

# Lebanon

|  |                                      |            |                            |           |            |
|--|--------------------------------------|------------|----------------------------|-----------|------------|
| <b>Status Index</b><br>(Democracy: 2.4 / Market economy: 2.7)  |                                      | <b>5.1</b> | <b>Management Index</b>    |           | <b>3.5</b> |
| <b>System of government</b>  | Presidential-parliamentary democracy |            | <b>Population</b>          | 3,5 mill. |            |
| <b>Voter turnout</b>   | 40.3 % (Parliamentary elections)     |            | <b>GDP p. c. (\$, PPP)</b> | 4,170     |            |
| <b>Women in Parliament</b>   | 2.3 %                                |            | <b>Unemployment rate</b>   | n. a.     |            |
| <b>Population growth<sup>a)</sup></b>  | 0.9 %                                |            | <b>HDI</b>                 | 0.752     |            |
| <b>Largest ethnic minority</b>   | 0.821 %                              |            | <b>UN Education Index</b>  | 0.83      |            |
|  |                                      |            | <b>Gini Index</b>          | n. a.     |            |
| Data for 2001 – if not indicated otherwise. <sup>a)</sup> Annual growth between 1975 and 2001. Source: UN Human Development Report 2003. |                                      |            |                            |           |            |

## 1. Introduction

Lebanon managed to keep both a functioning economy and the principles of its democratic system alive through 15 years of civil war. The rule of law and civil rights are respected to a far greater extent in Lebanon than in other countries in the region. Peaceful transfer of power is the rule rather than the exception. Civic structures are comparatively well developed, and the media are largely independent and diverse.

However, as the smallest country in the region, Lebanon remains heavily dependent on developments within the region and its neighbors. The Israeli army did not withdraw from occupied southern Lebanon until May 2000, and Syrian troops are still in the country. In this respect, and in the Middle East conflict, there are no quick solutions in sight. These external factors also contributed to slowing Lebanon's development, which had been making rapid progress during postwar reconstruction.

Apart from isolated positive developments toward strengthening democratic institutions, the achievement of democratic and socioeconomic goals stagnated during the assessment period of this study.

This study comes to the conclusion that political circumstances and one-sided priorities with respect to achieving goals are jointly responsible for this stagnation. Ensuring sustainable and socially and regionally balanced development was not a priority, and, as a result, urgent problems remain unsolved.

In terms of democracy, interference with the media and a lack of political participation on the part of the general population remain unresolved issues. A further key problem that affects all political management in Lebanon is the striking lack of available economic, demographic and other politically relevant data. As a result, private and governmental decision-makers often must make decisions with a great deal of uncertainty. The result is the paralysis of potential economic and political dynamics.

## **2. History and characteristics of transformation**

One cannot really write about the history of democratic transformation in its strictest sense for Lebanon, because Lebanon has been a parliamentary democracy based on a relatively strong rule of law, free press and civic consciousness since being founded by France in 1920. Lebanon has been independent since 1941, and the first parliamentary elections were held in 1943. Since then, the question of distribution of power among the country's largest religious groups has remained at the center of political debate. This is because more than 18 denominational communities coexist within a population of 3.4 million inhabitants on a mere 10,452 square kilometers of land.

Since 1932, only vague estimates have been made regarding the percentages that these denominations hold within the population as a whole. In fact, there are no concrete figures on the actual size of the population. This is because statistical proof of demographic shifts could quickly cast doubt on the electoral system of proportional representation, which has its roots in the unwritten National Pact of 1943. According to this system, seats in Parliament were distributed between Christians and Muslims at a ratio of 6:5. This system also dictates that the office of president is always held by a Maronite Christian, that of the prime minister by a Sunni Muslim, and that of the speaker of Parliament by a Shiite Muslim.

The posts of deputy prime minister and deputy speaker go to a Greek Orthodox. This proportional distribution of offices, which is based on demographic data from the 1930s, runs through Lebanon's entire public administration. At the end of the civil war in 1989, it was agreed in peace negotiations in Ta'if, Saudi Arabia, that the distribution of power would be adjusted in the Muslims' favor. The new 5:5 distribution of seats in Parliament is at least somewhat closer to the demographic reality in Lebanon. No other major changes were made to the prewar system of proportional representation, except that much of the (Maronite) president's authority was shifted to the (Sunni) prime minister.

A history of economic transformation in its strictest sense is also not appropriate for Lebanon. Lebanon has a very long-standing tradition of a liberal economic system that was never in question. Trade, in particular, was never subject to significant obstacles. Lebanon is now also seeking to recapture its former role as the region's financial hub. But the civil war did set the country back significantly in its development. At the end of the war, the state as the institution responsible for ensuring order, supplying public services and distributing resources had de facto ceased to exist, and hundreds of thousands of Lebanese—particularly members of the well-educated middle class—had left the country.

Self-made millionaire Rafiq Hariri was elected prime minister in 1992, in the first elections after the war. Hariri gave highest priority to rebuilding the infrastructure and stabilizing the Lebanese currency. The extremely rapid reconstruction—at least of Beirut and, first and foremost, of the “financial district” in Beirut's old city—was largely funded by borrowing heavily, mostly from domestic banks. During this time, the nation's domestic and foreign debt ballooned fivefold and twentyfold, respectively, and the government's uncompromising neoliberal growth policy intensified social inequalities and the concentration of income among a small percentage of the population. At the same time, however, policy-makers were able to cut inflation from more than 120 % to just 2–3 % at the end of the 1990s.

The infrastructure was returned to working order, garbage collection and mail delivery were up and running again, and the state's monopoly of violence was restored in most areas of the country. The Israeli-occupied south remained an exception until May 2000. Hariri has governed Lebanon, with four successive cabinets, since 1992—with a two-year hiatus (1998 to 2000) in which the uncharismatic general and prewar politician Salim Hoss held the office.

### **3. Examination of criteria for democracy and a market economy**

#### **3.1 Democracy**

Although Lebanon made rapid progress toward reconstructing its democratic institutions and re-establishing democratic stability in the years immediately following the war, no fundamental development has occurred in these areas since the 1990s—i.e., during the period of this study. But some progress was certainly made in individual areas, particularly the reintroduction of local elections in 1998.

The democratic order of postwar Lebanon, like that of prewar Lebanon, is based on a system of proportional representation, thus perpetuating the fragmentation of Lebanese society, administration and politics along denominational lines.

### 3.1.1 Political regime

(1) *Stateness*: Problems with regard to state identity definitely exist. The state did not achieve a formal monopoly on the use of force within its entire territory until May 2000, when the Israeli army withdrew from southern Lebanon—almost 20 years after its first invasion. Nevertheless, differences with Israel remain regarding several smaller areas near the border (e.g., the Sheeba farms). The greatest limitation of the state's monopoly on the use of force is Hezbollah's presence in the border zone, where Hezbollah takes on a sort of buffer function. The second-greatest limitation is the Syrian army's presence in Lebanon—in what has been more or less an occupation, albeit a politically moderate one—since 1976.

The definition of who qualifies as a citizen of the state is generally uncontentious. However, the large number of guest workers immigrating to Lebanon, as a result of Syria's influence, and the presence of 300,000–400,000 Palestinian refugees have put Lebanon under increasing pressure to grant citizenship to these two groups as well. State and religion are separated as much as possible, and religious dogma does not have a significant influence on politics. However, all areas of the political system are marked by a largely denomination-based system of patronage.

The judiciary is also secular, with the exception of rulings regarding marital status, which are left to the Shariah courts or church courts, depending on the religion of the individuals involved. Viable administrative structures exist. However, access to government resources is very unequal between regions, and corruption and patronage are still widespread, particularly since administrative posts are also assigned according to the system of proportional representation. In southern Lebanon, Hezbollah has taken over some government functions with respect to public administration, resource allocation and public services.

(2) *Political participation*: There is effective universal suffrage and the right to campaign for office. Elections are generally free, but ballot secrecy is insufficient. Some manipulation clearly occurs in the run-up to elections (especially as a result of Syrian pressure)—for instance, in preparing the candidate lists, gerrymandering or even directly influencing voters. In addition, the right to campaign for office can really only be exercised by the wealthy. In principle, elected leaders have the power to govern. However, Lebanese decision-makers' attitudes toward Syria often have a significant impact on their ability to enforce policy within Lebanon. Freedom to organize and freedom of assembly both exist.

Freedom of speech and freedom of the press also exist in principle, but in practice they come up against limiting factors when Lebanese relations to Syria and the Gulf States (particularly Saudi Arabia) are concerned.

(3) *Rule of law*: In principle, the rule of law is ensured, with only isolated cases of infringement. The separation of powers exists and works with respect to its basic functions, particularly checks and balances. The judiciary is professional, separate and relatively independent. However, its work is restricted to some extent.

Bureaucratic corruption is a pervasive problem, and fighting it is a constant topic of civic demands and political declarations. Accordingly, abuse of authority is often insufficiently punished, both legally and politically. This also stems from the fact that corruption is partly viewed as an inevitable part of patronage, so that it is often impossible to differentiate between the two. There is no clearly defined system for dealing with public complaints.

Civil liberties are protected in principle, but often restricted by a proviso established in the constitution that allows civil liberties to be restricted in the interest of safeguarding postwar stability. Thus, isolated infringements do occur (e.g., closure of television broadcasters). Lebanon's relationship to Syria and Syrian interests create narrow constraints. There are no restrictions with regard to practicing one's religion, and such discrimination is prohibited under the constitution.

### **3.1.2 Political patterns of behavior and attitudes**

(1) *Institutional stability*: In principle, the democratic institutions work effectively and enjoy sufficient acceptance within Lebanese society. The responsible authorities usually prepare, implement and monitor political decisions through legitimate processes. However, the system of proportional representation and consociation frequently results in a loss of efficiency. Moreover, Syria's exertion of influence often limits the independence of Lebanese institutions, especially with respect to foreign and security policy.

Lebanon's democratic institutions are deeply rooted in the self-conception of those wielding power in Lebanon. Even Hezbollah has publicly accepted democratic pluralism and is making an effort to find its role within democracy.

(2) *Political and social integration*: There is a relatively stable and moderate, yet fairly fragmented, party system. Sixteen parties ran in the 2000 elections. The system is marked by strong tendencies to focus on personalities and patronage as well as a limited ability to form party platforms. Denominational alliances often cut across party lines. The denomination-based system of proportional representation often strengthens the position of religious leaders and hampers the development of a landscape of parties and interest groups that transcends regional and religious boundaries.

The Lebanese population's approval of democratic government is generally very high on all sides. However, relatively low voter turnout at the national level could be a reflection of the population's discontentment with the paralyzing ubiquity of proportional representation, patronage and the Syrian influence. Statistically, voter turnout was 40.5 % in the 2000 elections, but real voter turnout is probably higher, as the statistical figures may be based on incorrect voter data. Voter turnout in the 1998 local elections (the first local elections in Lebanon in 35 years) was significantly higher (55 %).

Lebanese civil society is comparatively active and very highly organized. There is a strong network of autonomous, self-organized groups; associations; and organizations, and there is a solid measure of trust within the population. There are some 1,300 registered civic organizations, including religious organizations, human rights organizations, women's groups, unions, professional associations, environmental groups, and business and industrial associations. These organizations frequently take up some governmental responsibilities, particularly social, environmental and educational ones.

The integration of NGOs and their umbrella organizations into the political decision-making and policy-making processes is still underdeveloped. A process of dialogue between Parliament and NGOs was initiated in 2000 to eliminate these shortcomings as part of a development cooperation effort. The same year, an "economic and social council" comprising representatives of civil society and business and industry was set up to advise the government on social issues.

## **3.2 Market economy**

Lebanon has made progress in its development, but shortcomings remain in the form of regional disparities in socioeconomic development. The potential of the industrial and agricultural sectors is also not being sufficiently utilized. Chronic twin deficits in the national budget and the current account also put severe limitations on the government's ability to make economic policy.

### **3.2.1 Level of socioeconomic development**

The key indicators suggest a medium level of development. According to the HDI and Gini coefficients, the level of development allows most people in Lebanon sufficient freedom of choice. In addition, there has been a subdued positive trend during the period of this study. Nevertheless, social exclusion remains pronounced in both quantitative and qualitative terms and is, to some extent, a structural phenomenon.

Regional disparities are especially severe. While the regions of Beirut and Mount Lebanon enjoy a high level of development, there are significant problems in the other regions—particularly in the north and in the Bekaa Valley. Because of the enormous national debt, these disparities—the greatest of which are in income distribution, infrastructure and education—did not improve noticeably during the period of this study.

In addition, gender-based disparities exist. Around 20 % of women in Lebanon are illiterate. The national illiteracy rate for men is about 8 %. Although women are actively involved in economic life, they very rarely hold upper-management positions. No trend toward change was visible in this area through 2001. Most international aid organizations estimate the unemployment rate at 10 % or slightly higher—with the tendency rising throughout the period of this study.

### **3.2.2 Market structures and competition**

The principles of market-based competition are safeguarded. Traditionally, Lebanon has a decidedly liberal economy. The significance of the public sector is relatively small, and the private sector is characterized by free pricing and competition. However, the latter is often limited by patronage-based social structures. The right to carry on a business or trade is not subject to any major limitations. However, bureaucracy and a lack of transparency in legislation do result in a loss of efficiency.

Antitrust legislation is in place, and the Hariri government has announced its intention to strengthen it. However, no coherent antitrust policy exists. Foreign trade is being further deregulated. At the end of 2000, three-quarters of public revenue came from customs and tariffs. The loss of this revenue as a result of drastic tariff reductions was partly offset by the introduction of a 10 % value-added tax (2002) and the privatization of state-owned enterprises.

The Lebanese currency is fully convertible. But despite Lebanon's economic liberalism, the balance of trade is in chronic deficit (\$5.5 billion to \$6 billion). The reason for this is weak domestic industry coupled with high demand for imported consumer goods. The banking system meets international standards (functioning banking supervision, minimum reserve requirements, banking secrecy, etc.). Lebanese banks also have a solid equity base and are profitable and liquid. The capital markets are open for both domestic and foreign capital and, so far, have proven sufficiently immune to the effects of speculation capital.

### **3.2.3 Stability of currency and prices**

During the period of this study, Lebanon's largely independent central bank consistently pursued restrictive monetary policy, which allowed it to reduce inflationary tendencies. The high interest rates that ensued were intentional, as they made it possible to shift the national debt from expensive domestic creditors to less expensive foreign creditors. The central bank's foreign currency reserves were severely depleted during the period of this study, casting considerable doubt on the policy of pegging the exchange rate to the US dollar. At the end of 2002, foreign currency reserves were again stable at a high level (\$8.5 billion vs. less than \$4.5 billion previously).

### **3.2.4 Private property**

Property rights are defined for both domestic citizens and foreigners. As part of its efforts to obtain WTO membership, Lebanon made additional refinements and adjustments to meet international standards during the period of this study. Private-sector companies are viewed as the pillars of macroeconomic production and enjoy a corresponding measure of legal protection. The government has begun to privatize state-owned enterprises and parts of the electricity, telecommunications and tobacco industries as well as shares of the national airlines and the lottery.

### **3.2.5 Welfare regime**

Although the government spends a great deal on the social sector, Lebanon's (formal) social safety nets are poorly developed and do not come close to covering all of the risks faced by all segments of the population. The risk of poverty is still high for significant portions of the population. About 40 % of Lebanese do not have formal health insurance. Only about 30 % of the working population can look forward to retirement benefits. Particularly the middle and lower classes are dependent on informal redistribution within family or religious structures.

Equality of opportunity is not given per se, but social mobility is certainly possible and realistic since the structure of Lebanese society tends to be based less on class than on religious denomination. Religious institutions, in particular, work to offset extreme social disparities. Gender discrimination is rare when it comes to accessing education at all levels. Women account for about half of all university students and play an active role in Lebanon's economic life. However, it is very rare for women to hold management positions.

### **3.2.6 Strength of the economy**

GDP growth dropped to zero during the period of this study and did not show an upward trend again until 2001. The stable level of prices must be viewed as positive. The country's key problem is its staggering national debt, which exceeded 150 % of GDP at the end of 2000. The lion's share of state revenues goes toward servicing this debt. However, the strategy of shifting expensive domestic debt to less-expensive foreign debt and increasing revenues through privatization and tax reforms is yielding its first benefits. In addition, the government was able to collect numerous promises for soft loans at the international donors' conference in Paris in 2002.

However, Lebanon's industrial sector above all others is suffering under the central bank's tight monetary policy. This weakness is particularly visible in terms of Lebanon's foreign trade, which is marked by a chronic trade deficit that also leaves a considerable gap in the current account balance. The potential of small and medium-sized companies is not being used sufficiently. This sector often lacks the necessary transportation and power-supply infrastructure as well as sufficient access to credit. Finally, export conditions are anything but perfect due to the pegging of the Lebanese pound to the US dollar.

### **3.2.7 Sustainability**

Environmentally sustainable growth is only given consideration in isolated situations and is barely rooted in institutions. Although Lebanon has signed numerous international treaties on protecting the environment, this is primarily a reflection of a growing public awareness of increasing environmental problems in Lebanon such as deforestation, soil erosion, desertification, air pollution from traffic and waste disposal, and pollution of coastal waters through industrial effluent.

There is no consistent strategy at the political level. Environmental legislation is full of gaps, and where it does exist, it is not sufficiently enforced. However, in 2000, Hariri announced that clear environmental policies and a system of incentives and sanctions were being drafted. State and private educational and training institutions are quantitatively and, to some extent, qualitatively well developed, especially private ones. Since 1998, there is cost-free, mandatory schooling for all children up to age 12. The systems of secondary and postsecondary education are also well developed in quantitative terms (there are 15 universities). As a result, the illiteracy rate in Lebanon is the lowest in the Arab world.

However, a high-quality education is very expensive, and poorer households can only afford it with the help of (mostly private) stipends and scholarships. But here, too, the schools do not always focus enough on the requirements of the labor market. Not enough support is given to research and development.

#### 4. Trend

(1) *Democracy*: During the period of this study, the situation did not change significantly. The quality of state identity, political participation and the rule of law held more or less steady. But the government launched a series of initiatives and reforms aimed at speeding up administrative and judicial reform and strengthening the democratic institutions. Government cooperation with civil society improved somewhat.

The level of democratic consolidation improved in certain respects. For instance, local political entities regained their independence although, on the other hand, they still have very few resources.

(2) *Market economy*: Measured on the HDI and GDI, the level of development in Lebanon improved slightly during the period of this study. The institutional framework for free-market activity was already highly developed at the outset of this study and continued to improve slightly.

**Table: Development of socioeconomic indicators of modernization**

|      | <b>HDI</b> | <b>GDI</b> | <b>GDP index</b> | <b>Gini index</b> | <b>UN Education Index</b> | <b>Political representation of women <sup>a</sup></b> | <b>GDP per capita (\$, PPP)</b> |
|------|------------|------------|------------------|-------------------|---------------------------|---|---------------------------------|
| 1998 | 0.735      | 0.718      | 0.63             | 43.5*             | 0.82                      | 2.3 %   | 4,326                           |
| 2000 | 0.755      | 0.739      | 0.63             | n. a.             | 0.83                      | 2.3 %   | 4,308                           |

Sources: UNDP, Arab Human Development Report, 2002; Human Development Indicators, 2002, in: [www.undp.org](http://www.undp.org); \* index for 1997.

Small and medium-sized companies still tend to be marginalized in access to capital. Overall economic development stagnated in both quantitative and qualitative terms during the period of this study and did not show a growth trend again until the end of 2002. Economic growth fluctuated between 0 % and 1.3 % from 1998, and the twin deficits in the budget and the current account deepened.

**Table: Development of the macroeconomic fundamentals (1998–2001)**

|   | 1997  | 1998  | 1999  | 2000  | 2001* |
|---|-------|-------|-------|-------|-------|
| GDP growth, in %                                | 4.0   | 3.0   | 1.0   | 0.0   | 1.3   |
| Foreign trade                                   |       |       |       |       |       |
| Exports, in \$ million                          | 642   | 661   | 677   | 714   | 798   |
| Imports, in \$ million                          | 7,456 | 7,060 | 6,206 | 6,228 | 6,542 |
| Export / import, in %                           | 8.61  | 9.36  | 10.91 | 11.46 | 12.19 |
| Inflation, in % (CPI)                           | 7.8   | 4.0   | 0.3   | 1.3   | 0.0   |
| Unemployment, in %                              | n. a. |
| Annual deficit, in %                            | 59.0  | 43.7  | 42.4  | 56.3  | 47.6  |
| Budget deficit, in % of GDP                     | 23.5  | 14.1  | 14.5  | 23.4  | 16.5  |
| National debt, in % of GDP                      | 105.2 | 118.6 | 138.4 | 153.2 | 160.0 |
| Debt service ratio, in % of government spending | 36.9  | 42.4  | 42.9  | 40.3  | 48.56 |
| Current account balance, in \$ billion          | -4.4  | -4.4  | -3.3  | -3.1  | n. a. |
| Capital account balance, in \$ billion          | 4.8   | 3.9   | 3.6   | 1.0   | n. a. |

Sources: [www.socwatch.org.uy](http://www.socwatch.org.uy); International Monetary Fund (IMF); \*IMF estimates.

## 5. Transformation management

### 5.1 Level of difficulty

Lebanon's medium level of economic and human development, relatively high level of education, liberal market structures, basic consensus on the country's democratic and economic development, cultural openness, and solid international relations, as well as the reconstruction of state and civic institutions, initially made for fair to good preconditions for development. In this sense, the level of difficulty must be considered relatively low.

However, Lebanon's extremely difficult political situation as a "hostage" of the Middle East process must be viewed as a heavy burden. While national sovereignty and the state's monopoly of violence in southern Lebanon were reinstated in 2000, the Syrian military is still present in other parts of the country. Democratic freedoms are limited by the influence of Syrian interests. The legacy

of war—a large number of Lebanese refugees, crippling “brain drain,” destroyed infrastructure and the massive debt that resulted from reconstruction—presents a further impediment.

Pronounced religion- and patronage-based structures, which cause losses of efficiency in administration and economic allocation, as well as corruption and social fragmentation, are also problematic. The social fragmentation is intensified by large regional and social disparities. The fault lines of conflict run between the winners and the losers of reconstruction, between the proponents and opponents of the Syrian presence, and between the old and new elites. One problem that should not be underestimated, which affects all efforts to shape policy, is the lack of statistical information.

Because basic demographic data are not collected (for political reasons), the government, civil society and the private sector lack a reliable basis for planning.

## **5.2 Reliable pursuit of goals**

The government is pursuing a consistent and coherent reform policy that gives absolute priority to economic growth. The policy is realistic with respect to the capacities available, the expectations and the time horizon, but the goals and means selected are not always effective. Showing reliability in achieving goals, and thus gaining the domestic private sector’s and foreign investors’ confidence in Lebanese economic policy, are government policy priorities. This is also the idea behind the implementation of “Horizon 2000,” a 10-year development plan that began in 1993 and is aimed at rebuilding the capital city, Beirut.

But Lebanon’s political situation sometimes demands decisions that are contrary to reform. For instance, the continued dispute with Israel over the Sheeba farms and the government’s refusal to secure the border with its own soldiers contradict the economic aim of bringing international investors into Lebanon.

## **5.3 Effective use of resources**

The available resources are not used as efficiently as they could be. The lack of a solid basis of data results in planning uncertainties. The patronage-based structures within the government and within public administration often result in inefficient allocation of resources. For instance, appointments are often politically motivated rather than based on ability or competence, and resources are often allocated based on the system of proportional representation instead of equally and purposefully. Patronage and corruption are closely intertwined. It is estimated

that between 20 % and 30 % of reconstruction monies were illegally privatized in one way or another.

The fight against corruption has so far been unsuccessful, although civic groups and the political opposition as well as the government itself view it as one of the fundamental problems facing the country. The authorities and laws to fight bureaucratic corruption exist, but the bloated administration is scarcely willing to cooperate. Sentences are rarely handed down for corruption, and an existing law on the disclosure of government representatives' financial circumstances has never been enforced.

In other respects, too, the government has only managed to realize part of the reform plans it has announced. For instance, the planned decentralization has hardly been achieved. Public administration is still extremely concentrated in the capital. The critical budget situation also hardly improved during the period of this study although this had been one of the government's goals. On the other hand, the introduction of a 10 % value-added tax in 2002 deserves to be recognized as a positive step. In 2002 alone, the new tax brought the government \$660 million in revenues. Shortcomings remain in the public services, particularly in the social infrastructure and the educational system.

#### **5.4 Governance capability**

Policy-makers certainly recognize the main problems facing Lebanon's economic and democratic development and have focused policy goals on resolving them. In terms of economic policy, the government has the authority and the means with which to tackle and implement reforms—even though external and internal circumstances limit their effectiveness and efficiency. The creation of stable growth over the long term is the top priority that governs all Lebanese economic policy, but the strategies that have been chosen to pursue this aim have many severe weaknesses. There is no targeted program to promote domestic industry and, thus, allow it to fulfill its intended role as the engine for Lebanon's growth.

The economic potential of Lebanon's agricultural sector is hardly being utilized. Social and economic resources are concentrated in Beirut and Mount Lebanon. In this respect, the government needs to take the initiative to improve the allocative efficiency of the markets.

But a socially and regionally balanced development strategy is not a priority of Lebanese reform policy. Instead, the government is focusing on pushing forward Lebanon's economic development and reducing the mountain of debt by decreasing regulation and increasing privatization. But it is doubtful whether these moves will be enough to balance the budget and put the country back on

track for growth. Particularly with respect to social exclusion, the government's restraint is more likely to hinder development than drive it.

With respect to Lebanon's continued democratic development, the government has far less leeway. Lebanon is still under de facto Syrian occupation. Although Syrian troops have pulled out of most of the country, Syria still exerts considerable political influence in Lebanon. Lebanon's political elites base their positions largely on their relationship with the power center of Syria. Although Syria came under increased international pressure regarding its continued presence in Lebanon after Israeli troops withdrew from southern Lebanon, it still looks unlikely that the situation will change in the near future. The division among the Lebanese political class with respect to ties with Syria is highly problematic.

### **5.5 Consensus-building**

The government's role as an integrative, consensus-building power takes a back seat to the dynamics inherent in Lebanese society. For instance, none of the key political decision-makers in Lebanon questions the aim of "market-based democracy," although there is significant disagreement on just how it should be achieved and exactly what form it should take. In the same way, the Lebanese today hardly question their identity as citizens of Lebanon despite deep divisions regarding the nation's historical and cultural identity. First on that list is the question of whether Lebanon is an Arab country.

After 15 years of civil war, it is clear to everyone involved that consensus, reconciliation of interests and cohesion within Lebanese society are essential to the nation's survival. Nobody wants to risk a second civil war. In this sense, there are no vetoing agents. This basic consensus is reflected in the general amnesty that was declared at the end of the war, in which the parties agreed to end the war "without winners and without losers." Numerous civic leaders are now working to establish new forms of social organization and new communities of interest apart from the traditional religious order.

The media play an important role in these efforts. All major television and print media today serve a religiously mixed audience and readership, even though each does have its own areas of emphasis, which are generally tailored to certain members of the political elite. There is a state-run radio and television broadcaster, but it is chronically underfunded and comparatively unsuccessful. The political elites are aware of the need to modernize Lebanese society, but their scope for action is limited—for they, too, are dependent on their patronage-based networks and supporter groups.

Because one always turns to one's own "community" first in any situation of uncertainty, which includes situations such as looking for an apartment or applying for a stipend, loyalties will inevitably remain split at best. In light of the complexity of the religious system in Lebanon, secularizing Lebanese politics does not seem practical at this time. However, the denomination-based system in Lebanon also serves as a guarantor of pluralism.

## **5.6 International cooperation**

Lebanon cooperates intensively with bilateral and international donors. Lebanon is currently in negotiations for WTO membership, and an EU Association Accord was signed and ratified in 2002. Lebanon is also seeing some success in its efforts to gain financial support from the IMF, the World Bank and the international donor community within the Paris II Conference negotiations. The international community recognizes the Lebanese government's reform efforts and thus views the government as reliable and predictable. Lebanon's successful implementation of measures to combat money-laundering activities as well as its cooperation in fighting terrorism have bolstered confidence in Lebanon's willingness to cooperate. However, the IMF has explicitly criticized the lack of data, as it makes consultative cooperation difficult. The EU's main criticisms relate to shortcomings on human rights issues.

Lebanon's cooperative relations with its immediate neighbors are much more complex. Although public criticism of Syria's dominance is increasing, the government has not yet been prepared to enter into open confrontation on the issue. Lebanon's relationship to Israel remains tense. In October 2002, renewed disputes about the use of water resources near the Israeli border flared, and international mediation was necessary. Lebanon's integration into the regional system of states has been stable and successful on the whole. Evidence of this is Lebanon's role as the host of the Arab League's March 2002 summit.

## **6. Overall evaluation**

This report comes to the following conclusions with respect to the baseline conditions, current status and evolution, and political management achievement on the part of key decision-makers (management):

(1) *Starting conditions*: The baseline conditions must be viewed as ambivalent. Despite the war, Lebanon had a well-educated population, entrepreneurial capital, open market structures, a good international network, state and civic structures that were well on their way to being functional again (albeit with regional and efficiency-related limitations), and the most important parts of its infrastructure.

However, these initial conditions were at first clouded by the continued Israeli occupation of southern Lebanon and remained so due to the continued Syrian presence, the religious fragmentation of the political and administrative systems, severe social inequalities including extreme poverty, and the massive national debt and current account deficit.

(2) *Current status and evolution:* With respect to democratic development, several reforms were implemented to improve efficiency, accountability and decentralization as well as cooperation with civil society. However, substantial shortcomings remain in each of these areas. The indicators still do not reveal marked improvements. The same lack of qualitative progress applies to Lebanon's economic development. The institutional framework for free-market activity was already highly developed at the outset of the study and was further improved in some respects.

(3) *Management:* The verdict on the decision-makers' relative management achievement is ambivalent. Although the indicators suggest stagnation in both economic and democratic development, reasonable efforts were made in both areas. Improving administrative efficiency, fighting corruption and reforming democratic institutions—for instance, by re-establishing the local level of government and reforming the judiciary system—received the necessary attention, and initial steps have been taken in many respects. On the whole, and in light of the external conditions and the government's priorities, it is doubtful that the government will be able to fulfill the goals it has set for itself.

Management in terms of macroeconomic stabilization was consistent and goal-oriented, although success remained elusive for the most part. Initial steps toward consolidating the state revenue base, e.g., introducing a value-added tax, were implemented successfully. Development potential in the industrial and the agricultural sectors was not utilized. And maintaining a social, regional and ecological balance in development was severely neglected.

## **7. Outlook**

The key strategic challenges that must be overcome in the medium term with respect to democratic and free-market reforms include improving the institutional efficiency of public administration, improving accountability, stepping up the fight against corruption, reducing the national debt, stabilizing the state's revenue base, reducing social inequalities and poverty, using the resources of the industrial and agricultural sectors that are currently lying fallow, and ensuring the sustainability of Lebanon's economic development.

At the very least it is questionable whether Rafiq Hariri's fourth cabinet's policy of economic expansion, privatization and liberalization will be able to accomplish these tasks. Regarding Lebanon's further democratic development, it is feared that Syria's influence and the influence of the financially powerful Gulf States will have more of a negative impact than a positive one.