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Recent Industrial Measures Won't Save the Sector

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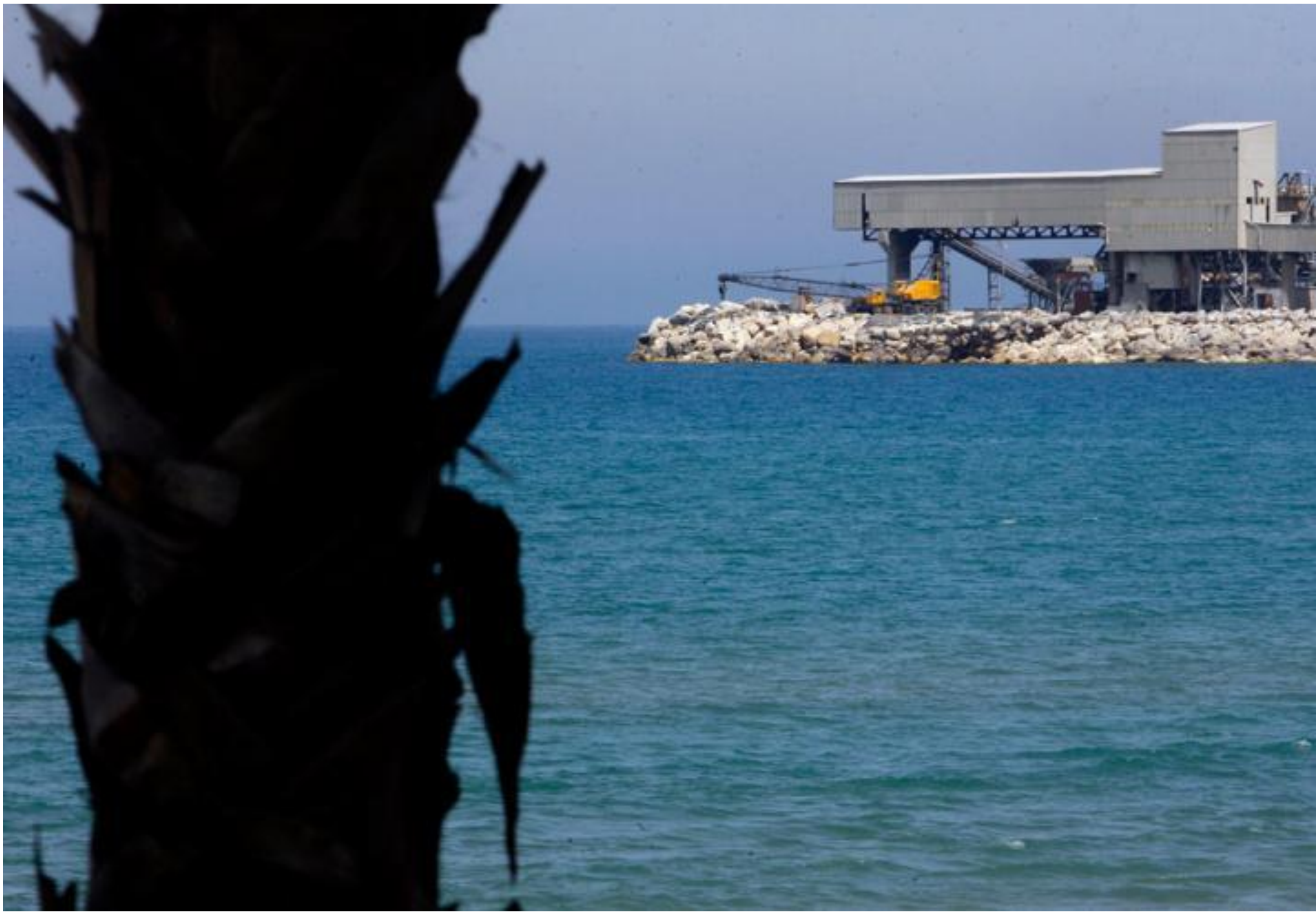

Three, Lebanese industrialists have manufactured 103 new products between 2000 and 2008 (Photo: Marwan Tahtah)

The government has just launched a series measures to support the industrial sector. These policies are largely fiscal in nature, providing subsidies and import protection, and support certain sectors like aluminum and other energy intensive industries.

The government's recent policies hope to increase investments, improve the quality and the competition, and maintain employment in the sector as well as create new jobs.

These measures seem to be a reaction to the current situation in the country. With Syria in flames, the industrial sector has lost a major artery to export its products. Added to the rise in transportation costs, the dumping of imported products originally destined for Syria in Lebanon has hurt industrialists further. These emerging problems are additional to the ailments the sector has been suffering for years: high electricity costs, poor trade logistics, monopolized market structure, poor financial intermediation, and an overvalued exchange rate. These problems have pushed up prices and lowered the prospects of diversification.

The announced measures are unlikely to solve the major ills of the sector. In fact, these policies are misguided because they are isolated ad hoc measures that favor larger and influential industries, overly focusing on the electricity problem, and do not link fiscal and trade support to firms' performance outcomes. Furthermore, these policies will neither maintain employment in the sector nor create new jobs; they will most likely increase the profits of the industrialists alone.

These policies are misguided because they are isolated ad hoc measures that favor larger and influential industriesIt would have been more useful to think deeper about the sector and where it ought to be going. The government should support the sector's diversification, which is a key to solid growth and job creation. Countries that experience high growth rates have several things in common: a larger and more diversified manufacturing sector that exports sophisticated products. Furthermore, the manufacturing capabilities of these countries are not determined by factor endowment.

With this in mind, here are few observations about the sector's performance:
One, exports per capita doubled between 2000 and 2007 from $600 million to $1.25 billion. Not only has Lebanon's industrial sector grown as fast as those of upper middle income countries, but it has widened the gap further with other MENA countries. Consequently, exports as percentage of GDP rose from 14 percent in 2000 to 25 percent in 2007.

Two, the level of export sophistication has also witnessed a substantial increase of 36 percent from $10,207 in 2000 to $13,924 in 2008. Compared to other non-oil middle-income labor exporting countries, Lebanon has fared fairly well. It has not only achieved one of the highest growth rates, along with Tunisia, its level of sophistication was the highest among this group.

Three, Lebanese industrialists have manufactured 103 new products between 2000 and 2008, 40 of which were highly sophisticated. These include ceramics, glass pigments, self-adhesive plates, paper board, glasses for spectacles, watches, spoons, forks, clock cases, watches, among others.

Manufacturers have figured out a way to compete internationally despite the lack of support from the government. The government must understand the key to this success in order to sustain it. This will not only increase the diversification of the sector by producing new products but it is the best way to create skilled jobs for the Lebanese who would otherwise seek work outside the country. Furthermore, it puts into question the soundness of the new measures in terms of their impact. No doubt these policies will incur a cost on the treasury and if they are not effective then what is the point of having them?

What the government needs to do is to support the development of new and highly sophisticated products. Instead of selecting sectors or providing across the board tax incentives, the government must provide incentives to produce new products, target activities that have spillover effects whereby they crowd in other investments, and the support should not be open-ended. A good starting point is to a create a policy process whereby the government is able to learn from the industrialists what public inputs they need to diversify into new ones. The process must be transparent to ensure that the policies are not favoring a few influential firms at the expense of others, and to limit any room for rent seeking and outright corruption.

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