

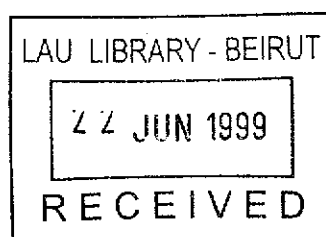
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WORLD TRADE ORGANIZATION :  
LEBANON'S ACCESSION

by

NADA MOHSEN SABRA



A thesis  
submitted to the Social Science  
Division in partial fulfillment of  
the requirements for the degree of  
Master of Arts in International Affairs

Beirut, Lebanon  
June, 1998

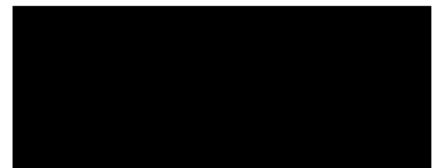
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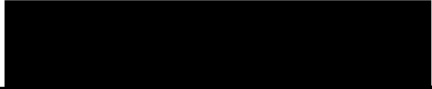
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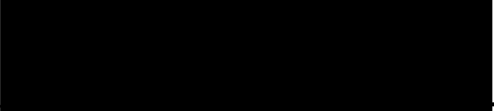
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## LIST OF ABBREVIATIONS

ATM	Automated Teller Machine.
BDL	Banque du Liban.
BIA	Beirut International Airport.
ESCWA	Economic and Social Commission for Western Asia.
EU	European Union.
FAO	Food and Agricultural Organization.
GATT	General Agreements on Tariffs and Trade.
GATS	General Agreement on Trade in Services.
GDP	Gross Domestic Product.
IBRD	International Bank for Reconstruction and Development.
IMF	International Monetary Fund.
ISO	International Standard Organization.
ITO	International Trade Organization.
KIEO	Keystone in International Economic Organizations.
MFA	Multi-Fiber Agreements.
MFN	Most Favored Nations.
SWIFT	Society for Worldwide Interbank Financial Telecommunications.
TRIMS	Trade Related Investment Measures.
TRIPS	Trade in Intellectual Property Rights.
UNCTAD	United Nations Conference on Trade and Development.
WTO	World Trade Organization.

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## AN ABSTRACT OF THE THESIS OF

Nada Sabra for Master of Arts in International Affairs.  
Title : World Trade Organization : Lebanon's Accession.

The global economy is nowadays undergoing a profound change. Countries all over the world are privatizing their public sectors, reforming their economies and perhaps, most importantly, liberalizing their trade. In line with this trend toward freer markets and freer trade, the General Agreement on Tariffs and Trade (GATT), which was the keystone of the post-world war II international trading system, was replaced by the World Trade Organization (WTO), which has an even more ambitious agenda for liberalizing trade and indeed integrating virtually all the local economies into one essentially capitalistic global economy.

Countries, all over the world, including Lebanon, are, nowadays, concerned with the issue of joining the WTO. Thus, the idea of undertaking a study on Lebanon's accession to the WTO came as a result of the importance and significance of this topic. In Lebanon, little is known about the WTO and its agreements. Many seminars and conferences have been held on the subject have helped heighten public awareness about the WTO and the advantages and disadvantages that may result from Lebanon's accession to this international organization.

In this thesis, I examine the steps adopted by Lebanon to formally accede to the WTO. The thesis also examines the implications of the WTO provisions on Lebanon, as well as the role of the Lebanese Government in preparing Lebanon to join the WTO and be part of the international liberal trade system.

Whether Lebanon will be able to join the WTO, at a future date, will heavily depend on the steps to be undertaken by the Lebanese authorities to prepare the country for the challenges that lie ahead given the trend towards greater economic integration.

## CHAPTER ONE

### *INTRODUCTION*

The post World War II period has been characterized by the emergence of numerous projects aiming at liberalizing international trade. Here, one can speak of two strategies aiming at trade liberalization. The first strategy was liberalizing trade among a number of countries located in the same geographical area. The second strategy aimed at trade liberalization on a wider scale; it took shape with the General Agreement on Tariffs and Trade (GATT), which became the World Trade Organization (WTO) later on, joined by more than 125 countries located in different parts of the world.

The idea of undertaking a study on Lebanon's accession to the WTO came as a result of the pertinence and significance of this topic today. Thus, joining the WTO has become a crucial and unavoidable issue. Whether Lebanon should join the WTO or not is on everybody's mind; thus many

studies, seminars, and conferences were conducted, including studies done by UN agencies, as the United Nations Conference on Trade and Development (UNCTAD) and the Economic and Social Commission for Western Asia (ESCWA).

This thesis is a study of the WTO and its effects on the main sectors of the Lebanese economy. It is also a study of the path Lebanon is following to access to the WTO in order to strengthen its economic performance. One aim of the study is to underline the role of the Lebanese Government in preparing Lebanon for its membership in the WTO.

The first two chapters will give a general idea about the rules of GATT, and its principles, after giving a brief overview of the historical evolution of the free trade system. They will, then, focus on GATT's last round, the Uruguay round, which led to the creation of the WTO.



In other words, Lebanon will be taken as a case study. The study in the last two chapters will focus on the effects of the WTO on the different sectors of the Lebanese economy, mainly the industrial, trade, agricultural and service sectors.

It is important to mention that this liberalized international trade order or this "new world order", the implementation of which is the responsibility of the WTO, entails obligations the participating countries will have to undertake. Thus, this thesis will study these obligations, as well as the costs which will be incurred and the benefits which will be obtained from joining the WTO in the case of Lebanon. It will also study the main measures already taken and the ones that should be adopted by the Lebanese Government in order to minimize the losses resulting from Lebanon's future accession to the WTO.

In this study I present a preliminary assessment of the impact of the WTO on Lebanon. The study will begin with Chapter I which describes the free trade system in the post-world war II era. The chapter provides a

historical background of the GATT and discusses briefly its successive multilateral negotiation rounds. The major principles of the GATT are also stressed in this chapter.

Chapter II focuses on the agreements concluded in the GATT's last round, the Uruguay Round. The chapter covers the new trade agreements reached during this round and the strengthening of the dispute settlement system between GATT members. Moreover, this chapter examines the difference between the WTO, as an institution, and the GATT, as a set of rules.

Chapter III examines Lebanon, as a case study, and the impact of the WTO on the Lebanese economy. The chapter covers the main advantages and disadvantages that might result from Lebanon's accession to the WTO. Furthermore, this chapter gives an overview of the various Lebanese economic sectors and how joining the WTO may affect these sectors. Also, it tries to determine in what areas Lebanon enjoys a comparative advantage.

Chapter IV deals with the role of the Lebanese Government with regard to Lebanon's accession to the WTO. It reviews the limited steps already taken by the Lebanese Government, which are very few, as well as the actions that the government should follow in the near future. It also points out to some recommendations for further policy reform that should be followed by the Lebanese Government in order to minimize the losses of accession to the WTO. The chapter examines Lebanon's accession to the European-Mediterranean Partnership and the Arab Countries Free Trade Agreement which are two major steps in the process of integrating Lebanon into the global political economic system as well as they are two preparatory steps for the accession to the WTO.

Finally, the Conclusion briefly summarizes the main points of the thesis followed by a personal evaluation concerning the accession of Lebanon to the WTO. In other words, I try to answer the question whether Lebanon is ready to join the WTO or not? Should Lebanon join the WTO as soon as possible or it would be for Lebanon's best interest to delay this accession?

In my thesis, I argue that the emergence of the WTO poses a great challenge to Lebanon. This challenge exists because there are many obstacles that the Lebanese Government should remove before it accedes to the WTO. Hence some initiatives must be undertaken by the Government in order to reform the various economic sectors to make Lebanon capable of competing on the international market; thus, eligible to become a WTO member. The WTO has become a reality facing the whole world. But the argument is how Lebanon is going to face this reality. Before studying the role of the government, I will study the effect of the WTO on Lebanon, that is the cons and pros that will result from joining the WTO.

In case Lebanon decides not to join the WTO, the costs Lebanon will have to pay are the same as those resulting from joining the WTO, indeed they are greater. By joining the WTO, Lebanon will be facing severe competition from foreign producers. Nevertheless, if Lebanon does not join the WTO, it will not be able to benefit from the provisions granted to member states, and will be left alone in this liberalized trading system. That is it would be for the advantage for Lebanon to join the WTO, despite

the resulting disadvantages, because Lebanon will be better off inside this organization, in the long run.

The issue faced by the Lebanese Government today is not really a question of whether Lebanon should join the WTO or not? The main issue to explore is how to prepare Lebanon for joining this organization.

## CHAPTER TWO

### *HISTORICAL BACKGROUND OF THE GATT*

#### *II- The Trade System Before GATT*

##### *I-A The Free Trade System*

The pre-World War I trading period was based on a “Free Trade System”. Whereby, it would be to the advantage of each country to specialize in the production of some commodities and to exchange them for goods which could not be so advantageously produced on the local market.

Countries were expected to export those goods that can be produced locally at lower real costs and to import those that can be produced abroad at lower real costs<sup>1</sup>.

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<sup>1</sup> Arthur Bloomfield, *Essays in the History of International Trade Theory*, England : Edward Elgar Publishing, 1994, pp. 220-224.

Yet, free trade may not be equally advantageous among nations. For the North (i.e. developed countries), free trade would mean an efficient and profitable use of national factors of production, an increase in the national income and foreign exchange earnings, an attraction of foreign investments and private capital, to be expected in the near future that will stimulate Southern development<sup>2</sup>. While the Southern states (i.e. developing countries) felt that free trade threatened their economy, or more specifically, their strategy of import substitution, which was based on promoting domestic industrial development behind protective walls. Furthermore, they believed that protection from foreign competition would help their domestic industries and would lead to development in the South, a similar case to what happened in the North, earlier<sup>3</sup>.

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<sup>2</sup> Joan Spero, *Politics of International Economic Relations : Trade Strategy*, New York : St. Martin Press, 1990, Chapter 7.

<sup>3</sup> *ibid*

### *I-B The need for The ITO*

During World War I, many countries used import and export controls to safeguard the supplies of indispensable raw materials and foodstuffs, in order to protect the value of their currencies and their balance of payment. Such high tariffs constituted a threat to the world economic order. Subsequently, two world economic conferences were held in 1927 and in 1930 urging nations to stop raising tariffs. The action came too late because the Smoot-Hawley Tariff Act had already been signed in 1930, raising taxes to an average of 60 percent. This Act aimed at buying American products instead of foreign ones which would help domestic output and employment expand. Thus, it cut off most imports and was a great contributor to the Great Depression of the 1930's.

During World War II, and after a number of US State Department officials noticed that high tariffs led to trade wars that led to military wars, it seemed urgent to create an international organization for the liberalization and regulation of trade. Thus, liberalizing world trade and providing stability,



predictability, and transparency in government trade policy practices could not be achieved unless there were legally binding commitments.

The Bretton Woods system that established the International Monetary Fund (IMF) and International Bank for Reconstruction and Development (IBRD), recognized the need to establish a comparable authority for world trade, the International Trade Organization, to become the third Bretton Woods institution, i.e. the third Keystone in the International Economic Organizations (KIEOs) of the contemporary international political economy. It is important to mention that the Bretton Wood system was created in July 1944 as a new international monetary order, that is a system of international economic management. This system is a set of rules, institutes and procedures to regulate important aspects of international economic interactions<sup>4</sup>.

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<sup>4</sup> A. Leroy Bennett, *International Organizations*, New Jersey : Prentice - Hall Inc., 1997, pp. 273-274

## *II- The General Agreement on Tariffs and Trade.*

The Bretton Woods meeting in 1944 paved the way for the establishment of a post -World War II international economic system.

This new system was to be based on a free trade system that would regulate the world trade. Thus, to liberalize trade, it was decided to set the General Agreement on Tariffs and Trade (GATT), that would promote free trade by eliminating all trade barriers and setting rules and regulations for the establishment of the International Trade Organization (ITO).

In the negotiations leading up to the Havana Charter, the South asked for a special treatment under the free-trade rules proposed by the North that would be for their own concern. These special treatments can be summarized as follows : imposing quantitative restrictions on imports, establishing regional preference system, asking for tariff concessions from developed countries with nothing in return<sup>5</sup>. "The inclusion of the less-developed concerns into the system ended with the death of the Havana Charter" in 1948<sup>6</sup>.

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<sup>5</sup> Spero, *op. cit.*, Chapter 7.

<sup>6</sup> *Ibid.*

Meanwhile, the GATT incorporated many commercial guidelines to ITO and succeeded in reducing a massive 45,000 tariff rates structure covering 10 billion US Dollars in trade<sup>7</sup>. By then, it became clear that the Havana Charter would not be ratified by the US which realized that the ITO was an intrusion into its local economic affairs. Accordingly, the ITO did not see the day light. The failure to enact the ITO left the GATT to assume the commercial policy role that had been assigned to ITO.

The GATT was founded in Geneva in 1947. Twenty three countries signed the agreement and it became effective on January 1, 1948. Since then, it has been renewed and amended many times through eight rounds of trade negotiations (Table 2:1).

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<sup>7</sup> Kenneth Dam, *The GATT, Law and International Economic Organization*, Chicago : University of Chicago, 1970, pp. 11.

## *II-A GATT Negotiations Rounds*

The first GATT multilateral trade negotiation round talks was held in Geneva in 1947. Its decisions went into effect in 1948. This round was signed by 23 contracting parties that succeeded in providing a new multilateral system for trading between nations. This system proved to be effective since it resulted in 123 agreements and 20 schedules, covering 45000 tariff items relating to about one half of world trade<sup>8</sup>.

In April 1949, 33 countries negotiated at Annecy, France. This number was raised to 38 during the Torquay round in 1951<sup>9</sup>. These two rounds succeeded in raising the number of participating countries and in adding further reductions in tariffs<sup>10</sup>.

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<sup>8</sup> Dam, *op. cit.*, pp. 11.

<sup>9</sup> WTO Secretariat, Geneva : United Nations, 1995 , pp. 5.

<sup>10</sup> Bhagwati Jagdish, *World Trade Systems at Risk*, New Jersey : Princeton University Press, 1991, pp. 8.

The Geneva Round (1955) and the Dillon Round (1961), did not meet great success in their attempt to facilitate a more multilateral approach to tariffs reduction. They achieved only around one fourth of the tariff reduction of 1948.

The sixth round, Kennedy Round, 1963-1967, included issues outside the tariff framework, such as "Anti-Dumping", that is preventing the display of goods in the export market at prices cheaper than those existing in the local markets. At the end of this round, it was agreed that all countries should reduce tariffs by a prescribed percentage on all the trading items. In this round, 48 countries participated. Further, it cut duties on industrial goods by an average of 35 percent.

The Tokyo Round, 1973-1979, succeeded in cutting duties by 34 percent on industrial products. Its major achievement was the negotiations of codes of non-tariff trade barriers, such as subsidies and countervailing duties, technical barriers to trade, government procurement, customs valuation. It also covered the import licensing issue and revised the anti-dumping issue<sup>11</sup>.

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<sup>11</sup> Abd Essalam Adel, *Arab Countries from GATT to WTO, (Lecture)*, 1995, pp. 148 - 150

But, the main failure during this round was the inability to agree on the safeguard code. All the above mentioned codes will be dealt with in details in Chapter III.

The eighth and last round, the Uruguay Round, started in September 20, 1986 and ended in April 15, 1994. 125 countries participated in the round, 104 of which signed the declaration on establishing the WTO. This round will be examined in details in the next chapter<sup>12</sup>.

The above mentioned GATT rounds of multilateral trade agreements are briefly outlined in the following table (Table 2:1) :

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<sup>12</sup> WTO Secretariat, *op. cit.*, pp. 5.

*Table 2:1 The Different GATT Rounds :*

Year	Round	Subjects Covered	Value of Trade covered (\$)	Outcome	No. of Participating Countries
1947	Geneva	Tariffs	10 Billion	45000 tariff concessions requesting half of world trade	23
1949	Annecy	Tariffs	---	Modest tariff reduction	33
1951	Torquay	Tariffs	---	25 % of tariff reduction in relation to 1948 level	38
1956	Geneva	Tariffs	2.5 Billion	Modest tariff reduction	26
1960 - 1961	Dillon	Tariffs	4.9 Billion	Modest tariff reduction	
1964 - 1967	Kennedy	Tariffs and anti-dumping measures	40 Billion	Average tariff reduction of 35 % for industrial products.	62
1973 - 1979	Tokyo	Tariffs, non tariff measures and "Framework" agreement	155 Billion	Average tariff reduction of 34 % for industrial products.	102
1986 - 1994	Uruguay	Tariffs, non tariff measures, rules, services, intellectual property rights, dispute settlement, textiles and clothing, agriculture, establishment of the WTO...		General customs reduction of 40 %. Tariff reduction of 38 % for agricultural products. Increasing world income annually by \$ 200 within ten year.	123

Table 1 : ~ Source WTO Secretariat, 1995.

- Baghwati World Trading System at Risk.

## II-B *Objectives and Principles of The GATT*

“The basic aim of the GATT is to liberalize world trade and place it on a secure basis, thereby contributing to economic growth and development and the welfare of the world’s peoples”.<sup>13</sup> The main objectives of GATT can be summarized as follows : raising the living standards of member states, ensuring full employment, developing the full use of resources of the world and expanding the production and exchange of goods. These objectives are to be promoted through the expansion of world markets and international trade, elimination of discriminatory treatment for all trading nations, reductions of tariffs by negotiations, and removal of imports quotas<sup>14</sup>.

Until the establishment of the World Trade Organization (WTO), GATT was the main international system concerned with the establishment of rules and regulations for the management of world trade, the reduction of trade barriers and other measures which would decrease competition, the regulation of trade disputes, and international trade relations generally. “It is also a major repository of trade information. The GATT is in effect both a

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<sup>13</sup> UNITED NATIONS, *Basic Facts About the United Nations*, New York : United Nations, 1994, pp. 251.



code of rules and a forum in which countries can discuss and overcome their trade problems and negotiate to enlarge world trading opportunities”<sup>15</sup>.

The GATT’s basic principles are as follows : (1) trade should be conducted on the basis of non-discrimination, known as the Most-favored-nation concept and (2) foreign products should be treated as domestic ones, known as the national treatment; “where protection is given to domestic industry, it should be extended essentially through the customs tariff and not through other commercial measures; and tariffs should be reduced through multilateral negotiations and “be bound” against subsequent increase; and Contracting Parties should consult together to overcome trade problems”<sup>16</sup>.

Reciprocity is one of the most vital concepts of GATT. Reciprocity is reflected in some of the provisions that deal with tariff negotiations that shall take place on a reciprocal and mutually advantageous basis between contracting parties.

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<sup>14</sup> Bassam Hamdar, *A Preliminary Analysis of GATT-WTO Membership : The Case of the Lebanese Agriculture*, (Report), ECO NEWS : Beirut, 1995.

<sup>15</sup> UNITED NATIONS, *op. cit.*, pp. 252.

<sup>16</sup> *Ibid.*, pp. 251-253.

Concerning the administration of the GATT, the Session of Contracting Parties, which is the most important body of GATT, is held annually. The GATT decisions are generally reached by consensus, not by vote. But in case the vote process is applied, each Contracting Party has the right for one vote only. The Council of Representatives is authorized to take action only on routine and urgent matters, when there are no sessions held. There are different GATT committees, as the Committee on Trade and Development, Balance of Payment, Textiles, and the high-level Consultative Group of Eighteen.<sup>17</sup>

The Trade and Development Committee, an important GATT committee, was established after the United Nations Conference on Trade and Development (UNCTAD). After the South pressed on the North, in 1961, for a change in trade management and in the operation of the trade system, the North agreed to hold in 1964 the UNCTAD. So the South created the group of 77 and offered a series of goals in order to make international trade "a more powerful instrument and a vehicle of economic development"<sup>18</sup>. The goals ranged from improvement of institutional

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<sup>17</sup> UNITED NATIONS, *op. cit.*, pp. 253.

<sup>18</sup> Spero., *op. cit.*, Chapter 7.

arrangements to the progressive reduction and early elimination of all barriers and restrictions impeding Southern exports. These goals were to be applied without reciprocal concessions on the Southern countries' parts. Other Southern countries' demands were the increase of exports of primary products to the developed countries, and the stabilization and establishment of fair prices. The Southern countries were unable to achieve their goals due to superpowers' competition and to their own internal divisions.<sup>19</sup>

By the end of the 1950's, GATT's members included 21 developed countries and only 16 developing countries. Some developing countries like Argentina and Mexico did not join. However, the developing countries which joined did not participate in the multilateral agreements. Thus, since the beginning, the role assumed by GATT was not an easy task as its contracting parties were classified into two large groups, developed and developing countries, with distinct if not necessarily conflicting values. In their scale of priorities, developed countries have always placed economic efficiency resulting from international trade as a top priority on their list of values. Accordingly, they believe that the

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<sup>19</sup> Spero, *op. cit.*, Chapter 7.

GATT should be directed towards the elimination of barriers to trade as much as possible<sup>20</sup>.

Developing countries, on the other hand, did not place economic efficiency as a primary issue on their scale of development concerns. Their concern throughout the years has been to ensure that the GATT obligation to eliminate trade barriers would not interfere with their economic development plans.

Hence, the GATT had the challenge of approaching these two views and assisting governments in clarifying the common interest of all members of the international trading community. Although the goal of increased efficiency through international trade is fundamental, it is outweighed by other goals such as justice and equality. Paradoxically, economic efficiency can not be compromised because the world is not rich enough to despise efficiency.

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<sup>20</sup> Spero, *op cit*, Chapter 7

After the establishment of the WTO, the former GATT, "a rich man's club"<sup>21</sup>, is nowadays subscribed to by 132 countries (CONTRACTING Parties), which together account for nearly 90 percent of the world trade. 34 countries apply the agreement on a de facto basis as observer governments<sup>22</sup>.

### *III. Arab Countries and the International Trading System.*

The debate on the role of exports in the economic growth of developing countries has shifted in a remarkable way from import substitution towards export promotion and increased openness<sup>23</sup>. Thus it would be beneficial to overview the exports of the Arab countries and their economic growth.

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<sup>21</sup> Spero, *op. cit.*, Chapter 7

<sup>22</sup> UNITED NATIONS, *op. cit.*, pp. 251.

THE WORLD TRADE ORGANIZATION, Home page : //www.wto.org

<sup>23</sup> Yousif Kahlifa AL-YOUSIF, *Exports and Economic Growth : Some Empirical Evidence from the Arab Gulf countries*, United Arab Emirates, 1997.

The economic performance of Arab countries is generally influenced by their natural resources, demographic and climate conditions, political regimes, and their own domestic politics<sup>24</sup>.

The exports of Arab countries are categorized into oil, diversified products and non-oil commodities. The oil exporters, which are Algeria, Bahrain, Oman, Kuwait, Libya, Oman, Qatar, Saudi Arabia and United Arab Emirates, represent the majority of the Arab Countries which have joined the WTO as stated in Table 2 : 2.

The remaining Arab countries focus on the export of diversified and non-oil commodities, as Lebanon, Syria, Tunisia, Morocco, Egypt, Jordan, Somalia and Sudan. These middle and low income countries have little success in diversifying their production and export structures, which explains their delay for joining the WTO

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<sup>24</sup> Eyan Golden and Mayllen Khair-Allah, *Uruguay Round and the World Trade in Agricultural Products - Implications for Arab Countries*, Kuwait, 1995, pp. 8

Table 2:2 Status of ESCWA Countries Regarding Membership in WTO, and, MFA, and Non-MFA Agreements in Force on 31.12.1994

Country	WTO	MFA in Force				Non-MFA			Preferential Agreement	
		Status	Restrictions		Restrictions		Agreement	Restriction		
			Canada	United States	Canada	United States			EU	
Bahrain	member	member		Canada	United States					
Egypt	member	member			Canada	United States				
Iraq										
Jordan	observer									
Kuwait	member									
Lebanon	*									
Oman	observer	member		Canada	United States					
Palestinian Authority										
Qatar	member									
Saudi Arabia	observer									
Syrian Arab Republic										
United Arab Emirates	member	member		Canada	United States					
Yemen										

Source : ESCWA notification Documents.

\* Lebanon became an observer member lately.

On the other hand, oil exporters have been engaged in efforts to diversify their domestic economies and structure of their trade. This helped them pursue these objectives in a liberal, market oriented manner and to avoid using regulatory and restrictive policy measures.

Arab countries are characterized by many important features which could facilitate the development of their industries and expand their trade in produced goods. They own many natural resources such as petroleum, natural gas, mining products and metals. These resources allow them to develop manufactures such as petrochemicals, steel, iron, and aluminum which are based on these natural resources. Besides, many of them have the needed capital for such production. They enjoy a good geographical position which allow them to play the role of intermediary between Europe and Asia.

The manufacturing industries sector plays only a secondary role in the economies of the Arab countries with its contribution to the GDP in countries such as Morocco, Tunisia, Egypt, Syria, and Bahrain not exceeding 18 percent in 1991<sup>25</sup>. It is also characterized by low levels of diversification

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<sup>25</sup> Golden, *op. cit.*, pp. 10-15



and limited export base. Its weakness rests on the importing of finished parts and on the segmentation of the production process into many stages.

Thus, Arab countries share many common features together. They suffer from excessive reliance on international markets which in turn expose their economies to international shocks. Moreover, these countries have suffered from misallocation of resources, and unsuitable economic policies that hinder the role of private sector and place restrictions on foreign direct investment.

But, although GATT aimed at liberalizing world trade through reducing tariffs and non tariffs barriers, it did not include petroleum and gas products, which are the main exports of Arab countries, in the multilateral trade negotiations. Instead, these products were exposed to new tariffs such as the carbon tax.

The countries in the Arab region which were members of GATT, and still members of the WTO, are according to date of accessions : Kuwait (1963); Egypt (1970); Morocco (1987); Tunisia (1990); Mauritania (1993);

Bahrain (1993); U.A.E. (1994), and Qatar (1994). Other Arab countries in the process of accession are Algeria (1987); Saudi Arabia (1003); Jordan (1994); and Sudan (1994). Syria and Lebanon have expressed their interest in joining the WTO<sup>26</sup>.

Lebanon was one of the founding members of the GATT. It joined the GATT on June 29, 1948. It withdrew its membership in September 27, 1950 when Israel joined it and due to the Arab agreement to boycott Israel. Its withdrawal became effective on February 27, 1951. Lebanon decided to reapply to the WTO in 1994, which would be discussed in more details in the coming chapters.

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<sup>26</sup> Jamal ZAROUK, *Results of the Uruguay Round : Implications for Arab Countries' Policies*, Kuwait, 1995.

## CHAPTER THREE

### *FORMATION OF THE WORLD TRADE ORGANIZATION (WTO).*

Since the eighties, the world trade system has changed and has grown to be a more complex and sophisticated system. Frustration with the existing trade regime grew in both the industrialized countries and developing countries. Developed countries wanted a new multilateral trade round to bring agriculture and the new areas of trade like services, intellectual property rights and investment under GATT discipline. There was a need to reform and reinforce the GATT rules or procedures in order to fit in the economic reality.

## *I. The Uruguay Round.*

In September 1986, the Ministerial Committee met in Punta Del Este and agreed to launch the GATT's eighth negotiations round, the Uruguay Round. The negotiations aimed at further liberalization of world trade, through further reductions in tariff and non-tariff barriers, in addition to the strengthening of the role of the GATT through the establishment of the World Trade Organization (WTO). The most innovative step of this round was the linking of all the Uruguay Round Agreements with the institutional framework of the WTO, subject to an integrated dispute settlement system.

It should be mentioned that the membership requirement in regard to the multilateral agreements have changed. Prior to the Uruguay Round individual members were free to decide whether to accede to the associate agreements such as Custom valuation and Import Licensing, whereas the Uruguay Round obliged all the WTO members to join these agreements<sup>27</sup>.

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<sup>27</sup> WTO Secretariat, *op. cit.*, pp. 8-12.

## *I-A The Multilateral Agreements*

Concerning the multilateral agreement on Agriculture, the Uruguay Round called for a gradual liberalization process of 6 years for developed countries and 10 years for developing countries. It established new rules and commitments to market access, domestic support, and export competition. Concerning market access, there is a commitment to convert all non-tariff barriers (quantitative import restrictions, discretionary import licensing, voluntary import restraints, border measures) into ordinary custom duties. This process is called tariffication<sup>28</sup>. In addition, all custom duties should be binding, i.e. a tariff level for a particular product becomes a commitment by a WTO member and can not be increased without compensation negotiations with its main trading partners. Developing countries can offer tariff commitments in terms of ceiling bindings which can be higher than the tariff rates effectively applied in the country<sup>29</sup>. Also, this agreement includes special provisions for developing countries

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<sup>28</sup> Louis Abugattas, *Implications of the Agreement Establishing the WTO for the Lebanese Economy : Issues Related to the Negotiations to Accede to the WTO*, Beirut : UNDP / UNCTAD, 1995, pp. 8.

UNCTAD, *Trade and Development Report*, New York : United Nations, 1994, pp. 17.

<sup>29</sup> WTO Secretariat, *op. cit.*, pp. 5.

such as long term loans with low interest rates and flexible assistance for importing food products.

The last element of this agreement is the bound reduction of export subsidies. These are to be reduced by 24 percent in terms of value over a ten year period by the developing countries. For developed countries, this figure is to be of 36 percent over a 6 year period<sup>30</sup>.

The second agreement is the Multilateral Agreement on Textiles and Clothing. The textiles and clothing sector has always played an important role in many developing countries and has developed to become an important source of income<sup>31</sup>. Industrialized countries realized the comparative advantage of developing countries and ever since tried to escape certain GATT obligations. As GATT rounds led to trade liberalization in products of developed countries, trade in textiles and clothing was developing in the opposite direction. Thus, Up to the Uruguay Round, this sector was not been covered by important rules and as a

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<sup>30</sup> Jeffrey J. Schott, *The Uruguay Round: An Assessment*, Washington : Institute for International Economics, 1994, pp. 47

UNCTAD, *op. cit.*, pp. 19.

<sup>31</sup> UNCTAD, *op. cit.*, pp. 129.

result little progress was achieved in liberalizing this sector in the previous rounds. In the Kennedy and Tokyo rounds, the South insisted on the removal or reductions of trade barriers, but political pressures in USA and Europe were against dismantling the protective measures against developing countries. Such reaction represented a threat to the credibility of the GATT system. But during the Uruguay Round, serious attempts were made to integrate the textiles and clothing sector into the GATT system. A commitment was made by all sides to achieve integration into the GATT, gradually and progressively<sup>32</sup>.

As mentioned earlier, the major outcome of the Uruguay Round was the reduction in tariffs on products of both industrial countries and developing countries. The following table (Table 3 : 1) shows the Uruguay Round tariffs reduction on industrial products by both industrial and developing countries.

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<sup>32</sup> UNCTAD, *op. cit.*, pp. 129.

**Table 3:1**                      **Uruguay Round Tariff Reduction on Industrial Products**  
(in percent) :

COUNTRIES	Import-Weighted Average Bound Tariff Rates Pre -U.R. <sup>33</sup> .	Import-Weighted Average Bound Tariff Rates Post -U.R.
<i>Industrial Countries</i>		
Australia	20.1	12.2
Canada	9.0	4.8
European Union	5.7	3.6
Japan	3.9	1.7
United States	5.4	3.5
Austria	10.5	7.1
Finland	5.5	3.8
Iceland	18.2	11.8
New Zealand	23.8	11.9
Norway	3.6	2.0
Sweden	4.6	3.1
Switzerland	2.20	1.5
<i>Developing Countries</i>		
Argentina	38.2	30.9
Brazil	40.7	27.0
Chile	34.9	24.9
Colombia	44.3	35.3
Costa Rica	54.9	44.1
El Salvador	34.5	30.6
Hong Kong	0.0	0.0
India	71.4	32.4
Korea	18.0	8.3
Macau	0.0	0.0
Malaysia	10.0	9.1
Mexico	46.1	33.7
Peru	34.8	29.4
Philippines	23.9	22.5
Sri Lanka	28.6	28.1
Thailand	35.8	28.1
Turkey	25.1	22.3
Venezuela	50.0	31.1

Source : KIRMANI "International Trade Policies".

<sup>33</sup> U.R. abbreviation of Uruguay Round.



## I-B *GATT Existing Multilateral Agreements*

The Uruguay Round strengthened existing GATT multilateral agreements, such as the agreements on safeguards, anti-dumping, subsidies and countervailing, agreement on imports licensing procedures, agreement on rules of origin and the agreement on technical barriers to trade.

The term safeguards is used to denote government actions responding to imports that have caused serious injury to a specific domestic industry. The safeguard measures can be actions such as quantitative restrictions, quota, and high tariffs. Thus, the purpose of safeguard measures is to provide protection for domestic products from foreign competition, although such measures are in contradiction with the general objective of trade liberalization. Under GATT, the main safeguard provision is article XIX which allows GATT's members to impose temporary restrictions on imports in situations where substantial increases in imports of goods traded in accordance with GATT rules cause serious injury to domestic producers and provides for compensation to affected trading partners<sup>34</sup>.

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<sup>34</sup> Schott, *op. cit.*, pp. 95-98

The anti-dumping measure is used when there is a dumping case, i.e. when imported goods, after being subject to custom duties are sold at a price less than the domestic price (injury to domestic industries). During the Kennedy round this system was misused to disturb trade and not alleviate foreign competition pressures. But the new agreement provided great clarity and more detailed rules concerning the method for determining whether a product is dumped or not, and set out specific criteria to assess the injury to domestic industries caused by dumped imports and procedures to be followed. Also, it set rules on implementation and duration of anti-dumping measures and clarifies the role of dispute settlement panels with regards to disputes related to anti-dumping measures.

Concerning subsidies and countervailing measures, subsidies have been the cause of trade tensions because there was no international consensus as to the definition of the role of governments in supporting local industries. During the Uruguay Round, a definition of subsidy was introduced. It is any benefit conferred through financial contribution by a government or government provision of goods and services or purchase of

goods<sup>35</sup>. Countervailing measures can be taken against subsidies that may cause material injuries to domestic producers or adverse effects to the interests of other WTO members.

The Agreement on Import Licensing includes provisions on neutral application and equitable administration of licensing procedures, advance publication of all information necessary for compliance with licensing requirements, simplification of application forms and procedures, minimum period for the submission of applications, and protection of confidential information<sup>36</sup>.

For the Agreement on Rules of Origin, the same rules of origin will apply in all countries and in all contexts. It contains provisions relating to the administration of rules of origin, ensuring that rules of origin are not used as trade policy instruments and do not have restrictive or distorting effects on trade<sup>37</sup>.

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<sup>35</sup> Schott, *op. cit.*, pp. 86-93.

<sup>36</sup> WTO Secretariat, *op. cit.*, pp. 30.

<sup>37</sup> *Ibid.*, pp. 31.

The Agreement on Technical Barriers recognizes that no country should be prevented from taking measures necessary for the protection of human, animal or plant life or health, or for the protection of the environment. It also encourages countries to follow the international standards and requires them to update their standards and regulations.

#### *I-C New Areas of Trade*

In addition to these agreements, there has been an extension of multilateral rules to new area of trade. The Trade Related Investment Measures (TRIMs) are usually adopted to pursue goals such as industrialization through import substitution, technology development, local employment, and export expansion. The developed countries included TRIMs in the round in order to negotiate investment deregulation in favor of foreign investors including the right to establishment and national treatment for transnational enterprises. These intentions faced strong opposition from the developing countries. So the agreement was restricted to trade in goods<sup>38</sup>.

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<sup>38</sup> Schott, *op. cit.*, pp. 112-114.

The second agreement was the trade related aspects of intellectual property rights, the General Agreement on Related Aspects of Intellectual Property Rights (TRIPs), dealt with during Tokyo round. The developed countries insisted on such an issue as they recognized that economic losses based on direct sales losses occur in those countries that do not have protection of intellectual property rights in their domestic laws<sup>39</sup>.

To this end the WTO Agreement incorporates the GATT's main principles, the National Treatment and the Most Favored Nations Treatment (MFN), whereby if a country grants any advantage with regard to the protection of intellectual property rights, to a member country, it should extend it immediately to all other members.

The agreement covers and sets international standards for the protection of patents such as copyrights and related rights, trademarks, geographical indications, undisclosed information, integrated circuits, and industrial designs.

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<sup>39</sup> *Ibid.*, pp. 115-123.

The third agreement is the General Agreement on Trade in Services (GATS). The services sector involves significant economic activities such as banking, telecommunication, tourism and others. It constitutes a significant percentage of world trade. Governments realized in the 80's the important role of services activities and attempted to regulate them. For this reason, negotiations on trade in services were initiated in the Uruguay round. This agreement is based on both national treatment, i.e. foreign and national suppliers of services should be treated equally and Most Favored Nations (MFN) treatment, i.e. any advantage granted to a member country should be granted to all other members. Also, policies and regulations of services must be published. There are different kind of services : (1) services from country to country like international telephone calls; (2) services supplied in the territory of a member to users of any other territories like tourism; (3) services provided through the presence of a commercial entity of one member in the territory of another like banks; and (4) services provided by individuals of one member in the territory of others like consultants<sup>40</sup>.

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<sup>40</sup> Schott, *op. cit.*, pp. 99-111.

Every member country is required to prepare a schedule of commitments in which it defines compromises it is willing to assume in those services and service activities for which he gives market access. These commitments are binding and can be modified only after negotiations with the concerned countries.

Concerning financial services, new commitments were held. These commitments include the improvement of number of licenses for foreign financial institutions, the guarantees level of foreign equity participation of branches of foreign banks and insurance companies, removal of liberalization of nationality or residence requirements for members of boards of financial institutions, participation of foreign owned banks in cheque clearing and settlement system.

I-D *Plurilateral Trade Agreements.*

After the Uruguay Round, only four codes still retain their “plurilateral character”. These four plurilateral trade agreements reached were : (a) the agreement on trade in civil aircraft, (b) the agreement on government procurement, (c) the international dairy agreement, and (d) the international bovine meat agreement. Such agreements are not mandatory to GATT/WTO<sup>41</sup>.

Plurilateral agreements are not mandatory to the GATT/WTO members, hence they limit the application of unconditional MFN since they create rights and obligations only for members that conclude them.

Thus, it is important to mention that plurilateral agreements are generally adopted when multilateral negotiations do not lead to consensus among all GATT/WTO members.

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<sup>41</sup> UNCTAD, *op. cit.*, pp. 15



## *II. The World Trade Organization.*

### *II-A Replacing The Stillborn ITO*

As we have mentioned before, the GATT contracting parties felt the need for a new round, as well as the need to establish an institutional structure for GATT. They felt the need for such an institution that is capable of imposing more stringent discipline to prevent unilateral trade measures. Thus, the proponents of the WTO prevailed and it came into being on January 1, 1995, to act as an umbrella for the administration of GATT and other multilateral trade arrangements emerging from the Uruguay round. To many, the WTO took the place of the stillborn ITO of the Havana Charter.

The WTO differs significantly from GATT. The WTO is a permanent institution, while the GATT had no institutional foundation and was a set of rules which were applied on provisional basis. Second, all WTO agreements are multilateral while GATT agreements developed in the Tokyo round are

plurilateral. Third, the GATT agreements were restricted to trade in goods, while the WTO introduced agreements concerning trade in services and new areas covering trade related to intellectual property and investment discussed before. Fourth, the WTO developed a dispute settlement system which is easier, quicker, faster and more efficient than the one already existing in GATT.

The WTO agreement consists of a preamble, redrafting of the GATT 1947 preamble that its aim is the improvement of the standard of living, employment, expanding production in trade and service, secure a share in the growth of international trade to developing countries. It is also constituted of the 16 articles (functions, structure, accession, withdrawal, secretariat, membership), and four annexes (GATT and new area of trade agreements, settlement of disputes, plurilateral agreements)<sup>42</sup>.

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<sup>42</sup> UNCTAD, *op. cit.*, pp. 8-9.

In order to become a member, a country should accept all agreements in the annexes, except the plurilateral agreements which are optional. WTO commits its members to change and amend their domestic laws to be in conformity with the obligations of the WTO Agreement as well<sup>43</sup>.

## *II-B Functions and Structure of the WTO*

The main functions of the WTO (article 3) are to facilitate the implementation, administration and operation of the Uruguay round agreements, both multilateral and plurilateral. Also, its functions include the dispute settlement mechanism and the trade policy mechanism which monitors trade policies among members. Nevertheless, the WTO ensures the collaboration with World Bank and International Monetary Fund.

The WTO consists of a Secretariat headed by a Director General, a ministerial conference is held at least once a year, a General Council which carries out the functions of the Dispute Settlement Body and the Trade

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<sup>43</sup> *Ibid.*, pp. 10.

Policy Body which meets whenever necessary as well as councils for each multilateral agreements to supervise the functioning of agreements, such as the council for trade in services that supervises the functioning of the agreement on trade in services<sup>44</sup>.

It is important to note that decisions at the WTO will continue to be reached by consensus. However, when a decision can not be taken by consensus, the matter will be decided by voting on the basis of one country one vote. The margin of votes is based on the nature of the decision itself. Decisions on the interpretation of the provisions of the agreement on goods, services and intellectual property are taken by a three quarter majority. While, amendments needs the approval of at least two third of the members. And, other decisions are taken by the majority of votes.

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<sup>44</sup>UNCTAD, *op. cit.*, pp. 72.

## *II-C The Dispute Settlement System*

Finally, the dispute settlement system has been a pillar of GATT. Developing countries attached particular importance to such a system since it allows them to pursue their rights under the GATT regardless of economic power. The results of GATT dispute settlement proceedings must be implemented on a MFN basis. The Uruguay Round Understanding on Rules and Procedures Governing the Settlement of Disputes strengthened the existing dispute settlement procedures significantly. The establishment, terms of reference and composition of panels no longer depend on the consent of the parties to the dispute. The settlement of disputes is now an integrated system ending the fragmentation that resulted from the coexistence of different dispute settlement procedures under the general agreement in the Tokyo round agreements.

The settlement of disputes requires a member to enter into consultations within 30 days of a request for consultation from another member. After 60 days from the request if there is no settlement, the complaining party may request the establishment of a panel to examine the

complaint . This panel is required to submit to the dispute settlement body, within 6 to 9 months (60 days - Uruguay), a report containing its recommendations after making an objective assessment of the facts of the case and of the conformity of the measures complained about to the relevant provisions of the legal instruments<sup>45</sup>.

Once the report is adopted, the party concerned must notify its intention with respect to the implementation of the recommendations within a certain period of time. In case of non-implementation, rules for compensation or suspension of concessions, as decided by the Dispute Settlement Understanding, may be set out.

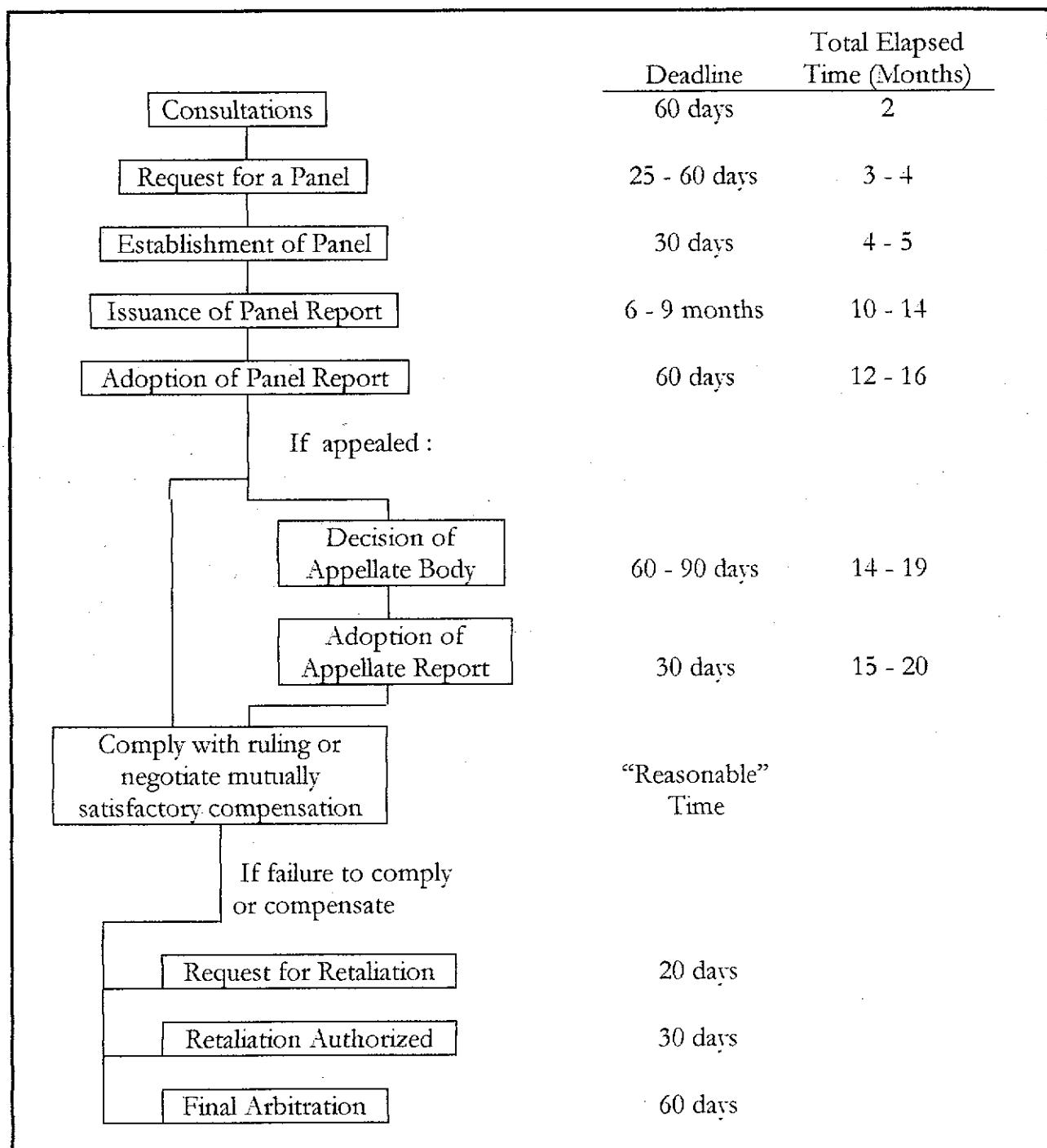
The dispute settlement process can be clarified through the following scheme (scheme 3 : 1).

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<sup>45</sup> Schott, *op. cit.*, pp. 127.

Scheme 3 : 1

*Dispute Settlement Procedures and Deadlines  
Under the WTO.*



Source : Schott *The Uruguay Round : An Assessment*

## CHAPTER FOUR

### *LEBANON AND THE WTO*

By the early 1990's, the Lebanese civil war came to its end. Lebanon had overcome its political dilemma and had started its reconstruction and development efforts. Lebanon, has begun, as well, the process of redefining its role in the world economy and recapturing the prestige it once had as the financial, trading and cultural center of the Middle East. This task will require resilience, persistence and creativity in an era of greatly increased international competition.



### *I. Impact of the WTO on Lebanon.*

Lebanon, a founding member of GATT in 1947, did not participate in the Uruguay Round negotiations as it withdrew its membership in 1951. However, on December 22, 1994, the Council of Ministers adopted the decision in principle to accede to the WTO, and a formal letter was sent to the WTO Secretariat by the end of December 1994 requesting accession to the WTO<sup>46</sup>. On April 4, 1998, further to the weekly meeting of the Council of Ministers, Mr. Yassine Jaber, Minister of Economy, declared that Lebanon has decided to join the WTO as an observer member<sup>47</sup>, that is Lebanon will be granted all the rights as a member excluding the voting right. Lebanon will then have a five year period to complete the necessary preparations to join the WTO.<sup>48</sup> The application file of observer membership is still under preparation at the Ministry of Trade and Economy.

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<sup>46</sup> Council of Development and Reconstruction, *Lebanon's Accession to the WTO (Report)*, Beirut, 1995.

<sup>47</sup> AN-NAHAR Newspaper, Beirut, May 5, 1998.

<sup>48</sup> AL-SAFIR Newspaper, Beirut, May 5, 1998.

The accession process to the WTO constitutes a complex undertaking, and the acceding country has to be prepared to respond to demands that can be placed to offer substantial concessions, in terms of market access for both goods and services and with respect to other related policy measures, which may in some cases conflict with national development and trade objectives.

Between April 5 and 7, 1995 and at the request of the Ministry of Economy and Trade, the United Nations Conference on Trade and Development (UNCTAD), within the framework of its technical cooperation program on the implications of the Uruguay Round for the Arab countries, held a three-day seminar in Beirut on the "Implications of the Uruguay Round for the Lebanese Economy" at the Beirut Chamber of Commerce. It was expected that 200 participants, from the Lebanese private and public sector, take part in the seminar; unfortunately, participation from both the public and particularly the private sector was scarce as people were not aware of the WTO and didn't have a clear idea concerning the principles of GATT. Therefore instead of being a seminar on assessing the implications for Lebanon of joining the WTO, it turned out to be a seminar on the

development of GATT, its principles and regulations, and the emergence of the WTO.

In order to become a member<sup>49</sup>, Lebanon is obliged to accede to the associate agreements on custom valuation and import licensing as well as to the other multilateral agreements of the Uruguay round by which it should abide. Thus, conditions like devaluation of customs or adjustment of exchange rates, lifting the protection on some states to whom this protection policy is necessary for their economic development (as it was for the North before) and others are also imposed on Lebanon in order to become a member. Non-tariff measures like import restrictions, minimum import prices and others are prohibited under WTO. The pillars of such agreements are the National Treatment (being given the same opportunity as nationals) and the Most Favored Nation (advantage to one country, given by others) by which Lebanon should abide once it joins the WTO.

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<sup>49</sup> The countries that joined GATT were called Contracting Parties (Agreement). But under WTO they came to be members (Organization).

The WTO will commit Lebanon to change and amend its domestic laws to be in conformity with the WTO agreements. Also, it should accept any intervention in its domestic affairs and laws, which is against the international law.

But once Lebanon, and other countries, decide to join the WTO and accept to apply its conditions, such conditions won't be illegal limitations to the national sovereignty of the state. But they will become automatically legalized and binding to the state because they were applied upon its own consent. But the question remains : is Lebanon ready to face such challenge?

The challenge whether to join the WTO or not is still facing Lebanon. The problem as I have mentioned before is the lack of information concerning the WTO among the Lebanese authorities, the political and the social elite.

For this reason, many conferences and seminars on this topic are been held recently. One of the latest seminars on this topic, was held, on February 2, 1998, by the Syndicate of Textile Industrialists in Lebanon, ESCWA represented by the regional advisor on WTO, and the Lebanese Customs High Council.

## *II. Economists' and Industrialists' View on Lebanon's Accession*

Many lawyers, politicians, economists and industrialists discussed this issue and they came up with the following advantages and disadvantages<sup>50</sup> of Lebanon joining the WTO.

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<sup>50</sup> Nasser Saidi (Dr.), Conference : *Lebanon and Euro-Mediterranean Partnership*, Beirut, 1996.

ASSOCIATION OF BANKS IN LEBANON, *The Proposed Free-Trade Agreement between Lebanon and the European Union Countries (Report)*, Beirut, 1997.

Iskandar Moukarbel, *Impact of the Free Trade Area Agreement with the European Union Countries on the Lebanese Economy (Report)*, Association of Banks in Lebanon : Beirut, 1996.

## *II-A Advantages*

The advantages of joining the WTO are demonstrated by the provisions and exemptions small economies like Lebanon can enjoy, as member of WTO. That is provided for the developing countries in terms of long term loans, low interest rates, and other forms of flexible assistance in importing food products. Besides, priority is given to members of the developing world and international agencies in receiving credit and other forms of economical aid<sup>51</sup>.

Furthermore, almost 84 percent of the members or the contracting parties are developing nations. In a policy dispute, each country will have only one vote and no veto power. Therefore, the majority of the voters will be developing countries that will not approve of policies damaging to their economies. Lebanon and the other developing economies will have to work together to ward off any damages to their nations<sup>52</sup>.

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<sup>51</sup> Bassam Hamdar, *GATT: Changes and Challenges (Report)*, Beirut, 1995.

<sup>52</sup> Bassam Hamdar, *GATT: Changes and Challenges (Report)*, Beirut, 1995.

Thus, the main advantages of Lebanon joining the WTO would be :

(a) the increase in the level of technical assistance and cooperation and  
(b) the increase in direct foreign investments. Lebanon's accession to WTO will lead to the integration of technology transfers which will have a great effect on the production quality, the international norms and standards, the enlargement of the market size, so that Lebanese production could gain international acceptance and could be more competitive on the World Market. Open trade will force standardization and quality control on Lebanese products. Adoption of the ISO 9000 and more advanced criteria for industry will upgrade the technological capabilities of the Lebanese industrial sector<sup>53</sup>.

Lebanon will also benefit from loans, aid and grants from international investment banks<sup>54</sup>. Another advantage is the right of establishment in Lebanon, that is very liberal and less discriminatory, between national and non-nationals. In addition, the Lebanese economy will be able to benefit from economies of scale. In other words, further liberalization in world trade will lead to greater demand for Lebanese products, more production, lower

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<sup>53</sup> Wassim Shahine and Kamal Shehadi, *Pathways to Integration*, The Lebanese Center for Policy Studies : Beirut, 1997, Chapter 9

cost, lower prices, which will lead to a decrease in unemployment and inflation.

## *II-B Disadvantages*

Whereas the disadvantages may be the loss of the import duties. This will cause a financial loss for Lebanon which must be compensated by new domestic taxes imposed on domestic products and on imports, but not on exports, as well as the loss from a decreasing or vanishing domestic production. Lebanon might suffer from severe competition from the perspective of cost - quality, increasing unemployment and shutting down uncompetitive businesses. This loss from competition will last as long as Lebanon finds its comparative advantages vis-à-vis the international market, that is Lebanon should specialize in production of some commodities in which it excels in order to be able to compete on the world level. Finally, it is crucial to mention that the WTO will help in increasing the gap between poor countries and rich countries. There would be a chances that the

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<sup>54</sup> Wassim Shahine and Kamal Shehadi, *op. cit.*, Chapter 9



developed world would pressure the developing countries in many matters.

The whole scenario of WTO will then fall down<sup>55</sup>.

In other words, when joining the WTO, developing countries, including Lebanon, are required to expose their markets to foreign competition. They are required to do so without having local products by which they can face the competition on the foreign markets. Hence, developing countries are expected to develop in a developed and competitive environment with high requirements of quality standards, whereas industrial countries such as US and European countries had the chance to develop and prosper outside the WTO and without facing severe foreign competition.

These facts led many to believe that the intention behind the creation of the WTO was not as noble as had been publicized; it was mainly established to facilitate, secure and legalize investments of industrial countries in developing countries in order to benefit from the latter's higher rates of growth. Thus, one could conclude that the WTO is disadvantageous to developing countries.

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<sup>55</sup> Bassam Hamdar, *GATT: Changes and Challenges*.

## *II-C Assessment*

In assessing the pros and cons of joining the WTO, it is important to emphasize that both members and non-members will confront the same disadvantages of the WTO. That is, the adverse effect of the WTO on small developing countries will be felt irrespective of whether they join or not. For example, the increase in prices of agricultural products will be felt worldwide as a result of the creation of the WTO, due to the reduction in export subsidies especially in developed countries. Lebanon is a net food importer, the higher food import bill will definitely place more pressure on the Lebanese balance of trade. It is important to note that Lebanon currently subsidizes wheat, sugar beets and tobacco. Such products are produced at local costs higher than the international costs. This difference in cost is actually backed up by the Lebanese Government. This is called production subsidies<sup>56</sup> which shall be reduced soon and which will affect the Lebanese agricultural sector. On the other hand, the Food and Agricultural

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<sup>56</sup> Nasser Saidi (Dr.), First Vice - Governor, Central Bank of Lebanon, *Interview*, June 1998.

Organization (FAO) is assisting the Lebanese Government with a program to encourage dairy and meat production instead of illicit crops<sup>57</sup>.

In addition, if the WTO imposes an economic sanction on a non-member country for some reason, all member countries are obliged to abide by it. Hence, this non-member will be left alone to face all members which account for over one hundred countries. The WTO has indeed succeeded in integrating the world; therefore it is unwise for developing countries to remain outside the international picture.

Nevertheless, it is important to note that the new trade order will leave no choice for developing countries but to be efficient and competitive in order to survive in a liberal and complicated world trade system. On one hand, more trade creates more jobs, but, on the other hand, sure competition lays off some workers and shuts down some businesses.

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<sup>57</sup> FAO, *A Preliminary Assessment of the Uruguay Round Agreement on Agriculture (Report)*, Marrakesh, 1994.

Fortunately, there are some provisions in the WTO Agreement that protect developing countries. One of these provisions is related to the voting rights whereby each nation in the WTO has one vote, giving countries like Lebanon the chance to lobby with developing countries to improve their trade conditions and receive economic aid and greater access to world markets.

Nevertheless, at a general level, those countries that would benefit the most tend to be characterized by relatively open economies that have the ability to take advantage of market opportunities and adjust quickly to new environments. Lebanon, with its free trade and liberal economic system, might have, inside the WTO, a say in setting world trade policies and programs which could minimize any potential damages to Lebanon's economy.

Moreover, since in all cases Lebanon will suffer from the disadvantages, consequently, it should endeavor to promptly join the WTO so as to benefit from the potential gains that are made affordable to members. Therefore, the question becomes not whether Lebanon should

join the WTO or not, but how it should join it. Lebanon's efforts should converge to accede to the WTO at the least possible costs. In order to join the WTO and to be efficient, Lebanon should abide by the WTO conditions of membership, which can be summarized by a deregulation of the tariffs and an international level of production, along with acceptance of all the WTO agreements. Lebanese exports will have to be up to the standards in order to compete at the international market.

## *II. Overview of the Lebanese Economic Sectors.*

According to the Economists' view, specialization and comparative advantage is the basis of trade, Lebanon should specialize in those activities in which it excels and has the largest comparative advantages, thus by using efficiently its natural resources, and limiting its imported primary resources. Economics read comparative advantage in international trade as the special ability of a country to provide one product or service relatively more cheaply than other products or service<sup>58</sup>.

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<sup>58</sup> McGraw Hill Book Company, *The McGraw Hill Dictionary of Modern Economics*.

Thus, a study of Lebanon's four main economic sectors is important to be able to predict the impact of the WTO on them. These sectors are categorized as the trade, agricultural, industrial and service sectors.

### *III-A Trade Sector*

Lebanon is characterized by a free market economy and unregulated exchange and trade systems. The country's liberal economic policy environment has always been a factor influencing the magnitudes of the deficits in the trade balance. The Lebanese foreign trade has always been characterized by the domination of imports on exports<sup>59</sup>.

Historically, imports have exceeded exports in every single year since the independence of Lebanon in 1943. The trade deficit was estimated at around one billion U.S. dollars in 1988 compared to unprecedented level of over six billion U.S. dollars in 1996<sup>60</sup>, as shown in the Table (4 : 1) below :

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<sup>59</sup> Shahine and Shehadi, *op. cit.*, Chapter 10

<sup>60</sup> Ahmad M. JACHI, *The Lebanese-European Cooperation ; Towards Globalization and Economic Integration (Report)*, Beirut, 1997.

*Table 4: 1 External Sector 1994-1996 (In Millions of U.S. Dollars).*

<b>Imports</b>	<b>5 990</b>	<b>7 303</b>	<b>7 559</b>
<b>Exports</b>	<b>572</b>	<b>824</b>	<b>1 018</b>
<b>Trade Deficit</b>	<b>(5 418)</b>	<b>(6 479)</b>	<b>(6 541)</b>

Source : BDL Annual Report 1996

The Civil War of 1975 that lasted 15 years, together with the destruction of physical assets, the outflows of skilled labor and the security situation were the major causes of the slow down of the Lebanese exports, which dropped down dramatically by one third.

The following tables will show the structure of exports (Table 4:2) and imports (Table 4:3) by products from the years 1993 till 1996. The other figures will show the export (Chart 4:1) and imports (Chart 4:2) distributed according to main trade partners.

*Table 4: 2 Structure of Exports : Total Exports by Product (1993-1996).*

<i>Products</i>	<i>%</i> <i>1993</i>	<i>%</i> <i>1994</i>	<i>%</i> <i>1995</i>	<i>%</i> <i>1996</i>	<i>Variation</i> <i>b/w 95-96</i>
Live Stock & Animal Products	1.53	0.87	0.61	0.59	-0.02
Vegetables	7.64	8.39	8.50	7.37	-1.13
Oils & Fats	1.09	1.05	1.09	1.67	0.58
Food & Beverage	11.35	8.57	7.16	5.99	-1.17
Metal Products	9.83	10.84	8.86	6.60	-2.26
Chemicals	7.21	7.34	5.83	3.44	-2.39
Leather & Fur Goods	1.53	1.40	1.09	0.79	-0.31
Wooden Products	0.44	0.70	0.24	0.20	-0.05
Paper & Cardboard	4.80	15.21	26.09	32.51	6.42
Textiles & Clothing	16.81	11.89	9.83	9.04	-0.79
Shoes & Hats	3.71	3.50	2.18	1.87	-0.32
Stones & Cement	5.02	5.24	3.88	2.26	-1.62
Jewelry & Precious Stones	8.73	9.09	8.37	8.06	-0.32
Electrical Machinery	9.17	7.52	7.89	7.66	-0.23
Transportation Material	5.9	4.02	3.52	5.11	1.59
Others	5.02	4.37	4.61	3.33	-1.28
Antiques	0.22	0.00	0.24	0.2	-0.05

Source 1 : Lebanese Customs High Council.

Source 2 : AUDI Bank Report 1994-1996.

Source 3 : BDL Reports 1996.



**Table 4 : 3 Structure of Imports : Total Imports by Product (1993-1996).**

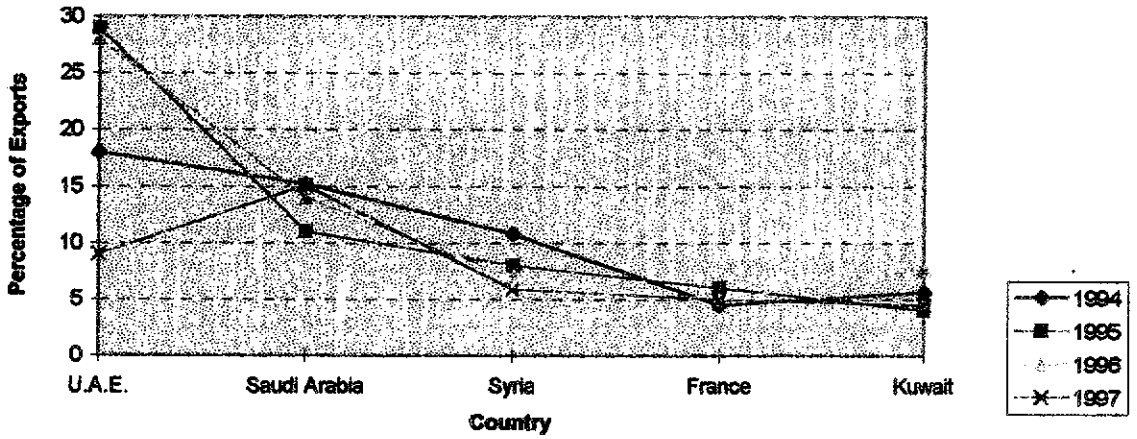
<i>Products</i>	<i>%</i> <i>1993</i>	<i>%</i> <i>1994</i>	<i>%</i> <i>1995</i>	<i>%</i> <i>1996</i>	<i>Variation</i> <i>b/w 95-96</i>
Live Stock & Animal Products	4.78	4.41	3.98	5.09	1.11
Vegetables	7.29	6.51	6.44	6.40	-0.04
Oils & Fats	0.87	0.83	0.92	0.87	-0.05
Food & Beverage	7.86	8.11	7.85	7.58	-0.27
Metal Products	21.08	19.15	18.64	18.20	-0.44
Chemicals	6.46	6.64	6.67	6.87	0.20
Leather & Fur Goods	0.49	0.42	0.36	0.35	-0.01
Wooden Products	1.70	1.84	1.57	1.42	-0.15
Paper & Cardboard	2.92	2.65	3.15	2.5	-0.65
Textiles & Clothing	8.32	7.60	6.94	6.20	-0.74
Shoes & Hats	1.21	1.22	1.04	0.90	-0.14
Stones & Cement	2.61	2.75	2.78	2.45	-0.33
Jewelry & Precious Stones	2.85	3.27	5.05	4.28	-1.22
Electrical Machinery	12.55	15.54	15.61	17.66	2.05
Transportation Material	11.26	11.49	11.38	11.79	0.41
Others	7.73	7.53	7.60	3.94	3.66
Antiques	0.02	0.03	0.03	0.05	0.02

Source 1 : Lebanese Customs High Council.

Source 2 : AUDI Bank Report 1994-1996.

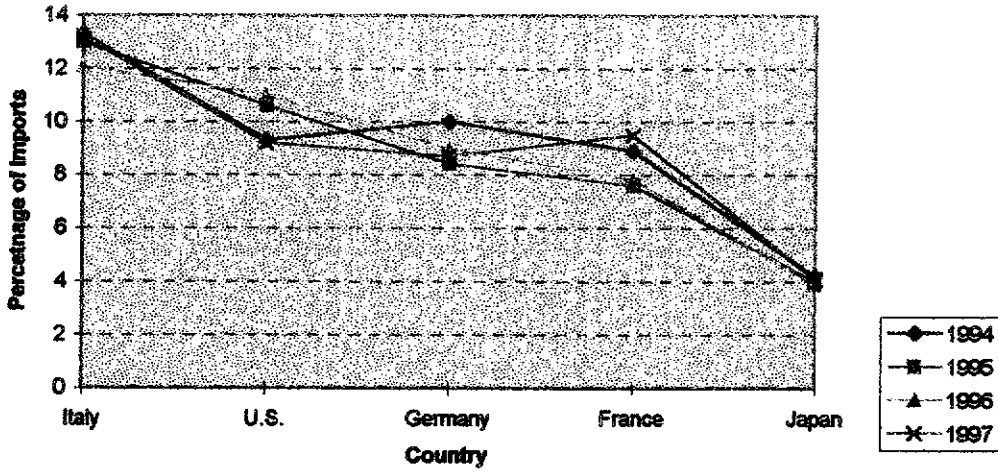
Source 3 : BDL Reports 1996.

***Chart 4:1 Exports to Main Trade Partners***



Source : AUDI Bank Report.

***Chart 4:2 Imports from Main Trade Partners***



Source : AUDI Bank Report.

In order to compete internationally, the Lebanese products should comply to the international standards, so that they could be exported on the international market. Furthermore, there should be additional reductions in tariffs. Moreover further reductions in tariffs would be for the benefit of the developed countries, that produce the majority of world goods and services. Liberalization in world trade will be manifested in increased world demand for goods and services, produced by industrial countries, resulting in higher growth rates and lower unemployment and inflation rates.

On the other hand, developing countries, such as Lebanon, are expected to suffer from severe competition from the perspective of cost-quality which will result in laying off of some workers, thus increasing unemployment, and shutting down uncompetitive businesses. Nevertheless, it is well known that trade, in general, builds more jobs than it destroys. Lebanon, will suffer from severe competition at the beginning until the country finds its comparative advantage vis-à-vis its international trading partners. Thus, Lebanon should specialize in those activities in which it excels and has the largest comparative advantage relative to other countries<sup>61</sup>.

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<sup>61</sup> Bassam Hamdar, *A Preliminary Analysis of GATT-WTO Membership: The Case of the Lebanese Agricultural Sector.*

Furthermore, once Lebanon accedes to the WTO, it will have to comply with the obligations of the Uruguay Round. That is, it would be obliged to apply the MFN and the National Treatment principle to imports from all the WTO member countries. That is imported goods will be subject to the same taxes, internal charges, and regulations such as those applied to domestic products. The Lebanese Government should not apply non-tariff measures such as quantitative import restrictions, minimum import prices, discretionary import licensing, and voluntary export restraints that are prohibited by the WTO<sup>62</sup>.

### *III-B Agricultural Sector*

Lebanon has a typical Mediterranean climate with hot summers and cool wet winters. 25 percent of the country is made up of mountainous terrain, but there are fertile agricultural areas in the coastal strip and the Bekaa valley. Of the cultivated areas, it is estimated that forest planting account for 27 percent, fruit trees for 30 percent, cereals for 10 percent,

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<sup>62</sup> Abugattas, *op. cit.*, pp. 8.

vegetables for 10 percent, industrial crops for 7 percent, and fodder crops for 7 percent. The rural population decreased from 23 percent of the total population in 1970 to 15 percent in 1996<sup>63</sup>.

The major agricultural crops cultivated in Lebanon include wheat, barley, citrus fruits, apples, grapes, bananas, figs, apricots, olives, sugar beets, fresh vegetables, potatoes and tobacco. However, the main exports of Lebanon are apples, citrus fruit, fresh vegetable, and potatoes<sup>64</sup>.

In the economy, the role of the agricultural sector can not be underestimated. It contributes to the socio-economic and political stability in Lebanon, provides the country with a wide variety of food crops, helps in improving the balance of trade through export of agricultural surpluses and, hence, generates foreign currency inflow. Accordingly, agricultural development should be viewed as an essential requisite for national development<sup>65</sup>.

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<sup>63</sup> Youssef El-Khalil, *Agricultural Policy (Report)*, Beirut, 1994, pp. 35-36.

AUDI Bank, *op. cit.*

<sup>64</sup> Bassam Hamdar, *A Preliminary Analysis of GATT-WTO Membership: The Case of the Lebanese Agricultural Sector*.

<sup>65</sup> Toufic JABER, *Lebanon and the Euro-Mediterranean Partnership: Agricultural Exports (Report)*, Beirut, 1996.

However in the last 20 years, agriculture entered a crisis situation where productivity decreased, the size of cultivated lands dwindled, exports decreased. The agricultural infrastructure was severely damaged, and the Lebanese self-sufficiency level in food decreased significantly making the country highly dependent on food imports.

Lebanon is, nowadays, a net importer of agricultural products. Its exports are citrus products, apples, grapes and other fruits, and vegetables specially potatoes. These products are exported principally (75 percent) to the Arab countries. On the other hand, Lebanon depends heavily on the imports of wheat, sugar, oil, meat and animal products, and prepared food products<sup>66</sup>.

The increase in agricultural imports reflects the failure of domestic food production to keep pace with domestic consumption, thus, posing serious problems for the economy. This increase in agricultural imports has been causing a great deficit in the Lebanese agricultural sector from the year 1990 till the year 1996, as shown in Table 4 : 4.

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<sup>66</sup> Abugattas, *op. cit.*, pp. 23.

*Table 4:4 Agricultural Trade Structure Indicators in US \$ Million*

Item	YEAR						
	1990	1991	1992	1993	1994	1995	1996
Agricultural Exports	170.1	140.1	180.0	137.0	109.0	152	165
Agricultural Imports	644	625	750	927	1191	1467	1543
Agricultural Deficit	(474)	(484)	(570)	(790)	(1082)	(1315)	(1378)
Ratio of Export / Import	26.4	16.7	24.0	14.8	9.2	10.4	10.7

Source : Pathways to Integration.

The above table shows that Lebanon runs a substantial food trade deficit unusual for a Mediterranean country that is still in the early stages of economic development<sup>67</sup>.

This decline in exports was due to the limited proportions of irrigated land, limited amounts of agriculture credit or financing which decreased from the year 1964 till 1996, as shown in Table 4:5.

<sup>67</sup> *Shahine and Shehadi, op. cit., Chapter 12*

*Table 4:5 Commercial Bank Credit to Agriculture*

Year	% of Total Commercial Credit
1964	6.40
1970	4.00
1975	2.80
1980	1.81
1983	2.10
1985	2.16
1986	1.66
1987	0.54
1988	0.85
1989	1.32
1990	1.08
1991	1.43
1992	1.26
1993	1.27
1994	1.38
1995	1.71
1996	1.58

Source : BDL Quarterly Reports

The impact of WTO on the developing world differs from one country to another. The impact is usually based on the nature of the country whether it is a major importer or exporter of agricultural products and on the type of products that are being engaged in imports as well as exports<sup>68</sup>.

<sup>68</sup> Bassam Hamdar, *A Preliminary Analysis of GATT-WTO Membership: The Case of the Lebanese Agricultural Sector*.



Therefore, Lebanon should sort out the agricultural products in which it has the greatest advantage compared to all other countries, and should specialize in their production to benefit from free trade and free access to new markets. A preliminary look at the Lebanese agricultural crops indicates that potatoes (120 158 tons) and citrus fruits (80 000 tons) dominate the exports of fruits and vegetables, followed by apples<sup>69</sup>.

When joining the WTO, Lebanon's markets will be opened to foreign products and foreign producers. The competition will be tough, especially in the agricultural sector where production efficiency and adoption of mechanization are low and labor costs are very high compared to regional and international levels. Some jobs will be lost and some farms will be abandoned unless the government pays special attention to this sector<sup>70</sup>, this issue will be handled in the next chapter.

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<sup>69</sup> Bassam Hamdar, *A Preliminary Analysis of GATT-WTO Membership : The Case of the Lebanese Agricultural Sector*.

<sup>70</sup> Bassam Hamdar, *GATT : Changes and Challenges*.

### III-C Industrial Sector

'Historically, the Lebanese industrial sector always benefited from the unstable local and international circumstances rather than from long term planning'<sup>71</sup>. Thus, the world recession of 1929 helped this sector acquire new and used machinery and equipment at discounted prices, allowing it to achieve relatively high profit margins.

However, in the absence of planning and industrial skills, and in face of fierce competition of imported goods, many industrialists were forced to shut down their factories. A golden opportunity arose at the outbreak of World War II with the closure of sea and land routes and many factories resumed their operations while new factories emerged to meet the increased demand<sup>72</sup>.

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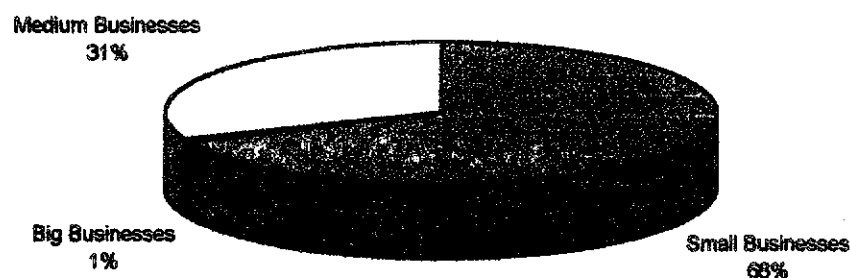
<sup>71</sup> Shahine and Shehadi, *op. cit.*, Chapter 10.

<sup>72</sup> Jachi, *op. cit.*

At present, the number of industrial enterprises listed in Lebanon is of 23 518 enterprises, distributed according to the following table

(Chart 4:3)<sup>73</sup>.

**Chart 4:3 Lebanese Industrial Enterprises**



Source : Lebanese Center for Policy Studies.

Today, the industrial sector contributes about 12 to 15 percent of the Gross Domestic Products (GDP) and still provides more than 80 percent of Lebanon's total exports of goods<sup>74</sup>. "Lebanon's main industrial exports

<sup>73</sup> Shahine and Shehadi, *op. cit.*, Chapter 10.

<sup>74</sup> Shahine and Shehadi, *op. cit.*, Chapter 10.

are ready-made clothes, food, metallic products, pharmaceuticals and petro-chemicals. The industrial sector sustained tremendous damage during the civil war, suffering losses in excess of one billion dollars. In addition, many setbacks to the Lebanese industry have led operations to fall to a quarter of its pre-war capacity. These include the loss of skilled labor, shortages of working capital, weak demand, and poor infrastructure”<sup>75</sup>.

Industrialists are facing many problems at present. The problems can be summarized by the limited access to credit services, as retained earnings, personal savings, suppliers credits and bank loans. Other problems are the inadequate infrastructure that causes heavy costs (electricity, transportation, water and others) which reduces their international competitiveness since other firms are operating in less adverse environments. Also there is the difficulty in recruiting skilled labor caused by the emigration of skilled labor or the decline in the quality of education.

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<sup>75</sup> Shahine and Shehadi, *op. cit.*, Chapter 10

On the other hand, the lack of government support for the establishment of commercial agreement with other countries, export incentives. In addition, the outdated regulations are another type of problems that may cause lack in the establishment of standards and quality control<sup>76</sup>.

The main Lebanese exports are textile and clothing, metal products, and jewelry and precious stones. Textile and clothing are the major Lebanese industrial exports and are mainly to the Arab and West European countries, as stated in Table 4 : 6.

*Table 4 : 6 Main Lebanese Industrial Exports*

Products	1993	1994	1995	1996
Textiles and Clothing	16.81 %	11.89 %	9.83 %	9.00 %
Metal Products	9.83 %	10.84 %	8.86 %	6.60 %
Jewelry and Precious Stones	8.73 %	9.09 %	8.37 %	8.10 %
<b>Total</b>	<b>35.37 %</b>	<b>31.82 %</b>	<b>27.06 %</b>	<b>23.07 %</b>

Source : AUDI Bank Report.

<sup>76</sup> *Ibid.*, Chapter 12

Despite the fact that the percentage of textile and clothing exports has decreased between the years 1993 and 1996, the clothing industry is expected to lead in the industrial sector provided modernization and upgrading of its machinery occur<sup>77</sup>.

Liberalization of world trade through further reduction in tariff rates on industrial imports and the abolition of quantitative restrictions will be to the advantage of developed countries which are better qualified in production.

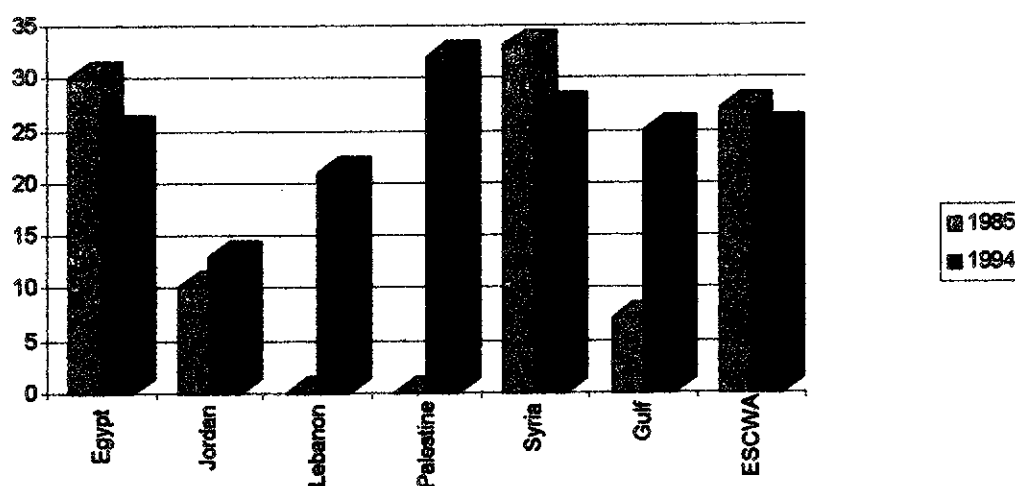
The Clothing and Textiles Agreement will not be incorporated in the general rules of the WTO until the next decade. This is one of the agreements that will affect Lebanon negatively since the clothing industry is one of the most competitive industries in Lebanon. The clothing sector is labor intensive, depends on simple technology and has the largest value added among transformation industries. The textiles and clothing industry in the ESCWA region contributes substantially to manufacturing activities.

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<sup>77</sup> Marwan Iskandar, *The Lebanese Economy (Report)*, Association of Banks in Lebanon : Beirut, 1995, pp. 78-82.

The textile industry absorbs an important level of employment in the Middle East Countries<sup>78</sup>, as shown in Chart 4 : 4.

**Chart 4 : 4 Contribution of Textiles and Clothing Industry to Manufacturing Employment for Selected ESCWA Countries, 1995 and 1994.**



Source : ESCWA, Statistical Abstract of the ESCWA Region 1996.

<sup>78</sup> Umayma Nasser, *Challenges and Opportunities of the New Uruguay Round Agreement on Textiles and Clothing in the ESCWA Region*, ESCWA : Beirut, 1998, pp. 4.

“Early in the 1960s, developing countries began to gain comparative advantage in the textiles and clothing products, penetrating world markets for cotton textiles. This has created a strong pressure to develop new ways of controlling ‘low-wage imports’ to developed countries”<sup>79</sup>. To face the challenge, developed countries negotiated with developing countries special arrangements to allow exemption from GATT obligations. Under these conditions, post-war trade policies in developed countries in textiles and clothing continued to be restrictive, despite the general trend of trade liberalization pursued under the GATT Agreements. This has resulted in conclusion of successive quantitative restrictions arrangements, effected on discriminatory basis. Over the years, these arrangements grew to become progressively more and more restrictive and discriminatory with continued increase in country and product coverage. Textile and clothing have been the only products exempted from GATT rules, they have been given a regime of their own<sup>80</sup>. “These regimes came to be known as the Short -Term Cotton Textiles Arrangements in 1961 and the Long -Term Cotton Textile Arrangements in 1962, culminating into the Multifibre Arrangements (MFA)

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<sup>79</sup> Nasser, *op. cit.*, pp. 9.

<sup>80</sup> GATT, *Textiles and Clothing in the World Economy (Report)*, 1997.



between 1974 and 1994 and a multitude of other unilateral restrictions and discretionary bilateral arrangements”<sup>81</sup>.

The Agreement on Textiles and Clothing is a transitional agreement that has a definite term of 10 years (31 December 1994/1 January 1995). It provides for the gradual dismantling of the restrictions on trade in textiles and clothing. Provisions of the agreement apply to all ESCWA countries, only if they are members of the WTO<sup>82</sup>. ESCWA countries that are not members of WTO, whether they are under the MFA or not, and their exports are subject to restrictions will not benefit from this agreement. These restrictions could stay infinitely if the country remains outside WTO. But, there are some preferential trading arrangements, that is association agreements, between the European Union and some ESCWA countries, namely Lebanon, Egypt, Jordan and Syria<sup>83</sup>.

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<sup>81</sup> Nasser, *op. cit.*, pp. 9.

<sup>82</sup> Seminar on WTO Agreement and the Certificate of Origin, Beirut, February 1998.

<sup>83</sup> Nasser, *op. cit.*, pp. 15.

It should be noted that all WTO members will benefit from reduced tariffs, and accordingly, the Lebanese clothing industry might not be able to compete on a cost-quality basis. To be able to compete Lebanon should take advantage of the transitional period in order to improve this industry and so that it can compete with foreign industries, particularly those of the Far East which have the raw material, the technology and a very cheap labor force.

Lebanon should concentrate all its efforts on developing its industrial exports in order to become competitive. It should specialize in the production of those industrial products in which it has the greatest comparative advantage in order to export these products and be able to compete with similar foreign products and benefit from greater access to new markets.

However, the clothing and textile industry in Lebanon has proved to have acquired certain competitive elements that enabled it to gain foreign markets. This competitiveness should be maintained by keeping-up with developments in fashion design and changes in consumers tastes.

Lebanon should expand its exports based on skilled labor in items such as carpets, textile handicrafts and embroidery<sup>84</sup>.

### *III-D Services Sector*

In recent years, the service sector worldwide witnessed a major expansion due to the globalization of information, international financial transactions, tourism, and technical exchanges<sup>85</sup>.

Lebanon has always depended on its services sector. The country enjoyed a unique position in the region based on the provision of educational, medical, legal, engineering, insurance, financial, and cultural services. Unfortunately because of the war, Beirut lost its role as a regional center as neighboring countries developed to replace the comparative advantage of the country whether in ports activities or financial centers. However, Lebanon is slowly regaining its role in the region. This has been manifested by the come back of the young and educated Lebanese to open

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<sup>84</sup> Nasser, *op. cit.*, pp. 24.

<sup>85</sup> Iskandar, *op. cit.*, pp. 97.

software stores and consultancies, companies for organizing tourism and conference activities, publishing houses, and insurance companies<sup>86</sup>.

Nowadays, Lebanon is making great efforts to develop its service sector. Lebanon is trying to improve its banking sector, as well as its tourism service. Thus, we may conclude that Lebanon started following the steps of its neighbours, for example Dubai, by creating Shopping Festivals, which proved to be effective in attracting more tourists and shoppers to Lebanon especially during the month of February. This was followed by the Ski Season that was lately announced by the Ministry of Tourism. In addition, a great number of exhibitions specialized in tourism, hotels, restaurants, on the international and the regional level, has been held recently. It is also important to note the many international and regional events that took place in Lebanon which are a major source of tourism as the Speed Boats event, the Arab Olympics, the Arab Basketball Championship and other interesting events, not to forget to mention that Lebanon is trying to get the approval for a Formula One Championship to take place

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<sup>86</sup> Iskandar, *op. cit.*, pp. 125.

in Lebanon. If this materializes, Lebanon will be the first Middle East country to have a Formula One Championship.

That is the standards of the Lebanese services are more international than most other types of economic activities in the country. The service sector has the highest GDP contribution in the Lebanese economy, as it is shown in Table 4:7.

*Table 4:7 Evolution of GDP Contribution of Various Economic Sectors (in %).*

Sector	YEAR				
	1990	1991	1992	1993	1994
GDP (Bln USD)	2.40	3.70	4.50	4.82	5.25
Agriculture	23.0	19.0	10.0	9.0	8.0
Industry	25.0	23.0	18.0	22.0	22.0
Services	52.0	58.0	72.0	69.0	70.0

Source : Pathways to Integration.

But, the main problem is that these services are being charged at levels equal to or higher than comparable services in Europe and in the United States of America. This is contributing to a cost of living which is too high in comparison to the earning potential in Lebanon<sup>87</sup>. Thus, the Lebanese Government should play a major role in lowering the service costs. This role will be clarified in the next chapter.

When talking about the service sector, it is crucial to focus on the General Agreement of Trade in Services (GATS) which was lately created during the Uruguay Round, as mentioned in chapter III.

The GATS is the first multilateral agreement to establish guidelines governing international trade and investment in services. It establishes a framework of rules and principles with the objective of expanding trade in services under conditions of transparency and progressive liberalization and as a mean of promoting economic growth of all trading partners and the development of developing countries<sup>88</sup>.

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<sup>87</sup> Iskandar, *op. cit.*, pp. 125-126.

<sup>88</sup> Abugattas, *op. cit.*, pp. 39.

The GATS Agreement involves three basic principles. The principle of most preferential treatment or the non-discrimination among foreign suppliers of services. The second principle is the principle of most favoured nation, with which there should be no discrimination between local and foreign suppliers of services. The third principle is the transparency of all laws regulations and procedures regarding restriction of the freedom of trade in services<sup>89</sup>. Thus, once a member of the WTO, Lebanon should publish all laws, regulations and international agreements affecting trade in services.

Concerning the MFN principle, Lebanon should treat all service providers equally irrespective of their country of origin unless their names are mentioned in Article II of GATS Agreements. This Article allows member countries to schedule exemptions from the MFN principle for a period not exceeding 10 years as of January 1, 1995. If Lebanon wishes to grant a special treatment regarding services to a specific country without the others, it should list the service in question in the MFN exemption, after being studied and evaluated. This list can not be added after the entry into force of the Agreement for Lebanon<sup>90</sup>.

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<sup>89</sup> Shahine and Shehadi, *op. cit.*, Chapter 17.

<sup>90</sup> Abugattas, *op. cit.*, pp. 39 - 44.

Some of the exemptions which should be considered in the Lebanon's list in Article II, are that foreign insurance companies can not be allowed to operate in Lebanon<sup>91</sup>, foreigners practicing legal services are not allowed to practice their profession in Lebanon, foreign employees working in Lebanon are not entitled to social security benefits unless their country of origin provide the same services to the Lebanese on its territory<sup>92</sup>.

The main sectors that helped the development of the service sector in Lebanon are the banking and tourism sectors, which are studied in the paragraphs below.

*The banking sector*: The Lebanese banking sector is composed of the Central Bank of Lebanon (BDL), commercial banks, specialized banks for medium-term and long-term financing and financial institutions, as stated in table 4 : 8.

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<sup>91</sup> Association of Banks in Lebanon, *Lebanon and the General Agreement on Trade in Services (GATS) (Report)*, Beirut, 1997..

<sup>92</sup> Abugattas, *op. cit.*, pp. 42-43.



**Table 4:8      Banking Sector Structure.**

	1995	1996	1997
<b>Operating Commercial Banks</b>			
Total Number	74	75	75
<i>of which foreign banks</i>	13	14	15
Number of branches	608	631	655
<i>of which foreign banks</i>	44	45	46
<b>Medium and Long Term Banks</b>			
Total Number	5	7	8
Number of Branches	8	10	11
<b>Financial Institutions</b>			
Total Number	14	18	20

Source : BDL Quarterly Report 1996  
BDL Quarterly Report 1997

Since the end of the civil war in Lebanon, banks have been very active in innovating and widening the range of financial service offered to their clients. On June 1994, 25 banks participated in the Society for Worldwide Interbank Financial Telecommunications called "SWIFT". More than 2336 banks in 111 countries are able to exchange messages through the SWIFT system<sup>93</sup>.

<sup>93</sup> Central Bank of Lebanon, *Annual Report 1995*, Beirut.

However in order to face the new challenges and successfully meet with competition in the area, the Lebanese banking sector needs to modernize its structure by investing in new technologies, improving and upgrading the banking human resources. In order to meet with foreign banks entering the Lebanese market, the Lebanese banks will eventually have to merge in order to meet the major capital investments and take advantages of economy of scale and to improve their productivity and efficiency.

### *III-E Tourism sector*

The tourism sector includes hotels, restaurants, motels, travel agencies, summer and winter resorts, artistic activities and others. It is an important economic sector that can contribute to a great extent in the development of Lebanon, which enjoys an outstanding geographical position, and a unique historical and archeological sites. However, such a success, it is essential that the necessary components be provided, namely the stability in the social, political and economical fields<sup>94</sup>. Nevertheless, it is crucial to mention that

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<sup>94</sup> Central Bank of Lebanon, *op. cit.*

the main element that may affect the different Lebanese economical, and especially the tourism sector, is peace in the Middle East region.

Nowadays, Lebanon concentrates on encouraging Arabs, Europeans and Americans to visit Lebanon in order to revitalize its tourism sector. A growing number of tourism companies provides a wide selection of trips around Lebanon, mainly Cedars, Baalbeck, Tyre, Byblos, Tripoli and many others.

There is a world tourism market of about 500 million tourists per year. The region, in general, and Lebanon, in particular, receive only a relatively slight share of this huge market. It is therefore essential to create, in the tourist field, a strong structure which relies on high-quality services, which can respond to the demand on the region, especially on Lebanon, so that tourism could become an engine of economic growth<sup>95</sup>.

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<sup>95</sup> Central Bank of Lebanon, *op. cit.*

This chapter studied the main pros and cons which will result from the Lebanese accession to the WTO. An attempt was made in the Lebanese economic sectors to highlight the main issues and weakness of these sectors. In order to avoid the negative impact of the WTO on the Lebanese economy, the Lebanese Government should follow a reform policy in order to restructure each sector, as it would be explained in details in the next chapter.

## CHAPTER FIVE

### *LEBANESE GOVERNMENT'S ROLE IN PREPARING LEBANON TO JOIN THE WTO.*

As mentioned in the previous chapter, and after having studied the different Lebanese economic sectors, the main question is whether Lebanon is ready or not to join the WTO, that is to face the challenge of free trade. The role of the government is very crucial at this stage. The actions taken by the Lebanese Government with respect to the WTO are very few, but the actions to be taken are many more.

#### *I. Actions already taken by the Lebanese Government.*

Till today, the Lebanese Government did not take any major step in its preparations to join the WTO. It is now focusing, mainly, on replacing its tariffs by domestic taxes and on improving its service sector.

### *I-A Tariffs Regulation*

The main purpose of the Uruguay Round was the decrease and stabilization of the rates of tariff. This decrease in tariffs reached over 40 percent in the world market since the emergence of the GATT. In addition, the WTO obliges members to follow many rules as it obliges them to have the same tariff classification. That is, it required the conversion of tariff classification in a "Harmonized System". The Lebanese Government took this classification into consideration and reclassified its tariffs, beginning 1996, according to the Harmonized System<sup>96</sup>. The tariff rates were concentrated at the following levels : 0, 2, 5, 10, 15, 20, 25, 30, 35, 40, 50, 60, 70, 80 and 100 percent<sup>97</sup>. That is, tariffs imposed on imported products will be increased or decreased according to the above scale. In Lebanon, 99 percent of the products on which tariffs are imposed, require rates which do not exceed the level of 30 percent on the above scale<sup>98</sup>. This "Harmonized System" helps in the classification of the products according to their quality and description. Thus different tariff rates would be given to

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<sup>96</sup> Abugattas, *op. cit.*, pp. 1-6.

<sup>97</sup> Moukarbel, *op. cit.*,

<sup>98</sup> *Ibid.*

the same products according to its specifications. This might be a way of protecting domestic products from imported goods<sup>99</sup>. As an example, additional tariff rates are imposed on the same car model which has luxury options (leather, sun roof and others). The Lebanese Government has been also imposing additional tariffs on imported products that can be produced locally, for example the agricultural products.

On the other hand, "Tariffs in Lebanon are the main sources of fiscal revenues and the only means of protection to the domestic industry. These two roles will be greatly affected by the forthcoming of free trade area. Tariffs play a major role in Lebanon, as is generally the case in developing countries. Their share in the total fiscal revenues of the country is around 55 percent"<sup>100</sup>. In order to join the WTO, Lebanon should comply with its regulations as mentioned earlier. Thus tariffs revenues are expected to decrease drastically with the implementation of the free trade area with the whole world. This decrease in tariffs revenues will cause a loss to the Lebanese economy that Lebanon could certainly not bear given its current fiscal situation. But, "the Lebanese authorities will have to replace any

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<sup>99</sup> Seminar on the WTO and Rule of Origin, Mohsen Hilal - Advisor of the WTO in Lebanon, Beirut, 1998.

<sup>100</sup> Moukarbel, *op. cit.*

reduction in custom duties with a new tax, such as a value added tax<sup>101</sup>. The Lebanese government started applying such a policy. The Government tried to impose a 1 percent tax on the companies and businesses turnovers. This new taxation failed because this was 1 percent tax was rejected by the concerned parties. On the other hand, the Government was able to impose a 5 percent tax on restaurants, snacks and fast foods which would be added to every bill. In addition to these value added taxes, the Lebanese governments is trying to augment its revenues by increasing the phone rates, registration fees on motor vehicles, and others, which are considered indirect revenues for the Lebanese treasury.

Nevertheless, it is crucial to mention that the public mood in the country is against direct and indirect taxes. Further increases in taxes on incomes and profits of companies will complicate the Government's relation with the trade union and business groups. This is one problem that might result from the preparations for joining the WTO, which the Lebanese Government should be aware of.

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<sup>101</sup> Moukarbel, *op. cit.*



*I-B Service Sector*

On the other hand, the Lebanese Government started focusing on the Service sector, specially on the tourism sector. It is currently participating in regional and international activities that aim at increasing the number of tourists from the Arab countries, Europe and the United States. In order to increase the number of tourists, the Lebanese Government started with a basic step which was the construction of the new Beirut International Airport (BIA) which was officially inaugurated on April 3, 1998. The BIA, due to the modern techniques and equipment, is able to receive more than 3 000 000 passengers per year, in its preliminary stage<sup>102</sup>, which means more tourists. Also, the rehabilitation and expansion of Lebanon' unique casino, Casino du Liban, was considered a great project for the Lebanese economy. It attracts a great number of tourists and Lebanese citizens as well, thus it is considered as a great source of revenues for the Lebanese treasury.

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<sup>102</sup> AL CHARK, Beirut, April 4, 1998.

In addition to this, there was the introduction of new services recently offered by the banking sector at the international level. These services were granted due the development of the Lebanese economic situation in the aftermath of the civil war and due to Lebanon's on-going reconstruction and modernization process. As mentioned before, the majority of the banks in Lebanon followed the steps of international banks by joining the SWIFT system. Banks also started offering to their customers the telephone banking, the automated teller machine (ATM) both for local and global access (service by the British Bank of the Middle East). They also followed the international design and system of credit cards. They started offering different kinds of loans as house loans, car loans, student loans and others. Not to forget to mention the credit facilities offered by most Lebanese trading companies, such as car companies, that the banks are supporting more and more. As well as, the Government is actually encouraging the local banks to merge together. That is one powerful bank is better than two medium level banks.<sup>103</sup> Last but not least, some of the Lebanese banks, as AUDI bank, and some companies as SOLIDERE, have had their shares listed in the official stock exchange.

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<sup>103</sup> *Al-Haki Beynatnah (Political Program)*, Interview with Dr. Hamdan, Dr. Iskandar and Dr. Yashoui, MTV : Beirut, May 3, 1998.

Further to the introduction of Cellular Communications, Lebanon will be introducing a new kind of communication services. At the same time Lebanon is able to prove that it became a center of attraction for foreign companies, contractors and investors, since it granted exclusive rights, on the Lebanese territory, to provide this service to two foreign companies LibanCell (Finland) and Cellis (France).

In addition, the Lebanese Government has focused on improving the infrastructure of the country by applying a rehabilitation program for the electricity network, telephone network, water, waste sector and others. Lebanon has started the reconstruction of the Beirut Central District, through SOLIDERE, which is a very important step for the Lebanese economy, affecting positively the Lebanese economy. The reconstruction process created more jobs, more foreign investments in Lebanon and more tourists. Thus, more trust in the Lebanese economy and politics.

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Despite these preliminary steps already taken by the Lebanese Government, these steps are still very minimal, and are not sufficient to prepare the stage for Lebanon's accession to the WTO. To some economists, the government is still not ready at all to join the WTO because it is still not having any policy of reform to follow<sup>104</sup>.

## *II. Actions to be taken by the Lebanese Government.*

The Lebanese Government in order to get ready to face the challenge of free trade should adopt a reform policy for its economic sectors<sup>105</sup>. This reform policy will take a long time, around 10 years before Lebanon can be ready to eliminate all trade barriers and to join the WTO<sup>106</sup>.

Lebanon should gain the support of developed countries. This cooperation with developed countries is for the advantage of Lebanon. Thus, Lebanon will be provided with technical assistance, training, technology

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<sup>104</sup> Interview with Cheikh Ghaled Abou Mosleh, Beirut, Central Bank of Lebanon, 1998.

<sup>105</sup> Al-Haki Beynatnah (Political Program), *Op. Cit.*

<sup>106</sup> Interview with Cheikh Ghaled Abou Mosleh, *Op. Cit.*

transfer, capital transfer and others. Lebanon will then benefit from research and design, from capitalization, large markets, better quality and prices. This will help Lebanon to be more productive, to meet the international standards of production, that is to be more competitive on the international markets<sup>107</sup>.

### *II-A Agricultural Sector*

The reform policy can be applied on the agricultural sector. This sector in Lebanon needs reorganization and redirection in its entity. This sector should be furnished with the necessary tools to survive the WTO. Most of the farming areas in Lebanon lack the essential infrastructure facilities that help in improving and developing the agricultural sector. Most needy farmers are not able to get any agricultural credit to stay and produce on their farms<sup>108</sup>.

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<sup>107</sup> Interview with Cheikh Ghaled Abou Mosleh, *Op. Cit.*

<sup>108</sup> Bassam Hamdar, *GATT: Changes and Challenges*.

According to many industrials<sup>109</sup>, the only natural resource in Lebanon is water, abounding in a multitude of rivers. So, Lebanon should specialize in the production of goods that require water as a primary resource. That is Lebanon should focus on agriculture and mineral water.

In the last twenty years, and after being one of the most important economic sectors in Lebanon, the agricultural sector has become weak. This decline is due to the misuse of water, the small proportion of irrigated land, limited technology and orientation, limited amount of agricultural credits, less people involved in agriculture, which should be treated by the Lebanese government.

One important step to increase agricultural output is to manage the water resources. Water should be used efficiently either by irrigating lands or by bottling it for sale. According to the Litani River Authority, reusing the water already used for electricity and wasted in the sea for irrigation networks would be very costly. However, by replacing the hydraulic powerplants by thermic ones, the Litani water could be used efficiently

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<sup>109</sup> Interview with Mr. Ahmad Steitie , General Manager of the Light Metal Products.

for agriculture purposes at a much lower cost. Also, we can take advantage of many other rivers, aside from the Litani river, in order to irrigate the lands.

In addition to irrigation, the quality of agricultural products is also important. Lebanon should be able to compete internally with its products. It should specialize in those products that are rare or scarce in the neighbouring countries. According to many farmers and agricultural specialists, banana, kiwi, loquat, shalimoya, mango, and others, are such competitive products<sup>110</sup>. On the other hand, special programs for agriculture should be prepared and implemented, along with extension and information institutes which are vital to the farming communities and are few to none. Programs should include technical assistance and orientation, agricultural loans and credits, as the ones proposed by the Italian Universities Association (Roma) in order to improve the Lebanese agricultural sector. Also, agricultural cooperatives should be created. The role of these cooperatives would consist of buying from the farmers all what they have planted and marketing it efficiently. This would be a guarantee for the

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<sup>110</sup> Dr. Bassam Hamdar (Agriculture Department AUB).

farmers that their crops won't be left in the fields without finding their way to be sold on the market. Thus, the farmers will be encouraged to increase their production more and more. By following these steps and doing accurate studies in this field, the Agricultural sector in Lebanon will definitely become more profitable.

Lebanon should reform its economic policies, specially in agriculture, as noted before, and should change its domestic laws so that they become compatible with WTO regulations. Thus, the Lebanese government should follow an agricultural policy that could be defined as "a set of measures and procedures adopted by the government to protect the agricultural sector from imports, and to raise agricultural incomes".<sup>111</sup> The Lebanese has been trying to limit imported agricultural products, especially those products that can be produced locally, by imposing higher tariffs on them. But in vain, the imported agricultural products in Lebanon are still higher than exported on due to the insufficient amount of production.

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<sup>111</sup> Shahine and Shehadi, *Op. Cit.*, Chapter 12.  
Dictionary of Economics, 1994



Thus, the Lebanese Government should put in action the Agricultural Calendar that was enacted by the Ministerial decision of the Ministry of Agricultural on March 13, 1995, without any exception in order to protect domestic products. This Calendar establishes the list of import prohibitions and of those products subject to prior import license whether seasonal or yearly, as listed in Table 5 : 1.

On the other hand, cooperation with developed countries is a major step to gain new technology and to be able to meet the international quality standards. Sohat, the bottling water company, is an example of cooperation with developed countries. It joined the international Nestle group, which allowed it to meet the international standards, which can easily be noticed by its new package which is considered an international package, as the one of Evian mineral water.

**Table 5:1**      *Lebanese Agricultural Calendar*

<i>Lebanese Agricultural Calendar.</i>	
<b>Import Prohibitions</b>	
Citrus fruits, apples, karma, stargal, fresh strawberries, all kinds of green leaves (parsley, mint, spinach, green thyme, green mulukiya, roka, bakle), lettuce, radish, and carrots.	
<b>Prior License All Year</b>	
Olives, pine seeds, potatoes and onions for plantation, silk cocoon.	
<b>Seasonal License Required</b>	
Potato fresh and frozen	February 1 till April 15
Onions	February 1 till April 30
Garlic (all forms)	January 1 till April 30
Cucumber	December 15 till March 31
Tomato	January 1 till March 15
Squash	December 1 till March 31
Eggplant	December 1 till April 30
Green Beans	November 15 till April 30
Cabbage and Cauliflower	February 1 till March 31
Green Bamia	January 15 till June 30
Red Watermelon	October 1 till May 15
Yellow Watermelon	October 1 till June 15
Sweet Green Pepper	December 1 till May 31
Lima Bean and Green Peas	October 1 till March 31
Pears	January 1 till April 30
Peaches	December 1 till April 30
Grapes	April 1 till June 30
Apricot	October 1 till April 30
Banana	June 1 till August 15
Grenade	January 1 till March 31
Green Pistachios	December 1 till September 30

Source : Ministry of Agriculture.

## II-B *Industrial Sector*

Concerning the Lebanese industrial sector, a study of the Lebanese industries should be undertaken, in order to find those industries with potential growth, followed by the assessment and comparison of the average international costs of production with those of Lebanon. After that, Lebanon should specialize in the production of those industrial products in which it has its comparative advantage in order to export these products and be able to compete with similar foreign products and benefit from greater access to new markets.

The Lebanese government should be ready to support the local products. It should give loans, financial aid or even pay a share of the capital of a specified project. It should not take taxes on such productive projects, as well as, it should offer unpaid or discounted services helping these projects to realize<sup>112</sup>. The government should take more promotional role toward private business, such as providing export incentives and helping Lebanese entrepreneurs identify foreign markets.

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<sup>112</sup> Seminar on the WTO and Rule of Origin, *op. cit.*

On the other hand, the Government should benefit from the technology of the developed countries and of technical assistance from these countries. It should take into consideration the rapid growth in this technology, that was demonstrated by the use of robots, computers and the Internet. Thus, Lebanon, aiming at competing at the international level, should take into consideration the use of robots and computers by the developed countries which are, nowadays, especially in Japan, replacing human beings in industries, factories, drug stores and even in some restaurants<sup>113</sup>. With this new technology, developed countries are producing with the least number of labor and at a greater speed, that is at a lower cost and at larger quantities than in the developing countries.

Lebanon, nowadays, is not ready at all to face the challenge of the WTO both in the industrial sector or the agricultural sector. A single example may highlight this matter. According to the Daily Star Newspaper, Mr. Shawki Fakhoury, Minister of Agriculture, approved the potato import licence for Mc Donald's, expected to open by mid-September in Beirut, despite the fact that potatoes are one of the agricultural products prohibited

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<sup>113</sup> ABC News, May 12<sup>th</sup>, 1998.

to be imported<sup>114</sup>. This was justified by Mr. George Abi Fadel, the owner of a factory that makes frozen French fries, because it was 35 percent cheaper for Mc Donald's to bring their own potatoes than to buy produce for which Lebanon is famed, despite facing the 34 percent import tariff<sup>115</sup>. That proves the weakness of the Lebanese industry because, even with locally produced raw material as potatoes, it is still cheaper to import finished products (frozen potatoes) than to manufacture them in Lebanon. This case have been studied before Lebanon ever joins the WTO. That is Mc. Donald's is now able to save 35 percent on imported goods on which a 34 percent import tariffs are imposed. But, can we imagine what would Mc. Donald's be saving with no tariffs imposed on its imported products?

### *II-C Services Sector*

Concerning the service sector, and according to Dr. Othman El-Aidi, President of the Arab Association for Hotels and Tourism, tourism is very essential for the economy of the country. It is more important than

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<sup>114</sup> The Daily Star Newsletter, Beirut, May 5<sup>th</sup>, 1998.

<sup>115</sup> The Daily Star Newsletter, *op. cit.*

other economic sectors, even in the developed countries. In the developed world one out of ten people works in the tourism sector, as in Greece and Spain. Thus, Lebanon, and any other Arab country, that desires to develop its tourism sector, should manage to increase the working hours, to encourage competition between the different travel agencies and to be able to open the air space. On the other hand, there should be studies concerning lower service costs. For this purpose, the Lebanese Government should encourage travel agencies to merge together as it is happening for banks. That is few powerful travel agencies, with more service to offer, and lower number of employees, and higher number of clients will be able to offer better services at lower prices. These agencies should offer special packages for tourists, there should be better publicity and pamphlets about tourism in Lebanon. As well as studies should be undertaken concerning the ticket pricing, which is considered very high *vis-à-vis* the ticket pricing in Europe and the United States of America. Also a study of the hotel rates and restaurants prices should be undertaken for better control of prices. Lebanese Consulates should make it easier in granting visas, specially for Europeans and Americans who wish to visit Lebanon. It is crucial to suggest

a future plan which enables Arab people to enter any Arab country without visa, as it is the case in Europe<sup>116</sup>.

#### *II-D Tariffs Regulation*

Despite its efforts at replacing tariffs with value added taxes, Lebanon is still not ready to comply with the obligations of the WTO that requires a gradual elimination of tariffs. Lebanon should follow a gradual decrease in custom duties over a certain period of time i.e. to follow a gradual trade liberalization program, which can be estimated by a ten years period. But in April 1998, the Government declared an increase in tariffs of 2 percent on all imported products and 10 percent on the imported cigarettes, as a mean to protect the Lebanese domestic products which are been distracted by foreign products, as well as to protect Lebanese factories which are dramatically closing year by year. According to Dr. Salim El-Hoss, the former Prime Minister of Lebanon, this increase in tariffs does not comply with the rules and the main obligations for Lebanon to join either the WTO or the European-Mediterranean Partnership, which both require a

deregulation of custom duties<sup>117</sup>. From here we can deduct that the Lebanese Government is not yet ready to join the WTO as it is still using tariff increase as a mean to protect its domestic products. The Lebanese Government should follow a serious economic reform policy by which it can be able to protect internally its domestic products without being obliged to turn to any increase in custom duties which would become later on very difficult to eliminate.

#### *II-E Task Force*

Before applying any of the above mentioned steps concerning the different Lebanese economic sectors, the Lebanese government should establish a Task Force to negotiate the accession to the WTO and which requires the partnership between both the private and the public sector. This task force should comprise economists, lawyers, statisticians, representatives of concerned ministries, and representatives of all organizations and institutions of private sector. This Task Force must prepare a memorandum

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<sup>116</sup> AL-CHARK, Beirut, April 4<sup>th</sup>, 1998.

<sup>117</sup> LBC News, Beirut, April 26<sup>th</sup>, 1998.



stating Lebanon's regulations, policies, and regimes related to trade, agriculture, services, intellectual property rights and others. This Task Force should be able to come up with a clear and comprehensive economic policy, and accordingly should present suggestions to reform or change all the laws and regulations that violate the WTO principles. This Task Force should attend different negotiation meetings of the WTO held in Geneva in order to get familiarized with the accession process. It should also attend training courses on strengthening negotiations capabilities and strategies offered by the WTO secretariat.

In addition, Lebanon, once a WTO member, will be required to publish all laws, regulations international agreements affecting the different areas in trade for transparency purposes. These publications would be beneficial to the greatest number of Lebanese farmers and industrials and even to all other WTO members. In Lebanon, all laws, decrees and decisions are published in the Official Gazette; however, there are some delays in its publications. These delay should be rectified by the Lebanese Government before Lebanon's accession to the WTO<sup>118</sup>.

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<sup>118</sup> Abugattas, *op. cit.*, pp. 7.

### *III. Lebanon and other Agreements on Free Trade Areas.*

#### *III-A Lebanon and the Euro-Mediterranean Partnership.*

Lebanon has taken a decision in principle to accede to the WTO and has been actively discussing with its European Partners the possibility of concluding an European Union (EU) association agreement, in order to establish a free trade with the Mediterranean countries. The negotiations of the Euro-Mediterranean agreement are today in their last stage. The latest round took place between April 23 and 24, 1998 in Brussels, Belgium. In this meeting, the European delegation asked a detailed study to be prepared by Lebanon on its different economic sectors. This study will be presented to the delegation, in Beirut, on the second quarter of June 1998.

The main principles of this Euro-Mediterranean agreement are somehow similar to those of the WTO. Success or failure of Lebanon in this partnership depends heavily on the Lebanese government financial and political reform. It depends more specifically on the reform of the tax system by introducing a sale tax that will not be regressive to compensate for the

loss of state revenue due to the lowering of tariffs on imports. It is important to mention that the Euro-Mediterranean partnership will grant to its new members a period of around ten years during which they should decrease their custom duties on imports from any member of this partnership agreement, which would be a step in the direction of joining the WTO.

The Lebanese-European co-operation plays a vital role in the implementation of WTO and regional co-operation. Thus, it is crucial to mention that this bilateral agreement with the EU is in conformity with the WTO agreement<sup>119</sup>. Hence, the EU will be a preparatory step for the accession to the WTO. Moreover, if Lebanon signs an agreement with the EU, it will be supported by European countries during WTO negotiations.<sup>120</sup>

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<sup>119</sup> Saidi, *op. cit.*

<sup>120</sup> ASSOCIATION OF BANKS IN LEBANON, *The Proposed Free-Trade Agreement between Lebanon and the European Union Countries.*

Moukarbel. *op. cit.*

### *III-B Free Trade Area with Arab Countries.*

Lebanon should benefit from the experience of Arab countries that have already joined the WTO. The interaction between Arab countries members of WTO and non-members could form the seed of an enhanced future Arab trading regime, that would improve the standards of Arab non-members. To face the WTO challenge of removing all trade barriers facing foreign markets, Arab countries should grab the opportunity of penetrating international markets by developing their economic sectors and improving the quality standard of their products and services. Arab countries should aim at a regional economic cooperation with a view to implement the Arab Free Trade Area program, as it is done in the European Union. The program set by the Arab countries aims at a gradual decrease of tariffs by 10 percent yearly over a ten year period on imported products from Arab countries, which was implemented first by Kuwait starting January 1998. By doing so, Arab countries will be aiming at a growing Arab regional economy, stronger Arab cooperation and coordination, which will help Arab countries strengthen their individual economies.

Lebanon and Syria have set a plan for such cooperation for the near future. The plan aims at removing all barriers to trade between the two countries. The two countries will follow a gradual decrease of 25 % in tariffs rates, per year, over a period of 4 years, in order to create a free trade zone between Syria and Lebanon. This would be to the advantage of Lebanon, which will have free access to the large Syrian market where it can sell its products. Lebanon will be able to benefit from agricultural raw materials that it can provide from Syria at lower prices such as cotton, which will help increase the level of the Lebanese agricultural industries and the level of marketing Lebanese products. Furthermore, this free trade between Syria and Lebanon will lead a great number of foreign companies to establish in Lebanon and to benefit from the liberal right of establishment in Lebanon, as well as to have access to the Syrian large market, in order to sell their products<sup>121</sup>. It should, also, be mentioned here that no visas are required between Lebanon and Syria, a step which should be followed by all other Arab countries.

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<sup>121</sup> Nasser Saidi (Dr.), First Vice - Governor, Central Bank of Lebanon, *Interview*, June 1998.

On April 4, 1998, after the Ministerial Council reunion, Mr. Yassine Jaber, Minister of Economy, declared that Lebanon is now ready to take into action the Arab Free Trade Area Program<sup>122</sup> as it is in its last process of trade negotiations with Egypt.<sup>123</sup>

As it can be noticed, the role of the Lebanese Government is very minimal concerning Lebanon's accession to the WTO, whereas, Lebanon is nowadays in its last stages for its accession to the Euro-Mediterranean partnership and the Arab Free Trade Area Agreement. Thus, the Lebanese Government should make greater efforts in setting a reform policy, as soon as possible, for its different economic sectors, because Lebanon still needs a lot of work to do in order to be able to compete on the international level.

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<sup>122</sup> AN-NAHAR Newsletter, Beirut, May 5<sup>th</sup>, 1998.

<sup>123</sup> AL-SAFIR Newsletter, Beirut, May 5<sup>th</sup>, 1998.

## CHAPTER SIX

### *CONCLUSION*

#### *I. Summary*

The post-world war II international economic system was supposed to rest on three international foundations, the International Monetary Fund (IMF), the International Bank for Reconstruction (IBRD) and the International Trade Organization (ITO). The ITO didn't have the chance to see the light, and was replaced by the General Agreement on Tariffs and Trade (GATT), a set of rules created to prepare for the establishment of the ITO.

The benefits that Lebanon would obtain from joining the WTO are having the opportunity to negotiate with all countries on equal bases, improving the quality of its production in response to growing competition, and having recourse to the WTO to settle trade disputes with other members.

On the other hand, reducing tariffs would deprive the Lebanese treasury of an important source of revenue. Lebanon should follow a deregulation of its tariffs over a certain period by replacing them with value added taxes. The main challenge for Lebanon is to proceed in the reform of its different economical sectors and specialize in those products in which it excels, that is in which it finds its comparative advantage.



## *II. Conclusion*

So far, there have only been studies and conferences on the question of Lebanon joining the WTO. Only few concrete steps have been made by the Lebanese Government to prepare Lebanon for accession to this organization. It goes without saying that the Government should assign great priority to the task of economic policy reform to tackle deep rooted economic problems and to prepare Lebanon to be part of the liberal international economic system.

I have argued earlier that the same disadvantages will face Lebanon whether it joins the WTO or not. In addition, if the WTO imposes a sanction on a non-member country, all members are obliged to abide by this sanction. Thus, this non-member state will be left alone facing all the other members which number over 125 countries. Thus, it would be in Lebanon's best interest to join the WTO, because doing so, it will have access to loans for development as well as other advantages given to WTO members. Also, Lebanon in the long run will be more competitive and efficient in the World Market.

According to many economists, the earlier Lebanon joins the WTO the more it will have a chance to be accepted due to the increase of members each year, that is the increase in the number of votes that will decide the acceptance or rejection of Lebanon in the WTO<sup>124</sup>. But, to others, this hypothesis is wrong. Lebanon will definitely join the European-Mediterranean Partnership and the Arab countries free trade area before it ever joins the WTO, due to its advanced negotiations in these two matters. Thus, Lebanon will be cooperating with both Arab and European-Mediterranean countries, which means it will have them on its side during the vote process of its acceptance to the WTO. Hence, according to the second view, Lebanon should not rush itself into early membership in the WTO.

Lebanon, nowadays, is not ready to join the WTO, due to the minimal efforts of the Lebanese Government. Many steps need to be adopted by the Government in order to reform the Lebanese economic sectors, which may require a period of over 10 years, in order to minimize the negative impacts from Lebanon's accession to the WTO.

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<sup>124</sup> Conference by Dr. Fadi Makki, AUB, Beirut, Fall' 97-98.

Actually the real impact of this projected free trade area on the Lebanese economy is still unknown and uncertain. Joining the WTO will certainly have both negative and positive effects on Lebanon. The impact of the WTO depends on the reforming and restructuring process of the different Lebanese economic sectors. Lebanese economic sectors should be cost-effective, (i.e. producing goods a lower costs) and export-oriented, (i.e. focusing on exports more than imports), in order to be able to face the international competition.

The Lebanese Government can not avoid adopting a serious program of economic reform. Lebanon here can benefit from the experience of those Arab countries that have already joined the WTO, such as Egypt, the United Arab Emirates, Qatar and Kuwait. Also, it should learn how to benefit from its future European-Mediterranean Partnership and Arab Countries Free Trade Area, to prepare itself for the WTO.

More trade, like more domestic sales, creates more jobs. Competition always lays off some workers and shuts down many inefficient firms. We notice this taking place in many economies on a daily basis. A foreign

competitor can cause the same upset. In general, trade builds many more jobs than it destroys<sup>125</sup>. Therefore, the key word is competition and competitiveness. Lebanon can not be isolated and close up its markets. Thus, the government should encourage productivity and efficiency. Its role is to develop and improve all the production and service sectors to prepare the economy for foreign competition. In short, the Lebanese markets will be accessed by foreign producers; simultaneously, international markets will be open to Lebanese products. It is a game of survival and only the fittest prevails<sup>126</sup>.

Last and not least, three issues need to be stressed up on. The first issue is the fact that when joining the WTO, members will become bound to a new and private international law. In order to join an open economic system, the countries have to open their domestic laws to other members. By joining the WTO, members will have to accept limits on their national sovereignty. By doing so, the members should accept that other members interfere, to some extent, in their domestic affairs; that is this intervention can not be considered as an illegal one or a violation of internal sovereignty.

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<sup>125</sup> Hamdar, *GATT : Changes and Challenges*.

<sup>126</sup> *Ibid.*

Every state deciding to join the WTO should be aware of this "legal form of intervention" in its international affairs and be willing to accept it.

The second issue is one of human rights; it particularly deals with child labor. At its first meeting in Singapore, in December 1996, the WTO dealt with Human Rights, to be more precise with the issue of Child Labor. The Singapore meeting dealt with labor regulations including labor treatment. It extended WTO supervision over employment to the developing countries where labor is cheap. Industrial countries, during this meeting, committed themselves to put sanctions on imports that involve children labor. Thus, they decided to impose custom duties on this kind of imports<sup>127</sup>. This issue is important to Lebanon and other developing countries where a great deal of goods and services is dependent on child labor.

The third issue is about the copyright agreement. During the Washington Summit in 1996, Joan Spero confirmed that Lebanon has agreed on joining the copyright agreement. This is a preliminary step for joining the Agreement on Trade in Intellectual Property (TRIPs).

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<sup>127</sup> AN-NAHAR Newspaper, Beirut, December 13<sup>th</sup>, & 14<sup>th</sup>, 1996

Nevertheless, copyright law continue to be violated in Lebanon, particularly as far as computer software. Considerable work needs to be done in this area.

In conclusion, the Lebanese Government and a section of the Lebanese public are nowadays aware of both the benefits and costs of joining the WTO. Most evidently, Lebanese officials and public opinion have reconciled themselves to the presence of the WTO and to the need to join this organization, at some future date. Thus, the question is not anymore whether Lebanon should join the WTO or not, but the question is whether Lebanon is ready to join the WTO or not. The role of the Government is very crucial at this stage. Two main problems will be facing the Government; the first problem is how can treasury revenues be increased once tariffs are cut down and the second problem is how can the productive economical sectors be boosted. The role of the Lebanese Government is still very minimal; a value-added tax policy should be carefully studied and a reform policy of the different Lebanese sectors would be highly needed so that Lebanon would be able to compete at the international level. Once Lebanon succeeds in restructuring its economy, in such a way that it can efficiently

produce several goods and services that can be traded on the global market, it will be able to take full advantages of the provisions of the WTO.

Lebanon is in the process of applying for an observer membership. If Lebanon's request is granted, which is to be expected, Lebanon will have a few years ahead (up to 10 years) to prepare its economy for full membership in the WTO.

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