

Unpacking Lebanon's Trade Amid the Crisis

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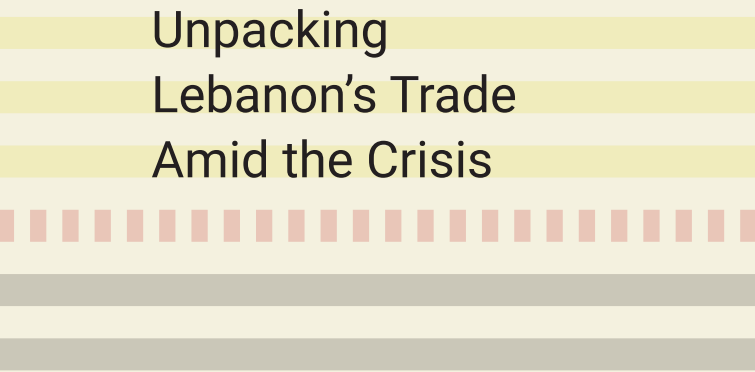


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Unpacking Lebanon's Trade Amid the Crisis

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.

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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 GDP 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.

ARTICLE 2

Where is Lebanon Exporting its Products?

Sami Atallah and Sami Zoughaib



ARTICLE 2**Where is Lebanon Exporting its Products?**

Sami Atallah
and
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Lebanon's financial and economic crisis has left no sector untouched, triggering a range of market disruptions and transformations. A confluence of factors including dwindling capital flows, constricted credit markets, and reliance on imported raw materials has adversely impacted the country's productive sectors. On a more positive note, Lebanese pound devaluation made the country's exports more competitive domestically and internationally, yet the exact changes in Lebanon's export landscape are not well understood beyond slight increases in their total volume. In this article, we assess how markets for Lebanese products have changed in recent years by comparing trade statistics from 2021 to trade statistics from 2018.¹

Lebanon exported 948 products to 171 countries, spanning six continents in 2021. In comparison to 2018, Lebanon lost access to eight markets, resulting in a loss of approximately \$12 million in export value across them. Exports to the Democratic Republic of Congo dropped by the most significant amount, about \$11.5 million. During the same period, Lebanese products were able to penetrate new markets, including Cocos, Turkmenistan, Cuba, Curacao, the Cayman Islands, the British Virgin Islands, Cook Island, and Surinam, contributing \$2.3 million to export receipts in 2021. Notably, the British Virgin Islands emerged as a prominent player, accounting for \$1.4 million of these new exports.

The geographical distribution of Lebanon's exports transformed between 2018 and 2021, when the share of Lebanese exports to Europe increased from 22% to 26%. Trade with North America also grew, climbing from 3% to 5%. By contrast, exports to Asia declined from 52% to 46%, underscoring shifts in global trade relationships (Table 1).

Table 1: Value and share of Lebanese exports by continents

Continent	2018		2021	
	Value (\$)	Share	Value (\$)	Share
Africa	794,724,152	22%	1,025,990,114	21%
Asia	1,899,484,883	52%	2,219,456,225	46%
Europe	817,647,560	22%	1,248,408,892	26%
North America	114,921,421	3%	236,752,280	5%
Oceania	22,023,612	1%	24,059,109	1%
South America	35,108,791	1%	31,606,130	1%
Total	3,683,910,419	100%	4,786,272,750	100%

Source: The Observatory of Economic Complexity and authors' calculations

Beyond the aggregate numbers, a closer examination of the data reveals intriguing insights. Lebanon expanded its trade by a staggering \$1.6 billion to 11 countries worldwide from 2018 to 2021 (Table 2). Countries such as Cameroon, Egypt, Liberia, the UAE, Bangladesh, Cyprus, South Korea, Switzerland, Greece, Portugal, and the USA increased trade with Lebanon over that period.²

Table 2: Increase in the value of Lebanese exports to selected countries

Country	2018 Value (\$)	2021 Value (\$)	Change (\$)	Growth
Cameroon	10,050,640	282,692,485	272,641,845	2,713%
Egypt	126,676,492	281,009,781	154,333,289	122%
Liberia	17,344,383	27,586,664	10,242,281	59%
United Arab Emirates	466,834,949	1,005,414,672	538,579,723	115%
Bangladesh	17,710,037	29,047,167	11,337,130	64%
Cyprus	17,093,346	38,980,830	21,887,484	128%
South Korea	55,803,052	86,924,327	31,121,275	56%
Switzerland	176,984,982	450,341,989	273,357,007	154%
Greece	60,831,295	242,402,245	181,570,950	298%
Portugal	4,229,654	17,048,486	12,818,832	303%
United States	83,550,716	183,423,210	99,872,494	120%

Source: The Observatory of Economic Complexity and authors' calculations

¹ 2021 is the most recent year for which market data is available.

² Only states with which Lebanese exports expanded by 50% and \$10 million in absolute value are counted.

Notable Shifts in Export Patterns

Among other notable changes in Lebanon's trade relationships are increases in specific exports to particular countries. For example, while the number of products exported to Cameroon decreased from 341 in 2018 to 250 in 2021, the category "Other Furniture" stood out, surging from \$48,000 in 2018 to a staggering \$274 million in 2021. Similarly, exports of "Scrap Iron" to Egypt played a significant role in driving up total exports, rising from \$12 million in 2018 to \$186 million in 2021. Greece also displayed an upward trend in purchasing similar goods, with "Scrap Iron" imports increasing from \$26 million in 2018 to \$180 million in 2021. Lebanon's exports of "Scrap Copper" also grew, reaching \$32 million in 2021 compared to almost \$18 million in 2018. Lebanon's exports to Switzerland also expanded, largely in products under the category "Gold", which surged from \$108 million in 2018 to \$410 million in 2021.

Increased trade with the UAE and US was characterized by greater product diversification. Lebanon expanded the diversity of its exports to the USA from 335 to 354 products. Notable examples include "Sauces and Seasoning", the value of which grew from \$3.8 million in 2018 to \$12.5 million in 2021; "Jewellery" from nearly \$13 million to \$52 million; and "phosphatic fertilizer" from zero to \$28 million. Lebanon introduced 43 new products to its UAE export portfolio and significantly expanded its exports in nine existing product categories between 2018 and 2021. "Diamond" exports rose from \$272 million in 2018 to \$417 million in 2021, "Jewellery" from \$22 million to \$65 million, "Gold" from \$714,000 to \$20.5 million, "Grapes" from \$1.4 million to \$137 million, and "Dried Fruit" from \$14,000 to \$10.5 million.

Lebanon was also faced with substantial export declines (Table 3),³ losing \$300 million in seven markets. Lebanon ceased exports of goods such as "Frozen Bovine Meat", "Wheat Flour", "Unprocessed Synthetic Staple Fibers", "Metal Stoppers", and "Buses". Angola stands as a poignant example, with exports dropping by \$31 million. Within these diminished markets, exports to Iran also declined, dropping from 82 in 2018 to 49 products in 2021. Notably, exports of "Sowing Seeds" to Iran declined by \$1 million, "Pesticides" by \$1 million, and "Combustion Engines" by \$1.3 million, while "Potassic Fertilizer" and "Electric Generating" nearly ceased. Exports to South Africa and Bulgaria significantly declined and were largely confined to individual products: "Gold" in the case of South Africa and "Scrap Copper" in the case of Bulgaria.

Table 3: Decrease in the value of Lebanese exports to selected countries

Country	2018 Value (\$)	2021 Value (\$)	Change (\$)	Growth
Angola	49,877,957	19,213,411	(30,664,546)	-61%
Democratic Republic of the Congo	11,560,281	0	(11,560,281)	-100%
Algeria	36,579,190	10,316,244	(26,262,946)	-72%
South Africa	174,916,319	2,305,091	(172,611,228)	-99%
Zimbabwe	19,503,031	6,644,528	(12,858,503)	-66%
Bahrain	23,306,891	11,359,115	(11,947,776)	-51%
Bulgaria	60,603,138	26,624,877	(33,978,261)	-56%

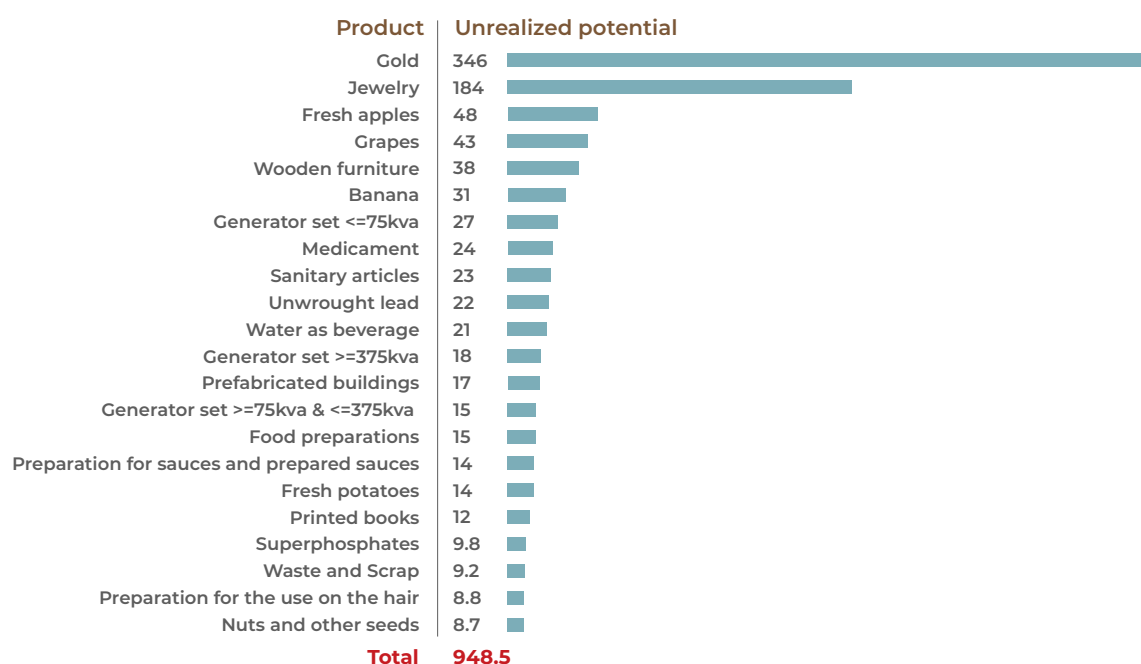
Source: The Observatory of Economic Complexity and authors' calculations

³ Only states with which Lebanese exports decreased by 50% and \$10 million in absolute value are counted.

Capitalizing on Untapped Markets

Amid these fluctuations, certain products like “Gold, Unwrought, for Non-Monetary Purposes”, “Jewelry”, “Fresh apples”, and “Grapes” appear to have untapped potential (Figure 1). The variance in value between potential and actual exports of these goods implies that Lebanon has the potential to export an additional \$948.5 million worth of these goods.⁴

Figure 1: Products with export potential based on 2021 data (\$ million)



Source: International Trade Center

As the dust settles on Lebanon's shifting export landscape, several markets stand out for their unrealized potential (Figure 2). The UAE, Switzerland, and Egypt lead the pack (Figure 2), each boasting substantial room for additional exports. Lebanon possesses significant untapped export potential across various product categories. “Gold”, with a potential value of \$346 million, could be exported primarily to the UAE (\$173 million), Turkey (\$37 million), and Saudi Arabia (\$22 million). Similarly, there are potential markets for “Jewelry”, valued at \$184 million, in Switzerland (\$112 million), Qatar (\$21 million), and Iraq (\$15 million). “Fresh Apples” could be a lucrative export product with \$48 million in potential sales, particularly to Egypt (\$18 million), Syria (\$4.9 million), and Iraq (\$3.3 million). Lebanon also has significant export potential in “Bananas”, “Wooden Furniture”, “Generating Sets”, “Grapes”, and “Medicinal Products”, suggesting there is a diverse range of opportunities across different markets.

While Lebanon managed to maintain a diversified market, the share of its exports to Europe and the US increased at the expense of markets in Asia. Moreover, the country increased the export of scrap iron, scrap copper, gold, jewelry, and diamonds, among others, to 11 countries including UAE, Switzerland, and Cameroon in the amount of \$1.6 billion. It also experienced a decrease in a variety of exports to countries like South Africa, Bulgaria, and Angola. Yet Lebanon has the potential to export 22 goods worth \$948.5 million to 28 markets. Leveraging this untapped potential could significantly contribute to Lebanon's economic growth. Hence, the government must aggressively support the private sector in facilitating the exports of Lebanese products through favorable trade agreements to these markets.

⁴ According to the International Trade Center, potential export is calculated based on “projections of supply, demand, market access conditions and bilateral ease of trade”.

Figure 2: Lebanon's untapped potential markets for their respective products (\$ million)

Algeria		Iraq		Spain	
Generator set >=75kva & <=375kva	0.9	Jewelry	15	Nuts and other seeds	\$0.9
Bangladesh		Fresh apples	3.3	Switzerland	
Waste and Scrap	2.4	Wooden furniture	2.4	Jewelry	112
Cameroon		Sanitary articles	2.7	Medicament	2.3
Generator set <=75kva	3	Fresh potatoes	3.1	Nuts and other seeds	1.2
Generator set >=375kva	1.3	Jordan		Syria	
Generator set >=75kva & <=375kva	1.7	Waste and Scrap	3	Fresh apples	4.9
Printed books	1.5	Kuwait		Banana	15
Food preparations	0.8	Prefabricated buildings	0.7	Sanitary articles	4.3
Prep. for sauces and prepared sauces	1.4	Preparation for the use on the hair	0.7	Water as beverage	8
Congo		Liberia		Fresh potatoes	4.5
Generator set <=75kva	1.5	Prep. for sauces and prepared sauces	1.9	Turkey	
Cote d'Ivoire		Netherlands		Gold	37
Superphosphates	3.1	Banana	2.5	Unwrought lead	5.8
Egypt		Grapes	2.4	United Arab Emirates	
Fresh apples	18	Superphosphates	1.7	Gold	173
Medicament	2.4	Nigeria		Generator set <=75kva	2.1
Generator set >=75kva & <=375kva	1.2	Generator set <=75kva	1.6	Generator set >=375kva	1.5
Nuts and other seeds	1.4	Oman		Unwrought lead	3.6
Prefabricated buildings	1.2	Sanitary articles	1	United Kingdom	
Food preparations	6.5	Qatar		Printed books	0.9
France		Jewelry	21	United States of America	
Banana	1.3	Water as beverage	1.6	Wooden furniture	7.1
Germany		Prefabricated buildings	4	Grapes	3.1
Grapes	1.9	Preparation for the use on the hair	0.7	Medicament	4
Ghana		Republic of Korea		Unwrought lead	3.3
Superphosphates	1.2	Waste and Scrap	0.68	Printed books	1.9
Greece		Saudi Arabia		Food preparations	0.8
Fresh potatoes	1.2	Gold	22		
Guinea		Wooden furniture	1.8		
Generator set >=375kva	1.6	Water as beverage	1.4		
Prep. for sauces and prepared sauces	1.9	Preparation for the use on the hair	0.8		

Source: International Trade Center and authors' compilation



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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.



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