The year 2009 is an indication of Lebanon’s potential and of the extent of economic growth and prosperity the country could enjoy in an environment of peace and stability.

After experiencing a healthy growth rate of almost 5% in 2004, the violence that gripped the country in 2005 and 2006 caused economic growth to fall to zero and even to contract; but this year it is expected to climb back to 5-6%.

True, Lebanon has been an arena for internal conflict and for settling regional scores, on and off for the past 35 years. But - looking at the cup half full - for the past 50 years, except for the period 1975-1991, tiny Lebanon has been an agent of social change and a service center for the Middle East. Beirut was a magnet for Arabs and other Middle-Easterners in tourism, banking, health care, and education. This dual role has diminished in some years but was never lost, thanks to the enterprising, liberal, diverse, and educated population of Lebanon.

The anticipated formation of a new government following the election earlier this year is an opportunity for a fresh start after 4 years of conflict. However, the government faces a number of immediate economic challenges:

1.

After more than a hundred years of introducing electricity to Lebanon, the country is still struggling to secure a constant power supply, essential to keep the economy buzzing and households lighted. The electricity situation is chronic and government has no excuse to ignore it. One would even argue that any Lebanese government that cannot secure electricity cannot be taken serious to deal with other economic pressures.

2.

In order to create a climate conducive to stability and economic growth, relations with Syria should be high on the government’s agenda. Reforming relations with Syria, which surrounds Lebanon on almost 85% of its land borders, is vital. Although Syria has withdrawn from Lebanon in April 2005, it continues to exert enormous influence on its tiny neighbor, by keeping important ties to Lebanese allies and holding the possibility of blockading Lebanese borders, holding Lebanon at risk of seeing its land access to export markets shut down. Syria did exactly that in 2005 and 2006, and on many occasions since the customs union was abolished in 1950. The opportunity cost to the Lebanese economy due to the high political risk caused by the Syrian presence in Lebanon between 1992 and 2005 was estimated by several Lebanese economists at around $9 billion.

3.

After dealing with electricity and Syria comes economic policy. Reviving the economy and creating jobs were never addressed in election campaigns, not in June 2009 and not before that. Lebanese elections are about political bosses and religious affiliation, and not yet about platforms. This is about time that government popularity is measured by how seriously it takes the development of a sound economic policy.

4.

As for the current international financial crisis, too much credit was given in the Lebanese media to central bank governor Riad Salamé for allegedly shielding the Lebanese economy against repercussions. But the fact is, there is not much of a real economic base in Lebanon to shield against the spiraling impact of the crisis. Any casual analysis by a decent economist would discover that much of what is considered as "economic activity" in Lebanon is "rentier economy": real estate (hence the booming construction to meet ex-pats and Gulf Arabs demand), bank deposits, short term investments, speculative activities, etc. Yet, inflation, labour out-migration, ballooning state debt, poverty, and collapsing manufacturing and farming sectors, among many difficulties, are present and are chronic symptoms of the Lebanese economy. The Bank of Lebanon could boast that it kept the Lebanese currency fixed against the dollar, but how is this achievement when the inflow of Arab short term capital is so huge that it allowed the accumulation of huge foreign currency reserves ($19 billion) and led to the unusual banking sector deposits of over $80 billion? The answer is that central bank policy alone cannot have a lasting impact on the real economy and sustained growth.

5.

Cracking down on massive corruption and theft of public funds, and introducing legislation to modernize elections and reform the judiciary should be shouldered by the government, the Parliamentary committees, the clergy, and the civil society. Corrupt practices go a long way in Lebanon and these should be honestly addressed. Since the Turkish rule before 1918 till today, a financial mafia - made up of politicians, elected officials, senior public servants, and staffers - is engaged in garnishing money as kickbacks, patronage, and services rendered to politicians, military and civilian authorities and to political parties. The dilemma is that any government that orders an investigation into corruption would soon find itself facing the traditional political class in Lebanon which is immune to charges and has de facto veto powers on government. The sole attempt of an inquiry into corruption by PM Salim Hoss in 1998-2000 led to the arrest of only low-level corrupt civil servants who became scapegoats for the big sharks. But prospects are not that dim, as even if looking at past crimes was not possible, the government can still bring in reforms and checks and balances to prevent future corruption.

6.

With a $50-billion debt against a GDP of only $25 billion, Lebanon is one of the most indebted countries in the world in terms of Debt-to-GDP ratio. The rapid rise of this debt presents a mystery to financial observers. In 1992 it stood at around $1 billion, but the Rafic Hariri government borrowed a lot of money in the 1990s for the purpose of reconstruction. However, Lebanese banks, in collusion with politicians, charged unconvincingly high interest rates – as high as 35% on government Treasury Bills, which were eventually settled with the issuance of more debt to pay back principal plus interest. The Lebanese watched as the public debt rose from $2 billion to $8 billion, to $28 billion, and now to $50 billion. The interest rates scheme of the 1990s is part of the reason behind the cancerous growth of the debt. What was more shocking is that only a trifle $6 billion went to reconstruction and development projects in Lebanon, mostly in and around Beirut, against total government expenditures of $75 billion between 1992 and 2004. Even stories as straightforward as the rise in public debt are still shrouded in mystery.

These economic responsibilities may take several years to handle, but since Lebanese governments are normally short-lived (the post-2009 election cabinet is the 69th since independence from France in 1943, averaging one government per year), it is possible that the new government, like many others before it, will not stay long to complete the job, and a bad habit of new Lebanese cabinets is the desire by ministers to replace the teams who have already accumulated knowledge and expertise with ones that are loyal to them personally. But this temporariness of cabinets should be no excuse for inaction. In addition to challenges, the government has a lot of positive signs in the country that it can build on:

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Lebanon is free at last of foreign occupation or hegemony; it has free media, competing political parties, elected government, and the promise of a bright future. This climate is conducive for business and Lebanon has many investment enabling strengths that have encouraged foreign companies to set up offices in recent years. These strengths include a free market, highly dollarized economy, the absence of controls on the movement of capital and foreign exchange; a highly educated and multilingual labor force; good quality of life and limited restrictions on investors.

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Lebanon boasts the most sophisticated banking sector in the region, a well-developed tourism infrastructure, and excellent telecommunication networks. Lebanon sets trends in fashion, performing arts, media and avant-garde politics for much of the Arab world.

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Tourism could very well become the propeller of growth and the government can introduce a tourism strategy for the next 10 years. Despite the success of tourism in 2009, the sector is still hungry for investment, and the government can do a lot to help. For example, in 2008, France received 84 million tourists compared to its population of 63 million (a ratio of 1.33). With 2 million tourists in 2009, and a population of 4 million (as the figures below indicate), Lebanon has not yet attained the pre-war level of tourists-to-population ratio of 0.56.

Year	Tourists	Lebanon’s population	Ratio of tourists to population
1974	1.5 million	2.5 million	56%
2008			

1 million

4

25%

2009

2 million

4

50%

On the bright side, and compared to 1974, the tourism infrastructure in Lebanon today is modern and relatively competitive (accessible tourist sites and locations, facilities, hotels, resorts, and telecommunications). Beirut has many pleasant surprises for visitors. It is a large metropolis with a population of 1.5 million people, and cosmopolitan center comparable to major cities in Western Europe, where *Vieux Beyrouth* (downtown core) has Italian and French designed building blocks, cobblestone roads, and chic shopping venues comparable to Vienna and Paris. The city has 11 universities, , dozens of five-star hotels, 50 movie theatres, 200 banking outlets, 700 publishers, 50 daily and weekly newspapers in several languages, and multilingual multi-confessional and western-oriented population, Beirut exhumes the air of wealth, modernity, and social status. Currently, hotel projects worth over $250 million are under construction in Beirut.

But there is a need for more accommodation, better development of attractions, and a modern transportation infrastructure. The inflow of visitors is constrained by the small number of hotel beds, the lack of funds to develop more potential attractions (virgin beaches, inaccessible ancient ruins, scenic mountains and snow ranges), and reliable land transportation. Traffic in much of Lebanon is chaotic, and Beirut has no underground transit system, let alone a bus service that even 2nd tier cities in Europe have. Clogged roads that keep travelers by car stranded for hours to cross a stretch of a few miles are daily occurrences.

If the year 2010 is peaceful, surely, Lebanon would attract foreign investments in tourism, manufacturing, farming, and *New Economy* sectors (e.g., information technology, ISPs, telecommunications and multimedia). With proper investments, Lebanon has the potential of receiving 4 million tourists by 2013.

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