

Can Exports Rescue Lebanese Startups and SMEs Amid the Economic Crisis?

By *Mohammad Makki*¹

INTRODUCTION

The civil wars of 1975–1990 and the war of July 2006 created havoc on Lebanon’s physical capital and led to an overall decrease in its capital stock. Additionally, the country was dragged into the worst phase in contemporary history by massive regional warfare, especially after the War in Syria started in 2011, where the massive influx of migrants to the country pushed the unemployment rate up and put a burden on its growth rate.

Moreover, the internal political upheaval and instability forced the Lebanese economy into a vicious cycle of massive fiscal deficits and monetary expansion, leading to dollarization. The rate has been at L.L 1507.5 per US dollar since December 1997. The Lebanese pound (LBP) to USD exchange rate began to fluctuate after the middle of 2019. Daily strikes in Lebanon began on October 17 of that year, and the Lebanese pound began to lose value day by day due to illiquidity, corruption, and political uncertainty. The massive explosion in Beirut port on August 4, 2020, the Covid-19 pandemic, and a lack of rapid and preventive policy actions have all exacerbated the economic situation, leading to further currency depreciation. In 2020, the real GDP growth rate dropped by almost 25 percent, and by another 9.5 percent in 2021.

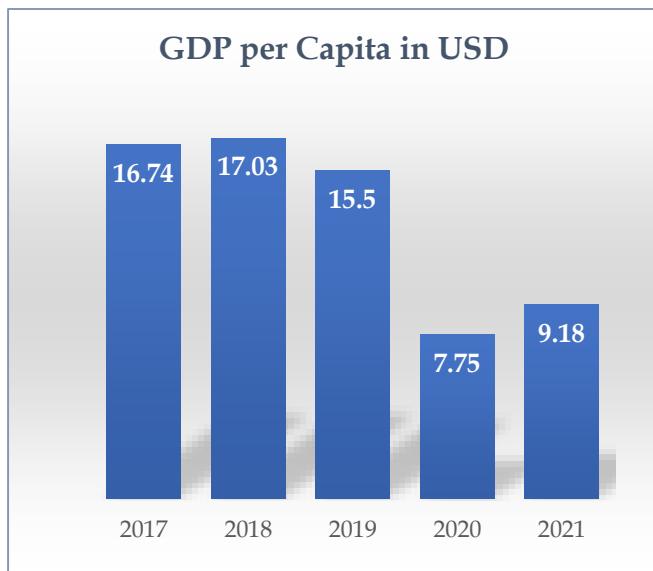


Figure 1. Lebanese GDP per Capita (Source: www.statista.com)

As a result of the currency devaluation, the inflation rate has recorded triple digits, and Lebanese citizens became unable to meet their basic needs, primarily food and healthcare. Inflationary pressures impacted the poor and vulnerable, as well as the consumption habits of those on a fixed income. The monetary measures mitigated by the Banque du Liban (BDL) and the actions taken by commercial banks - limiting monthly withdrawals and allowing them only in Lebanese pounds - aggravated the situation and pushed the Lebanese people into survival mode.

The current economic and financial crisis in Lebanon has left all production and service sectors suffering losses and struggling to stay afloat. Several banks closed multiple branches, and some large organizations reduced their staff. Many small and medium enterprises were forced to exit the market leaving thousands of people without jobs. Figure 1 below demonstrates how GDP per capita decreased in 2019 and then in 2020. Although GDP per capita has slightly increased in 2021, it is still too low compared to the years 2017 and 2018. It is crucial to note that the US dollar GDP per Capita figures do not reflect reality because they are calculated using the official exchange rate, and since many Lebanese receive their salaries in Lebanese Lira, the GDP per Capita is overstated as compared to its value if it was converted to USD using the parallel market rate. The Lira's value against the dollar is mostly determined by the parallel market, which has already surpassed more than L.L 30,000 per USD in May 2022.

With a debt-to-GDP ratio of 185 percent², Lebanon is currently mired in a serious economic and financial crisis that will undoubtedly result in economic structural changes in the near future. Unfortunately, Lebanon has been suffering from a chronic trade deficit since 1999, when exports were substantially lower than imports. This shortfall is passed on to the GDP, which has a negative impact, resulting in a higher unemployment rate, lower income, worse infrastructure, and hence fewer investments. The liberal economy of Lebanon is based on major sectors, mainly services, agriculture, construction, industry, and energy. The services sector including financial services, commerce, tourism, healthcare, and education accounts for around 70% of the country's GDP.³

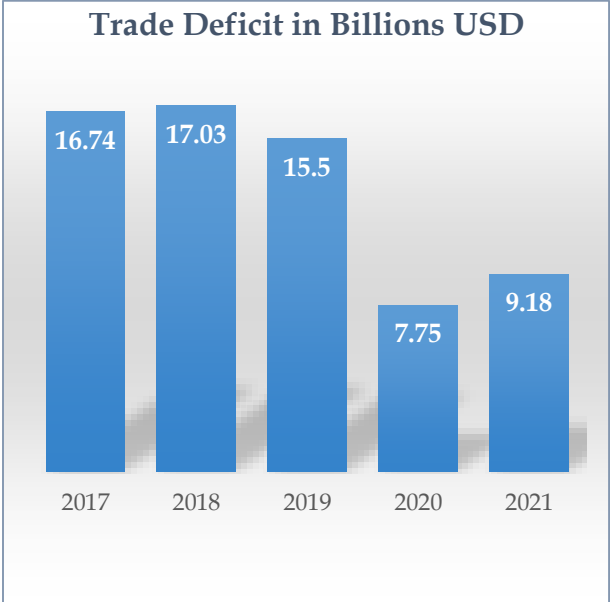


Figure 2: Lebanese Trade Deficit (Source: www.blog.blominvestbank.com)

EXPORTS' POTENTIAL FOR LEBANON

Although many people do not perceive a trade imbalance to be a severe problem, its persistence over time shows a chronic weakness in the economy, particularly in its productive sectors. The massive trade deficit, which reached USD 17.03 billion by the end of 2018, puts a lot of strain on the Lebanese economy. Even though Figure 2 shows that Lebanon's trade deficit is reduced to USD 7.75 billion in 2020 - due to lesser imports because of the Covid-19 pandemic closures and the local currency depreciation - the lack of deliberate fiscal efforts and the lack of a proactive export national strategy will re-increase the trade deficit as indicated in 2021 and the years that will follow.

The country is classified as a consuming machine that is undergoing production decline and that heavily relies on a steady stream of financial inflows to remain afloat. With fewer ex-pat remittances and foreign direct investment, Lebanese are scrambling to find ways to keep their families and companies alive. Given the lack of real financial support to help startups and SMEs to survive, exporting is regarded as a potential solution and a cash flow stream for many who wish to sustain their operations and generate fresh dollar income that can aid them, at least in the short term. Yet, for a country that doesn't have a

concrete exporting infrastructure and a well-determined national exporting strategy, several major questions are raised.

- Do startups and existing SMEs know what are the potential products and services that can be exported? To which countries they can export?
- Are they aware of the trade agreements that Lebanon has?
- Do they have access to transportation?
- Do they have the needed governmental support to achieve the country of origin for their products?
- Are they aware of the required national and international quality standards?
- And many other related questions.

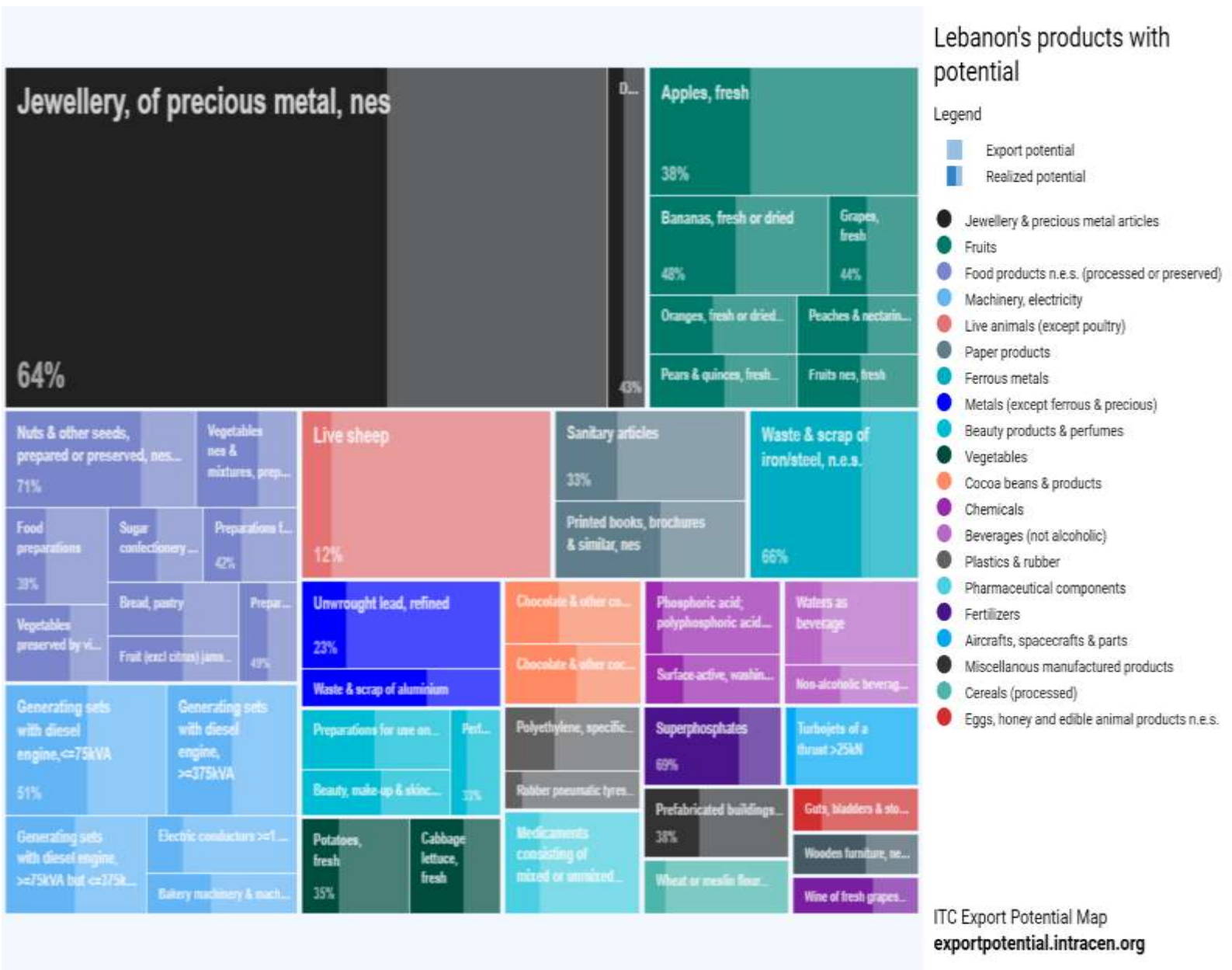


Figure 3: Lebanese Products with Exporting Potentials (Source: <https://rb.gy/kmu0d4>)

To smoothen the exporting process and enable startups and SMEs to export with a solid and effective plan, it is crucial to research the export potentials of Lebanon's products as well as the potential markets for Lebanese products. Agriculture, agri-food, industry, ICT & technology, and media are major sectors from which Lebanon can export. A newly developed website, "lebanonexports.gov.lb," which is part of the UN productive sectors development program and is implemented by UNDP, UNIDO, and the Canadian government, provides access to export sectors, main beneficiaries, and potential markets. The Lebanese exporters can benefit from the information provided on this website and many other similar websites as a first step in the exporting process.

Figures 3, which can be accessed from the export potential map free tool, provides data on the products that the country can export. For example, the value of fresh apples' export potential is USD 72 million while the value of fresh apples' actual exports is USD 31 million, leaving USD 45 million untapped potential that can be exported to several countries like Egypt, Syrian Arab Republic, Jordan, Saudi Arabia, and several others. Waste and scrap of iron/steel have an export potential of USD 60 million while the country's actual exports are USD 65 million meaning there is USD 20 million worth of untapped potential that can be exported to Egypt, Jordan, India, Korea, Morocco, and several others.

Furthermore, exporters can take advantage of Lebanon's participation in several trade agreements, including the Greater Arab Free Trade Area (GAFTA), the Euro-Mediterranean Association Agreement (EMAA), and the European Free Trade Association (EFTA).

To enable Lebanese startups and SMEs to export for the long-term, internal analysis is recommended, for startups and SMEs, to assess export readiness, suitable goods for export, exporting objectives, as well as the targeted countries. Selecting the most promising export markets, recognizing potential clients and competitors, and developing an effective advertising and marketing plan are all crucial. Locating suppliers, being aware of manufacturing capacity, and determining a solid price strategy while taking into account pricing costs, inflation rate, exchange rate volatility, tariffs, and other pricing factors are all critical components of a successful exporting strategy. To be able to export without complications, exporters need to be informed of the order criteria, national and international quality standards, certificates, licenses, and custom trade clearance regulations.

CONCLUSION

Apart from what exporters can do better, and given that the poor quality of Lebanese institutions, corruption, and weak governance all contribute to the country's trade imbalance, it is critical to creating a stable national trade environment that supports exporters.

It is strongly suggested that the public sector establish a Trade Promotion Organization (TPO) to implement export promotion strategies and exports. Trade Promotion Organizations are important since they may help with both the revision and redesign of current trade agreements. They can also act as advocates for the export sector's interests and offer recommendations on acceptable trade policies. Furthermore, all relevant ministries, particularly the ministries of economy and trade, agriculture, industry, and foreign affairs, are invited to provide all necessary assistance to support exporters in meeting all administrative official requirements.

Exports may play a significant role in bringing in cash flows to startups and SMEs, as well as reducing the country's trade deficit. However, only if the exporting process and the associated risks are

understood, and if the public sector has a solid exporting plan and provides the needed trade support. Nothing is possible without orienting all potential sectors toward production.

¹ Mr. Mohammad Makki has an M.A. in Financial Economics from the American University of Beirut (AUB) and is completing his Ph.D. at Université St. Joseph in the same field. Mr. Makki is a specialist in economics, sustainable development, labor markets, and forecasting. He is a member of Oghma's Advisory Board.

² <https://tradingeconomics.com/lebanon/>

³ <http://www.lebanonembassyus.org/the-country-of-lebanon/the-economy/>

Contact Information

For more information, please contact:

Oghma Group International (OGI)

Tawk Center, Ground Floor, Sayde Street, Zalka, Lebanon

Mobile: +961-(0)3594440

E-mail: info@oghmagroupint.com

Facebook: Oghma Group International

Website: www.oghmagroupint.com

ISNI: <https://isni.org/isni/0000000506840358>

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