Unpacking Lebanon's Trade Amid the Crisis

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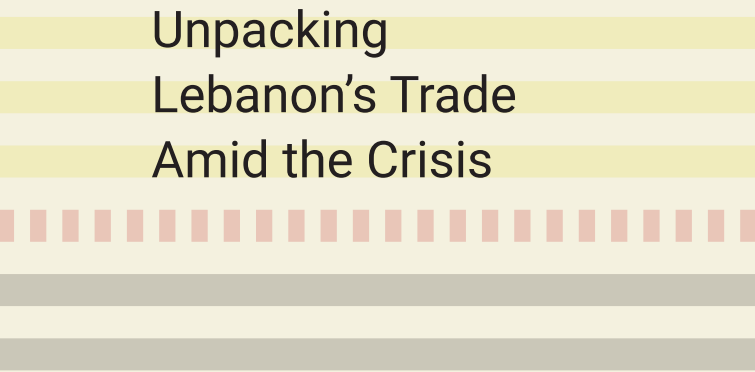
THE POLICY INITIATIVE

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Lebanon and Syria

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The Policy Initiative

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 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.

ARTICLE 5
Is Lebanon Misreporting its Trade Data?

Sami Atallah, Sami Zoughaib, and Najib Zoghaib

MADE IN LEBANON

ARTICLE 5

Is Lebanon Misreporting its Trade Data?

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Trade data is useful in determining the competitiveness of an economy and societal preferences, assuming it is both up to date and accurate. This article offers a preliminary assessment of how accurate Lebanese import and export data is by comparing it with data collected by Lebanon's major trading partners. An analysis of 26 years of Lebanese trade data reveals striking anomalies, revealing substantial discrepancies in both export and import figures when compared to trade partners' data.

In 2010, a typical year in terms of discrepancy level, Lebanon reported that it exported $502 million in goods to Switzerland, but Swiss import data registered only $182 million in goods arriving from Lebanon, resulting in an apparent discrepancy of $320 million. Zooming out, reporting discrepancies with Lebanon's 10 largest export markets in 2010 totaled $918 million in absolute value, which is a significantly high number given that registered exports totaled about $2 billion in the same year. When calculated for all years between 1997 and 2022, the discrepancy between Lebanon's reported exports to its top 10 markets and their reported imports from the country averaged about 46%, reaching a high of 106% in 1997 and a low of 13% in 2020. This is a strikingly high level when compared to import and export data from France and Angola – a developed and a developing economy – which have an average discrepancy of 9% and 13%, respectively, over the same period.

Figure 1: Percentage of misreported exports to total recorded exports for Lebanon, France, and Angola
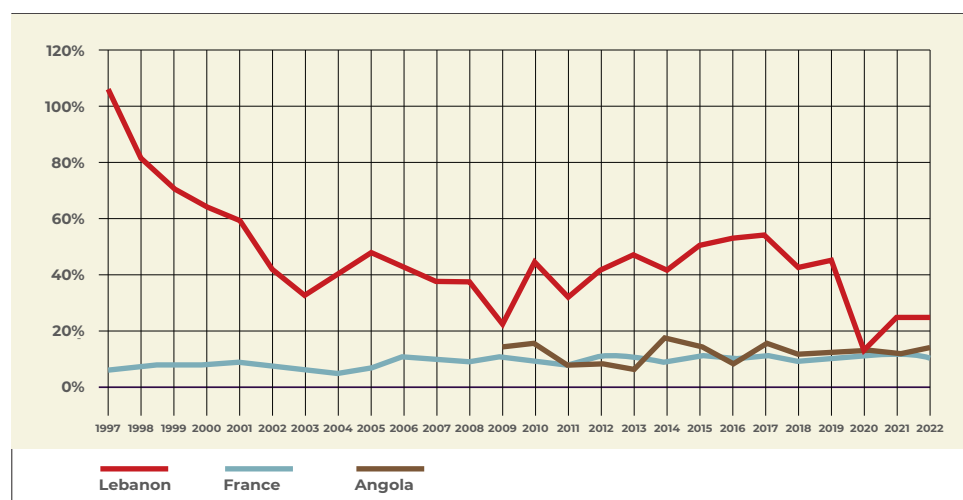
Note: The share of misreporting in absolute value is calculated based on the top-10 largest markets to which these countries export.
Source: United Nations Comtrade

By comparison, Lebanese import data appears to be more accurate than export data. The discrepancy holds at 22% of the country's total import bill, half of the misreporting error on the export side. Moreover, this level is in line with France, which has a 24% discrepancy rate, and is lower than Angola's 32%.

Figure 2: Percentage of misreported imports to total recorded imports for Lebanon, France, and Angola
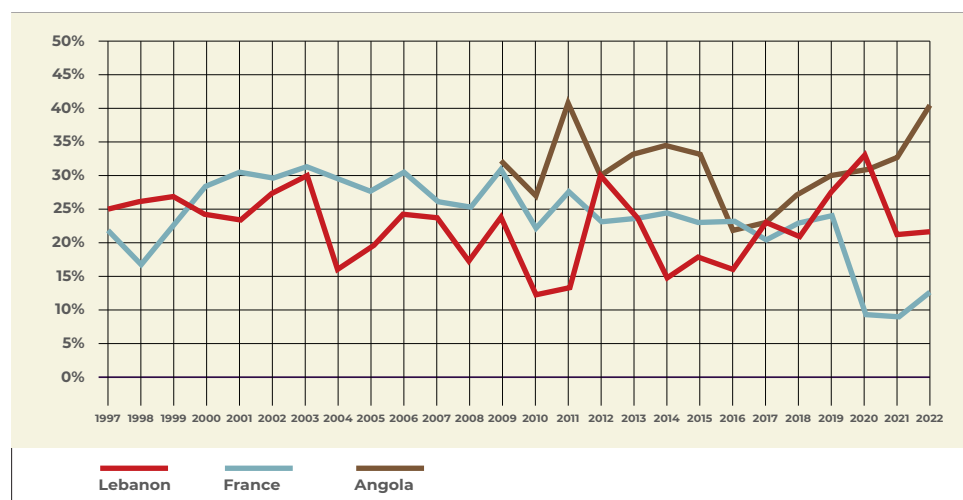

Note: The share of misreporting in absolute value is calculated based on the top ten largest markets from which these countries imported.
Source: United Nations Comtrade

Export data discrepancies in particular call into question Lebanon's data reporting reliability. Both import and export data discrepancies hint at possible underreporting or overreporting, which could be driven by factors such as attempts to evade tariffs, manipulate trade figures, or limitations in accurately tracking and recording trade transactions. One factor that could explain why Lebanon's export data shows a much higher discrepancy rate than its import data could be due to how the data is recorded. For instance, import data is recorded by customs authorities in an importing state and attributed to the country from which imports directly arrived, while exports are recorded once they reach their final destinations, which in most cases does not account for re-exports.

Patterns in Overreporting and Underreporting

Having established that there is a discrepancy in Lebanese export data, we then sought to determine how Lebanon is overreporting or underreporting its trade data. A comparison of Lebanese trade statistics and trade partner statistics yields two key findings. First, Lebanon has underreported its exports for most of the studied period with an average of 34% higher than reported in importing countries. Second, unlike exports, import data exhibits two distinct patterns. Lebanon overreported its imports on average by 13% between 1997 and 2012 but underreported it by 9% on average between 2013 to 2022. This coincides with the period in which Lebanon first recorded a balance of payment deficit over two consecutive years, calling into question how economic policies, market conditions, or changes in bureaucratic trade data collection affect the collection of trade statistics.

Figure 3: Lebanon's yearly export and import discrepancy
(under and over reporting)
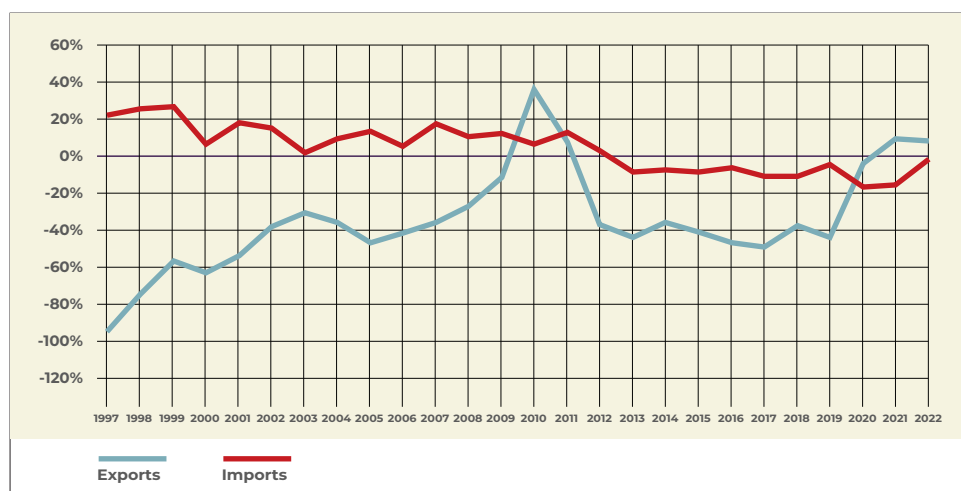
Note: The data above zero indicates overreporting while that below zero indicates underreporting.
Source: United Nations Comtrade

We then sought to determine whether trade data discrepancies are driven by a specific country. Lebanon consistently underreported its exports to Switzerland for 26 years to the tune of $2.7 billion, which comprises 36% of the total discrepancy over the studied period (Figure 4). The UAE and Kuwait followed with $1.1 billion and $1.3 billion, respectively, jointly accounting for another 29%. We also examined whether the discrepancy with these countries is specific to a certain year or across the board. Lebanon recorded its highest export discrepancy with Switzerland in 19 out of the 26 years, followed by the UAE in three years, and Korea and Kuwait in two years each. Accordingly, the total difference in exports was mainly skewed due to reporting patterns with the Swiss market. Looking deeper into the data, specific products appear to be key drivers of this discrepancy. In 2021, "Precious Stones" accounted for the highest discrepancy between Lebanese export and Swiss import data, totaling $30 million. In the same year, "Precious Stone" accounted for the highest discrepancy with the UAE totaling $140 million.

Figure 4: Volume and share of the export discrepancy between Lebanon
and its top 10 export partners ($ billion)
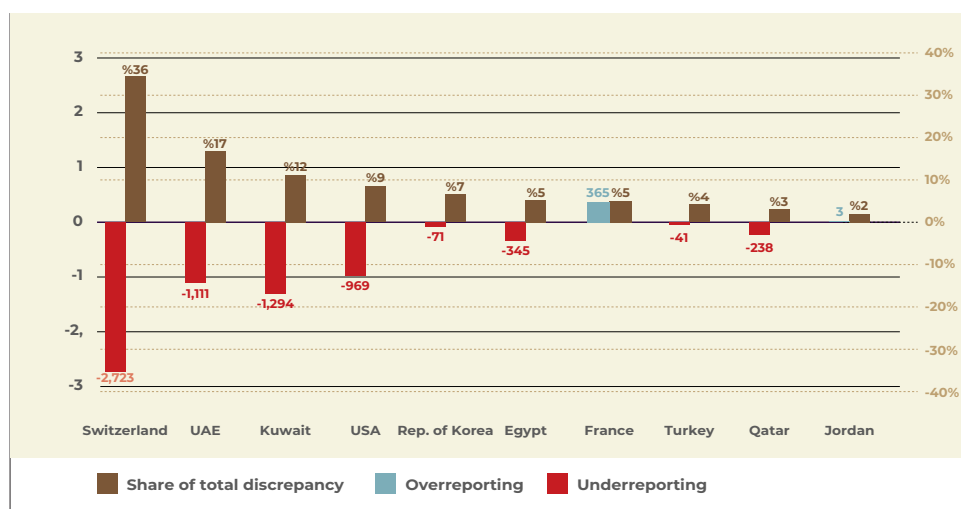
Source: United Nations Comtrade

Over a 26-year period, Lebanon underreported imports from the UAE by about $10 billion and from Switzerland by about $1.5 billion. Notably, Lebanon overreported imports from the USA by $5.7 billion, China by $2.3 billion, and Germany by $3.3 billion over the same period. These five countries accounted for 76% of the total discrepancy. This demonstrates that import discrepancies are not driven by one specific country. Lebanon recorded the highest discrepancy in reported imports with the UAE for nine years, China for seven years, and Switzerland for five years out of the total period. "Precious Stones" and "Mineral Fuels" accounted for the largest import discrepancies in 2019, including $398 million worth of "Precious Stones" imported from the UAE and $490 in "Mineral Fuels" imported from the USA.

Figure 5: Volume and share of the import discrepancy between Lebanon and its top 10 import partners ($ billion)
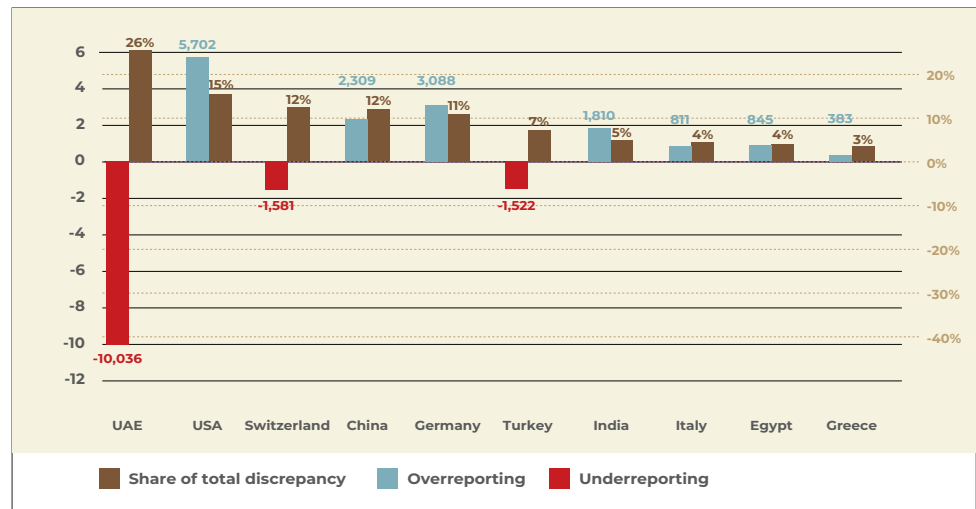
Source: United Nations Comtrade
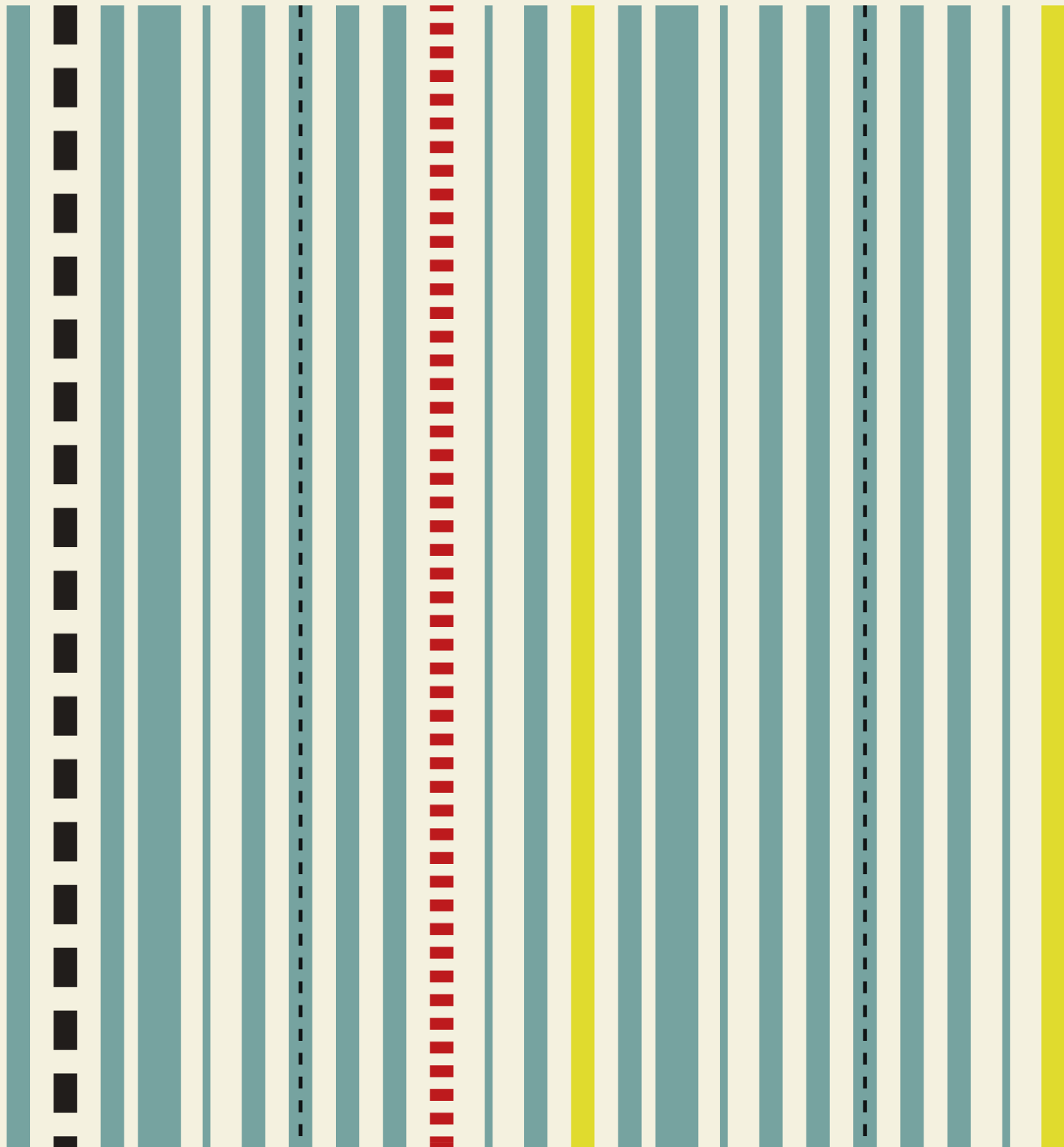
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Lebanon and Syria

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