

Unpacking Lebanon's Trade Amid the Crisis

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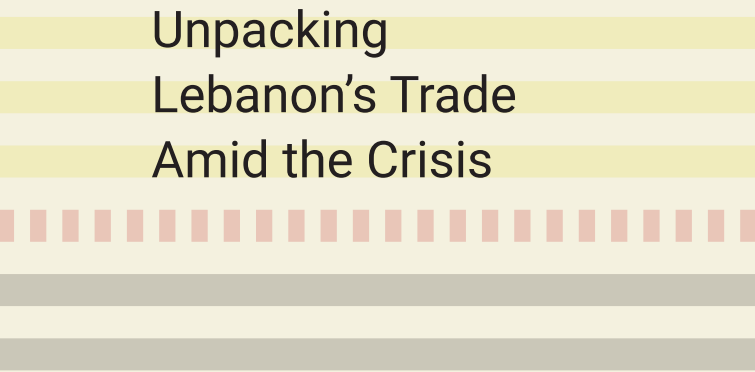


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Unpacking Lebanon's Trade Amid the Crisis

The Policy Initiative

In partnership with

Friedrich Naumann Foundation for Freedom
Lebanon and Syria

About the authors

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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.

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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.

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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 4

How Fast did Luxury Imports Recover?

Sami Atallah and Sami Zoughaib



ARTICLE 4 Amid one of the deepest financial and economic crises in modern history, there is a prevailing notion that the Lebanese economy is, to one degree or another, readjusting. Bustling streets and fully booked luxury establishments may contribute to this perception of normalcy, though it is vital to not exclusively rely on visual cues or macro-economic indicators like tourism revenues and GDP growth when evaluating economic and social outcomes.

How Fast did Luxury Imports Recover?

Sami Atallah
and
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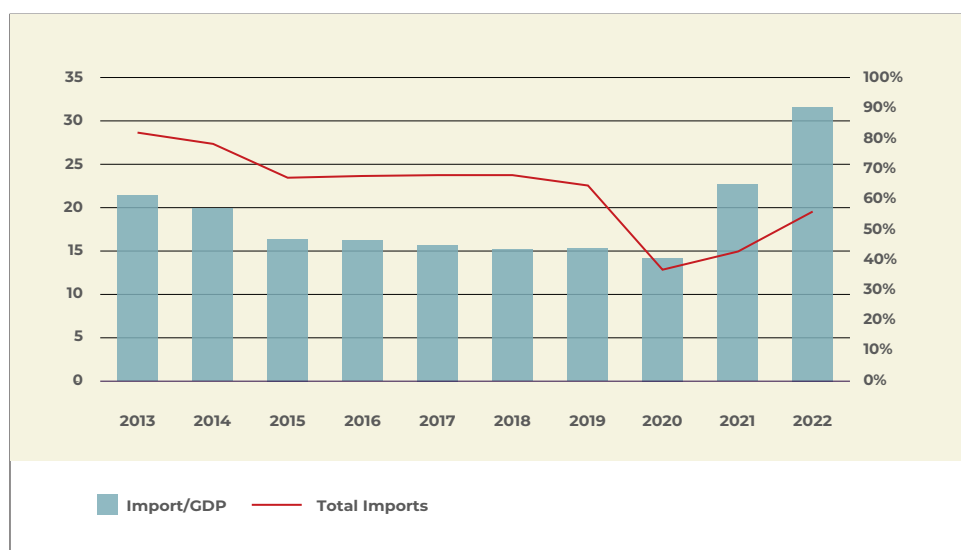
The narrative of readjustment and stabilization has gained traction in public discourse, bolstered by commentators and public personalities on national media. However, a closer examination reveals that this supposed readjustment has only benefited a narrow social class comprising Lebanon's most wealthy, allowing them to return to their pre-crisis consumption habits. In stark contrast, most of the population struggles to meet even their basic needs. Perhaps the most dangerous characteristic of this professed readjustment is that it can be maintained and will eventually lead to a transmutation of the Lebanese economy, society, and politics.

One key facet of the Lebanese economy is import dependence, highlighted by the fact that an estimated 80% of the country's food needs are covered by imports. Using import data as a proxy for consumption behavior offers a broad understanding of most residents' expenditures on goods, painting a much grimmer picture than other indicators.

This article offers an empirical analysis of Lebanese society's consumption behavior during the crisis, focusing on luxury good import trends compared to other essential commodities, and benchmarking them against pre-crisis levels. By highlighting this issue, this article aims to offer a more comprehensive understanding of how residents fare in Lebanon's contemporary economy and stimulate a deeper discussion about needed steps to ensure an inclusive and sustainable recovery.

A Luxurious Recovery? Lebanon's import bill recovered from a low of \$12.8 billion in 2020 to \$19.5 billion in 2022 (Figure 1).¹ While Lebanon returned to its pre-crisis import levels in absolute value, its import-to-GDP ratio reached unparalleled levels as it rose, on average, from 50% between 2013 and 2018 to 90% in 2022, making Lebanon the 15th largest importer relative to GDP in the world.² More to the point, this import surge took hold as the economy shrunk by 60%.

Figure 1: Total imports (\$ billion)



Source: Lebanese Customs Administration

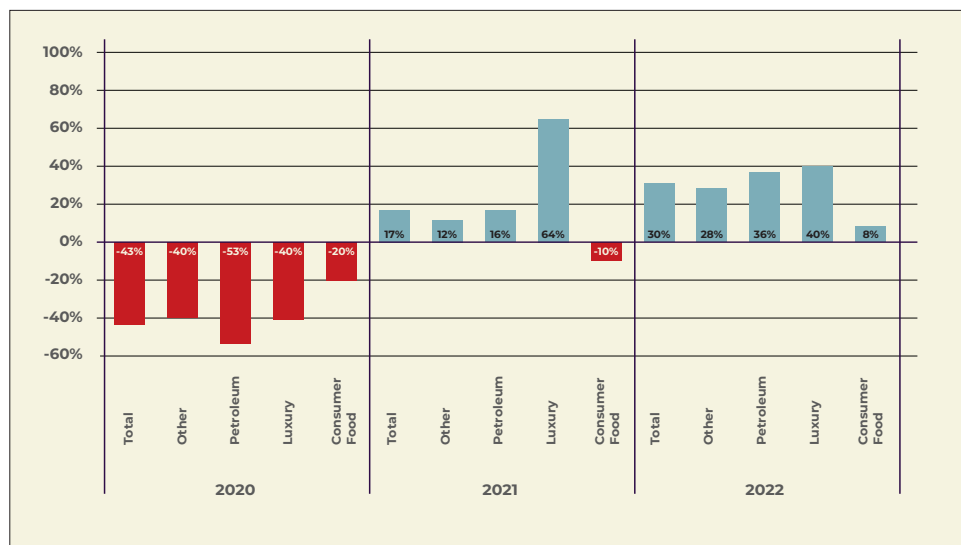
¹ Eight of the top 15 countries that have a higher bill than Lebanon are states that have a smaller surface area with many being micro-islands.

² World development indicators data.

This recovery does not indicate a broad re-adjustment of the economy but rather a narrow readjustment benefiting the country's wealthiest classes. Examining the composition of Lebanon's import bill and distinguishing between three different categories – luxury (including "Vehicles", "Gold", "Jewelry", "Cigars", etc.), petroleum, and consumer food (excluding high-end foods) – reveals a significant disparity in the pace of recovery. TPI coded import data from the Lebanese Customs Administration according to the global Harmonized System, a standardized numerical method of classifying traded products. Luxury products are identified using the list of "luxury goods sanctions against Russia and Belarus and Russian and Belarusian oligarchs and malign actors," which includes the HS codes of more than 200 sanctioned products. Additionally, other significant import categories, such as petroleum products and food, are identified through manual categorization.

Imports across all categories suffered a significant decline in 2020, though luxury products recovered the quickest. Adjusting for inflation, luxury consumption grew by 64% year-over-year in 2021 and another 40% in 2022, totaling about \$3.5 billion in that year (Figure 2). Luxury imports in 2022 were the second highest over the previous 10 years. Meanwhile, consumer food product imports, excluding high-end foods, decreased by 20% in 2020, followed by another 10% in 2021, and only recovered by 8% in 2022. This is the slowest rate of recovery across all categories. Total food imports in 2021 stood at \$1.5 billion, accounting for about 40% of the country's luxury imports. The value of imported petroleum also significantly decreased in 2020 and 2021, possibly due to the pandemic and a large decrease in global prices, though it rose by 36% in 2022 to reach its pre-crisis average.

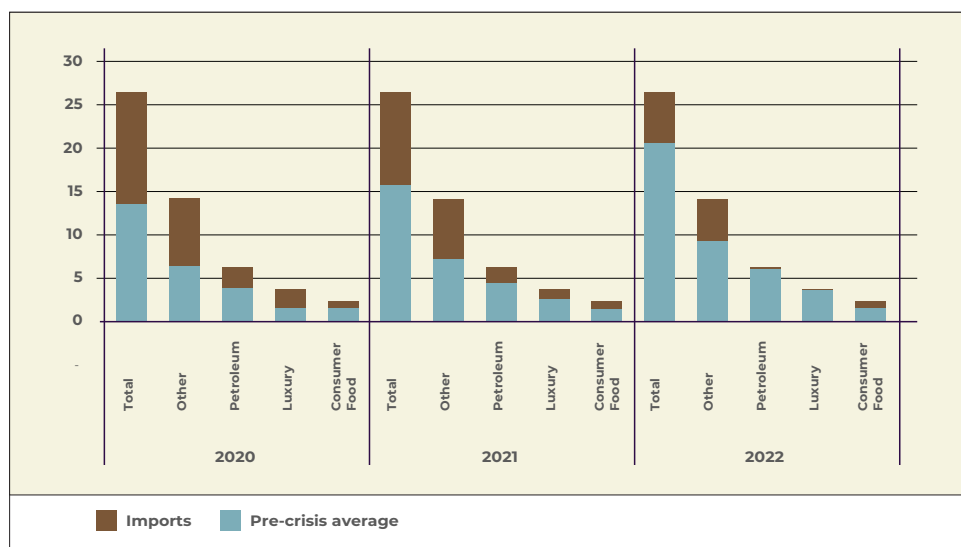
Figure 2: Change in imports across categories and time



Source: Lebanese Customs Administration and authors' categorization

Overall, the value of luxury and petroleum product imports completely recovered to pre-crisis levels in 2022, while consumer food imports stood at 68% of their pre-crisis levels (Figure 3). Import substitution could play an important role in the slow recovery of imported consumer foods but this effect is expected to be constrained, as the substitution potential of the domestic agrifood sector suffers from competitiveness losses driven by near full dollarization of the economy.

Figure 3: Imports relative to pre-crisis average across categories and time (\$ billion)



Source: Lebanese Customs Administration and authors' categorization

The recovery in luxury goods has been driven by large increases across 10 main products listed in table 1, which totaled about \$3 billion in 2022. These include large capacity "Spark-ignition Engine(s)", "Electric Vehicles", "Jewelry", "Gold", "Diamonds", and "Yachts and Pleasure Boats".

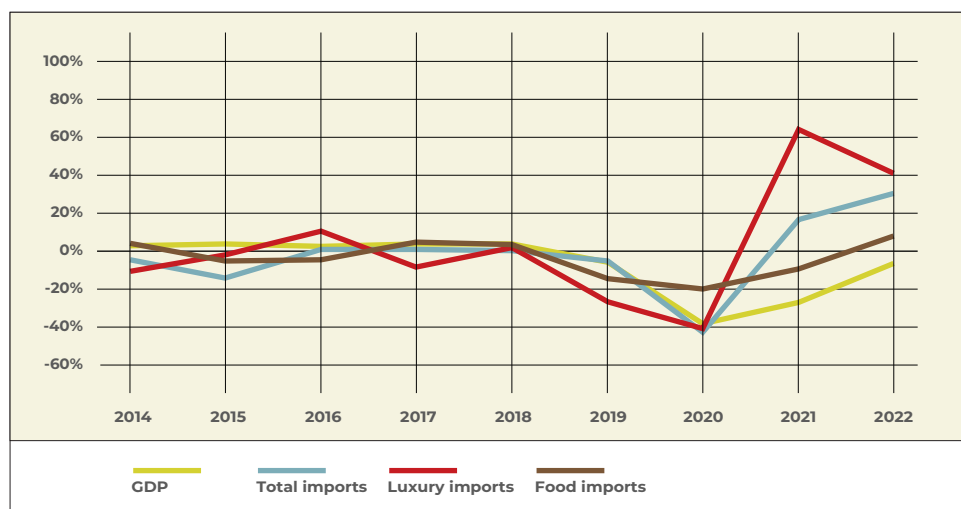
Table 1: List and value of luxury products

Country	Value (\$)	Recovery (\$) 2020-2022	Growth rate 2020-2022	Growth rate pre-crisis avg 2022
Vehicles: 1500-3000cc, spark-ignition engine	849,618,502	761,562,339	865%	26%
Metals: Gold, non-monetary, unwrought	1,035,407,842	448,539,230	76%	43%
Vehicles: Over 3000cc, spark-ignition engine	424,567,323	286,808,328	208%	-11%
Diamonds: Non-industrial, unworked, not set	405,880,737	215,800,911	114%	733%
Jewellery: Precious metal, excluding silver	114,792,641	89,423,341	352%	62%
Vehicles: Only electric motor	45,811,758	43,598,817	1,970%	21,634%
Vehicles: 1000-1500cc, spark-ignition engine	45,184,119	41,637,109	1,174%	-57%
Vehicles: Hybrid, no external charging	37,711,756	33,387,643	772%	11,507%
Yachts and other vessels: Pleasure/sports boats	31,968,431	26,216,800	456%	604%
Vehicles: Plug-in hybrid, external charging	22,677,244	17,378,994	328%	1,469%

Source: Lebanese Customs Administration and authors' categorization

Moreover, consumption of luxury products also seems unrelated to broad-level economic activity. Unlike total imports and consumer foods, changes in the consumption patterns of luxury products seem to be uncorrelated to GDP growth (Figure 4).

Figure 4: Change in imports and GDP across time



Source: Lebanese Customs Administration and World Bank

A Grim Social Reality

These findings, seen against the backdrop of broader socio-economic conditions, reveal the true scale of the widening gaps between income groups in Lebanon. Thirty percent of the Lebanese labor force is unemployed and more than half of earners have a monthly income of less than \$200, while only about 3% earn more than \$1,000. Moreover, the country's formal social protection system has collapsed, leaving most of the population exposed to the devastating impact of the crisis. Compounding this, the country is cash-strapped, with a lingering balance of payments deficit of \$3 billion in 2022, meaning that imported luxury items are competing with other more essential products for remaining foreign currency in the country.

Finally, the collapse of the national currency and adoption of an official exchange rate for tax payments and tariffs means the state is effectively subsidizing the consumption of imports. Consequently, the treasury has lost billions of dollars in potential revenues from taxing imports since the onset of the crisis, which could have been used to bolster national social protection systems and cushion the impact of the crisis on society.

A Costly Maintenance of the Status Quo

The semblance of normalcy reflected in the data presented above comes at grave social and political cost. Increased capacity to consume luxury goods today, compared to pre-crisis averages, means that a segment of society has not only been able to adapt to the crisis but also benefit from it. These include large winners from arbitrage opportunities enabled by ill-thought-out subsidies and distortions in the currency market, individuals who transferred their money abroad unethically and illegally, as well as large monopoly owners across sectors who have benefited from significant deductions on their borrowings from the financial sector due to currency devaluation. As such, the political class, through their capture of state institutions, has been able to maintain the interests of elites. As it stands, their economic and political resources will increase, yielding a society with a severely lopsided distribution of political and economic power.



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