

**THE LEBANESE PUBLIC ADMINISTRATION, THE
MANAGEMENT OF CHANGE, AND EFFECTIVE
COOPERATION BETWEEN LEBANON AND THE
EUROPEAN UNION**

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The Mediterranean area is of geo-strategic as well as economic importance to the EU. More than six years after the Barcelona process, it is interesting to find answers to the following questions:

-“Have the institutions been created to give effect to the Partnership Agreements?

-What is the EU’s policy on the Mediterranean at a time when history is being made and the map of Europe is being redrawn with the proposed enlargement of the EU?”¹

Given the strategic position of Lebanon on the Mediterranean sea and its historical, cultural vocation to play an active role in the integration process, Lebanon has a priority interest in the policies pursued and the instruments developed to reach the Barcelona objectives.

Dr Nasser SAIDI, former Minister of Economy and Trade, former Minister of Industry, currently first Vice-Governor of “Banque du Liban” declared on September 2000 the great importance Lebanon attaches to the Euro-Mediterranean Partnership given its expected favorable impact on the political and economic level in Lebanon. Many discussion forums have been organized around various subjects related to the Lebanese commercial policies, intellectual property protection concerns, economic reform, the implementation of the value-added tax and many other issues.

Trade, cooperation and aid are issues that turn into subjects of analysis. This paper will give a rapid overview of these matters,

¹ Paper presented by Dr Nasser Saidy in Damascus, Syria - March 2001.

covering the international resource flows, aid and assistance to the developing countries and to the Middle East, North Africa region.

The topics covered in the second part of this research will give general guidelines of proposed orientation to define tracks that will facilitate the challenging integration process that the Barcelona process is seeking to achieve. During the past seven years the European Union has certainly been active in many fields starting with infrastructure improvements going to provide help in the economic, social, and cultural fields.

The research will also consider the overall macro environment of the Mediterranean area after September 11th 2001. Can we speak of a “fear economy”? Should the European Union and the Mediterranean countries add another dimension to their cooperation project? Are there opportunities to fashion a new world order after September 11th ?

Section 1.01 Overview of aid and cooperation policy towards developing countries

- According to “Development Assistance Committee OECD-January 2000” (Table to be found in Annex 1) official development assistance (ODA) ceased to grow during the 90s.

Foreign direct investment flows registered a notable expansion at the beginning of the 90s and followed a sustained increase through 1999- In parallel, portfolio and equity flows (bond finance, portfolio flows and bank lending) increased considerably to unprecedented levels before collapsing with the Asian financial crisis and its aftermath in emerging economies.

- The MENA region has received comparatively limited amounts of international resources – Although it witnessed a pick-up in 1999, it attracted only 6.84% of total aggregate net L.T resource flows to developing countries compared to 6.02% to Sub-Saharan Africa, 36.88% in Latin America, 15.5 % for Europe and Central Asia and

30.36 % for East Asia and the Pacific- (source: World bank: Global development Finance-2000-table4)

- The MENA region has not been able to attract private international financial flows over the past years. In particular its share of the total remains very limited compared to the rising needs for development financing. The region records a limited participation in the international capital markets. Few of the countries (with the notable exceptions of Lebanon, Tunisia and Turkey) have access to the international debt commercial bank lending markets.

- *Trade*: Member states of the EU are the main trading partners of the Mediterranean countries. Despite a slight fall-back in trade relations over the past decade, they remain the major provider of Mediterranean imports, their share-out of the total period 91-99 averaged 59.2 %. This concentration of trade is also true of exports: the EU countries constitute the main destination for MED – exports, with an average share of 67.1 % over the same period.

The MED countries have not been able to gain wider access to the EU's growing markets (domestic or external) reflecting weak external competitiveness.

The Barcelona process set the stage for a new form of cooperation and assistance between the EU and the MED, enlarging the scope of cooperation to encompass the following objectives:

- a- Achieving peace and Stability in the Euro-Med zone
- b- Promoting sustainable economic development, creating employment opportunities and reducing the development gap via the establishment of a free trade area by 2010
- c- Fostering South-South integration.
- d- Reducing migratory pressure and illegal immigration.

As such, the conclusion of Euro-Mediterranean Partnership Agreements gave the trade-related issues an even more prominent role. The paradigm is that trade liberalization will in the short and

medium-term cause disruptions in the economies of the MED partners. The transition and adjustment will require a comprehensive reform of the institutional, regulatory and legislative framework in partners countries, enabling them to meet the challenges imposed by the partnership (the second part of this paper highlights some of the proposed actions Lebanese authorities should be able to take in order to face the challenge).

- *MEDA evaluation*

The evidence and country experience over the last years shows that the MEDA program was unable to foster reforms sought by the partnership due to the rigidity of the implementation mechanism, the predominance of technical assistance and the absence of performance indication or criteria.

An additional element that adds complexity to the Euro-Med aid relationship in the foreign policy and security dimension that the Barcelona process brings to the European-Mediterranean partnership- while the development aid agenda of the European union is underpinned by the EU's political ambitions in the region, the EU is faced with a difficult political and security situation in the MED countries.

Further, the frequently divergent political interests of the member states often negatively affects the coherence of the EU aid cooperation strategy in the region and contributes to the delay in the disbursement of funds.

It is evident that the complex system employed has often caused substantial delay of the reform efforts undertaken by the recipient countries and thus negatively impacted the progress towards achieving the Partnership objectives and the credibility of the MEDA program.

We can assume that the reform of the aid process is critical for the success of the Partnership. The MENA region including Lebanon requires substantial capital for investment to improve its growth prospects - Capital investment needs arise for structural and macro-

environmental objectives, indeed for the large-scale economic reform and liberalization and the process of privatization of publicly owned assets.

It appears that success in achieving Barcelona objectives as well as EU enlargement requires fundamental changes in three major EU policy areas:

- a- Common Agricultural Policy (CAP): Conditions and policies should allow Mediterranean countries to exploit and benefit from their comparative advantage in agriculture and food production.
- b- The EU migration Policy: The EU requires immigration in order to stabilize old-age dependency ratios. The policy implication is that the EU needs to encourage, rather than discourage and control, immigration from the labor surplus in the Mediterranean in order to help support its ageing populations.
- c- The EU's trade policies need reform in order to allow greater access to goods originating in the Mediterranean countries - A major effort has to be undertaken to amend non-tariff barriers to trade.

In other words seven years after Barcelona, it is obvious that the time has come to work in a more determined and realistic manner, the common objective being to reduce discrepancies and to render the Euro-Med Partnership an additional factor working for the consolidation of development in the Southern Mediterranean region.

Suggested orientation to facilitate the expected integration between EU and Mediterranean countries in the face of world-wide challenges

Globalization has its unconditional supporters as well as its opponents. We add to this issue the changes that the economic, political, financial areas are witnessing after the events of September 11th 2001. Observation leads us to state that the world is

under the dominance of the “fear economy²”. However, it will always be possible to exploit such an unprecedented historical and strategic situation and turn it into an opportunity specifically by supporting the Barcelona process; and the EU can play an active role in this field.

In spite of globalization and the Barcelona process we observe that commercial exchanges between the MED countries and the EU did not increase. The Barcelona process can certainly be characterized by the favorable objectives it hopes to reach, but the implementation of the MEDA program has not yet fulfilled expectations.

Where does Lebanon stand in this picture?

The Partnership Agreement that has been proposed to Lebanon is on the right track of implementation. Many steps have already been realized:

- Since April 1999 Lebanon has the official status of an observer country on the list of the WTO.
- In May 2001, Lebanon presented to the WTO an analytical paper about its commercial policy.
- The suggested Partnership Agreement will eliminate import duties in order to facilitate the creation of a free trade area over a 12-year period; however, some agricultural and manufactured goods will be excluded of the Agreement.
- The Agreement calls on Lebanon to liberalise its service sector and exploit fully its liberal legislation concerning the law affecting the establishment of companies. This can be done with close cooperation with the EU countries, hence encouraging EU companies to create operating units in Lebanon that will allow them to benefit from all the advantages of being part of a network of contacts established with the Arab World.

² Mr. Paul Kurgan article - The New York Times - September 30th 2001

- IDAL is a Lebanese public organization that aims to provide all required information and support for facilitating any type of foreign investment in Lebanon.
- The cooperation between Lebanon and the EU is expected to have a favorable impact on many sectors in Lebanon such as in the agricultural, economic and manufacturing fields. Unfortunately, these favorable expected results are at cost i.e the need to find new financing sources to enable Lebanese companies to modernize equipment and machinery, to adopt international quality standards etc. This financial need has been evaluated (including also the capital good investment) at around 1% of the GDP per year over a five year period. Lebanon has already signed an improvement agreement with the EU on June 2001; the financing is of 11 million Euro aimed at improving the industrial sector in Lebanon.
- The EU - Mediterranean Agreement will have a favorable impact on the Lebanese economy in general, since 45% of goods imported by Lebanon come from the 15 EU member countries and given that import duties represent around 47% of public revenue.
- In early 2002 Lebanon began collecting VAT from companies operating on its territory.
- Obviously the optimum impact of the Agreement between Lebanon and the EU will be obtained only through the implementation of financial policies supporting and facilitating the transfer of technologies, the orientation of Lebanese manpower in the field of new technologies, of the IT field etc. At this stage the EU can have a monitoring role.

We believe that the EU has an active role to play via the successful implementation of the Agreements with the Mediterranean countries. One such role should definitely be to give to the Mediterranean states as well as to other emerging markets in the area the opportunity to fully exploit their comparative advantage in the agricultural field.

A focus in food stuffs and other related areas should have long-term favorable impact on all the parties involved in the process.

For Lebanon and other Mediterranean countries to fully exploit the opportunities that the Barcelona process offers, the EU Member States should be able to help by taking necessary measures to facilitate the entry of products originating from the Mediterranean area into their markets; in other words, by reviewing the commercial policy concerning the existing trade barriers.

The Mediterranean countries need a transition period to facilitate the integration that is the optimum objective of the whole Barcelona process.

Lebanon, just like the other Mediterranean countries, is aware that it has to go through serious changes and sometimes radical improvements if it wants to fully benefit from all the advantages of the Agreement.

In particular:

- We need to improve productivity and gain comparative advantage.
- We need to encourage regional economic integration, since this issue can be considered as a top priority for the EU, as has been declared during the Marseille meeting. For Lebanon and its neighboring countries this means the realization of the Free Arab Trade zone area, expected to take place in 2007. The EU experience of integration can represent a valuable experience to share and learn from.
- The proposed regional integration will have an impact on the country of origin effect approach. Cumulation of origin can benefit all trading partners.

To conclude, we would say that in such ways and with courage and a strong will we can overcome the “fear economy” syndrome that has become so obvious after September 11th 2001, and build a successful future.

For example, Lebanon is already facing the challenge of competition with candidate countries to be part in the EU. This competition is expected to be fierce in the agricultural sector of the economy.

Seven years after the Barcelona process, all parties involved should adopt a more realistic approach. Sample list of suggested objectives:

- Change the EU-Mediterranean agreement into a means of reducing differences between countries
- Turn the agreement into an “active engine” supporting development in the Mediterranean area
- Participate in the creation of safe, secure and protected environments.