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GUIDELINES FOR
AN INDUSTRIAL STRATEGY
IN LEBANON

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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.S.)

Project DU/LEB/92/001 - Substantive report

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Office for Project Support

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EXECUTIVE SUMMARY

Seventeen years of one of the world's ugliest conflicts devastated the tiny Republic of Lebanon. Only on-site viewing can give foreigners any measure of understanding the true extent of damage and the consequences for the courageous Lebanese people.

Though its future remains fraught with uncertainties, Lebanon is slowly but surely rising from the ashes. Despite difficult economic circumstances and very frustrating infrastructure problems, gradual progress is evident. For the Lebanese, whatever may be the day-to-day problems, the current conditions reflect paradise when compared to war.

With war no longer being the main constraint facing Lebanon's economic and social recovery, the government's focus is now on reconstruction and on regaining the ability to develop and modernize the country's economy. Industrial development is a most essential prerequisite to economic growth.

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 astounding pace. Lebanese industry must now catch up with this transformation of world industry and become internationally competitive in order to survive and grow.

The objective of this mission was to develop guidelines for an industrial strategy for Lebanon. This meant identifying specific measures which will improve Lebanese industry's growth, productivity and competitiveness. The process involved extensive consultations, not only with government ministers and officials, but also with many industrialists throughout Lebanon as well as with their trade association, leaders of chambers of commerce, academics and others. Visits to thirty industrial operations enabled us to assess the state of Lebanese industry and learn about the industrialists' problems and perceived opportunities.

The recommended policy measures, therefore, flow not just from the government's objectives but also from the widely held views of the nation's industrialists as to their needs in terms of industrial development.

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 would be characterized by its simplicity and be based upon the reinforcement and support of existing industries, an export-oriented growth policy and the creation of an economic and political environment that will foster investment and stimulate industrial development.

Although "high-tech" industries would be welcome additions to the industrial mix, we recognize the reality as being that conditions in Lebanon are not, at this time, conducive to attracting such industries. As is also true for the "knowledge-based" services sector, opportunities in higher-technology businesses will be exploited in due time, probably through joint-venture agreements.

Our recommendations call for the government to, first, pledge its support for industry and undertake to cooperate with industry in its efforts to increase industrial productivity and competitiveness and to stimulate industrial development and, second, to 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 and that will enable investment bankers to also participate more effectively in serving this need. An investment promotion campaign is also recommended to entice potential investors, including Lebanese expatriates, to invest in the nation's industrial resurgence.
2. Competitiveness measures which include the establishment of a National Quality Institute to include the former roles of the Industry Institute and the Lebanese Standards Institute (LIBNOR) while also implementing a national quality system and ISO 9000 Standard certification programmes. In addition, measures to promote exports and the "Made in Lebanon" label are indicated.
3. Educational Measures call for strengthening the links between educational institutions and industry so that the educational system will respond more readily to the needs of industry in terms of human resource development. Measures are indicated to deal with increasing the understanding of technology and with encouraging management training.
4. Other measures involve the creation of industrial parks to stimulate the location and relocation of industries to areas outside Greater Beirut, the reinforcement of the Ministry of Industry and Oil's staff to enable it to better fulfil its mandate and, measures to provide better industrial information. Also proposed: the

establishment of a National Advisory Council for Industrial Development comprised of representatives from the government, industry and the academic community to serve as a forum for discussing industry's needs and making recommendations in terms of industrial development.

In our judgement the future for Lebanon's industry lies in the entrepreneurial spirit and business acumen of the Lebanese industrialists. Their proven resourcefulness is evidence enough that they can succeed if some of the biggest obstacles to industrial development can be cleared away and if they are supported in their endeavours by their government.

We recommend that the Government of Lebanon act promptly to adopt and implement an industrial strategy based on the guidelines proposed in this report. Such action would encourage Lebanese industrialists, Lebanese expatriates and other potential investors to join forces in exploiting opportunities for industrial development in Lebanon.

The implementation of these measures will lead to the development of a stronger manufacturing sector able to compete more effectively both at home and internationally. Industry, along with a resurgent services sector, buoyed eventually by new knowledge-based businesses and a revitalized tourism sector, will deliver the economic recovery and longer-term growth Lebanon seeks and needs.

LEBANON - INDUSTRIAL STRATEGY GUIDELINES

A. THE MISSION

1. Objective

The objective of this mission was "to elaborate guidelines for an industrial strategy in Lebanon within the framework of UNDP's priority rehabilitation programme in the country".

2. Methodology and Sources

A pre-mission review at UNIDO included several meetings with a visiting Lebanese delegation consisting of the Lebanese Government's Director General of Industry, a representative of the Council for Development and Reconstruction (CDR) and the Director General of the Association of Lebanese Industrialists. It was agreed that the focus of the mission would be to determine guidelines for an industrial strategy based more particularly on the perspectives and perceived needs of the businessmen and government officials concerned rather than on an in-depth economic approach.

We started by reviewing existing studies and reports on the industrial sector in Lebanon. We then spent five weeks (from September 11th to October 17th) in Lebanon to accumulate knowledge and assess the current circumstances in the country insofar as they affected industry.

Our field work in Lebanon was supported by the Ministry of Industry and Oil, the Association of Lebanese Industrialists and the Council for Development and Reconstruction. Working out of Beirut, we met with various Ministers and government officials, with officials from the CDR, officers and members of chambers of commerce, officers of financial institutions and even with visiting delegations of businessmen from several other countries (Italy, Switzerland). We also met with three professors at the American University of Beirut, with local agents for a major supplier of quality management services and various private individuals on an informal basis. We visited the Industry Institute and we met with UNDP's country representative.

We spent at least half of our time with industrialists, at times in group meetings but, most often, at their places of business. We visited thirty manufacturing plants throughout Lebanon and interviewed their owners or senior managers about their problems,

their needs and perceived opportunities. These operations were diverse in terms of products produced and size of the businesses.

During our final week in Beirut we attended a two-day conference organized by the Association of Lebanese Industrialists in celebration of the Association's 50th Anniversary. The conference included presentations by the President of the Republic and by the ministers of industry from Lebanon, Syria and Jordan. We also made several visits to a Lebanese Industry Fair at the Beirut International Trade Center, organized by the Association of Lebanese Industrialists, to interview some of the nearly one hundred exhibitors.

Our activities also included weekly meetings with the Minister of Industry and Oil to review our progress and exchange views.

All of these activities and the considerable information we collected enabled the formulation of certain guidelines for an industrial strategy for Lebanon.

The job description for this project called for more comprehensive studies of the issues than could realistically be achieved within the scope of this mission. As was agreed, we have concentrated on presenting in this report recommendations of a practical nature while avoiding the inclusion of a great deal of data from previous studies.

B. INTRODUCTION

Lebanon is a mountainous country bounded on the north and east by Syria, on the south by Israel and on the west by the Mediterranean. The fertile Bekaa Valley lies between its two parallel mountain ranges. The country is only 217 km long and between 32 and 56 km wide making it one of the world's smallest countries with an area of only 10,452 sq. km. It is believed to have a population of about 3.5 million.

Lebanon is an independent republic with a President and a single elected chamber (National Assembly). The Executive consists of the President and a Prime Minister and Cabinet (Council of Ministers) appointed by him. Electoral law allocates deputies to the Assembly according to the religious confessional distribution of the population.

The official language in the country is Arabic with French and English being widely spoken in official and commercial circles. The currency is the Lebanese pound whose rate of exchange in September, 1993 was £ Leb 1724 = U.S. \$1.

Lebanon's recent history is one of seventeen years of war, rated as one of the ugliest of the world's conflicts. The devastation which resulted received extensive exposure in the international media. However, only on-site viewing can give foreigners any measure of understanding of the true extent of the damage and the impact it must have had on the courageous people of Lebanon.

It would be easy for the casual observer to write off Lebanon as a hopeless case, given its current economic circumstances and infrastructure problems. Potential investors visiting Beirut need to be visionary to see beyond the rubble and the rubbish, the chaotic traffic and the on-going and highly visible military presence. However, the reality is that Lebanon is, step by step, rising from the ashes. The progress is and will be slow, but conditions are gradually improving day by day. It is most important to keep in perspective, as the Lebanese do, this salient point: whatever may be the current state of the infrastructure, conditions today reflect paradise when compared to war.

The future of Lebanon is fraught with some uncertainty. The regional political situation remains unsettled but there is a large measure of hope that the peace process will, before long, enable Lebanon to once again enjoy normality. Even if Lebanon might not

become quite the mecca it was in the pre-war years, it can certainly expect to experience a good measure of growth in its industry, services and tourism sectors. Prosperity is out there somewhere on the horizon. The absolutely extraordinary resiliency and tenacity of the Lebanese industrialists, coupled with their renowned business acumen and entrepreneurial spirit will surely deliver it.

However, there are certain prerequisites associated with the achievement of growth and prosperity. Lebanon is emerging from the years of conflict and economic disruption into a world that changed dramatically through those years, a world now known as "the global village". Markets have been internationalized. Industry has been internationalized. New technology and higher-technology continue to be introduced at an astounding pace. Lebanon necessarily missed much of this transformation of world industry. It now faces a daunting task: to catch up and become internationally competitive.

The task must begin with setting objectives for the development of industry and establishing an industrial strategy aimed at achieving the objectives. To succeed, the strategy will need the commitment and support of the state and of the Lebanese industrialists.

C. REDEVELOPMENT PLANS

With war no longer being the main constraint facing Lebanon's economic and social recovery, the focus is now on reconstruction and on regaining the ability to develop and modernize the country's economy.

The reconstruction and development plans have been based on a number of studies and reports including:

- the United Nations Inter-agency Needs Assessment Mission of July 14-24, 1991 which provided a comprehensive assessment of technical assistance needs from a joint United Nations perspective.
- a comprehensive emergency reconstruction programme "Recovery Planning for the Reconstruction and Development of Lebanon" prepared by International Bechtel Inc. in association with the Lebanese consulting firm Dar Al-Handasah (Shair and Partners) in 1991.
- the government's three-year Priority Rehabilitation Program aimed at restoring and rebuilding the physical infrastructure essential for the private sector to lead economic recovery.

The Council for Development and Reconstruction (CDR), a government agency, is responsible for executing the recovery programs.

The CDR's "Horizon 2000" plan calls for expenditures of \$10 billion over 10 years of which \$2.3 billion is allocated to the first phase (1993 - 1996) including a provision of \$35 million for industry. However, only about \$1.0 billion in funding has been secured so far.

The massive costs for the redevelopment programs pose a huge challenge for Lebanon in terms of obtaining funding support from donor countries and aid agencies. Given that the real costs over a 12 - 15 year period may exceed \$25 billion, there is ample justification for concern about the limited assistance received up to now.

D. INDUSTRY

1. Definition

An industry can most simply be defined as "a group of competitors producing products or services that compete directly with each other."

The International Standard Industrial Classification (ISIC) system divides industries into major sectors: the agricultural, industrial and services sectors. These individual sectors are sometimes themselves referred to as "industries" as are groups of activities within these sectors. This mission concentrated on the manufacturing industry, a sub-group within the industrial sector.

For its purposes, the Association of Lebanese Industrialists defines an industry as being "any enterprise which employs five or more people, utilizes manufacturing equipment and produces a product."

2. Industry in Lebanon -An Overview

It seems to be not widely known in Lebanon that there exists in that country a significant number of small to medium-sized industries producing a wide range of products for domestic consumption and for export. Many Lebanese and perhaps even some public sector officials evidently do not realize the diversity and quality of the products produced by some 3,000 enterprises employing an estimated 100,000 people. Between 100 - 150 operations employ more than 100 workers. Most employ 5 - 50 people.

The prolonged period of conflict had a devastating impact on the industrial enterprises. Equipment and plants were destroyed sometimes three, four or even more times through the years. Over half of the factories in Lebanon suffered some damage. Yet, remarkably, the industrialists kept rebuilding and carried on doing business, even growing their businesses, under extraordinarily difficult circumstances. The evidence of their resiliency and tenacity lies in their having survived.

Supply problems during the war years often necessitated improvisation and innovation on the part of the industrialists. Some had to produce supplies and parts they otherwise would have purchased.

This sometimes led to the creation of new businesses within the existing enterprises. Ingenuity, creativity and fortitude are qualities seemingly existent in abundance in these people.

Industry in Lebanon is almost entirely private enterprise. The industrialists cherish their independence and do not seek, nor do they expect, extensive intervention in industry by their government. They proudly contend that they have not had help in the past so they hardly expect it now.

3. Agricultural Sector

Lebanon is sometimes referred to as being essentially an agricultural country. This may be somewhat of an over-statement although agriculture is unquestionably of significant importance to the economy and to certain inter-dependent manufacturing industries (food processing and packaging, in particular).

The country's main crops are citrus fruits, potatoes, grapes, apples, olives, bananas, wheat, barley, maize, vegetables and sugar beets. There is some commercial fishing but not on any large scale.

Estimates attribute 8.7 percent of Gross Domestic Product to Agriculture for 1987 with GDP amounting to perhaps \$3.0 billion. For 1992, "vegetable products" are estimated to have accounted for \$160 million out of a total of \$510 million in exports (31 percent).

4. Manufacturing Industry

The manufacturing sector is an important contributor to the economy of Lebanon although it perhaps does not receive, in some quarters, the recognition industrialists feel it deserves.

Estimates for 1987 attribute 14.7 percent of the GDP, or about \$440 million, to the manufacturing sector. Excluding very small enterprises, it is estimated that the more than 3,000 manufacturing concerns employ perhaps 100,000 people in total.

Lebanese industry has been primarily oriented towards serving the domestic market. However, export markets for Lebanese manufactured goods have also been developed and include the Arab countries (Saudi Arabia, Iraq and the Gulf States), Europe and North America.

Reliable statistical data are simply unavailable for recent years. However, based on 1985 estimates, the industrial sectors which were the most important in terms of sales were:

- **Food Processing Industry**, accounting for about 25 percent of all industrial output, 22 percent of industrial exports and 24 percent of employment. This sector includes the processing of local crops and all types of processed food products.
- **Textile and Garment Industry** accounting for 26 percent of total export earnings. The textile industry is based on imported fibre with ready-to-wear mass-produced garments as the largest product group. Shoes and leather goods are also important.
- **Chemical, Plastics and Rubber Industry** is the third most important sector though not labour intensive. Pharmaceuticals, petroleum derivatives and plastic products make up most of this sector with all raw materials being imported.
- **Non-metallic Mineral Products Industry**, consisting of cement, ceramics (tiles and sanitary ware), asbestos cement products (pipes, roofing) and concrete blocks. The ceramics sub-sector had significant exports.
- **Metal Products and Machinery Industry**, mostly building materials such as aluminum extrusions and electrical equipment (cables, transformers, etc.)
- **Paper and Printing Industry**, the production of packaging-grade materials, commercial printing and publishing.
- **Wood and Furniture Industry**, relatively small but a major employer. Raw material is largely imported.

These manufacturing activities remain the most important ones in Lebanon even today.

Our field work in Lebanon was aimed at gaining an impression of the current state of the manufacturing sector and assessing the prospects for the future of industry. Our factory visits enabled us to observe the manufacture of a variety of products and to interview the industrialists concerning their businesses, their problems and their perceived opportunities.

We visited production plants engaged in the following processes or manufacture of products:

- sugar beet refining
- molded plastic containers
- electrical & other cables
- pharmaceutical products
- food packaging
- glass bottles
- cosmetic products
- packaging machinery
- components for shoes
- porcelain sanitary ware
- salt from seawater
- shoe manufacturing equipment
- recycled paper production
- wooden doors
- kitchen cabinets
- tissue paper production
- office & residential furniture
- hygienic sanitary products
- aluminum extrusions
- leather belts
- cast iron & brass products
- carton board production
- corrugated boxes
- plastic film machinery
- water heaters
- soaps, solvents
- printing & publishing
- antennas & satellite dishes
- small electrical heaters
- ready-to-wear garments

These operations varied in size from plants employing over 300 to smaller ones with only 25 employees. We also visited competing enterprises, for example, in packaging materials (plastic containers, carton boxes), hygienic sanitary products, food and beverage processing. We did not manage to visit the cement industry's plants but we were able to discuss the industry with representatives of the largest producer (800 employees) exhibiting at a trade fair.

These visits and interviews led to the following observations:

- the Lebanese industrialists produce a wide variety of products that are of a higher-than-average quality and which are, in some measure, competitive regionally and even internationally.
- although a few enterprises have been able to introduce state-of-the-art equipment and technology, most very much need to up-grade or replace equipment and acquire the newer technologies that are now available.

The industrialists emphasized certain common problems they experience and certain priority needs:

- electricity: a need for reliable and reasonably-priced supply; every factory necessarily utilizes its own back-up oil-fired generators.

- **telephone & telecommunications:** a need for the most basic capability to communicate domestically and internationally by telephone and facsimile; cellular is utilized but at prohibitive costs.
- **medium and long-term credits:** a need for loans at reasonable rates to enable the purchase of equipment, plant expansions, export development and general growth of the enterprises.
- **technical training:** a need for well-trained technicians exists in many operations as a consequence of the destruction of most of the country's technical schools during the years of conflict.
- **standards and norms:** a need for a standards system that will enable industries to respond to the demands of international competition and that will also provide a measure of protection against the importation of sub-standard products which could be a danger to health and safety.

The other infrastructure problems (e.g. roads, traffic congestion, water, waste management, public transportation, etc.) are also of concern to industrialists, of course, as are other needs in the areas of general education, social welfare, etc. Indeed, all of these issues would deserve "priority" status if only a magic wand could provide instant solutions.

The industrialists (indeed, all Lebanese) will have to patiently await further improvements to the infrastructure. However, measures to address some of industry's more immediate problems ought to be initiated without delay to enable Lebanese industry to compete more effectively at home and abroad as early as possible.

5. Services Sector

Lebanon's economy in the past relied heavily on buoyant service industries, notably banking and financial services, insurance, tourism, transportation and "entrepot" trade (warehousing and conversion services). The events in Lebanon and the globalization of services as well as products have had a negative impact on Lebanon's service sectors. However, two sectors show particular promise for the future.

Tourism once contributed 16 percent of GDP but, of course, totally disappeared during the war. It is showing only modest signs of recovering. Most tourists in Lebanon today are Lebanese or

Lebanese expatriates visiting parts of their country inaccessible to them during the war. The country's idyllic setting, its climate, and its magnificent archaeological sites will again attract tourists to Lebanon, more so when the infrastructure problems improve and more hotels are restored (several large hotels are being rehabilitated) or constructed. A resurgence of this sector will provide much-needed employment as well as opportunities for Lebanese products.

The provision of knowledge-based services is the fastest growing segment of the services industry. Perhaps as many as half of the employees in developed countries now play some role in either the production, storage or distribution of knowledge. Because of the war, the Lebanese have not been participants in this segment. Knowledge-based businesses will eventually emerge in Lebanon but only when people with the necessary skills and education become available. New business entrants and joint venture partnerships will likely lead exploitation of the potential.

6. Economic Prospects

Some aspects of Lebanon's economy have undergone significant change though the years of turmoil. Lebanon used to function as a depot through which goods moved between the Mediterranean and the Arab countries. Saudi Arabian and Iraqi oil was also exported through Lebanon. This transit trade was lost and many of the region's economies developed their own harbour facilities to fill their own needs. Improved distribution networks also obviated the need for transit services.

Lebanon's services are also now less unique and less needed than before because its neighbours have developed substitutes for them. However, because the Gulf economies have grown significantly since the oil boom years, the potential for business is much larger.

Most of Lebanon's industry could be classified as light manufacturing demanding relatively low skills. Given the demands that the reconstruction activities will generate, these industries should experience strong growth, particularly those able to compete in construction materials, sanitary ware, domestic appliances, home and office furnishings, etc.

The Lebanese business community is well-connected internationally through trading and the many expatriates located around the world, connections that industry can use to advantage in export development.

The short-term prospects for the economy are for a strengthening in the manufacturing industry, slower recovery in the services sector (e.g. banking and financial services, tourism) and modest growth in the agricultural sector).

Lebanon is not likely to regain its former central position in the region but, longer-term, it can expect its manufacturing industries to compete more effectively in international markets, knowledge-based industries will be nurtured and tourism will again be an active sector.

E. ISSUES AND INSTITUTIONS

A number of issues and certain institutions are of particular importance to industry and need to be taken into account in the formulation of an industrial strategy.

1. The Infrastructure and Services

The severe damage caused to the infrastructure and services by war had an especially crippling impact on industry. The infrastructure problems prevail but they are diminishing day-by-day. However, patience is certainly an indispensable virtue when it comes to coping with current conditions in Lebanon. In particular:

1.1 Electricity

Power shortages continue to be a constraint. Power interruptions are frequent and this unreliability requires all industries to have back-up (oil-fired) generators in order to assure continuous operation of production equipment. This extra cost burden is significant in terms of fuel costs, maintenance costs and, often, the provision of additional stand-by generators.

The state-owned "Electricité du Liban" under the Ministry of Hydraulic and Electric Resources, has to cope with the problems of rehabilitating the electricity sector while also dealing with issues such as the theft of electricity, billing and collection problems, etc. Power stations are being rebuilt but reliable service and adequate supply are many months away. Meanwhile, a recent price increase for electricity has added to the industrialists' dismay.

1.2 Telecommunications

The telecommunications system was severely damaged and in some areas totally destroyed. Emergency measures to restore the system have so far yielded some improvement in the international telephone services but significant problems prevail in the domestic system.

Businessmen often resort to the use of prohibitively costly cellular services to communicate or they will even dispatch messengers by car to convey messages locally. Some even have a bank of four or five telephone handsets on their desks with alternative lines.

Additional capacity is being installed (by Alcatel-Ericsson-Siemens) but until the telecommunications system in Lebanon becomes

efficient once again, the redevelopment of the country's industrial and services sector will be retarded.

1.3 Transport Sector

The chaotic traffic congestion in Beirut contributes to a great loss of time, fuel wastage and pollution and a high level of frustration. There are no longer any (working) traffic lights but the conversion of some militia personnel to police roles, including traffic control, is providing some modest relief. Truck traffic is limited to off-peak hours to help alleviate the congestion. Outside Greater Beirut conditions are better but the road network needs some improvement. The airport is functioning as is the port with further rehabilitation and expansions planned. The public transport sector is almost invisible and needs new buses, garages and maintenance workshops. Most people drive cars (mostly older cars, often several cars per family) as a matter of necessity to get to work. In the smaller communities and villages the employers sometimes provide buses to transport their workers.

1.4 Water Resources

Lebanon has an adequate supply of water though there are problems in the delivery system (rehabilitation/repairs needed), especially as to serving the general population. Industry's needs are generally being met. Most people drink bottled water for safety reasons.

1.5 Postal Services

The postal service is not deemed to be reliable and is in need of rehabilitation. International mail can take one week or four weeks. As is happening worldwide, electronic mail will become the preeminent tool for business communication ... but only when the telecommunication system becomes efficient and reliable.

In spite of all these infrastructure problems, business is being transacted in Lebanon, products are being produced and life goes on. The frustrations generated by the infrastructure problems are to the Lebanese industrialists far less onerous than the turmoil they survived through the seventeen years of war.

2. Banking and Financial Services

2.1 Banks

In pre-war times, Lebanon was renowned as a centre of banking for the region and its system of free exchange and banking secrecy attracted capital from many sources, especially the Arab world. Public confidence in the system deteriorated seriously partly because of the risks associated with a war-time economy but also due to alleged irregularities and mismanagement. These difficulties and a severe decline in the Lebanese currency resulted in deposit outflows from the country and the eventual failure of a number of banks.

Today, 72 commercial banks are in operation, many of them relatively small. Recommendations have been made to restructure the system in order to provide for fewer but financially stronger banks.

The banking system lost many skilled people during the war, but some are now returning. The banks are also hiring well-trained people from abroad (Europe and U.S.A.). One bank reportedly hired 40 M.B.A. graduates recently. These moves are in preparation for a resurgence in the financial services sector coincident with the redevelopment programmes and a more favourable investment environment.

2.2 Industrial Loans

The strongest message emanating from Lebanese industrialists today is their plea for access to medium and long-term loans which they need for rehabilitating their businesses. They need to replace equipment, most of which is out-dated (only 5 percent of the manufacturing equipment in Lebanon is believed to be relatively new). They also need funds for plant expansions and to support business development. Lebanese industries generally have borrowings for only about 15 percent of total assets (compared to about 50 percent in U.S.A. and 75 percent in France), a reflection of their avoidance of debt and an understandable reluctance to replace equipment until the bombs stopped falling. That time has come.

The commercial banks can only make loans for one-year terms (renewable in an annual review) on a current account basis and with floating interest rates. Interest rates (12 - 15 percent) are too high for industry's redevelopment needs. Furthermore, constraints on the banks (the level of protection for deposits) very much limit the funds available for industrial loans.

The Banque Nationale de Développement Industriel et Touristique formerly provided long-term (7 - 10 year) loans to industries. However, this bank was inefficient and ineffective. It

lost its capital and it no longer has funds available for loans. A plan to restructure the bank is currently under review by a government committee. The restructuring would reduce the state's share-holding in the bank to 20 percent (formerly 51 percent) with the balance to be privately held through the commercial banks. Such a restructured institution should prove useful in alleviating the demands for long-term loans though some scepticism prevails.

2.3 Investment Banking

Investment banking has not been used as an investment financing tool in Lebanon. It could prove to be a significant participant in the provision of capital for industry through syndications or bond issues on 7 - 12 year terms. Some banking regulations would need to be amended to enable investment bankers to function effectively.

One Lebanese financial corporation is preparing an offering for this type of financing, seeking to attract local investment capital initially. Eventually, the intention is to attract funding from Lebanese expatriates and foreign investors.

Investment banking is a concept whose time has come for Lebanon. It deserves government support (easing of the "money and credit law") so that industry can obtain the kind of long-term financing it urgently needs.

2.4 Financing Technology

If higher-technology companies do eventually consider investing in Lebanon, the Lebanese bankers may need some persuasion to adjust to the different challenges of financing technology. Bankers usually look for collateral such as land, buildings and equipment. However, high-tech companies' assets are less tangible being knowledge, skills, people and networks.

Financing technology is said to be like financing "air". It requires different risk-assessment, more frequent reporting and attitudinal changes on the part of lenders.

The Lebanese, with their wealth of experience in the banking and financial services sector, need no particular technical support to develop and implement measures which will provide medium and long-term loans to industrialists. They have readily at hand all the necessary expertise. They just need to do everything possible to expedite the availability of these credits.

3. Standards and Norms

One of the most pressing needs facing Lebanon's business enterprises today is the need for the establishment of national standards for products and for conformity to those standards by industry. A national standards programme is vital to the economy in terms of its relationship to international and domestic trades, public health and safety and even environmental issues.

Most importantly, Lebanese industry cannot expect to compete in international markets if its products do not conform to international standards.

The two institutions which were prominent in standards and testing before the war are no longer fulfilling their former roles, a consequence of the severe damage caused by the events in Lebanon.

3.1 Industry Institute (Industrial Research Institute)

The Industry Institute (in Arabic and in French the name includes the word "research") was established in 1953 as a joint project of the governments of Lebanon and the USA and the Association of Lebanese Industrialists. It became a national not-for-profit organization in 1955, independent financially and administratively and connected to the Ministry of Industry and Oil. It has a 99-year lease on land and owns five buildings.

The Institute provided professional services on a fee-for-service basis in the areas of laboratory analysis, field inspection and testing, applied research and consulting. It gained renown even beyond Lebanon, mainly in Middle-East countries. At one time it employed 85 people.

The Institute was destroyed during the war. It has rehabilitated several buildings but it has been unable to replace its damaged laboratory equipment. It now functions as a mere shell of its former self, employing only 14 people.

The Board of Directors of the Institute is comprised of:

Chairman:	Minister of Industry and Oil
Vice-chairman:	President, Association of Lebanese Industrialist

Members:

Director General of Industry
President, Engineers Syndicate (as
Chairman, Lebanese Standards
Institute)
Chairman, Council for Development and
Reconstruction
Chairman, National Scientific Research
Council

The main issue facing the Board is the question of rehabilitating the Institute and particularly, acquiring the funding to do so.

In April, 1993, the Director General of the Institute prepared a "Development Plan for 1994, 1995, 1996" which identified the Institute's rehabilitation requirements, including capital expenditures of \$3.1 million over the three-year period. Others estimate a minimum of \$8.0 million as the need, or even more, depending on the equipment required for a newly-defined role for the Institute.

The rehabilitation of the Industry Institute should have priority status. This project is significant enough to justify an in-depth study by knowledgeable professionals who would firstly identify the future roles for the Institute and subsequently determine the structure, staffing, asset requirements and training needs for fulfilment of its mandate.

3.2 Lebanese Standards Institution - LIBNOR

LIBNOR (Lebanese "norms") is, by law, the only institute which can issue standards. It has no staff, no premises, no assets. The Industry Institute acts as LIBNOR's Secretariat writing most of the standards and selling them to industry. The Institute's contract expired and, there being no funds available, it was not renewed. LIBNOR is, in effect, inoperative at present.

The Lebanese standards and codes, published as recently as 1987, were in some instances classified as "mandatory" standards, but in many cases only "voluntary". There is, today, no regulation or monitoring of standards.

It is vitally important for Lebanon to adopt international standards on an urgent basis and to institute controls to monitor conformity. This will require the technical assistance of experts who would be able to up-date existing Lebanese standards and adapt them to international standards (ISO) and regional standards (EN-

European) while also taking into account the need for any special standards for Arab countries.

The Lebanese Standards Institution - LIBNOR should be reactivated to pursue the role of managing the new national standardization programme whose objectives would include the improvement of product quality and the enhancement of industry's international competitiveness.

4. Quality

Quality has become the focus of manufacturers around the world with particular emphasis having been given to the subject during those years when Lebanese industrialists were preoccupied with surviving the hostilities. Lebanese producers have always promoted quality but the concepts and quality systems which have emerged over the past decade pose new challenges for the industrialists.

4.1 Total Quality Management (TQM)

Total Quality Management is a concept which has grown enormously since the early 1980's. The Japanese embraced the concept years ago and it has subsequently spread throughout the world.

The definition of quality in this concept can be simply stated as: "meeting the customer's requirements every time". A slogan frequently used: "do it right the first time". The concept essentially aims to have everyone who works in the enterprise become conscious of the need for achieving quality and personally contribute to doing so.

It is generally accepted that the costs of achieving quality are no higher than the real costs of failing to do so. Adopting quality-based management boosts productivity and, accordingly, enhances a firm's competitiveness.

4.2 Quality Systems and ISO 9000 Certification

Major manufacturers in large-scale industries such as automotive, aerospace and nuclear introduced their own systems and procedures to assure quality achievement. They also required their major suppliers to adopt such systems in order to retain their status as "approved" suppliers. They would even periodically audit the supplier's operations and procedures to ensure compliance.

In 1987 the International Organization for Standardization (ISO) in Geneva introduced the ISO 9000 Standard which fixes certain

requirements as to quality management systems in enterprises. The standards apply to industrial and service firms, not to products.

To gain an ISO 9000 certification a firm must undergo a rigorous certification process conducted by an agency authorized to award certification. The steps include evaluation, preparation of a quality assurance programme and a quality manual, assessment and training.

The value in certification to the firm lies in the productivity improvements a quality system can generate and, most importantly, it identifies the enterprise as one which is committed to quality. In the international arena, more and more buyers are choosing to deal with suppliers who have ISO 9000 certification.

Quality programs can be implemented in a number of ways but, given the circumstances prevalent in Lebanon, it will be necessary to use experts who possess the requisite know-how. Lebanese industry certainly cannot afford to ignore the worldwide trend toward implementation of total quality programs and ISO 9000 certification.

5. Human Resources

Prior to the war years, Lebanon had a well-trained labour force. The hostilities caused extensive damage to the schools and, for Lebanese industry, the severe loss of its labour force. Emigration of skilled workers and managers continued throughout the period of conflict causing labour shortages. In addition, labour productivity declined because of lower quality labour (lack of education, training) and no investment in up-to-date technological and managerial methods.

Real wages also declined seriously. The monthly minimum wage stood at \$135 in 1975 but had declined to only \$28 in 1987. Today it stands at about \$68, a level that causes great economic hardship for many. Employers, who served as social services providers for their workers throughout the war, still provide supplementary support (assistance with education costs for their children, medical costs, etc.). The social welfare system is evidently so inefficient at present that people avoid trying to access it.

There is a very serious unemployment problem in Lebanon, believed to be about 30 percent. Some young people, having grown up during the war, have never had a job. Furthermore, some do not choose to work in factory jobs ... it seems as though most Lebanese want to be entrepreneurs!

Industry faces the problem of attracting expatriate skilled workers to return to Lebanon while awaiting "home-grown" skilled people to come out of a rehabilitated education system. Unfortunately, there is little attraction for expatriates to return just yet, given the wage levels and economic conditions in Lebanon.

The country is facing enormous sociological problems as have been described in a paper prepared in March 1993 for UNESCO entitled "Socio-economic Developments, Critical Issues and Priorities for Human Development in Lebanon" by Dr. Nadim G. KHALAF, Professor and Chairman of the Department of Economics, American University of Beirut.

The educational challenges associated with these problems, insofar as they relate to industry, are dealt with below.

6. Education

The educational institutions were very badly damaged during the war, instructional materials were lost and there was a large-scale exodus of teachers. The rehabilitation of the system poses exceptional challenges for the Ministry of Education.

The most pressing manpower need expressed by the industrialists is the need for trained technicians. This means rehabilitation of the technical schools. It is hoped that new Ministry for Professional and Technical Development will eventually be able to deliver graduates to alleviate this widely-expressed need.

The educational system did not and does not now foster formal, or even good informal, links between education and industry. Most developed countries do see value in such links, particularly in order to ensure that the educational system will respond more directly to the manpower needs of industry.

An important contribution to dealing with these issues insofar as they apply to industry is a two-year study (first year just ending now) entitled "Human Resources for Industrial and Technological Development in Lebanon" being conducted by Dr. Toufic M. MEZHER, Assistant Professor, Faculty of Engineering and Architecture, American University of Beirut as a joint-venture project with the Massachusetts Institute of Technology (MIT). The project is being funded by The Hariri Foundation, Mr. Rafik Hariri being the Prime Minister of Lebanon. It includes a survey of technical products and requirements for training. However, its half-term report will not be available until early 1994.

7. Customs Tariffs

The Lebanese economy has always had and still has a strong free market orientation with a very high contribution by the private sector (perhaps 80 percent of GDP).

The government's stated policy is that it is committed to promoting all measures that will generate efficient and competitive market conditions. Accordingly, the Ministry of Economy and Trade strongly promotes measures that reinforce price competition. It generally aims to reduce high trade barriers and eliminate import permits believing that inefficient firms should not be protected through restrictive trade practices. The Lebanese customs policy reflects these principles. It aims to provide consumer cost protection, a reasonable degree of protection for domestic producers and revenues for the state.

The industrialists, on the other hand, are dismayed by some inequities and inconsistencies they perceive to be prevalent in the tariffs.

Changes about to be introduced will reduce the number of different tariff rates (from 73 down to only 10) and normalize the exchange rate used for duty purposes. Duties, tied to the rate for US dollars, had been based on a value of the goods using an exchange rate that was only about half the real rate, a practice that was frowned upon by international monetary authorities. The new rates will also incorporate other taxes into the duty (e.g.: municipal, interior, health and stamp taxes). The net result of these changes is projected to mean a modest reduction in the total duty and taxes payable.

The Association of Lebanese Industrialists pleaded to have sector by sector reviews of the new tariffs before they were introduced but the authorities insisted on any such reviews being done only after implementation of the new tariffs.

Duty is recoverable on goods which are re-exported. For materials used in manufacturing, duty is payable on raw materials. The claims procedure to recover the duty is lengthy and cumbersome and the control mechanisms are inadequate. New computerized systems are expected to yield improvements by year-end and they will also yield detailed import/export statistics which are currently not available.

A free zone allows the import of goods for transformation or re-packaging, etc. and subsequent re-export, without payment of customs duties. There are plans to expand such zones.

Curiously, used machinery needs an import licence, a measure evidently designed to monitor the extent and need for such machinery although all machinery, new or used, enters duty-free.

The government has intervened, on occasion, to protect consumers or in the interests of the public purse. It allowed the entry of cement duty-free when cement prices had escalated dramatically due to the domestic suppliers' alleged production problems. It is also facing controversy in connection with the entry of massive quantities of cable for the public sector rehabilitation program in contravention of a provision which is supposed to allow the domestic producers a 15 percent price advantage.

All of this is to say that Lebanon experiences the same pressures in respect of customs regulations and tariffs as other countries.

8. Industrial Estates

As a matter of policy the government wishes to motivate the relocation of some industries from Greater Beirut to areas outside Beirut and even to rural communities, e.g. the villages in the mountains. The objectives of this policy are to promote regional and rural development while also relieving the environmental, traffic and other problems caused by the concentration of industries in Beirut and, especially, in the underground industries.

The government's proposed solution is the development of industrial estates (industrial parks). A draft law provides for the establishment of industrial park development companies, allowing them a ten-year tax holiday for such industrial park projects. However, the government otherwise does not intend to provide direct funding for these projects.

It will probably be difficult to entice developers to undertake such projects without further incentives and even more difficult to convince industries to relocate voluntarily. The test will come once the new law is passed.

9. Taxation

The Lebanese tax system is said to be known for its moderate rates and for its incentives to encourage investments. A proposal currently before parliament will reduce the tax rates on personal and corporation taxes to as low as 10 percent (from a former level of 26 percent in the case of corporations).

Various other taxes apply making the system typically complex: municipal taxes, stamp duty, capital gains tax, 3 percent of tax due is payable to the National Office of Reconstruction, etc.

The lowering of taxes is intended to increase government revenue, decrease the cost of tax collection, attract new investment, increase income levels and, through the production of more goods and services, encourage competition.

Lebanon may not be entirely "a fiscal paradise", as one official exhorted, but taxes are at least not a disincentive to investment or industrial growth.

10. Exchange Rates

The impact of changes in the value of the Lebanese pound vis-a-vis other currencies has been of serious consequence to the country's economy. Industry has likewise faced difficulties. However, a certain stability is evident currently:

Lebanese pounds per \$1 U.S. (approximate)

<u>1975</u>	<u>1980</u>	<u>1985</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993 Sep</u>
2.3	3.4	16.4	695.0	928.0	1713.0	1724.0

A stable currency will be desirable for the promotion of investment, the development of exports, etc.

11. Exports

The Lebanese industries are very largely oriented to the domestic market. However, some companies have developed export markets with the Arab countries as their predominant markets. About half of all exports have been to the Gulf States and to Iraq, Syria and Jordan. The Gulf War had a serious negative impact with agricultural products, especially fruit, being particularly hard hit.

Other export markets, especially for garments, leather goods and plastic products have included Europe and to a lesser extent, North America.

11.1 Future Prospects

Growth for Lebanon's products will come mostly from the regional countries, specially in the event of a widening of the peace process. Fresh fruit and vegetables and processed foods should continue to have strong appeal in Lebanon's traditional markets and even to the countries of the European Community.

The creation of an Arab regional trading block seems inevitable given the thrusts elsewhere in the world for forming such blocs and continental trade agreements. Lebanon can expect to benefit from negotiated trading links in the region but it will also face the threat of stronger competition in some of its markets, including from the Israelis. A Swiss bank recently identified Israel as one of the "five countries of the future" (the others being China, Japan, Korea and Singapore) because of its highly-educated work force and heavy investments in physical assets. There will also be ever-increasing competition from the Asian countries, as is now being experienced even in Lebanon's home market.

Detailed sectoral studies would be necessary to identify the specific export opportunities for Lebanese manufactured goods. The industrialists have asked for and need assistance to promote exports.

12. Trade Promotion

In Lebanon, the mandate for trade activities lies with the Ministry of Economy and Trade. In many other countries, the industry and trade portfolios are more likely to be combined.

Budgetary constraints preclude the funding of trade promotion so the Association of Lebanese Industrialists gratuitously takes on the responsibility of organizing and participating in trade fairs, etc. The Director General of the Association also represents the industrialists' interests in trade "cooperation" discussions with other countries in the region.

13. A Controversy - Industry or Services?

A deeply-felt concern expressed by quite a number of industrialists centres around their belief that the government is not really supportive of industry and it sees Lebanon's future to be in the services and tourism sectors, not industry.

This serious concern seems to be based, in large measure, on views expressed publically by the Minister of Economy and Trade concerning the importance of services, tourism and knowledge-based industries to the economy. The message he conveyed included that the government would encourage industries that export, this capability being evidence that they were competitive as to quality, cost and production methods. Such encouragement would include exemption on duties for their imports, lower corporation taxes for several years, purchases of their products by the government, insurance for their investments, etc.

Exports could include services, not just products, e.g.: financial services, tourism services, marketing, education, health services, etc. Furthermore, with the worldwide trend being toward new types of service industries (e.g. : computer software, systems design), Lebanon should assist in the development of such higher-technology industries. Inefficient industries simply could not be supported any longer by government interventions.

Some industrialists interpreted these remarks to represent a lack of support for existing industries and even as the prelude to a plan to turn Lebanon into "a large cabaret". Such misinterpretations were unfortunate but they are helpful in drawing attention to some of the challenges Lebanese industry will indeed face.

Our discussion with the Minister of Economy and Trade led us to conclude that his views, when put in perspective, are actually supportive of industry. The government's position is that because Lebanon's home market is so small, business sectors that produce exportable goods are more deserving of special attention than those that deal only in import substitutes. The fact is that Lebanese industry will need to become more productive in order to be internationally competitive. Furthermore, the knowledge-based industries and services of all types will, indeed, be important to Lebanon's future economic growth. In these contexts, the reality is that the changes Lebanon's industries face are no different from the changes which have already occurred, or are occurring, in many other countries.

The most desirable profile for industry in the future in Lebanon would surely include a strong manufacturing sector, a resurgent services sector buoyed by new knowledge-based businesses and a revitalized tourism sector, all mutually supportive. The industrial strategy should be such as to support the achievement of this profile.

14. Technology Industries

The desire to develop "high-tech" industries is common to many nations. Lebanon's Minister of Industry expressed an interest in attracting higher-technology industries to Lebanon and in seeing Lebanese industries move forward in this context.

The term "high-tech" encompasses everything from computer production and usage to biotechnology, genetic engineering, the creation of superconductors, wireless digital communication networks and many other such fields.

Lebanon's circumstances are simply not conducive to attracting new higher-technology industries at this time. It first needs to create an environment which will appeal to such knowledge-based and skills-based industries: political stability, sound infrastructure, an orientation to higher education, a favourable investment climate, etc. Nevertheless, it is appropriate, as the Minister suggested, "to dream, at least, about the possibilities for the future".

UNIDO's current project "Identification of New Technologies for Strengthening the Competitiveness of Lebanese Industry" will seek to identify new and advanced technologies which would strengthen the competitiveness of Lebanese industry through the assessment of world trends in this area as well as the technological capacity and infrastructure of the country. The project will also formulate follow-up actions to be implemented in a second phase.

15. Industry Information

The gathering and issuance of statistics in all sectors of the economy ceased or was severely impaired by the events in Lebanon. All the documentation, equipment and buildings at the government's Central Statistical Information were destroyed. Likewise, for industry, the available data have been limited and unreliable.

15.1 Trade Directory

One useful source of information about industry in Lebanon does exist. An excellent trade directory, "The Directory of Exports and Industrial Firms in Lebanon", lists industries which have been identified on the basis of field surveys conducted by the directory producer's representatives. This "calling door-to-door" reaches industries which are both figuratively and literally "underground". (Some industries, particularly in South Beirut, still operate below ground level in apartment buildings, having established there for

protection from shelling.) The directory, a privately funded initiative, provides information about the enterprises, their products and/or services, trade classifications, banks, trade agreements, etc. An up-dated edition is about to be published.

15.2 Industrial Census

A proposal to conduct a comprehensive census of industry in Lebanon and to establish a statistical system to monitor industrial development was presented to the Ministry of Industry and Oil earlier this year. The census would be based on the use of an exhaustive questionnaire. The project would take 12 - 15 months and cost \$380,000.

We understand that the German aid agency GTZ has agreed to fund this project. The implementing agency in Lebanon will be the Council for Development and Reconstruction.

15.3 Industrial Information Centre

UNIDO has designed a project entitled "Establishment of an Industrial Information Centre in the Ministry of Industry and Oil". The project is designed to give ministry staff training to become competent information officers able to deliver relevant information services to the Lebanese industrial community. The project includes development of an industrial databank on Lebanese industry and providing for access to UNIDO's Industrial and Technological Information Bank (INTIB). This project awaits financing.

A need for coordination between these several projects is evident.

16. Association of Lebanese Industrialists

The Association of Lebanese Industrialists is the trade association formed by industrialists from all over Lebanon whose purpose is to promote and develop industry in Lebanon. Its membership of close to 1100 represents about 75 percent of the capital invested in manufacturing in Lebanon.

The activities of the Association include the promotion of Lebanese manufactured products, representing industry in various institutes and organizations and participation in many meetings and discussions pertaining to industrial activity. It maintains a very close relationship with government officials at all levels.

One of the most important roles of the Association is the organization of trade fairs, one recent such event being the Lebanese

Industry Fair held at the Futuroscope facility of the Beirut International Trade Centre, October 11-21, 1993. Nearly 100 exhibitors from the Lebanese industrial community participated.

The Association also organized a high-level conference to celebrate its Fiftieth Anniversary. The "Congress on Lebanese Industry in the 2000's and Arab and International Industrial Cooperation" was held October 13-14, 1993 near Beirut under the patronage of the President of the Lebanese Republic. The business sessions included speakers such as the ministers of industry from Lebanon, Syria and Jordan and many others of high ranking. A UNIDO representative made a presentation on the role of UNIDO in providing assistance to Lebanon.

This Association is clearly well-organized and strongly supported by its membership. Typical of such trade organizations, it is perhaps stronger than most.

F. INDUSTRIAL STRATEGY

1. Definition

Various labels have been given to proposals aimed at increasing a country's productivity potential. They include: industrial policy, reindustrialization, supply side, structural policies and, the more fashionable terminology, "industrial strategy". The simplest definition of industrial strategy: a combination of measures that will improve the economy's potential, i.e. anything that will improve industry's growth, productivity and competitiveness.

Industrial strategy can be broad and general, allowing market forces to motivate adjustments needed at the market level. Where appropriate the policies can be industry-specific, region-specific or even company-specific. They can, for example, be targeted to assist industries to export or substitute for imports.

Governments utilize a wide range of coordinated interventions in support of their industries. A few examples:

- loan guarantees
- direct subsidies
- cash grants
- investment tax credits
- write-off incentives
- customs tariff barriers
- minimum wage legislation
- devaluation
- privatization
- Research & Development tax credits
- manpower training/retraining
- government procurement
- import limitation
- export promotion
- creation of industrial estates
- interest rate and credit controls
- regional development
- tax reform

When utilized, interventionist measures must be carefully considered in consultation with industry representatives before, not after, policy is established. The measures must be coordinated to minimize contradictory and "ad hoc" governmental actions. Most importantly, the state must have the administrative capability to implement the measures.

2. Lebanon's Use Of Interventions

Through the years, Lebanon adopted a number of measures which together influenced industrial development, albeit in a loosely-defined and somewhat uncoordinated fashion. The measures evidently failed to take fully into account the requirements of industry and the need for coordination with other sectors of the economy (e.g. agriculture). The measures included, for example: forgiveness of taxes for a certain period, tariff protection for products produced locally, subsidization of certain exports, duty exemptions for

equipment and replacement parts, price concessions on energy, trade accords with various countries, preferences given for domestically-produced goods, investment protection against non-commercial risks, etc., etc. These measures were evidently introduced from time to time to deal with problems as they arose rather than in a well-coordinated manner and with long-term objectives in mind. The years of conflict and the enormous changes which have evolved in "the global village" make it imperative for Lebanon to re-define and reinforce a role for its industry and to establish an industrial strategy which will be both appropriate and sustainable long-term.

3. Methodology for Developing Strategy

Our mission's methodology involved extensive consultations not only with government officials but also with many industrialists throughout Lebanon, their trade association, leaders of chambers of commerce and other businessmen. Accordingly, the policy measures we recommend here flow from the government's perceived objectives and also from the widely-held views of the nation's industrialists as to their needs in terms of industrial development.

4. Strategy Objectives

The government's long-term industrial strategy objectives include the elements typical of national policies:

- 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
- generate technological improvements
- stimulate a higher level of general and technical education
- foster industrial development

A successful strategy will also yield taxation revenue, of course.

The industrialists' objectives are also very basic and include (in addition to many of the elements listed above) as priorities:

- accessibility to medium and long-term financing
- a system of international standards and norms
- total quality programmes
- support for exportation

There is a large measure of consensus between the government and the industrialists as to the needs. The strategy needs only to be articulated and implemented.

5. Basis For Strategy

Lebanon has a vibrant manufacturing sector but its industries urgently need rehabilitation and up-grading, particularly in terms of equipment and technology if they are to be internationally competitive or even regionally and domestically competitive. Lebanon's economic circumstances, its size, its lack of capital and natural resources and its shortage of trained manpower rule out any thoughts of developing heavy industry. Lebanon's immediate future as to industrial development lies in small to medium-sized enterprises. The development of higher-technology industries will come, in due time and if viable, subsequent to required improvements to education and training and the eventual participation of joint venture partners.

An industrial strategy for Lebanon should, in the short term, respond to the immediate needs of rehabilitating the existing industries and positioning them to become more competitive. The strategy should also be characterized by its simplicity and be based upon a few fundamental concepts:

- reinforcement and support of the country's existing industries through measures that will stimulate their growth
- adoption of a high degree of openness to encourage trade while pursuing an export-oriented growth policy
- creation of an environment which will encourage investment and stimulate industrial development
- prudence vis-a-vis the risks inherent in prematurely promoting the development of new or high-technology industries

To use a gardening analogy: nourish the plants which have been able to survive even in poor soil; clear away any obstacles to their growth; avoid trying to force the growth of new varieties until the soil is prepared and fertile enough to receive them.

If Lebanon's economy was buoyant and if the state's treasury was healthy there would be more flexibility as to measures which might be used to boost industry and the economy at large. The reality is that the state cannot, at this time, provide direct funding for industrial development measures. Donors will be needed for some programs. Given the ever-increasing difficulty to secure donor funding, Lebanon will need to utilize measures which minimize the need for direct funding. In due time, when the economy is robust enough, additional programs in support of the strategy can be considered.

6. Strategy Measures

The proper role for government policy toward industry is to stimulate the dynamism, the upgrading and the growth of industry. We propose that the Government of Lebanon can best fulfil its role by establishing an industrial strategy based on the following specific measures:

First, make a commitment such as the following:

"Recognizing that industry has a vital role to play in the reconstruction and development of Lebanon, in the creation of employment opportunities, in contributing to the balance of trade and in the improvement of national economic performance, the government pledges its support for industry and undertakes to cooperate with industry in efforts to increase industrial productivity and competitiveness and to stimulate industrial development."

Second, implement the following specific measures:

(Priority ratings have been allocated to each measure):

6.1 Financial Measures

6.1.1 Medium and Long-Term Loans

Establish institutions and pass any required enabling legislation which will give industrial enterprises access to

الجمهوريّة اللبنانيّة
مكتب وزير الدولة لشؤون التنمية الإداريّة
مركز مشاريع ودراسات القطاع العام

medium-term and long-term loans at reasonable rates for the purpose of rehabilitating or upgrading equipment and/or expanding productive capacity. A restructured Banque Nationale de Développement Industriel et Touristique will contribute somewhat to alleviating the needs for such credits. However, given the constraints on commercial banks vis-a-vis making such loans, provision should be made to facilitate the participation of investment bankers in this financial sector. Certain changes to legislation and regulations may be required to encourage their active participation.

Priority: Critical/Urgent ("must do now" label)

6.1.2

Investment Promotion

Mount an extensive investment promotion campaign to entice potential investors, including Lebanese expatriates, to invest in the nation's industrial resurgence. Required: effective promotional materials providing all necessary information and a "road show" approach to take the message abroad.

Priority: Desirable/Urgent

6.2

Competitiveness Measures:

6.2.1

Quality and Standards

Establish a National Quality Institute (NQI) whose role would be to create and implement a national quality strategy and to motivate the adoption of a total quality approach in industry and across all sectors of the economy. The NQI would encompass the former roles and activities of the Industry Institute and the Lebanese Standards Institution (LIBNOR). The NQI would also pursue the national and international harmonization of standards based on quality principles. It would also undertake the urgent task of implementing a national quality system throughout Lebanese industry. The establishment of NQI is of critical importance to the future success and international competitiveness of industrial enterprises but it will also yield benefits for all sectors of the economy (government, education, services, tourism, health, etc.). Its programmes would include making national awards for business

excellence. NQI should also eventually become qualified to award ISO 9000 Standard certification.

Priority: Critical/Urgent ("must do now" label)

6.2.2 Export Promotion

Aggressively promote international trade and the pursuit of open market access in foreign nations with a view to developing new markets and expanding existing markets for Lebanese products. Creation of an Export Promotion Council could provide a forum for stimulating export development and coordinating the activities and mandates of the Ministry of Industry and Oil, the Ministry of Economy and Trade, the Association of Lebanese Industries and chambers of commerce.

Priority: Desirable/Urgent

6.2.3 "Made in Lebanon" Promotion

At every opportunity, stimulate pride in the "Made in Lebanon" label to help overcome the preference Lebanese consumers seem to have for foreign-labelled goods. Lebanese citizens and foreigners alike need to be more widely informed that products produced in Lebanon are most often of superior quality to those carrying "prestige" labels. The television and print media should be enlisted to promote this message as a public service.

Priority: Desirable/Soon as Possible

6.2.4 Energy Pricing

Eventually provide preferential pricing to industrial consumers of electricity based on consumption and off-peak usage. Supply needs to be normalized before industry can benefit from such a measure.

Priority: Desirable/Soon as Possible

6.3 Educational Measures

6.3.1 Strengthen Schools/Workplace Links

Provide for the educational system to respond more directly to the needs of industry. Needed: the development of technical and professional education centres whose roles would include the development of personnel for industry and training for adaptation to technological changes, a national

apprenticeship training program to provide on-the-job training in growing industries and programmes to orient younger students to employment opportunities in industry in order to encourage them to pursue the relevant knowledge and skills they will require for employment.

Priority: Desirable/Urgent

6.3.2

Increase Understanding of Technology

Arrange for universities and other educational training institutions to develop and provide courses in the management of technological change and new product development. The need is to enable managers and the work force to recognize, acquire and use effectively the best-practice leading-edge technologies.

Priority: Desirable/Soon as Possible

6.3.3

Encourage Management Training

Arrange for courses on the latest management techniques to be available through learning institutions and/or trade associations to enable managers and future managers to improve their skills including, for example, in the use and management of computers.

Priority: Desirable/soon as Possible

6.4

Administrative Measures

6.4.1

Industrial Estates

Provide for the establishment of industrial parks to encourage the location and relocation of industries from urban areas to more rural regions. Proposed legislation provides for the establishment of industrial park development companies and includes allowing a ten-year tax holiday for such industrial park projects. However, further incentives, such as donations of land by the communities will likely be necessary to motivate such projects. Persuading companies to move out of their underground premises will also be a challenge. Their eventual ownership of the new premises may be a necessary incentive to offer.

Priority: Desirable/Urgent (government priority)

6.4.2 Reinforce Ministry of Industry

Immediately review the structure and staffing of the Ministry of Industry and Oil with a view to reinforcing it so that it can more effectively fulfil its mandate.

Priority: Desirable/Soon as Possible

6.4.3 Industrial Information

Coordinate the planning for an industrial survey project (GTZ and the Council for Development and Reconstruction) with the proposed UNIDO project "Establishment of an Industrial Information Centre in the Ministry of Industry and Oil" to ensure compatibility of the two projects. The objectives of the industrial survey include establishing a database of information about industries in Lebanon and mechanisms for regular up-dating. The UNIDO project also provides for development of an industrial databank on Lebanese industry and it would give the Ministry access to various databases including UNIDO's Industrial and Technological Information Bank (INTIB). In the end, the objective is to make available to government officials and to industrialists information which will assist them in industrial development.

Priority: Desirable/Soon as Possible

6.5 Advisory Measure

6.5.1 National Advisory Council

Establish a National Advisory Council for Industrial Development comprised of representatives from the government, industry and the academic community to serve as a forum for discussions concerning industry's needs. The Council's recommendations would be referred to the government, the Association of Lebanese Industrialists and the academic institutions for their consideration and action.

Priority: Desirable/Soon as Possible

G.

CONCLUSION

Our judgment is that the future for Lebanon's industry lies in the entrepreneurial spirit and business acumen of the Lebanese industrialists. Their entrepreneurial instincts will enable them to grow their businesses faster than the industries in most of the neighbouring countries. Their past and current resourcefulness is proof enough that they can succeed if some of the biggest obstacles to industrial development can be cleared away and if they are supported in their endeavours by their government.

The Government of Lebanon should act promptly to adopt and implement an industrial strategy for Lebanon based on the guidelines proposed in this report. Such action, together with the benefits that will flow from the specific strategy measures, will encourage Lebanese industrialists, Lebanese expatriates and other potential investors to join forces in exploiting opportunities for industrial development in Lebanon.



UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION

JOB DESCRIPTIONDU/LEB/92/001/11-51

Title of the post: Consultant in industrial strategies and policies

Duration: 2 months (including travel days), of which:

- 3 days briefing in Vienna
- 1 week at home for background work
- 4 weeks in the field
- 2 weeks at home for finalization of the report
- 3 days de-briefing in Vienna

Date of the mission: March 1993

Duty station: Beyrouth, Lebanon

Objective: the objective is to elaborate guidelines for an industrial strategy in Lebanon, within the framework of UNDP's priority rehabilitation programme in the country

Activities:

the consultant will:

1. review existing studies and surveys on the economic, social, institutional and legal framework of the industrial sector in Lebanon;
2. discuss with Government authorities the objectives of the industrialization process in the particular context of a post-war economy, on the basis of criteria such as employment or income generation, contribution to GDP growth, impact on balance-of-payments, foreign exchange earnings/savings, supply of intermediate goods in the rebuilding phase, etc;

3. assess current endowments and constraints and the overall competitiveness of the Lebanese industry, through such explanatory variables as the existing industrial base, diversity, inter-linkages, ownership, degree of capacity utilization, origin of inputs and destination of outputs, industry-related environmental hazards, institutional set-up and effective Government support through present industrial policy;
4. formulate strategic guidelines and policy options aimed at the pre-set objectives, given the existing constraints. Typically a comprehensive strategy/policy package encompasses recommendations pointing to:
 - * the industrial capacity: expansion or rehabilitation needs, restructuring, etc
 - * the business environment: physical (road network, telecommunications), human (availability of skills and training facilities), and financial (banking system and credit schemes) infrastructures, adequacy of industry-related services such as transportation, distribution, commercialization, etc
 - * the Government's optimal support through an appropriate industrial policy including investment rules and regulations, tariff and fiscal measures, public utilities, etc.

To be realistic, it is not expected that all these issues be thoroughly addressed within the present assignment: the above list is meant to provide a systematic architecture to the expected report;

5. discuss these broad issues and recommendations with local policy-makers and industry leaders, with a view to collecting a public-private consensus around the course of action to follow. Such consensus reflects the essential co-operation between public authorities and private sector necessary at a later stage to implement and monitor the industrialization programme;
6. prepare a final report summarizing the sequence of items above-listed;
7. as an attachment to the final report, indicate possible areas and modalities of further UNDP/UNIDO technical support, in the standard "objectives-outputs-activities" form;

Qualifications:

Senior industrial economist, with experience in the formulation of industrial strategies and policies in the context of restructuring economies. Exposure to the Lebanese economy would be an asset for this post

Languages:

French, English

ANNEX II

REPORTS AND PUBLICATIONS REVIEWED

United Nations reports:

"LEBANON + UNDP - 40 years of Partnership that Inspires Rejuvenation".
Produced by UNDP, Lebanon, December 1990.

"DEVELOPMENT CO-OPERATION - LEBANON 1991 REPORT". Produced by UNDP,
December 1992.

"United Nations Inter-Agency Needs Assessment Mission to Lebanon 15-24
July 1991 - Final Report" 20 August 1991, and "Attachment III -
Industry".

"Mission to Lebanon 6-14 March 1993". Mission Report, 29 March 1993.
K. Liebl, G. Anestis. Substantive Report, 29 March 1993. K. Liebl,
G. Anestis.

"Briefing Note: UNIDO's Technical Cooperation Programme with Lebanon".
August 1993.

"Note on the Visit of the Lebanese Delegation to UNIDO from 23-27
August 1993". 27 August 1993.

"Socio-economic Developments, Critical Issues and Priorities for Human
Resource Development in Lebanon". Paper prepared for UNESCO by
Nadim G. Khalaf, Professor and Chairman, Department of Economics,
American University of Beirut. March 1993.

"A Statistical Review of Economic and Industrial Performance for Lebanon".
Prepared by the Industrial Statistics and Sectoral Surveys Branch,
Industrial Policy and Perspectives Division, 1993/04/07.

UNIDO Project Concepts/Outlines:

"Identification of New Technologies for Strengthening the
Competitiveness of Lebanese Industry."

"Workshop on Application of Computer Model for Feasibility Analysis
and Reporting (COMFAR) for the appraisal of industrial investment
projects, Beirut".

"Establishment of an Industrial Information Centre in the Ministry of
Industry and Oil".

"Diagnosis for the Restructuring of Industrial Enterprises, Lebanon".

Other Publications and Reports:

"Recovery Planning for the Reconstruction and Development of Lebanon".
Dar Al-Handasah Consultants (Shair and Partners):

- Working Paper #7 - Export Potential, September 1991
- Working Paper #21 - Assessment of Physical Conditions -
INDUSTRY, September 1991.
- Working Paper #31 - Manufacturing Sector Strategy,
March 1993.

"LEBANON, CYPRUS: Country Profile 1992 - 93 Annual Survey of Political
and Economic Background". The Economist Intelligence Unit, A Member
of The Economist Group. July 1992.

"COUNTRY REPORT - LEBANON - 3rd Quarter 1993".
The Economist Intelligence Group. July 9, 1993.

"The Economies of Middle East Peace". A paper by Stanley Fischer,
Dani Rodrick, and Elias Tuma.

"Securing Peace in the Middle East: Project on Economic Transition".
The Institute for Social and Economic Policy in the Middle East, John
F. Kennedy School of Government, Harvard University, Cambridge,
Mass., June 1993.

"Memorandum and Recommendation to the Executive Directors on a
Proposed Loan to the Lebanese Republic for An Emergency
Reconstruction and Rehabilitation Project". International Bank for
Reconstruction and Development, February 11, 1993.

"EC Financing for the Creation of Joint Ventures in the Developing
Economy of Lebanon". ECIP (European Community Investment Partners),
Commission of the European Communities, Brussels. In Lebanon:
Byblos Bank.

Lebanese Reports:

"Le livre blanc de l'economie libanaise". RCDL - Le Rassemblement de
dirigents et chefs d'entreprises libanais. 1 mars 1993. (et "annexe
de statistiques").

"Industry Institute - Rehabilitation Requirements (Development Plan)
1994, 1995, 1996". Dr. Sameer Samaha, Director General. April,
1993.

"Horizon 2000". The Council for Development and Reconstruction's planned financing over a 10-year period.

"Doing Business in Lebanon". BDO Fiduciaire du Moyen-Orient, Beirut.

"Lebanon Report" published by the Lebanese Center for Policy Studies, Beirut. September and October 1993 issues.

ANNEX III

LISTING OF PEOPLE

Ministry of Industry and Oil

H.E. Dr. Assad RIZK, Minister
Mr. Michel AYOUB, Director General of Industry

Council for Development and Reconstruction (CDR)

Mr. Boutros LABAKI, Vice President
Mr. Francis Bou ASSI, Head Programmes Division
Mr. Bassam FRENN, Coordinator/Ministry of Industry

Ministry of Economy and Trade

H.E. Mr. Hagop DEMIRDJIAN, Minister

Ministry of Finance

Mr. Abdo NOUSAIR, income tax department

Supreme Customs Council

Mr. Jaber SOUKKAR, Member
Mr. Paul KHAYAT, Manager

Bank of Lebanon

Mr. Ghaleb ABU-MUSLEH, Director

Industry Institute

Dr. Sameer SAMAHA, Director General

Association of Lebanese Industrialists, Beirut

Mr. Jacques SARRAF, President. He is Chairman and Managing Director of The Sarraf Group.

Mr. Nabil LADKI, Director General

Met various board members including:

Mr. Nazareth SABCUNCIAN, Director and Treasurer. He is also owner of a jewellery box manufacturing company.

Mr. Ghazi Fahd YEHIA, Director and President of the Finance Committee. He owns a candy manufacturing company.

Also met Association Directors and Members in Sidon and Tripoli at their companies.

Beirut Chamber of Commerce and Industry:

Mr. Adnan KASSAR, President. He is also currently the President of the Executive Bureau of the International Chamber of Commerce, Paris

Mr. Emile GABARE, Advisor to the President

Dr. Muhieddine KALISSI, General Manager

Mr. Rashid BEYDOUN, Vice President

Mr. Salim ELZEIN, President of Public Relations Committee.

Chamber of Commerce and Industry of Tripoli/Liban Nord, Tripoli

Dr. Hassan MONLA, President. He is also a Professor at the University of Lebanon. Also met with various directors of this Chamber.

American University of Beirut:

Dr. Nadim KHALAF, Professor and Chairman, Economics Department. Prepared paper for UNESCO entitled "Socio-economic Developments, Critical Issues and Priorities for Human Development in Lebanon", March 1993.

Dr. Tofic MEHHER, Assistant Professor, Faculty of Engineering and Architecture. Working on a joint project with M.I.T. on "Human Resources for Industrial and Technological Development in Lebanon".

Dr. Pierre ABOU-EIIEE, Associate Professor, Graduate School of Business and Management. Acting dean of the school.

Financial Institution:

Mr. Sabbah Al HAJ, Chairman and General Manager, Arab
Financial Corporation, Beirut

Quality Management Consultants:

Mr. Michel RAPHAEL, General Manager
Mr. Fady FREM, Manager
Mechanical and Industrial Consulting Co., Beirut
Agents for SGS: Société Générale de Surveillance, Geneva

UNDP, Beirut

Mr. Hendrick VAN DER KLOET, Resident Representative
Mr. Christian DE CLERQ, Special Assistant to the U.N.
coordinator.

ANNEX IV

LISTING OF COMPANIES AND INDUSTRIALISTS

The Sarraf Group, Jdeidet el Metn, Beirut

Mr. Jacques SARRAF, Chairman and Managing Director. Holding company for Pharmaline (pharmaceuticals), Cosmaline (cosmetic products) and other group companies involved in advertising and marketing, etc.

Cosmaline Industries, Zone Chquaig

Mr. Roger TABET, Plant Manager
Manufacturing and packaging of cosmetic products

Pharmaline, Zone Chquaig

Dr. Georges RASSAM, Industrial Pharmacist and Plant Manager.
Manufacturing and packaging of solid and liquid pharmaceutical products.

Sanita, Halat

Mr. Dany KADDOUM, Technical Director.
Manufacturer of hygienic sanitary products.

Unipak (Union Packaging Corp.) Indevco Group

Mr. Ziad KHADIJ, Financial Controller and Administrator
Mr. Anotine AWIT, Manager Human Resources
Tissue paper and carton manufacturing.

Continental Paper Corporation, Jounieh

Mr. Lawrence CHIDAC, Chairman and President
Converters, recyclers of waste paper into recycled paper products.

Liban Cables, Jounieh

Mr. Ghazi MOUSSA, Plant Manager
Manufacture all types of cables. Partly owned by Alcatel, France.

Interpack-International Packaging Co., Kafarjara, Sidon

Mr. Farouk ZAATARI, Owner
Mr. Fouad ZAATARI, son
Largest manufacturer of carton board, boxes in Lebanon.

Gandour Industrial Co. Tripoli

Mr. Tarek GANDOUR
Diversified multi-product group. Plywood, soap, oil, solvents.

F.H. Industrial Co. for Clothes, Tripoli

Mr. Fouad FATTAL
Make only trousers, 100 percent export.

Société Najem, Tripoli

Mr. Hamid NAJM, Engineer-Chairman
Bottling plant and thermo-forming of packaging for juices,
etc.

Société de Raffinage du Sel Libanais, Tripoli

Mr. Hussam KOBÆTUF
Refine salt which is collected by evaporation by local people.

Soliver-Société Libanaise pour L'Industrie des Vers et Porcelaines

Mr. Ghazi KRAYTEM, Vice Chairman, General Manager
Mr. Kammourich KHALED, Assistant General Manager
Large manufacturer of glass bottles.

Sugar Beet Processing Company, Zalka, Bekaa

Mr. Raif KASSEM, President Managing Director
Process sugar beets into sugar for the farm cooperatives.

Conserves Modernes Chtaura, Chtaura

Mr. Atef IDRIS, Chairman CEO and Owner
Food packaging and processing

Mimosa-Société Papiers Hygeniques, Kaael-Rim, Bekaa

Mr. Mounir SALIBA, Technical Director
Paper and hygienic products manufacturer.

New Okal, Zouk

Mr. Sami DAOU, Plant Manager
An Indevco Group company. Manufacturers of quality wood
doors, kitchen cabinets.

Interdesign - Les Fils D'Elias El-Khoury, Zouk

Mr. Emile EL-KHOURI, Financial Manager and Owner
Manufacture fine office and residential furniture.

Sidem-Société Industrielle des Metaux, Zouk

Mr. Albert CATAFAGO, Chairman
Manufacture aluminum extrusions.

Libanopak, Chouiefat

Mr. Issam EL-BABA, General Manager and his brother.
Manufacturer of plastic moulded containers and does printing
and labelling, makes inks.

Sedaf Industrial Machinery, Chouiefat

Mr. Adib ABBAS, Director General and his two brothers.
Manufacture machinery for making plastic bags.

Hilco-Walid & Jihad Hilal Co., Choiefat

Mr. Walid HILAL, Owner and brother
Manufacture high quality leather belts.

Lecico, Kfarshima

Mr. Allenby GARGOUR, President
Manufacture wall tiles and porcelain toilets, sinks.

Fonderies Ohannes Kassardjian, Kfarshima

Mr. Joe KASSARDJIAN, General Manager
Produce brass, gunmetal and cast iron products.

M.H. Saleh Est., Sidon

Mr. M. SALEH, Owner. He is also President of the South
Lebanon Association of Lebanese Industrialists.
Wholesale/retail distributor of generators. Export/import
businesses.

Ghaddar Trading & Industry, Sidon

Mr. Ridda GHADDAR
Manufacturer of water heaters.

The "Underground" Industries of South Beirut:

Youssef Baydoun Printing Press

Mr. Abdel BAYDOUN and his father.
Commercial printing.

Issam

Mr. Issam BAYDOUN
Produces parts for the manufacture of shoes; shoe-making
equipment.

Masri Industry & Trading Est.

Mr. Fouad MASRI and his father
Produces coaxial cables, telephone cables, antennas, satellite
dishes, heaters.

Tricot Orient

Mr. Mahmoud HODROG, Owner and General Manager
His brother Fouad runs their Egyptian operation. Garment
manufacturers.

Some Other Businessmen:

Mr. Joe KHALED, Group General Manager, Indevco Group,
Corrugated Division, Beirut. Diversified company.

Mr. Joseph GHORRA, President General Manager, Uniceramic.
Hazmieh, Beirut. Sanitary ceramic products.

Mr. Najib MIKATI, Managing Director, Investcom Holding,
Beirut. Provides cellular telecommunication services and
equipment.

Mr. Joseph SAADEH, Owner, Steelcraft, Jdeidet el Metn, Beirut.
Manufacturers and suppliers of food service and laundry
equipment, Beirut and Tripoli.

Mr. Radwan JILANI, Director, William Abou Kalil, Amman,
Jordan. Representative for Bayer, Germany.

Some other businessmen (continued):

Mr. Anwar GAZAWOUI, Chairman, Lebanese Shipowners Association, Beirut.

Mr. Ghassan ELKAZAZ. Glass manufacturer in Tripoli whose father and brother were killed in an Israeli raid 26 July 1993. Helped him re lid manufacturing equipment.

Mr. Michel BITAR, Tripoli. Owns travel agency, produces olive oil, fireplace logs and fertilizer from "olive cake" sells charcoal, heating oil.

ANNEX V

BIBLIOGRAPHY

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Lyons, Thomas S.: "Creating an Economic Development Plan: A Guide For Development Professionals". Prager Publishers, New York, 1991.

Porter, Michael E.: "The Competitive Advantage of Nations". Free Press, New York c 1990.

Steering Group on Prosperity: "Inventing our Future: An Action Plan for Canada's Prosperity". Government of Canada, Ottawa, October 1992. Report of a task force comprised of twenty eminent Canadians.

الجمهورية اللبنانية

مكتب وزير الدولة لشؤون التنمية الإدارية
مركز مشاريع ودراسات القطاع العام

Republic of Lebanon

Office of the Minister of State for Administrative Reform

Center for Public Sector Projects and Studies

(C.P.S.P.S.)