Unpacking Lebanon's Trade Amid the Crisis

SAMI ATALLAH

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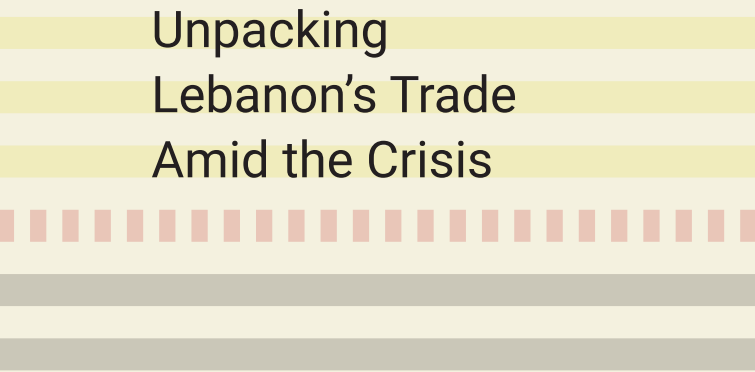
Unpacking Lebanon's Trade Amid the Crisis

The Policy Initiative

In partnership with

Friedrich Naumann Foundation for Freedom
Lebanon and Syria

About the authors

Sami Atallah is the founding director of The Policy Initiative. Trained in economics and political science, his research focuses on political economy, political institutions, and economic and local development.

Sami Zoughaib is an economist and research manager at The Policy Initiative. His research focuses on Lebanon's political economy, governance structures, macroeconomics, and local economic development.

Najib Zoghaib is a data officer and junior researcher at The Policy Initiative. He supports the research and communications teams with data collection, analysis, and project management.

INTRODUCTION

Trade is a useful barometer of economic vitality, as it is indicative of an economy's competitiveness and societal preferences. Countries that develop their industrial and agricultural base export more products than countries that are less developed, with some going one step further by fostering an environment in which complex products can be produced and exported. As exports rise, countries can import more products that they do not produce domestically. By examining a country's imports and exports, one can begin to understand more about its economy, business environment, consumer habits, and official trade policies.

As a merchant republic, Lebanon has maintained policies supportive of the free exchange of goods and capital since its founding.

Bearing these assumptions in mind, The Policy Initiative gathered and analyzed trade data to determine what it reveals about the current state of the Lebanese economy. As a merchant republic, Lebanon has maintained policies supportive of the free exchange of goods and capital since its founding. While the total value of Lebanese exports in recent years remained relatively low, about $4 billion, import bills expanded to reach $20 billion. In effect, Lebanon was living beyond its means and not generating enough dollars from exports to buy imported products. Instead of curbing imports or promoting exports, policymakers chose to attract capital from abroad to finance the difference and maintain an abnormal standard of living. Ensuing trade deficits and the budget deficits were the main causes of the 2019 financial collapse. Over the last four years, Lebanon's GPD contracted to less than half of its 2018 level. The Lebanese pound lost more than 95% of its value, the commercial banking sector is effectively bankrupt, poverty soared, and income and wealth inequalities reached unprecedented levels.

Ensuing trade deficits and the budget deficits were the main causes of the 2019 financial collapse.

This study aims to assess how trade has been affected by the economic and financial crisis. Generally, when a currency collapses, exports increase as products become relatively cheaper to sell abroad and imports decrease as they become more expensive. In most cases, as a trade deficit shrinks, demand for hard currency reduces. Accordingly, TPI chose to closely examine the effect of the financial and economic crisis on the value of both imports and exports between 2018 and 2022. Going beyond the aggregate numbers, we determine the composition of exports, not solely in terms of sectors and sub-sectors, but also how and to what extent products with comparative advantage have changed. We also focus on how complex products – which require a higher level of sophistication to make – evolved during this period. While product diversification is important, our work examines Lebanese export markets as well as the potential to export more products that are in demand worldwide. We also examine Lebanon's import basket and assess how the types of goods in it, including basics and luxury products, have changed over the same period.

By analyzing luxury import trends, export patterns, market destinations, and product complexity, this study provides valuable insights into Lebanon's economic resilience and challenges facing the country. Such an analysis is crucial to understanding the broader socio-economic impacts of the crisis and informing policymaking and economic recovery.

METHODOLOGY AND DATA SOURCES

The methodology employed in this report is rooted in a thorough analysis of trade data, supplemented by current economic indicators and historical trends. The key data sources include:

- **Lebanese Customs Administration: Provides detailed import and export data, offering insights into trade volumes, values, and commodity breakdowns specific to Lebanon.**
- **The Observatory of Economic Complexity (OEC): A platform for visualizing complex economic data, including trade profiles, product complexity, and market destinations.**
- **United Nations Comtrade Database: A repository of official international trade statistics, vital for comparative global trade analysis.**
- **International Trade Center (ITC): Provides trade and market analysis tools and data, aiding in understanding trade competitiveness and market trends.**

These data sources, combined with academic literature, industry reports, and financial market data, form the backbone of the analysis presented in the report. By leveraging these diverse data streams, the report offers a holistic and detailed picture of Lebanon's trade status during its economic crisis.

This report brings together five essential articles that examine changes in exports and imports over the years:

The first article assesses how Lebanon's exports changed at the sectoral and product levels. Lebanon exported 936 products in 2022 worth $3.4 billion in real terms, marginally less than 948 products in 2018. "Plastics and Rubbers" exports increased by the most significant amount followed by "Vegetable Products". The country added 77 new products to its export basket but stopped exporting 65 products during the same period. Lebanon has a comparative advantage in 203 products valued at $3 billion, which are mostly in the "Precious Metals", "Metals", "Plastics and Rubber", and "Chemical Product" sectors.

The second article covers Lebanese export destinations. Lebanon exported 948 products to 171 countries in 2021. Compared to 2018, it lost 12 markets and gained eight new ones. The share of Lebanese exports to Europe rose from 22% to 25% between 2018 and 2021, whereas exports to Asia declined from 52% to 46%. Over the same period, Lebanon managed to expand its total trade by $1.6 billion to 11 countries worldwide, which include Cameroon, Egypt, and Liberia, among others, selling goods such as "Scrap Iron and Copper", "Gold", "Jewelry", "Diamonds", "Grapes", and "Dried Fruits". From 2018 to 2021, Lebanon lost seven markets worth $300 million, and Lebanon has thus far failed to capitalize on potential exports, comprising 22 products worth around $948 million, which could be sold to 20 markets including Switzerland, the UAE, Saudi Arabia, Egypt, and the USA.

The third article examines the complexity of Lebanese exports. In 2021, Lebanon exported 88 complex products – those that require sophisticated production processes – worth $151 million, compared to 90 such products worth $142 million in 2018. These products are distributed across nine sectors, predominantly in the "Machine", "Metal", and "Chemical Sectors". Lebanon had a comparative advantage in 11 such products, including "Photographic Material", "Blown Glass", "Felt Machinery", and "Electric Furnaces". While their total value is small, they signal potential that has yet to be leveraged. These products are mostly sold in Africa and the Middle East.

The fourth article analyzes which imported goods have recovered the quickest amid the crisis. Lebanon's import bill recovered from a low of $12.8 billion in 2020 to $19.5 billion in 2022. Imports across all categories suffered a significant decline in 2020. Luxury products, of which there are about 200, recovered the quickest, reaching $3.5 billion in 2022. Such products include large capacity "Spark-Ignition Engines", "Electric vehicles", "Jewelry", "Gold", "Diamonds", as well as "Yachts and Pleasure Boats". Consumer food products, on the other hand, stood at 68% of their pre-crisis level.

The fifth article examines the accuracy of reported data by Lebanon and its partners. Lebanon misreported its export data by an average of 46% between 1997 and 2022, which is astonishingly higher than other countries like France and Angola, which had misreported their data by 9% and 13%, respectively, over the same period. We show that Lebanon has consistently underreported its exports over the last 26 years, while it overreported its imports between 1997 and 2012 and underreported them between 2013 and 2022. Moreover, Lebanon has consistently underreported its exports to Switzerland, the UAE, and Kuwait, where "Precious Stones" accounted for the highest difference. Lebanon underreported data on "Precious Stones" imports from the UAE but overreported its trade with the USA, particularly "Mineral Fuels". While this requires further investigation, the discrepancies could be attributed to a range of factors including trade data classification, tariff evasion, and economic changes.

What is Lebanon Exporting?

Sami Atallah and Sami Zoughaib

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**ARTICLE 1**

What is Lebanon Exporting?

Sami Atallah
and
Sami Zoughaib

While often considered a negative development, currency shocks can positively affect a country's export-oriented sectors by giving them a competitive edge in global markets. One might therefore expect that despite a rapid onset of challenges and hardship for so many people across Lebanon, the country's devalued currency has provided a boost to some of its productive sectors. However, understanding how the Lebanese financial crisis and currency devaluation has affected the export landscape remains a complex task. Despite some minor improvements at an aggregate level during the crisis period, these effects have been mixed and challenging to interpret.

Even though total Lebanese exports surged to $4.2 billion in both 2019 and 2021, they regressed to pre-crisis levels in 2022, when exports totaled $3.4 billion when adjusted for global inflation (Figure 1). While this may suggest that Lebanon is losing some of the competitiveness that it gained due to currency devaluation, it is necessary to examine how exports have evolved throughout the crisis to understand the broader impact of currency devaluation on various sectors and the economy, particularly in light of Lebanon's de-facto dollarization policy.

This article aims to evaluate export trends by comparing them to pre-crisis levels, specifically by focusing on changes at both the sectoral and product levels, as well as alterations in the comparative advantage of Lebanese products. In doing so, we intend to provide insights that can guide policymakers and market participants by highlighting the genuine potential of Lebanese exports and situating them within the wider macro-economic context of recovery.

Figure 1: Total exports ($ billion)
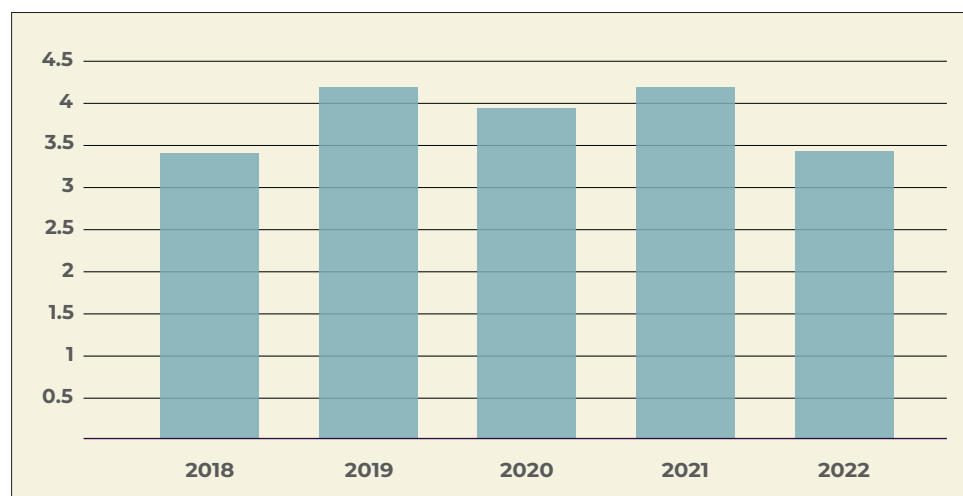
Source: Lebanese Customs Administration

A Diversified Export Basket

Lebanon boasts a diversified basket of exports despite their modest volume. The country exported a total of 936 different products in 2022, only marginally less than the 948 products exported in 2018. These products can be grouped into 10 main categories, of which "Stone and Glass" (23%) and "Metals" (14%) have the highest share (Figure 2).

Figure 2: Distribution of exports across sectors in 2022
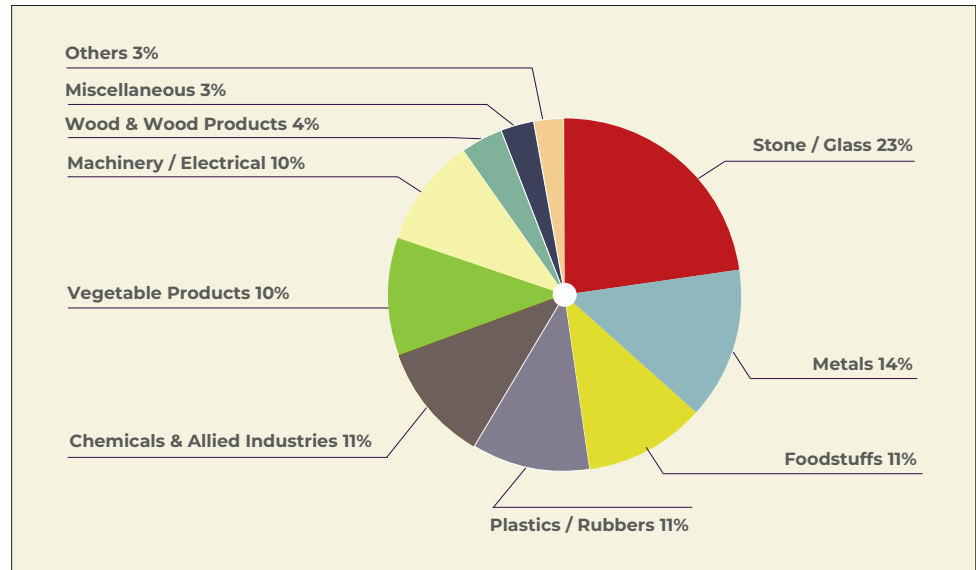
Source: Lebanese Customs Administration

Despite marginal changes at the aggregate level between exports in 2018 and 2022, some significant changes can be observed across categories. Exports of "Plastics and Rubbers" increased by the most significant amount, rising by $177 million (an 85% increase compared to 2018), followed by "Vegetable Products" (increased by $67 million or 24%), and "Metals" (increased by $46 million or 10%) (Figure 3). Meanwhile, the country's most significant category of exports, "Stone and Glass", was unchanged.

Contrasting these categories, "Foodstuff" exports decreased by $56 million, marking the most pronounced decline (13%), followed by "Chemicals and Allied Industries", which decreased by $53 million (27%).

Figure 3: Exports by sector ($ million)
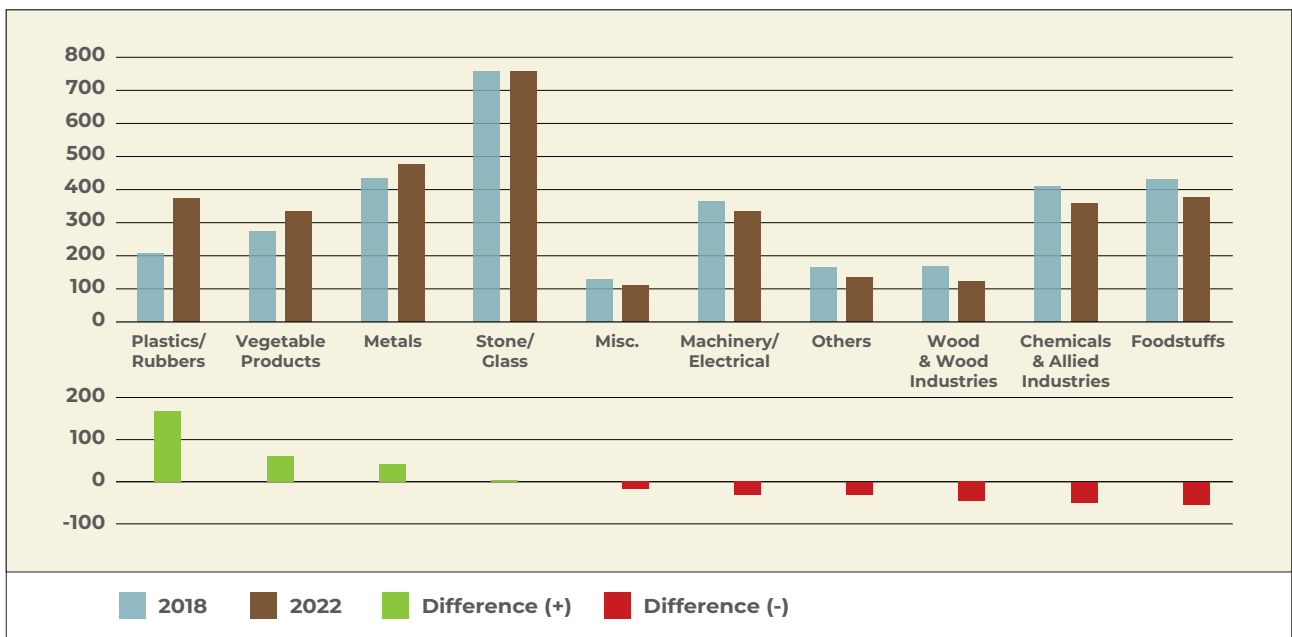
Source: Lebanese Customs Administration

Lebanon exported 77 new products in 2022 that it did not in 2018, which in total were worth $11 million. However, only 12 of these products were valued at higher than $100,000, making up 93% of the total. Notably, "Aluminium Powders and Flakes" and "Oil Cakes" (soybean livestock feed) comprised 70% of the total value of newly exported products. Meanwhile, Lebanon stopped exporting 65 products in 2022 that were part of its 2018 export basket, which together were valued at $69 million. The most valuable of these were "Lead Products", "Live Sheep and Goats", "Antiques Older than 100 Years Old", and "Cement".

Holding on to Lebanon's Comparative Advantage

Comparative advantage is both a function of local economic dynamics and international market trends. The Revealed Comparative Advantage (RCA) indicator highlights whether a country is particularly adept at making and selling certain products on the global market. RCA is calculated by comparing a country's share of exports in a particular product to the world's share of exports in the same product. If a country's share of exports is larger than its share in the world's total exports (RCA >1), it suggests a revealed comparative advantage in that product.

Lebanon had a comparative advantage in 203 out of its 936 exported products in 2022. For comparison, Lebanon had a comparative advantage in 216 out of 948 exported products in 2018. The value of high RCA products in both years stood at about $3 billion, or about 87% of total exports.

The highest concentration of RCA products in 2022 was in "Vegetables" (33 products), followed by "Foodstuffs" (25 products), "Chemicals and Allied Industries" (25 products), and "Metals" (25 products) (Table 1). The five products in "Precious Metals" totalled $750 million, accounting for 25% of the value of products with high RCA and include "Diamonds" ($436 million), "Gold" ($105 million), and "Articles of Jewellery" ($116 million). This was followed by products in the "Metals" sector with a value of $450 million (15%), which include "Ferrous Waste and Scrap" ($147 million), "Waste and Scrap of Copper" ($115 million), and "Waste and Scrap of Aluminium, Unwrought Lead" ($54 million). RCA Products in the foodstuffs sector were valued at $377 million (12.4%), including "Water" ($49 million), "Wine" ($30 million), "Sauce Preparation" ($51 million), "Fruits and Nuts" ($31 million), and "Bread and Pastry" ($21 million). Lebanon's "Vegetable Products", which amounted to $30 million and constituted 10% of the share, included "Potatoes" ($20 million), "Bananas" ($25 million), "Apples" ($47 million), "Grapes" ($47 million), "Apricots" ($30 million), and "Coffee" ($25 million).

Table 1: Number, value, and share of products with RCA > 1 in 2022

Section	Number of products	Value ($)	Share of the total
Animal products	2	5,866,000	0.19%
Vegetable products	33	305,889,000	10.06%
Animal and Vegetable	2	25,963,000	0.85%
Foodstuffs	25	377,721,000	12.42%
Mineral products	3	983,000	0.03%
Chemical products	25	319,154,000	10.49%
Plastics and Rubber	7	359,890,000	11.83%
Animal Hides	5	6,994,000	0.23%
Wood products	3	8,599,000	0.28%
Paper goods	13	99,069,000	3.26%
Textiles	14	12,890,000	0.42%
Footwear and headwear	1	239,000	0.01%
Stone and glass	9	24,237,000	0.80%
Precious metals	5	751,050,000	24.70%
Metals	25	449,247,000	14.77%
Machines	18	190,542,000	6.27%
Transportation	2	6,840,000	0.22%
Instruments	2	9,993,000	0.33%
Weapons	2	1,642,000	0.05%
Miscellaneous	7	84,354,000	2.77%

Source: Lebanese Customs Administration and authors' calculation

Notably, Lebanon lost its comparative advantage in products across nine out of the 15 sectors and gained a comparative advantage in four. In fact, Lebanon had a comparative advantage in 65 exported products in 2018 that by 2022 it was no longer producing, which in total were valued at $290 million (Figure 4). The value of new products in which Lebanon had a comparative advantage in 2022 shrank by $59 million, primarily comprising items from the "Wood, Plastic and Rubber", "Animal Products", and "Machinery and Equipment Sectors".

Figure 4: RCA in 2018 and 2022 across sectors
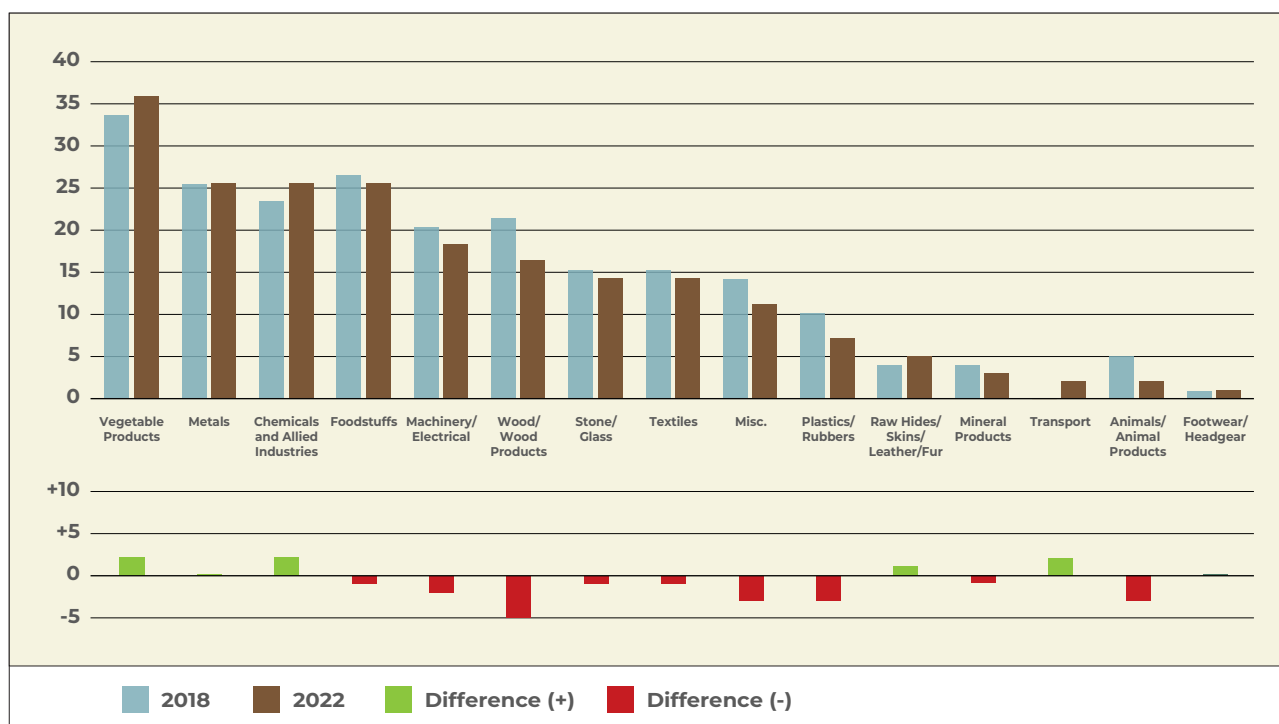
Source: Lebanese Customs Administration and authors' calculation

The impact of the financial crisis on exports is not straightforward. The devaluation of the currency did not lead to a surge in the number or volume of exports. However, it did change the composition of exports where value of products in the "Plastics and Rubber", "Vegetables" and "Metals" sectors increased while that of products in the "Foodstuffs" and "Chemical and Allied industries" decreased. Although Lebanon exported 77 new products in 2022, it also stopped exporting 65 products in the same year. The country managed to maintain its comparative advantage in 203 out of 936 products across several sectors including "Precious Metals", "Metals", "Foodstuffs", and "Vegetable products". The inability of the country to expand its comparative advantage is indicative of a structural challenge within the Lebanese economy. These findings underscore the need for a strategic approach to enhancing production capacities, quality standards, and market access. Focused interventions in high-potential sectors could help Lebanon rebuild a more resilient and competitive export sector, which are essential to its economic recovery and sustainable growth.

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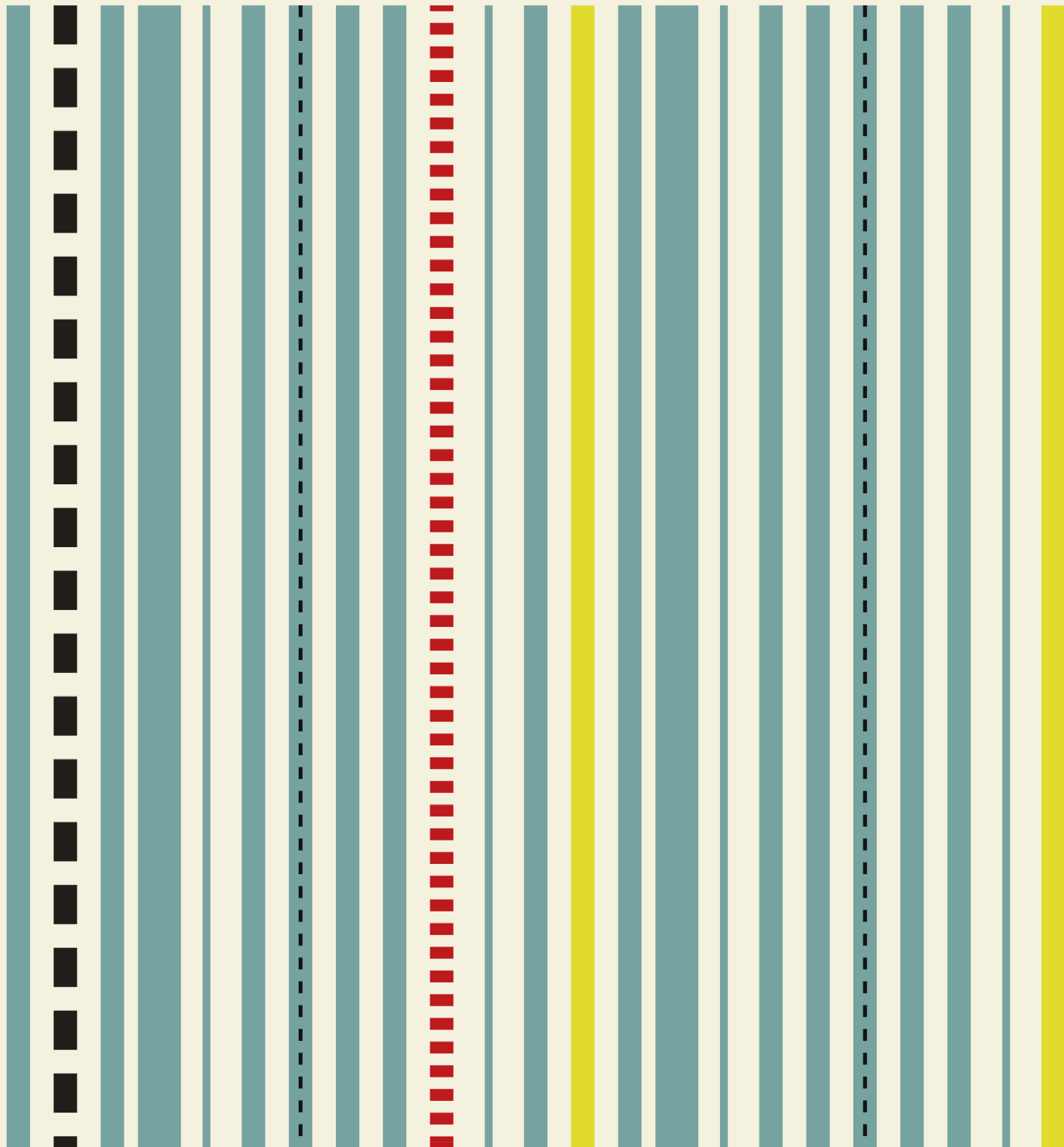
POLICY

INITIATIVE

TPI is a homegrown and independent think tank that aims to critically and empirically assess existing policies and to generate meaningful alternatives. We endeavor to shape a well-researched and evidence-based policy vision that is representative of the interests of the broader public and to empower people in demanding a better alternative.