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Objective

Accordingly, the Investment Development Authority of Lebanon (IDAL) and the Association of Lebanese Industrialists (ALI) retained Arthur D. Little to recommend an industrial development strategy for Lebanon to

- Serve as a basis for promoting industrial investments
- Strengthen the existing industrial base

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

الجمهورية اللبنانية
 مكتب وزير الدولة لشؤون التنمية الإدارية
 مركز مشاريع ودراسات القطاع العام

Arthur D. Little was asked to address two main issues

- Which manufacturing sectors are most likely to generate a clear and sustainable competitive advantage for Lebanon?
- What specific actions are needed in order to realize Lebanon's potential in these sectors?
 - ⇒ By the Government
 - ⇒ Trade and industry associations, and
 - ⇒ The private sector

To address these issues, we undertook the following work program

- Mapped the existing industrial environment
- Assessed Lebanon's competitive advantage
- Prepared a questionnaire for an industrial survey
- Proposed sectoral development priorities
- Identified facilitators and barriers
- Held several workshops to discuss findings and conclusions
- Specified an implementation program clarifying
 - ⇒ The role of the government
 - ⇒ The role of the private sector

Our main conclusions are as follows

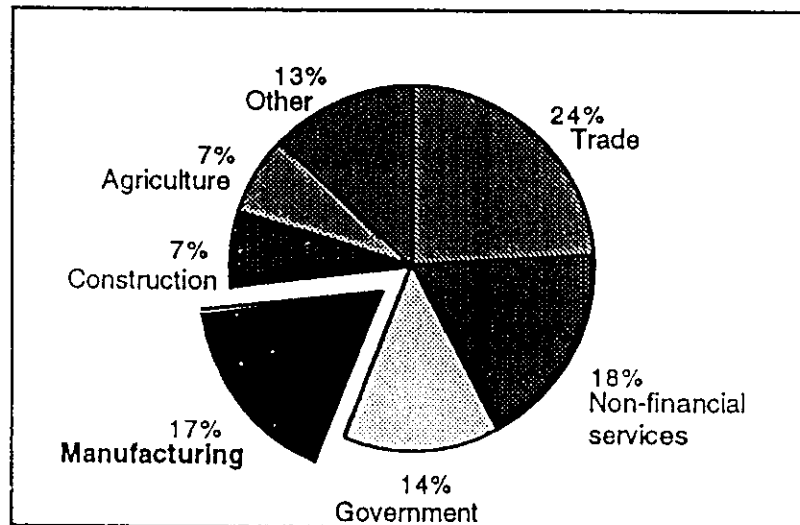
- The industrial sector makes an important contribution to national income, employment, and exports
- The industrial sector is currently facing important challenges, and without concerted efforts, it is possible that this sector will shrink over time
- There is a critical need for the government and the private sector to work hand in hand to create the conditions needed for maintaining and expanding industrial production in Lebanon

Contribution to National Income

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The industrial sector makes an important contribution to national income, employment, and exports

Percentage Contribution to GDP



Industrial Sector - 1995

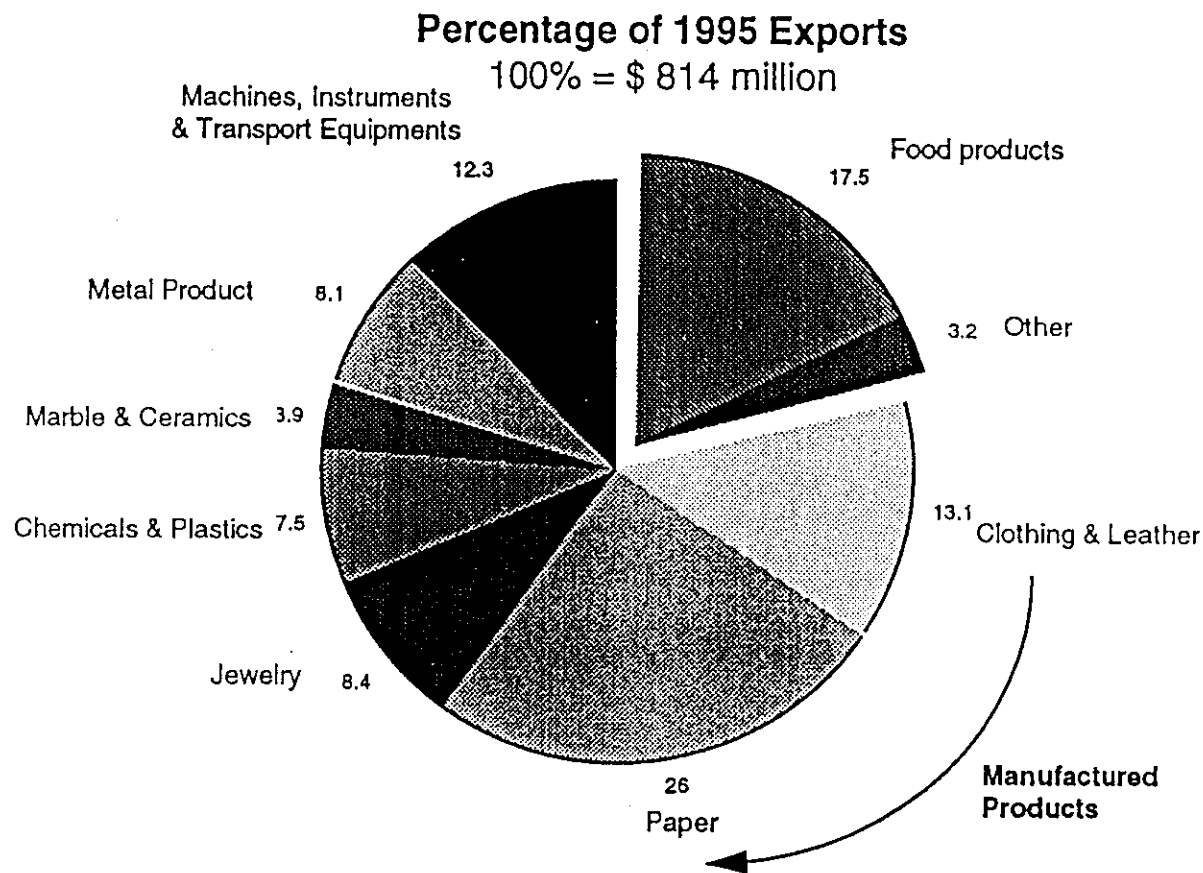
• Output:	\$ 3.9 billion
• Value added:	\$ 1.9 billion
• Employment:	150,000 (14% of labor force)
• Number of units:	22,100

Source: World Bank; Industrial Census - 1994; ADL estimates

Contribution to Exports

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Industry generates around 80% (approximately \$ 650 million in 1995) of Lebanese exports

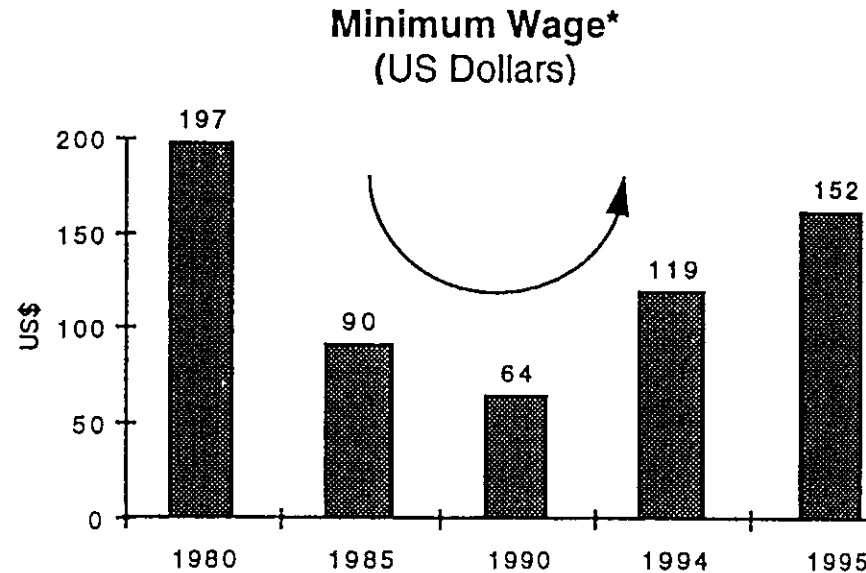


Source: Trade statistics

Decline in Dollar Wages

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Industrial development was aided to some extent by an important decline in dollar wages in the early 1990s . . . this trend is being reversed today.



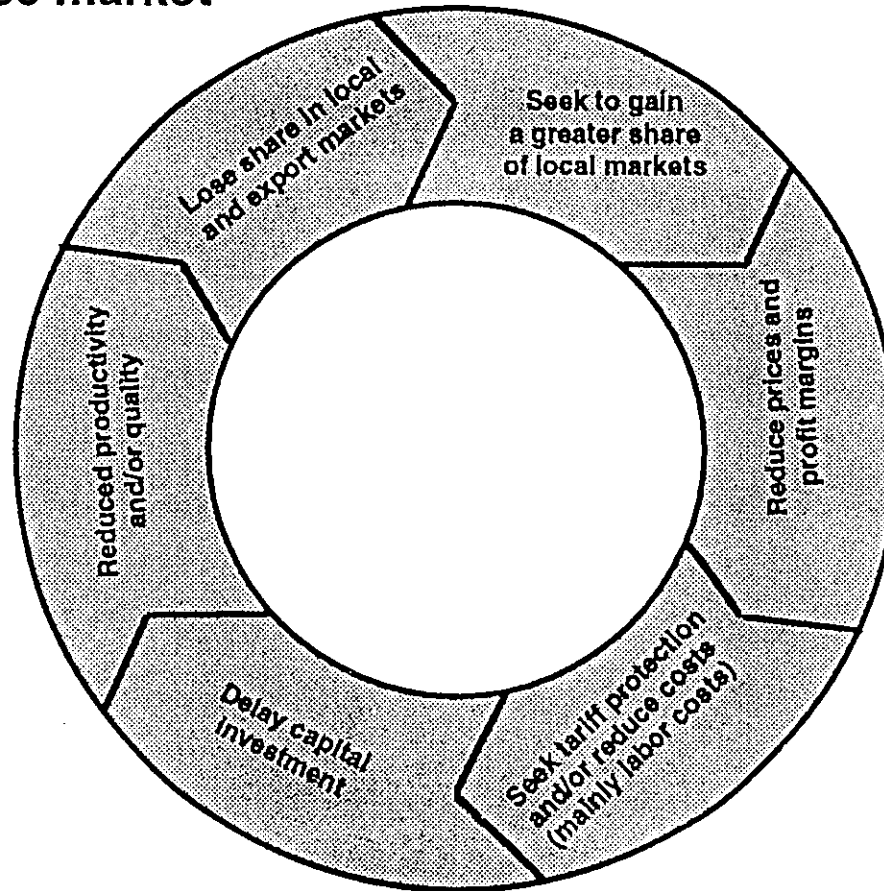
* Used as an indicator of general trends in wages

Source: Association of Lebanese Banks

The industrial sector in Lebanon is facing important challenges

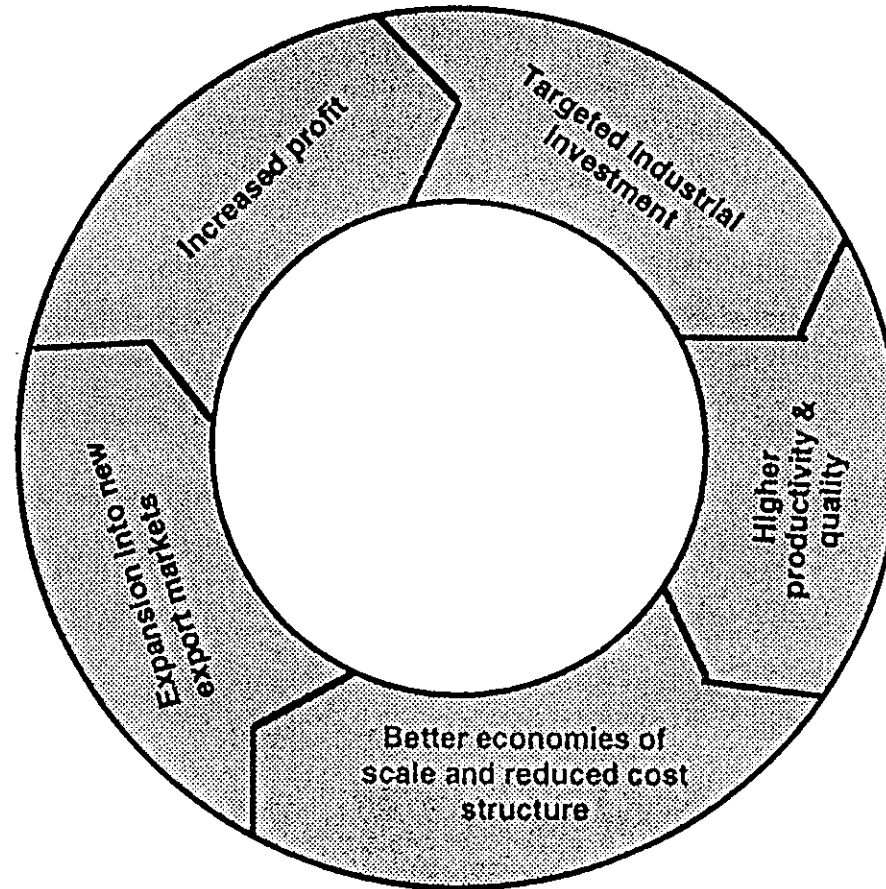
- There are strong pressures to escalate labor costs to meet labor expectations and the increasing cost of living
- Discussions are underway with the European Union (EU) to eliminate customs duties on products imported from Europe into Lebanon
- Industrial production is expanding throughout the Middle East and most countries in the region are promoting exports and regional trade
- Peace in the Middle East is expected to liberalize trade in the region thus exposing the Lebanese market to increased competition at home and abroad

Industry risks engaging in “lose-lose” wars for greater share of the local Lebanese market



The development of export markets is essential to break this vicious circle

Targeted new investments are essential to maintain and expand the Lebanese industrial sector



There is a critical need to direct new investments towards better quality, higher value added and more upmarket production

- **Towards**

- ⇒ Industries where value is added through **product design and marketing**
- ⇒ Industries which require a **fast response** to changing market conditions and requirements

- **Away from**

- ⇒ Industries which require **mass production/markets**
- ⇒ Industries which are dependent on **cheap labor**
- ⇒ **Polluting** industries
- ⇒ **Resource or energy intensive** industries

This objective should be achieved, however, through promotion and free market mechanisms rather than restrictive industrial policies or government directives

We recommend establishing clear and well focused strategic objectives for industrial development

- Industrial **growth** of 6 to 8% over the next 10 years
- Promote investments **focused** on better quality, higher value added and more upmarket production in industries such as
 - ⇒ Food and beverages
 - ⇒ Fashion
 - ⇒ Personal care, perfumes and cosmetics
 - ⇒ Printing and publishing
 - ⇒ Furniture and household products
- Improved **productivity and production technology**
- **Fast response** capabilities to changes in the market
- Increased **exports**

To support the achievement of these objectives, we recommend seven strategic thrusts

- Promote new **investments** in industry
- Develop **manpower** skills
- Establish a **supportive regulatory** environment
- Establish required **infrastructure**
 - ⇒ Free zone and industrial park development companies
 - ⇒ Industry cluster
- Provide essential **support**
 - ⇒ Technical support and advisory services
 - ⇒ Quality standards
 - ⇒ Information center
 - ⇒ Outsourcing exchange
- Develop export promotion services
- Rehabilitate existing industrial base

To implement the proposed industrial development program, the government and the private sector have to work hand-in-hand

- The government's main responsibility is to establish an economic and regulatory environment conducive for investment in general and in industry in particular and to promote Lebanon and investments in industry
- The private sector is to take the initiative, make the required investments and manage as many aspects of program implementation as practical

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