry of Agriculture. It is equally imperative to introduce affordable credit mechanisms as the de facto cost of funds for most farmers is more than 100%. Consequently, a reduction in the cost of obtaining those funds through the creation of a new financing mechanism, or through a rural development bank in which agricultural cooperatives and NGOs play an important role would clearly enhance the ability of this sector to grow and develop.

Sixth: Pursue the development of the already competitive financial sector and establish appropriate guidelines for a strong insurance sector. The latter has strong expansion potential and can create significant job opportunities and provide valuable services to the Lebanese and Arab markets.

Moreover this sector, along with private pension and social security funds, represents a major factor in revitalizing Lebanese capital markets and national savings.

6 - Developing the human element:

Lebanon will not be able to effectively interact in the new millennium without clear policies that regenerate Lebanese talent and develop it at all levels of employment and creativity, including politics, culture, economics and scientific pursuit. Perhaps Lebanon's biggest loss over the past two decades was that the war drained many aspects of Lebanon's resident and non-resident human resources and pushed them into either exile or oblivion. The war also interrupted the positive influence of non-resident human resources on domestic developments. Nevertheless, the Lebanese succeeded through the years in presenting themselves to the Arab and international communities as successful workers capable of tackling the challenges confronting them. Hence, they contributed in rehabilitating and expanding Arab potential and in developing the societies in which they worked.

Even though human capital resources in Lebanon were reduced during the war years, the current and future period should constitute an incentive to unleash these resources. Indeed, Lebanon's middle class constitutes the vibrant dimension on the basis of which we can create a dynamic and effective society that positively interacts with its Arab and international environments.

Lebanon's "wealth" was developed in the second half of this century in terms of its status as an exporter of education,

culture, freedom and journalism. Lebanon became the Arab world's hospital, publisher, university, park and refuge for many aspects of growth and political and social ascension. This "wealth", which remains dormant in Lebanese society, is certainly capable of self-renewal in ways that are consistent with recent changes in Lebanon and in the region. Hence, the progress experienced by the Arab world in many areas of political, cultural, human, and economic development should not be an excuse for complacency and reluctance to reclaim the role in which Lebanon has historically excelled. On the contrary, these positive developments in the Arab world should represent a major incentive for us to rise to the challenge of joining the next century and recognizing, once again, Lebanese human potential.

Consecutive generations of Lebanese succeeded in gaining very senior positions throughout the world and in accumulating sizeable fortunes without losing their attachment to their ancestral home or their eagerness to participate in its prosperity. We must, therefore, strive to create the necessary institutions and environment that would encourage the return of Lebanese expertise from abroad and encourage their investments in Lebanon. However, this can be achieved only through reinforcing our democratic institutions, respecting basic freedoms, be they political or economic, and reassuring Lebanese professionals, and domestic and foreign investors that economic policies are stable, irrespective of short-term political considerations or discretionary impulses.

With this in mind, the modernization of the education

sector, especially technical and vocational training, and the strengthening of its credibility and social dimensions should form a direct national objective. This will enable Lebanon to bridge the development and time gaps resulting from the war years.

However, this objective requires the formulation of a long-term educational program based on the twin objectives of broadening the availability of education to all social groups, and of creating excellence in the fields of technology and scientific research. Indeed, the comprehensiveness of educational benefits is as important as the quality of an educational program. This places a responsibility on the government to encourage co-operation between the labor market and public and private educational institutions (schools, technical institutes, universities) with a view to guiding students toward specialties consistent with global economic developments. The government should also help establish public, private or joint educational institutions with foreign participation where appropriate, to embrace ambitious and qualified students and to induce the quantum leap in the technical and scientific levels that Lebanon requires.

Needless to say, the strength of Lebanese human resources rests with the need to use all available potential (tourist, economic, environmental, human, democratic, intellectual, and cultural) in the effort to rebuild our national wealth.

Because justice, freedom, democracy, culture, tourism, services, educational achievement, the environment, and stability are all components of wealth in Lebanon, human

potential remains the ultimate source of all wealth in the country.

7- Rendering social services more effective:

It is time to refocus our attention on social issues with a view to improving our social programs rather than simply increasing public spending on social sectors. Consequently, major efforts need to be directed at modernizing and reforming social security programs.

Additionally, we need to introduce far greater consistency, efficiency, and modern business practises in the delivery of health and education services. In this regard, we believe that municipalities and society at large, which are far more capable of overseeing these activities at the local level, should have a far greater input in the management and direction of public school and hospitals. Naturally, the central government ministries should continue to ensure quality control and standards.

This notion emanates from the need to encourage real and effective participation of Lebanese society in the provision of social services, particularly since municipalities in Lebanon embody more than 1 million taxpayers. Hence, municipalities are well placed to shoulder a larger responsibility in the management of public affairs with particular emphasis on those areas directly related to people's daily lives. Given their close and continuous interaction with their constituencies, municipalities are far more capable than the central government of overseeing public hospitals, schools, vocational and technical institutes and social service centers. This is why it is important to place these institutions

and their staff under the control of individual municipalities or municipal associations, subject to the establishment of a board of directors for each individual institution in which the municipality, the community and the relevant ministry are represented.

Additionally, any future law on administrative decentralization should take into account the role of municipalities in the overall development process, in the management of public affairs, and in bringing relief to the social and daily pressures on the community. Attention should focus on developing and strengthening the capacity and role of municipalities with a view to gradually rendering them responsible for social development programs.

In this context, the main burdens preoccupying the Lebanese revolve around the need to ensure that their requirements for healthcare, education, housing, social services are met, and that they have the ability to pay their basic service bills. As mentioned before, enhancing the role of the private sector in the provision of electricity, water and telecommunications must be coupled with a reduction in the cost of these services, which should be passed on to the consumer.

Raising the level of health, education and social services and expanding their scope requires greater co-operation between local and municipal authorities, civil society and the central government. Nevertheless, the central government must remain responsible for building public schools where needed, the development of educational programs, and for setting quality standards and overseeing their implementation. Moreover, efforts should be directed toward widening the

coverage of social security and health insurance through a reassessment of the operations of all public sector institutions related to this domain and through greater co-operation with private insurance and pension funds, to improve the quality of these services and reduce their costs.

Finally, there is a need to expand the scope of housing loans and to reduce the interest costs of loans through the Public Housing Agency along the lines of the previous government's initiative. More significantly, a mechanism can be established to link housing loans to end-of-service indemnities and retirement benefits, similar to the system operated in Singapore.

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Lebanon, Syria, and the challenges of peace

Bearing in mind all these considerations, the strong conviction remains that joint Arab action is the main entry point through which Lebanon can achieve economic stability and reclaim its regional and international role. Obviously, the Arab world represents Lebanon's natural scope and the focal point for the development of its human capacities. Most significantly, Syria's unique historical ties with Lebanon constitute the doorway to greater co-operation and complementarity among Arab economies.

For more than two decades, Syria has never wavered in its support for Lebanon and in its attempts to protect it from internal as well as external threats. In so doing, Syria has had to shoulder heavy human and material sacrifices so that Lebanon could regain its unity, sovereignty, and internal stability. Here, it is important to reaffirm, given the unfolding regional developments, that Syria is principally responsible for Lebanon's national reconciliation. Syria, with the co-operation and support of the other Arab countries, enabled the Lebanese to conclude the Taif Accord and saved Lebanon from the slippery slope of division and disintegration.

Indeed, had it not been for Syria, Lebanon would not be

where it stands today, nor would it have been able to reunite its territory and its constitutional, security, military and administrative institutions. Lebanon would also not have been able, since 1992, to renew and revitalize its political traditions.

Furthermore, Syria's decision to save Lebanon, and its persistence in implementing this decision on a daily basis, has enabled Lebanon to confront the repercussions of Israel's continuous attacks and aggressions. Syrian support also reinforces Lebanon's determination and ability to withstand the unfolding regional challenges and the corresponding winds of war and peace. Lebanon has endured prolonged suffering because of Israel's direct and indirect occupation of its territory and has withstood three major and wide-ranging Israeli aggressions in 1993, 1996 and 1999. These repeated aggressions not only require an unyielding attachment to a unified position with Syria but also require far greater efforts to reinforce the domestic arena with solidarity, steadfastness and stability.

Naturally, this reality imposes burdens and commitments on the state, which it willingly bears as its costs are by far outweighed by the loftier goal of resisting Israeli occupation, liberating our land and regaining our sovereignty. In this context, we have always been committed to maintaining our legitimate rights and to the unified path and common fate with Syria. This policy represents a constant pillar in our strategy of resistance, steadfastness, and liberation. We will pursue this strategy toward the realization of a comprehensive and just peace to end the occupation of the South, Western Bekaa and the Golan Heights.

In this context it is paramount to emphasize that, while we have always viewed peace as an objective, we never gambled on it. This must remain at the core of Lebanese policy during the forthcoming periods.

Today, hopes are running high that peace is within reach and that Lebanon will gain most from it as the country will once again attract Arab and foreign capital in the post-peace era. Needless to say, we have always been strong proponents of a comprehensive and just peace in the Middle East based on the land-for-peace formula and realizing our objective of liberating the South, Western Bekaa and the Golan Heights. However, we must also caution against the risks of excessive optimism toward what may unfold in the peace process.

The assumption that peace will provide Lebanon with great opportunities that were not available in the past should not conceal the subsequent internal and external challenges resulting from that peace. Indeed, peace will not end confrontation in the region but will merely convert a military confrontation into an economic and cultural struggle. Thus, we must reiterate, once again, the need to spare no effort to reinforce and enhance internal harmony and to protect national reconciliation from the threat of opposing pressures. This effort needs to be complemented by the special and unique Lebanese-Syrian relations through which a broader Arab solidarity can emerge, one that defines common positions in the face of the challenge represented by Israel's economic and cultural programs.

More than twenty years of Israeli occupation created conditions in the occupied territory that necessitate our careful and responsible attention. After its liberation, this

part of Lebanon requires a special intensified and immediate program that compensates for the years of Israeli occupation and oppression. At the same time, the resistance is one of Lebanon's strongest assets and must continue to command the highest degree of national and diplomatic interest, and need to be addressed in a manner similar to that of other civilized nations under similar circumstances. Most important, our position with respect to the resistance must always stem from the view point that strengthens the position of Lebanon and Syria in the peace process.]

The gravest error we can commit today is to build illusions on the forthcoming peace and to convince ourselves that it would be the salvation from our economic problems and the only path for the return of capital flows and Arab and foreign investments. Clearly, the experiences of other Arab countries that have signed peace treaties with Israel remain vivid in our minds. Those treaties have not led to significant positive economic transformations. Indeed, the Egyptian economy did not begin to grow and flourish until Egypt took a clear decision to restructure and liberalize its economy, promote investments, and to promulgate the relevant legislation.

In conclusion, it is important to reconfirm Lebanon's future role, which is based on the country's being an economic, financial, cultural, educational, tourist, and media center in the region, and a candidate to become a center for modern technology and communications. However, the true horizons for this leading role will not unfold unless there is a firm establishment of the principles protecting our parliamentary democracy, our journalistic, intellectual and individual freedoms, and the proper implementation of rules

and regulations without political intervention.

Lebanon exists because of these sacrosanct values. These are the only principles capable of highlighting the sources of strength, excellence and wealth within Lebanon's unique society.

The challenges that Lebanon faces today may appear grave to some. However, they pale in comparison to the problems with which Lebanon was confronted with in the past. In light of the major progress Lebanon has made to date, we are fully confident that we will be able to overcome our current difficulties and to set Lebanon on an irreversible path of development and prosperity. The Lebanese, who have exhibited a phenomenal ability to adjust to the economic and political changes which stormed the region and the world over the past two decades, are clearly capable of adjusting to the forthcoming changes and handling their repercussions in full co-ordination and co-operation with Syria and the rest of the Arab world.

What we need now is dedication, team-work and the renewal of the confidence of the Lebanese, the Arab world and the international community in Lebanon. Even more, we need to renew our allegiance to the established values of national harmony, freedom, and democracy. Above all, we need vision, vision, and vision.

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