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Republic of Lebanon
Office of the Minister of State for Administrative Reform
Center for Public Sector Projects and Studies
(C.P.S.P.S.)

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INVESTMENT CLIMATE IN LEBANON

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Lebanon's industries have emerged from the years of conflict severely battered, but not beaten, into a world that had changed dramatically during those years, a world in which markets are now internationalized and in which new technologies continue to be introduced at an outstanding pace. Lebanese industry must now catch up with this transformation of world industry and become internationally competitive in order to survive and grow.

Lebanon's current circumstances tend to limit the selection of alternative strategy measures to those, which are doable in the short term and sustainable over the longer term. We aimed for a strategy which could be characterized by its simplicity and be based upon the reinforcement and support of exiting industries, an export oriented Growth policy and the creation of an economic and political environment that will faster investment and stimulate industrial improvement.

I - Government policies:

The government should first:

- ❖ Pledge its support for industry and undertake to cooperate with industry in its efforts, to increase industrial productivity and competitiveness and stimulate industrial development.

- ❖ Implement a number of specific measures including:

1 - Financial measures:

That will give industrialists, access to medium-term and long-term loans at reasonable rates. Also an investment promotion campaign is recommended to encourage potential investors, including Lebanese expatriates, to invest in nation's industrial resurgence.

2- Competitiveness measures:

These include the establishment of a national quality institute. And measures to promote exports and the made in Lebanon label.

3 - Educational measures:

Call for strengthening the links between educational institutions and industry – to increase the understanding of technology and with encouraging management training.

The government of Lebanon act promptly to adopt and implement an industrial strategy which would encourage Lebanese industrialists, Lebanese expatriates And other potential investors to join forces in exploiting opportunities for industrial development.

Lebanon today in comparison with the pre-1975 era is less well integrated into regional and international economies, and foreign direct investment into the country is limited.

The challenge for Lebanon is to harness the opportunities provided by the open system of trade and production which the WTO-euro-med etc... would further accelerate.

In particular, industry which has traditionally been a carrier of technological progress is called upon to play its role in this process for more social development and employment generation.

The private sector has an obviously essential role, but cannot do it all. In the G & T sector, there is a private syndicate of ready made garment factory owners and a counterpart for spinning & weaving and with the cooperation of the association of Lebanese industrialists, always tries to solve some problems connected to the Lebanese government-custom duties- Power costs...etc.

Yet the representatives of the G & T sector – also played an essential role in clarifying the needs of the sectors, and the obstacles which hinder their progress. These obstacles can be summarized by the following:

A - Labor laws/ social costs:

- Lebanese state national social security fund (NSSF) – is a heavy burden given that the G & T sector is labor – intensive.
- School & transport allowances.

B - Foreign competition:

- One of the very serious burdens on G & T textiles is lack of adequate protection by the state against dumping goods.

C - Utilities:

- High cost of power.

D- Access to finance:

- Lack of medium and long term financing in order to help the sector replace or upgrade a lot of outdated equipment – and if short term financing is available it is very costly.

E - Port and other transport services:

- Transport/port formalities and extra costs relating to import/export are also a burden.

F - availability of skilled labor:

- Lack of adequate training.
 - Lack of technical staff.
- This problem is solved partially by in-house training.

G - limited demand:

- Limited demand for local goods was exacerbated by sharp competition from abroad enjoying low Lebanese custom duties and engaging in dumping – we are turning more to global market.

H - custom duties:

- Custom duties regulations on imports relating to garments compared to neighboring countries.
- Raw materials subject to custom duties.
- Temporary entry for raw materials subject to too many procedure controls and expenses.

II - The role of the representatives of G & T sector

Role of the representatives this sector is not only exploring the problems and cry out for solutions, but also assist the government in drawing its economic policy. They should set solutions for the industry in general, and G & T sector in particular – lightning the advantages of this sector – and its share in the economy, as we have about 3600 firms employing about 35000 employees- with a value added more than 52%.

III - Industrial strategy objectives include:

- Improve economic performance.
- Increase industrial productivity and competitiveness.
- Create employment.
- Increase real income.
- Contribute to balance of trade.
- Stimulate investment in industry.
- Motivate product innovation.
- General technological improvements.
- Stimulate a higher level of general and technical education.
- Foster industrial development.

A strategy for the G & T industry should in the short term, respond to the immediate need of rehabilitating the existing industry and positioning them to become more competitive, and should be based on the following concepts:

- Reinforcement and support of the country's exiting industries through measures that will stimulate growth.
- Creation of an environment which will encourage investment and stimulate industrial development in the G & T sector.

Our present production is less costly than the European, but more expensive than the Far Eastern products, in other words, the Lebanese niche to exist for medium value output.

Here we should concentrate on a coherent policy to create a textile industry that can compete in different markets supported by the advantages, which still gives our production the ability to survive, for example:

Creativity -flexibility in production - styles taste - better finishing- shorter delivery- Better labor when properly trained high standard of materials - close to European fashion and taste.

So, we will try here to explore the international cooperation and the governmental role in assisting this industry.

A - The possible governmental actions can be summarized by:

- 1 - Reducing production cost and enhancing productivity.
- 2 - Securing long term industrial loans for investment in machinery and equipment.
- 3 - Adapting more protection for a period of time.
- 4 - Preventing dumping goods, eliminating customs on raw materials creating mutual agreements with other countries etc...

B - International cooperation

Although most of the ready made garments factories are small and medium sized enterprises yet they could be more efficient if they were given the right kind of advise and assistance. What is essential to recognize that most firms might have limitations in their ability to acquire, retain and use special production and marketing skills; but they also face pressing claims at the time and resources at their disposal.

Therefore the cooperation with these firms have to be done in a logical sequence and as a part of a coordinated effort.

As production cooperation may need assistance to these firms:

- To reconstruct their factories.
- Encourage specialization.
- Introduce new technologies.
- New product & processes.
- Partnership with other countries.
- Joint ventures.
- Subcontracting.
- Cooperation between individual companies, etc...

And the means of this cooperation in G & T industry could be illustrated by:

- 1 - Education, training and the needs of G & T industry.
- 2 - Developing Lebanese garments exports.

I believe that any cooperation which might be discussed in the production plans for the Lebanese textile and garments industry will coincide with the ability of this industry to develop its exports. Therefore our first issue is requiring the international assistance by specialized organization in the establishment of a development plan for technical education, or in other words human resources - and drawing an agreed plan for technical and vocational education to strengthen all productive sectors in G & T industry. In addition, establishing professional guidance and employment departments to supervise the relation between technical education and the needs of the sector.

C - Developing the Lebanese garment export:

By detailing this topic we will explore the means by which we can create an international cooperation for upgrading the Lebanese G & T production and this could be achieved by the following:

1 - Market information:

One of the 1st Steps in approaching export markets is to obtain reliable information on market opportunities - through trade associations chambers of commerce - trade promotion organizations or through suppliers of technology or capital equipment. Institutional support can make a considerable difference in the success of export venture.

2 - Assisting in market entry:

Said institutions can play a significant role in helping promoting garments exports through:

- Undertake “niche” Marketing, i.e. selling to a small well-defined section of the market.
- To pull out through the vast quantity of information, the parts relevant to their specific operations.
- After evaluating the quality and volume of the firms production, to identify the countries and market segments that appears most promising.

3 - Trade publicity:

Through traditional promotional methods of organizing marketing missions, and participation in specialized fairs, as IT become essential to stay in tune with the latest market trends - buyer preferences and technologies.

More important is the proper matching of a quality product to market demand. Therefore, assistance is highly needed for evaluating the market trends and preferences for developing and upgrading required production.

4 - New technologies:

The telecommunications revolution has opened up new international business possibilities, as the process of market selection visits abroad with quantities of samples, preparation of business offers, and counter proposals- discussions of specifications and so on. Require large investments of time, energy and resources. So, by assistance in introducing this new technology will give possibility for small firms to have an effective global presence without physical presence.

5 - Export houses:

Another mechanism is the export houses. These entities, form linkage between the small producers and the market. As small producers are faced with challenges not only of achieving suitable quality and volume in their production, but also of arranging logistical support for the movement of consignments, preparing export documents, organizing, pre- and post shipment financing, nor they can carry out market research product development, promotion, etc....

The export houses can play this role, export houses enter into a working arrangement on a short medium or long term basis with a group of carefully selected producers called " vendors". And place at their disposal the skills, needed for international marketing.

The relation ship between an export house and its vendors is close and based on mutual benefits.

Export houses extend a variety of services to their vendors, including:

- Market information.
- Advice on procuring equipment and machinery.
- Choosing production processes.

- Identifying appropriate technology.
- Procuring raw materials.
- Assisting in product design and research.
- Packaging, quality controls - advertising marketing - export credit and insurance.
- Negotiating prices - resolving commercial disputes and dealing with commercial legal issues.
- The entire contact with the external market is through the export houses which can supply the producers with necessary feedback on trends in the Market - may be creating styling centers. For designs, also modifications in product design and quality - finishing - packaging - etc...

Producers here will be free to concentrate on production of quality goods of given specifications within the time period stipulated.

6 - Subcontracting exchanges:

By encouraging large companies or companies abroad turning to subcontracting with local Lebanese textile and garment firms that have operational flexibility.

The best method to set up a subcontracting exchange is by matching subcontracting opportunities with subcontracting capabilities.

7 - Improving competitiveness:

By providing good quality products at reasonable prices - this can be achieved by increasing production efficiency with marketing. And this could be assisted by:

- i- Up-to-date technology, the choice of technology most suitable for the production operations, acquisition on favourable terms- periodic upgrading for improving the quality of the output.
- ii- Quality management, common facilities by relevant support organization can assist the firms quality control, testing and certification.
- iii- Export packaging assistance. By developing and designing new package suited to the need of the export community.
- iv- Financial aspects: sound financial management is one of the keys to securing price advantage in the target market.

Many firms run into problems of lack of timely and adequate working capital - which not only adds to cost, but can endanger the entire production operation.

At the production level costs need to be controlled by suitable purchasing policies, sound management of inventories, systematic output-planning and timely dispatch of goods.

Credit is difficult to obtain and often is available against stringent terms of collateral - which many are unable to meet.

There is a need for long term credit loans with favourable terms - and governmental assistance in designing export financing schemes and credit insurance for exporting.

Conclusion:

Strengthening the Lebanese textile and garment industry production ability, in the region and world markets to compete. Sourcing new methods of quality management production - tracing new markets - developing human resources, through technical and vocational education. Availability of information and new technologies - and others as mentioned in this context could bring industry to its prosperous periods.

Your cooperation together with a comprehensive economical plan implemented by the government can with a vision for the importance of industry and G & T sector give the hope for better tomorrow.

Thanks and good luck

Fouad Hodroj

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