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مكتب وزير الدولة لشؤون التنمية الإدارية
مركز مشاريع ودراسات القطاع العام



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Center for Public Sector Projects and Studies
(C.P.S.P.S.)

EU FRAMEWORK CONSULTANCY

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Republic of Lebanon

Strengthening of Institutional Capacity

**Creation of a Trade Policy Unit
within the
Ministry of Economy and Trade**

***"Implementing Institutional Strengthening and Capacity Building in
Trade Policy"***

**For P-E International
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Implementing Institutional Strengthening and Capacity Building in Trade Policy in Lebanon

The Proposed Structure and Evolution of the Trade Policy Unit (TPU) of the Lebanese
Ministry of Economy and Trade (MET)

1. Introduction

1.1. Other Papers and Documents produced by this EU Framework Consultancy, in particular our Report "Technical Requirements" (for a new TPU etc), and the "Findings of the Strategic Review October 2001", contain the essential design for the new TPU, how it should be staffed both initially and with provision for its future development, and the constraints as we see them on the early stages of the building of this unit into an organic part of the institutional arrangements of MET. As the Strategic Review makes clear, this "design" project was conceived as an ancillary to processes that were planned or in motion under the auspices of other projects, and the general co-ordination of the UNDP Project.

1.2. Its most crucial relationship, and in many ways the determining factor for the longer term stability and sustainability of the TPU, is the envelope of activities anticipated to continue and consolidate its work under the much larger-scale related Management Support Consultancy (MSC).

1.3. As this Consultancy ends, delivery of this related MSC, and much of the crucial context it needs to provide, in terms of plans for a substantial restructuring of the current decision-making framework and apparatus for the administration of trade policy within MET, lie in the future. On the other hand, much of the work that the TPU is being designed to handle is active and informal arrangements for handling it are already in place. The pressure and intensity of this work are also likely to increase as Lebanon attends its first, and subsequent, WTO Accession Working Parties, and the implications of its new bilateral agreement with the EU begin to be implemented.

2. Terms of Reference.

2.1 The overall and specific objectives of this Consultancy are described as

"to contribute to an increase in the competitiveness of the Lebanese economy. The specific objective is to strengthen the capacity of the MET to fulfil its responsibilities in trade policy, in particular in the co-ordination of the process of trade reform and in the negotiation of bilateral and multilateral trade agreements."

3. Expected Results.

3.1. The expected results of the work of the consultants are

- an analysis of the institutional framework for the establishment of the TPU
- a description of the technical requirements for the new TPU including structure, staff and budgetary requirements
- an implementation action plan for the establishment of the TPU.

3.2 At other points in the terms of reference the Consultancy is expected to

- Conduct a brief strategic review of the Ministry as a whole taking into consideration the relevant documentation on the MET and administrative reform in Lebanon in order to describe the context and institutional environment within which the establishment of the TPU will take place; and
- in preparing a detailed implementation action plan for the establishment of the TPU, provide a clear road-map for reform, and propose a series of milestones against which progress can be monitored.

4. Response

4.1. These are demanding and far-reaching requirements for a short, and otherwise closely focused, Consultancy. The first three bullet points above have, of course, been fully addressed but the exact, and longer-term, relationships between the TPU and MET will evolve against a changing background for a period that extends well beyond the end of our work, and in a way that is not predictable with any degree of precision.

4.2. The issues on which the consultants can be more certain, and even here the end result depends to a degree on future events, are the kind of work that can reasonably be expected, and the demands it will make on (principally) staff resources for its effective execution. From this we can deduce what kind of people, in what kind of unit, will be needed and will be best able to do the work. We can also predict, with less certainty, how this may change over time. We can recommend how such a unit may be structured and organized.

4.3 As far as the institutional framework in which such a unit should operate is concerned, we can have views on its reporting links with the elements it will most closely support and service (the Minister MET, the National Committee, the Lebanese WTO Negotiating Team), and its contacts with the rest of the Lebanese administration (essentially the "focal points" network). We can comment on the need to incorporate the unit within the MET and how this may be done, and how to create, or enhance, existing information-sharing networks that tie the work of the unit into the existing system for the development, dissemination, and implementation of trade policy.

5. The Changing Context; the TPU as an initiator of change

5.1. Our TOR emphasise that "the mandate of MET is shifting" and that it currently has "virtually no (existing) institutional capacity" to carry out a number of current, and increasingly important, trade functions. While the TPU can be an element in these changes, and may contribute to them, it is not on its own an effective tool with which to achieve substantial change. The lessons that may be learned from its introduction and initial establishment may be more widely applicable, but it is too fine an instrument, and too weak a lever, to accomplish substantial "institutional strengthening" by itself.

6. A Timetable for TPU Establishment; Outside Factors

6.1 We believe that the wider objectives of an across-the-board modernization of Lebanese institutional capacity, and the far reaching re-organisation of MET that may be needed in the longer term, which are the business of other projects with larger budgets and resources and much longer time-scans, may still take an appreciable time to deliver. We are most concerned therefore in this report with the contribution we can make immediately to an interim solution.

6.2 We propose a timetable for the completion of the formalities required to set up a new TPU from first principles. Annex A.

6.3 But, while giving a roadmap for the formal TPU, we think it helpful to examine ways in which in the interim a smooth transition may be achieved that will enable the ongoing international trade policy work to be carried on with the least disruption.

7. Arguments for an "evolutional and progressive introduction" of the TPU

7.1 We suggest that the formal establishment of the TPU, formal agreement on its position within and actual working links with the rest of MET, need to be phased in over time against the background of larger developments. In particular current positions on legal issues, and similar or associated questions of comparable complexity and standing, need to be reassessed regularly. Such issues must be resolved finally, on the actual formal inception of the TPU, in full concordance at that time with the detail of all relevant requirements for the formal and legal structure, and functions, of the Lebanese administration in general, with special cognizance of particular plans for the restructuring of MET. Within this envelope careful attention must be paid to new developments and changes, or plans or projections for change to, for example, the current rules for the recruitment, grading and conditions of work (especially relating to pay, and promotion) of their staff.

7.2 At the time of writing, key aspects of many of these issues are still under consideration, not least because the reorganization of Lebanese central administration, and in particular the question of strengthening its institutional capacity, is at an early stage.

7.3 Many of these issues may be sensitive; they carry social, political, and procedural implications which go beyond the remit of this Consultancy. Their resolution will take time.

7.4. The criteria and rules for the conduct of an Open Competition for the recruitment of permanent members of the TPU under Lebanese traditions of public practice need special study. We would also mention, as potentially sensitive points,

- the need for careful and up-to-the-minute assessments of the complex and changing legal background to the establishment of such public servants. When it is formally launched the TPU should be able to obtain the calibre and quality of the staff it requires, to pay them adequate salaries, and to provide them with the possibility of a career development within MET, (by enabling their personal development and achievements to be recognized and rewarded in a way that will encourage them to continue within the institutionalised framework),
- the confirmation at the time of the formal inception of the TPU of sufficient and detailed constitutional and budgetary provisions at parliamentary level and with the Council of Ministers (by the adaptation of the existing Council of Ministers' provision for a "WTO Unit"; or otherwise),
- and facilities and plans for training successors for the staff of the MET TPU, and subsequently for staff for the TPU/WTO units that will need to be established in other Ministries. (WTO membership, amongst other things, requires the setting up of a number of "Enquiry Points").

7.5 These are all issues that, in our view, require closer examination using the time and resources of a much larger project (an MSC) and regular updating. The roles of the Office of the Minister of State for Administrative Development (OMSAR) and the Civil Service Board here are most relevant. Their current work, and future intentions, combined with

the short and medium term objectives of the substantial current EU and other projects in this area, and the various contributions of other Lebanese public bodies are elements that must be considered, and appropriately consulted. In summary, the total picture for the strengthening of institutional capacity in the Lebanon, and the sub-sector of it concentrating on the future administration of trade policy, are complex and still forming jigsaws into which immediate intentions for the re-organisation of Lebanese trade policy management raised by the inception of the TPU must be fitted.

8. Compatibility of component objectives with the larger picture

8.1 We believe compatibility between the smaller (the TPU) and larger objectives (restructuring of MET, the overall reform of institutional capacity for policy formulation in Lebanese central government) must be secured and maintained. We are convinced that, in terms of long term acceptance and sustainability of results, this is an important, possibly an over-riding, objective; it is one that can not be obtained without patience and perseverance.

8.2 Briefly, such an objective will not be obtained easily, or in a matter of months. It is outwith the timeframe of quantitative predictions that can reasonably be made by this project. Such matters should, as soon as possible, be set as early outputs and deliverables for a follow-on, larger and better resourced, study; the projected Management Support Consultancy.

9. A Bridging Proposal

9.1 In the following paragraphs, we suggest the outlines of a "bridging" operation. This should facilitate a gradual and uncontroversial evolution to an eventual distinct and clearly structured TPU, with a clearly defined role not only in the negotiation and co-ordination of national trade policy but also in the day to day functioning of MET. Such a process will enable the TPU's work, which pre-exists its formal inception, to go on while the institutional framework that will be a key determinant of the dimensions of its role is constructed around it.

9.2 The direct benefits of this approach are that it avoids interruption or disruption in the work currently being done. A gradual introduction of the new arrangements has secondary benefits in that it may increase acceptance of the changes, and implications that it carries for further change, within a somewhat differently organized and motivated existing executive body.

9.3. This may underwrite significant changes in internal procedures within MET, and later more widely, and which might otherwise be seen as disruptive and possibly threatening to established cadre civil servants, by introducing them in a progressive way that allows for consultation and paves the way for wider acceptance on the grounds of their logic and inevitability.

10. Work in Anticipation of the First Lebanese WTO Accession Working Party (AWP),

10.1 The first Lebanese WTO Accession Working Party (AWP) is now scheduled for February 2002. We suggest that the first stage of planning for the setting up of a TPU, that is to say the clarification and strengthening of the "interim arrangements", should be linked with the practical preparations for this event.

10.2 Annex B describes a possible makeup for the Lebanese delegation (Negotiating Team) to the first and subsequent AWP's, including the roles and responsibilities of the

official members it may contain. Annex B also describes new lines of communication that need to be set up with the WTO Secretariat and the foreign officials who will normally head the other delegations to the AWP. It suggests that the Head of the UNDP Project should, in anticipation of succeeding arrangements, function as the Acting Head (AH) of the TPU in areas where it is necessary or desirable to set up such channels of communication quickly. This would be an efficient compromise, and a useful forerunner for this side of the work of the TPU.

10.3. It may take time, and tact, to resolve definitively the questions of potential or actual conflicts with their other existing duties and obligations for those people who are currently working as de facto support to the Lebanon AWP negotiating team, in such matters as replying to the initial AWP questions on Lebanon's Memorandum of Foreign Trade for example, but are engaged by other projects, or on other contracts. An increase in their current, informal commitment to a conceptual but so far unrealized TPU, without a formal change in their current status, seems a feasible option. Such intensification in the degree of their existing involvement in the formulation of Lebanese Trade policy, and by implication the work of the future TPU, without a formal break with their existing alliances, seems unobjectionable.

10.4. So, the first step is to confirm a group of people who will prepare, in ever closer co-operation, for the first AWP meeting as an embryonic TPU (Annex C lists people currently so engaged). The members of such a group, however interim and informal, will need to meet frequently, and their geographical nearness to each other will be an advantage. They will need to have a common understanding of how to handle AWP enquiries. Since the topics raised within the AWP may go beyond the confines of their existing experience or knowledge, the members of this group will need to have an agreed demarcation between them of the handling and co-ordination of "new" topics.

10.5. The distribution of subject, or topic, responsibilities set out in the job descriptions contained in the Technical Report of the Requirements for a TPU produced by this Consultancy would be a useful way of allocating the work. Since the number of people currently carrying out the work on WTO Accession approximates closely to the recommended number of distinct positions in the eventual TPU, it seems a good idea for them to develop such roles for the time being.

11. Institutional Strengthening

11.1 It is for consideration what indicative arrangements might be introduced on a trial basis almost immediately, and in any case in advance of the first AWP, for facilitating information flow between the team and the institutional framework of MET in general. At its simplest this could be in the form of a newsletter circulated to all staff, setting out in an approachable way the main objectives of the WTO negotiations and the areas of commercial activity covered by the WTO agreements, and thereby likely at some stage to be examined in depth. News of the date and general arrangements for the first meeting of the AWP and for example the composition of the Negotiating Team (in outline) might be of general interest. Extensions or elaborations of this approach, possibly for a more limited circulation, could summarise the Questions already received from WTO AWP members and the kinds of replies that were being made.

11.2 Preparation of the material for a newsletter and other such circulars would be useful practice for members of the group who, at a later stage of the accession process will have to prepare Guidance Notes for Businessmen etc of the implications of the Agreements for their own activities.

11.3. Another aspect of institutional strengthening for which the gradual introduction of the TPU will give time and opportunity is the development of informational/communication links between the team and the traditional institution. Occasional briefing meetings by the AH and members of his team for other Divisions in MET, initially perhaps on a voluntary basis, but proceeding to a more regular framework as the need or the demand arises, would set up links, and the acceptance of a sharing of information, that could well lead in time to more direct institutional relationships.

11.4 Benefits might ensue from a more formal framework of relationships between the TPU and the "focal points" in other Ministries and public bodies. This could be achieved by regular meetings chaired by the AH, with other team members present, of which records were kept and notes of agreed conclusions or objectives circulated. It is important for "focal points" to be persuaded of the value and permanence of their contributions. They will be crucial to the later setting up of enquiry points and/or subsidiary TPU/WTO units in their own Ministries which will be the nucleus upon which activities for the implementation of new commitments, procedures and innovations for the globalization of Lebanese commercial activities will be built.

12. Work Subsequent to the First AWP

12.1 The Technical Requirements Report for the TPU, presented with this survey, gives all the relevant detail and technical specification for an organisational structure for the TPU including job descriptions. It addresses the subject of the processes and systems that will decide a general outline for the TPU's work. This Consultancy, in all of its advice and documents, has emphasised the dynamic nature of such work, and the implications that this has for the day-to-day activities of individual members of the TPU. This also applies to the interim group that will carry out the work until the TPU is formally installed.

12.2 Annex B clarifies some of the "extra" duties, and new and expanding responsibilities that the leader of the interim TPU will inherit when the accession process becomes fully active and regular meetings of the AWP occur. It is difficult for the consultants to give members of the group individual guidance on jobs that may develop in unexpected ways, or with unforeseeable timetables. Accession Working Parties always seek a great deal of detail, not just on the existence of "new WTO compatible regulations" but for example as evidence that all the relevant implementing legislation is in place and that there is a qualified and fully equipped administration at all levels to carry it out. Many acceding countries, which were confident that their own initial legal redrafting met WTO requirements, have found themselves in extended dialogues and have had to undertake a considerable amount of further work. To anyone who has not undertaken an accession negotiation before, the volume and complexity of work in this and allied areas may come as a surprise.

12.3 There are some roles, for example "Goods" where the issues are fairly clear-cut; and other advisers with a continuing relationship with the group may be in an unrivalled position to give advice and guidance as things develop. For example Mr Arthur Dunkel on Trade in Goods and general Tariff issues. On others, team specialists will be able to benefit from special tuition and training through Lebanon's agreements with the WTO/ITC on both general and specialized training. The associated MSC should also concentrate on this area.

12.4 We suggest that, in addition, each TPU specialist should study carefully the sections of the publication a "Business Guide to the World Trading System" (which is in the trade Library on the 8th floor of MET) relating to their responsibilities, and draw up for themselves an outline of the work and its wider implications for the globalization of the Lebanese economy. This will be good practice for them and, in particular, may serve as

the basis of later guidance for their successors. It will be useful for any general briefing to which they may need to contribute, by defining the opportunities presented in a Lebanese context and the constraints that may need to be overcome.

12.5. As an example, and to provide some initial lines of enquiry on a less tangible subject, we have done a short guide to some of the larger issues and wider considerations raised under the heading of "Services". Annex E.

13. Conclusions

13.1 We believe that the wider objectives of an across-the-board modernization of Lebanese institutional capacity, and the far reaching re-organisation of MET that may be needed in the longer term, which are the business of other projects with larger budgets and resources and much longer time-scans, may still take an appreciable time to deliver. We suggest that the formal establishment of the TPU be phased in over time against the background of larger developments.

13.2 We believe compatibility between a formal TPU, with a clearly defined role not only in the negotiation and co-ordination of national trade policy but also in the day to day functioning of MET, and larger objectives for the restructuring of MET and the overall reform of institutional capacity for policy formulation in Lebanese central government must be secured and maintained. We are convinced that in terms of long term acceptance and sustainability of results, this is an over-riding objective; it is one that can not be obtained without patience and perseverance. Although we have made a number of suggestions and recommendations that will help, achievement of the overall goal is outwith the scope of, and the timeframe of quantitative predictions that can reasonably be made by, this project. Such matters should, as soon as possible, be set as outputs and deliverables for the follow-on Management Support Consultancy.

13.3 In this report we consider the contribution we can make to an interim solution. We examine ways to ensure a smooth transition that allow the ongoing international trade policy work to be carried on with the least disruption. We propose a "bridging" operation to enable the gradual and uncontroversial evolution of the TPU.

Peter Cocking.

EU Framework Contract

Beirut 29 October 2001

Annex A

Timetable for the Introduction of a formal TPU. "Milestones"

Action Milestones

Action

- | | |
|--|------------------------------|
| 1. Announce Plans for a Formal TPU and its functions; | Dec 01 |
| 2. Announce Open Competition for jobs in TPU | Feb 02 |
| 3. Selection Board for principal TPU posts (and cadre replacements?) | June 02 |
| 4. Formal Installation of TPU | Sept 02 |
| 5. Announcement of Members of TPU and roles | Sept 02 |
| 6. Handover interim TPU to formal TPU | Sept 02 in time for next AWP |
| 7. Announce Structural links TPU/MET | Sept 02 |

Parallel Milestones

- | | |
|---|----------------|
| 1. Consult EU on date, terms of reference, of following MSC | Nov 01 |
| 2. MSC starts work | before July 02 |
| 3. MSC updates Consultancy work on TPU | August 02 |

Annex B

The Lebanese Negotiating Team

B.1 While slightly different considerations may apply to the composition of the team that will undertake individual Working Party meetings, (the final Working Party is an event of great political and diplomatic importance with a wide international media coverage which even the Prime Minister may wish to attend; the first meeting is less high-profile but has a presentational significance, and there may be meetings in which sectoral issues dominate), we suggest that a "normal" negotiating delegation might consist of

- The Minister of Economy and Trade
- Heads of Lebanese state bodies with substantial interest in the subjects to be discussed (2 or 3)
- The Lebanese Ambassador to WTO

Supported by

- The Acting Head of the TPU (possibly the Head of the UNDP project initially)
- Deputy Head of TPU or EU Specialist
- At least one WTO legal expert
- The Commercial Attaché, (or equivalent) in the Lebanese Embassy/Mission in Geneva.

Relationships/Contacts that need to be established with the WTO Secretariat and Other Member State delegations to the AWP.

B.2 The Acting Head (AH) of the TPU needs to establish a direct contact and working relationship with the member of the WTO Secretariat who will be directly responsible for Lebanese Accession and thereby the focal point for it within WTO. He will send, and receive replies on the (increasingly large) volume of electronic correspondence that will begin to flow between Geneva and Beirut. On questions of drafting and redrafting of the Accession Documents this will be a very important, and at times hard pressed, channel of communication. This is definitely not a "once for all" process.

B.3 The AH will similarly need to establish personal contact with at least the Heads of the principal and most active Delegations of WTO Member Countries on the AWP. Although AWP Delegations from the acceding country are usually headed by a Minister, who formally represents his/her country, and thereby can be quoted in the AWP Report (one of the key Documents to be submitted to the WTO Council on the completion of the process) as giving formal and binding undertakings, the other delegations are headed by senior trade officials who will expect to communicate directly with a Lebanese official outside the AWP on the clarification of detail and the making of arrangements for subsequent meetings and bi-laterals etc. Dialogue on the content and implications of Lebanese commitments undertaken in the AWP is not confined to the AWP itself, and at later stages of accession can become frequent, intense and very time-consuming.

B.4 The AH needs a close working relationship with the Lebanese Ambassador in Geneva, who will be the first contact for WTO on Accession. Representations in Geneva frequently cover all the International organisations, so the Commercial Attaché or whoever plays the supporting role on trade questions is also a key figure.

Annex C

Current Distribution of Subject responsibilities for Lebanese WTO Accession.

The informal team working currently on WTO accession.
The MET/UNDP team coordinates its work informally with USAID team members;
with direction from Project Director Mazen Hanna.

MOET and UNDP Project

Mazen Hanna UNDP Project Director

Expertise

*Alia Moubayed	Central Bank	WTO EUROMED
*Souheir Nadde	Min. of Information	WTO, IP Expert,
Malik Assi	MET	Trade Agreements, Bilateral/GAFTA/WTO, Internal trade Policy
*Lama Oeuijan	UNDP	WTO, ACC4
Hazar Caracalla	UNDP	Bilaterals,

USAID

Manal Jomaa	USAID/Lawyer	Services Issues ACC/5
Zouha Sakr	USAID/lawyer	Goods related legal issues
Souha Atallah	USAID/Economist	Non-Tariff Barriers, State Trading

* Work on diverse WTO related issues

TPU responsibilities that need to be serviced in advance of its formal institution

D.1 The TPU will initially be primarily a coordination and negotiation body. It will.

- Interface with the WTO Secretariat and scheduling working party and bilateral meetings with WTO member countries
- Participate in bilateral and multilateral negotiations
- Present policy issues to the National Committee
- Prepare accession materials
- Prepare market access offers on goods and services in coordination with the private sector
- Interface with relevant ministries and other relevant bodies and institutions on technical issues
- Establish and lead legal working groups to draft, or amend, legislation for compliance with WTO/EU/GAFTA etc agreements
- Form and lead sectoral/industry working groups to develop negotiation strategies and positions for market access in the areas of goods and services
- Interface with the private sector
- Educate the public sector and the private sector about Lebanon's trade agreements, in particular in the process of accession to WTO, and the impact of WTO accession on the Lebanese economy and businesses
- Advise Ministers on all aspects of keeping Parliament and Lebanese official bodies, and the public and private sector, as well as the general public, informed about the status of Lebanese accession to WTO and, as directed, other trade agreements and trade related issues

D.2 The TPU will in the longer-term increasingly act as a co-ordinating unit for the implementation of Lebanese trade policy, and a focus for the development of Lebanese institutional capacity for managing trade administration in an increasingly global context. Its involvement in international trade negotiations will give it a uniquely authoritative experience which will enable it to assist, guide and direct policy making and the design of procedure by other Ministries and State bodies with, or within, a trade related framework.

D. 3 For instance, WTO membership requires the continuing presence at a central point, most conveniently MET, of a team of specialists who are expert on the detailed requirements, and individual Lebanese commitments made during the accession process, and all the current WTO business of interest to Lebanon's own national priorities and objectives. Accessing to WTO introduces a number of actual requirements, such as the setting up of Enquiry points in

a number of Ministries, regular reporting to WTO of the detailed implementation of regulations and protocols, the observation and notification of agreed procedures, and the compiling and exchange of trade (for example import/export statistics).

D.4 Lebanese Ministers and other public and private institutions will need focused and informed advice on WTO developments with potential effects on Lebanese trading relationships, and its terms of trade, such as the outcome of disputes between other Member states over the way they handle or promote their own exports, or constrain the exports of others. Lebanon will have to decide frequently, and on the basis of the technical evaluation of a mass of material, and often complex precedents, which other groups of member states to ally itself to in the best pursuit of its own interests in multilateral negotiations.

D.5 The experience that will be gained by the specialists who participate in the accession process is a unique and irreplaceable investment. Such experts will, during and at the end of the negotiations be the most qualified to carry out the work described. Perhaps the most important long-term responsibility of the TPU is the sharing of its expertise and experience, in the training of other people to spread to the whole economic community the knowledge and understanding of Lebanon's greater and deeper involvement in an expanding and diversified trading relationships, and in the preparation of a new generation of experts to take on this work and make it an acquired part of the Lebanese administrative heritage.

Trade in Services; an aide-memoire for the TPU

Introduction

E.1 One of the most significant changes in the economic policies of nations during the last two decades has been a new appreciation of the importance of foreign direct investment for their economies. There has been a growing awareness that the investing companies – mostly multinational companies – are the world's chief repositories of economically useful knowledge and skills not only in the production of goods but also of services. As a consequence almost all countries have started to compete for foreign investment through Governmental policies that take account inter alia of the fact that foreign investors value stability, predictability, transparency and the ability to protect their private property from arbitrary or criminal confiscation.

E.2 The basic assumption in this paper is that for the Lebanon opening to the world and gradually integrating into Europe's economy is the best route to economic growth and social progress. This is also a premise at the basis of Lebanon's Euro-Med Agreement with the European Union. Openness is a necessary – though not sufficient – condition on the road to national growth and prosperity.

E.3 The countries most successful in catching up in recent decades have been those that did not shut themselves to the world but seized the opportunity offered by access to the best technologies and the best brains available anywhere. They went after building their economies on the basis not only of physical equipment but also and even more so of intangible knowledge-based investment, both domestic and foreign. Modern economies are increasingly based on knowledge. It is the key to economic growth. Finding better ways of doing things has always been the main source of long-term growth. What is new is that a growing part of production is in the form of intangibles, based on the exploitation of ideas rather than material things: the so-called weightless economy in which services dominate.

E.4 The trickiest task is bringing about the needed changes in the Lebanon itself. Progress will depend upon adequate governance at all levels within public authorities, better education/training and stronger links with the outside world.

The fundamentals for an overall policy approach for services

E.5 Basically economic development boils down to using labour and other inputs to produce more efficiently. One of key ways to achieve this is by integrating into the global economy so as to be able to reap the benefits of the globalising knowledge-based economy and to gain from comparative advantage.

E.6 The Lebanon has to choose its path to sustainable social and economic development taking account of its size, location, natural resources, culture etc. Like all other countries whether dependent on mineral resources, agriculture, manufactured products or on services the Lebanon is increasingly interdependent with other nations for its security and for dealing with common issues of health, environment, trade and so on. All countries eventually will have to move on a path towards greater trade, a greater proportion of services in their GDP and higher value obtained from brainpower and intangible assets.

E.8 In typical situations, trade enables both parties to the transaction to gain –the resulting bigger cake is a win-win, and not a zero sum, game. Wider markets create opportunities for increased economies of scale and scope. Better functioning markets increase allocative

efficiency and the bigger cake can provide the means to increase national wealth and assist the losing sectors to make structural adjustments.

E.9 Structural changes force people to leave agriculture and the extractive sectors for the manufacturing and the service sectors. As technology advances, goods incorporate higher levels of service inputs in their added value, and goods and services become less easily distinguished. More and more workers are engaged in producing services, including services intermediate to goods, and transforming information, and less on transforming materials.

E.10 New technologies, especially those related to the Internet, must be brought into the economy. In the field of barriers to trade, these technologies are doing more for international trade than further cutting of customs tariffs: they reduce transaction costs and, most importantly, create new opportunities for dynamic and talented people in all countries whatever their stage of economic advancement. In the past the only way for such people to put their skills to use was to emigrate permanently overseas. Now, for the first time, modern technology and trade gives them a chance to achieve the same results at home.

E.11 Service sectors need to use the latest information technology and other products for their process innovation and for new services products. The resistance of the losers trying to hold up the modernisation process needs to be faced and overcome. Inevitably, structural adjustments create pain as old industries and activities wane and new ones arise. Phasing-in by social safety nets for the people directly affected - to the extent the Lebanon can afford it - facilitates adaptation.

E.12 A national consensus is needed among consumers, suppliers, officials and regulators that the reform of regulations that negatively impact services activities is in the national interest. One way to achieve this is by ensuring full transparency to the public and to trade associations and professional bodies of uneconomic and protectionist regulations and situations. That can help root out covert discrimination in barriers to market openness that arise indirectly from regulatory practices, including "administrative guidance", discretionary decisions, exemptions from competition laws etc. The implementation of the Euro-Med and WTO (including GATS) provisions to ensure transparency of laws, regulations and administrative decisions should help the Government to overcome resistance. If the least competitive producers continue to be protected and other suppliers, domestic or foreign, are not allowed to compete, then national service enterprises that are or could become internationally competitive will not succeed on world markets.

E.13 Given an adequate emphasis on education/training, countries like the Lebanon have huge scope to grow rapidly by acquiring rich countries' technologies and copying their production methods. As latecomers they do not need to reinvent the wheel or the computer, but merely to open their economies to ideas and capital from the advanced world and make use of proven concepts and available science, including information technologies.

E.14 It is therefore important that the public authorities not only accept the ongoing developments in the world economy as a reality but that they persuade citizens and businessmen to welcome them. Many fear that foreign firms will merely put national firms out of business and take local jobs and profits. The Government ought to explain that foreign enterprises need to be present in a number of sectors - including services - to obtain the transfer of technologies and organisational skills and to ensure truly competitive conditions. Such skills are generally the key assets of successful service firms. In any case, especially with low tariffs on merchandise imports, the maintenance of protection on services that form inputs for industry leads to higher costs for manufacturers who then suffer from lower quality and more expensive services than if services were also exposed to foreign competition.

Critical requirements for a services policy

E.15 **People.** The development of individual citizens, the provision of public and community support systems for the upbringing of children, the education/training of all youths and adults, and general health care are the building blocks for 'human resources'. Governments

are normally expected to provide most such social services. International agencies such as the World Bank, the EBRD, the IFI as well as Governments and the EU are increasingly ready to provide finance for education and training.

E.16 Physical infrastructure. A physical basis has to be built for community life, production and trade to function: roads, railways, harbours, airports, dams, water and sewage treatment works, power stations and electricity networks, telecom facilities etc. The utilities are not classified as services but have important service inputs. Many of the facilities are owned and paid for by governments, possibly also by international aid. When public resources do not suffice, recourse must be made to the private sector either to operate the infrastructure or to acquire it. Attractive terms for investment in the physical and services infrastructure must be provided.

E.17 Services infrastructure. This layer comes on top of the physical infrastructure; it is also a condition for a prosperous goods sector. It includes: world class telecom services; efficient banking, insurance and securities markets; well functioning road, rail, sea and air transport; adequate harbour and airport services; a wide range of business and professional services such as engineering, Consultancy, advertising, market research and legal and auditing services. All these are crucial intermediate inputs for production, trade and intermediation of services in all parts of the economy. Restrictive regulations, unnecessary administrative formalities inefficient state monopolies lead to poorly functioning services, slow down growth and handicap exports of both goods and of services. Sound macro-regulatory statutes are needed for the key service sectors, complete with independent regulators.

E.18 Governance. A market economy needs strong regulatory governance and institutions that function well: policy makers, legislators, judges, the executive branch, all kinds of regulators (for anti-trust, for telecom, for energy services, for transport etc). Service activities are on the whole much more regulated than the production of goods and this underlines the added importance of good governance for a sector that pervades the economy.

E.19 It will take time and resources for the Lebanon, a free market economy in transition, to train officials capable of discharging their difficult functions properly, and to cope with the scarcity of qualified personnel. To observe its Euro-Med and GATS commitments, the Lebanon needs to have in place effective institutions with the right supervisory and enforcement capabilities.

E.20 The OECD has done a great deal of work on the economic efficiency gains to be obtained from good governance and processes of regulatory reforms. Its six principles of governance are:

- transparency during and after law and regulation making,
- non-discrimination
- avoidance of unnecessary trade restriction
- use of internationally harmonised measures
- recognition of equivalence of foreign regulatory measures
- the promotion of competition

E.21 These principles can serve as useful guidelines for a national services policy.

- Appropriate regulations and competent regulators. In sectors that have to be regulated –and these include the major elements of a modern services infrastructure such as transport, telecom, financial and professional services – nothing can function well until appropriate regulations (including competition laws) and the necessary independent regulators are in place. If not, private investors will avoid taking the risks, judging the market outcomes of commercial activities to be too uncertain.

- Competition. An important requirement is to ensure that there is competition in the service economy as a whole and in infrastructure services in particular. Privatisation of state-owned enterprises is necessary but normally it does not suffice. Opening up the market to outside competition is often the only way to change monopolistic habits. But in addition, a competition statute must be in place that is politically well supported with an independent competition authority. What are needed in addition are strong powers of enforcement of anti-trust principles with an effective judiciary system. Otherwise despite privatisation opening the market to foreigners, non-competitive businesses will block market entry and perpetuate inefficient oligopolies.
- Foreign input. The capital and the technical and managerial know-how of large foreign enterprises is essential.
- Information technology (IT). The fostering of information technology and the accompanying advanced telecom facilities is of paramount importance. Improving the educational system and facilitating training in computer skills and modern information-based management techniques are today essential for the enhancement of the competitiveness of labour markets, most of all in services.

E.22 The advent of IT has also allowed previously non-tradable services to become tradable and thus to be sold cross-border. It has stimulated the unbundling of both production and commerce by allowing more specialised inputs to be supplied by outside specialist service or goods providers (externalisation/outsourcing of non-core activities). New intermediate service activities have thereby been created which serve both domestic firms and foreign companies. All countries have an interest in maximizing the benefits from the increased tradability of services.

Trade policy objectives

E.23 The Lebanon should try to take advantage of its geographical location and historical role as a trade centre and develop the potential for regional cooperation in the area of services. A policy goal should be to obtain better access to markets – especially to neighbouring markets – where it can export services.

E.24 There are considerable potential benefits to be derived from the temporary movement of natural persons in terms of enhanced international competitiveness, technological inventiveness, education and training savings. The current comparative advantage of many economically less advanced countries is mainly based on low labour costs across a range of skills. The main obstacles to movement of service producers are restrictive visa and work permit regimes, nationality, residence and economic needs tests and mutual recognition agreements for higher qualifications that exclude citizens of non-participating countries. Delivery of services through “commercial presence” (i.e. establishment of companies) is already well covered by GATS commitments. In contrast not much has so far been achieved for facilitating the movement of natural persons as service suppliers. GATS’ commitments in the latter mode only give rights of temporary movement to people who are intra-corporate transfers, to business visitors and to independent professionals. They hardly ever cover other movement of natural persons.

E.25 It is important in new and continuing negotiations in WTO, for developing economies to combine to obtain more commitments by the advanced industrialised countries to allow the temporary entry of service suppliers through broader coverage of the categories of such suppliers, more transparent, simple and objective implementation of visa and work permit regimes, and some advance in the recognition of qualification standards and licensing regulations. For a country such as the Lebanon sending out such workers, the benefits are not simply the remittance of money but also and more importantly the training they obtain abroad.

Conclusion

E.26 This paper has set out general lines of action for a policy that supports production, investment and trade in services. It strongly suggests that the overall image abroad of the country is important for its services production and export policy to succeed. That image depends on the overall efficiency of the economy, including the level of education, the attitude of the population, the security, the quality of the public facilities such as transport, customs, entry formalities etc and evidently also the quality and reliability of the services it manages to produce.

E.27 The identification of service sectors of potential commercial and export interest that could become part of an effective export function calls for a wide and deep knowledge of the present structure of the national economy, and thus for a considerable input by local experts. International studies list the following service activities as being often of export interest to economically less advanced countries:

- tourism, transport, construction, professional services (low cost legal, architectural, engineering, bookkeeping, health services etc)
- business services, especially software services and back office operations with higher added value than basic data entry (e.g. software programming, data capture and repair, adjudication of claims, management of electronic medical records),
- off-shore call centre services (based on linguistic and cultural strengths)
- energy related services.

In several of these sectors, the primary way to expand exports has been by supplying services through the temporary movement of labour abroad.

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