

INSIDER VIEW

Lebanon

MONDAY, SEPTEMBER 20, 2004

Discovering the Pearl of the East

ECONOMIC REVIVAL IS UNDER WAY IN LEBANON, WHICH IS EMPLOYING ITS TRADITIONAL FLAIR FOR ENTERPRISE TO REESTABLISH ITSELF AS A PLATFORM FOR BUSINESS IN THE REGION

LEBANON sits at the heart of the Middle East. Bordered by Syria, Israel and the eastern Mediterranean sea, it is a land of great natural beauty with a rich and diverse culture, once known as the Pearl of the East.

The strategic position of Lebanon, its traditional expertise in banking, and the business ability of its people make it well placed to serve as a regional and international center for trade, finance, services, and tourism.

The economy has recently benefited from a substantial increase in exports, a significant increase in the number of tourists, and an influx of capital into the country. GDP rose by nearly 3% in 2003, and is forecast to do the same in 2004.

According to President Emile Lahoud, "Lebanon is capable of generating sustained growth, because it has maintained its historic free market orientation based upon minimal state intervention, unrestricted capital movement, a

fully convertible currency, and a high degree of openness."

In the almost 15 years since the end of the civil war, remarkable progress has been made in rebuilding the country's political institutions and its economic and physical infrastructure.

Minister of Economy and Trade Marwan Hamadé says

Lebanon has regained its independence and security, and it is now one of the safest countries in the region. "Over the last ten years, the country has become a stable business platform for the Middle East," he declares. "Beirut remains the city of choice for the Arab investor and tourist."

The government is pledged to economic and financial reforms agreed at the Paris II conference in 2002 in return for help in dealing with Lebanon's sizeable domestic debt. Support from international donors has boosted investor confidence, and foreign direct investment—particularly from Arab states—is on a markedly upward trend.

Minister of Finance Fouad Siniora admits the process of



Lebanon's capital Beirut is a vibrant, cosmopolitan city where Western and Middle eastern cultures meet

reform is challenging, but adds that willingness to adapt is a characteristic that differentiates Lebanon from other states in the neighborhood. "Terrific changes have been going on. The country feels dynamic, and ultimately the economy will gain."

Human resources are widely recognized as being among Lebanon's greatest assets, and the Lebanese have a well-established reputation for enter-

prise. "We have to be creative because this is a small country and to compete you have to come up with ideas," says Minister of Industry Elias J. Skaff. "We have good companies and good quality products, such as our wine and olive oil."

An association agreement with the European Union has been ratified, and current negotiations are expected to result in Lebanon becoming a full member in the World Trade Organization (WTO)

in 2005. In preparation, the government is in the process of modernizing the country's laws regarding intellectual property, agriculture, competition, trade, and antidumping.

Lebanon is a signatory to the Arab Free Trade Area Agreement (GAFTA), and, in an effort to eliminate trade barriers and speed up Arab economic integration, has signed trade deals with Syria, Egypt, Iraq, Jordan, and the United Arab Emirates.

FACTS & FIGURES

POPULATION
3.7 million

AREA
4,500 square miles

CURRENCY
Lebanese pound (LBP)

EXCHANGE
US\$1= 1.5 Lebanese pounds

CAPITAL
Beirut

GDP
purchasing power parity
US\$17.8 billion
(2003)

GDP GROWTH
3% (2003)

EXPORT COMMODITIES
Jewelry, foodstuffs, chemicals, consumer goods, fruit, tobacco, metal, electric equipment, paper

NATURAL RESOURCES
Limestone, iron ore, salt, water, arable land



Gaming



Dining

Luxury, magic,
and endless delights...



Entertainment



Banqueting

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Lebanon

INTERVIEW

President Emile Lahoud



How would you evaluate the part that Lebanon plays in the region?

Lebanon has always played an important role as an example of a pluralist and democratic society in the Arab world. We attach great importance to the supremacy of law, media freedom, and civil liberties.

Lebanon has a free market economy. It is an important center for economic services and a vigorous place of ideas.

It embodies Christian-Muslim coexistence, cooperation, equality, and mutual respect. It has enhanced dialogue between Christianity and Islam at critical junctures and provided a forum for East-West interaction. Lebanon represents an example of cultural dialogue to the modern world.

What makes Lebanon a good place to invest?

The fundamentals for any investment exist in Lebanon, and creating investor confidence is our main objective.

Our political system is similar, to a large extent, to the political system in Western countries. Our judicial system and various codes are also similar to those found in the United States and the European Union, and we have a constitution that safeguards democracy and guarantees liberty and human rights.

Why is membership in the World Trade Organization important to Lebanon?

The WTO is one of the central pillars of international cooperation. It is contributing greatly to liberalizing world trade and improving market access, and is a major driving force for global economic growth, job creation, and wider consumer choice. For all these reasons, Lebanon is working to be a member of the WTO.

PROMOTION CAMPAIGN URGES THE WORLD TO 'REDISCOVER LEBANON'

Challenging outdated preconceptions

LEBANON possesses many of the advantages required to create a positive image in the world. It is one of the most open Arab states, with a free market economy, a stable political system based on parliamentary democracy, and a long tradition of freedom of speech and expression.

The Arab world has already rediscovered Lebanon as a safe and attractive place for vacations and business and is pumping in hundreds of millions of dollars in investment.

Beirut's status as an important regional center has been recognized by being chosen as the venue for two high-profile international events: the 2002 summit of the Arab League and the OPEC Conference in June this year, the first time the latter has been held in a non-OPEC country.

Minister of Information Michel Samaha says Lebanon is the region's most secure state. He points out that Interpol recently placed the country before many European nations in terms of internal security.

Outdated images of the war-torn Lebanon of the 1970s and 1980s linger in the West, however. According to Mr. Samaha, the government aims to enhance awareness of the country, "so that Americans and others are able to see clearly and perceive the real Lebanon."

A year-long promotional campaign on the international news channel CNN entitled "Rediscover Lebanon" is intended to challenge preconceptions about the country and showcase it as a safe and culturally rich destination for tourism.

Lebanon is a long way ahead of other Arab countries in the field of media freedom. The printing and publishing industry flourishes, and

Lebanon's 12 daily newspapers and more than 1,500 weekly and monthly periodicals demonstrate a free and liberal press. Lebanon was also the first Arab country to permit private radio and television stations.

"The state is not interventionist with the media," says Mr. Samaha. "We respect factual accuracy, and people have the freedom to know, to think, to express themselves, and to get information by a variety of means."

Projecting a positive image of Lebanon and other Arab nations is a priority for the new satellite channel Arab News Broadcast (ANB).

"We have identified the need for a non-political channel to promote the Arab world," says Chairman and Managing Director Boutros El Khoury. "Our aim is to show Americans and Europeans the positive side of the Middle East."

ANB will feature world news, in-depth coverage of Pan Arab events, and economic, business, and finance programs, along with infotainment shows aimed at Arab families.

"We will enter into the life of people in each country and show the daily life, what is produced there and the tourist attractions," Mr. El Khoury explains. "Our aim is to attract visitors and investors."



MICHEL SAMAHA
Minister of Information



BOUTROS EL KHOURY
Chairman and Managing Director of ANB



United Nations Secretary-General Kofi Annan (left) meets Prime Minister Rafiq Hariri at the 2002 Arab summit

Private sector seen as the engine of revitalized economy

DEVELOPMENT of the private sector is vital for Lebanon to reach its desired level of sustainable growth. Well-diversified, and comprised mostly of small and medium-sized businesses, the sector offers openings for investment in areas ranging from agro-industry, wine, and fashion to cement, fertilizers, electric cables, and printing.

"There are hundreds of companies geared for export, and they are world standard in what they do," says Fady E. Abboud, President of the Association of Lebanese Industrialists. "There are plenty of opportunities that investors need to investigate. We want to attract industrialists from Europe and the United States."

Industrial activity currently accounts for around 20% of Lebanon's national product, with agriculture accounting for 10% and the service, banking, and financial industries for around 70%.

Mr. Abboud is very optimistic about the future of the industrial sector. "We have the ability to take the most modern production lines and run them efficiently," he says. "We have competitive and comparative advantages, and exports are increasing."

Lebanon's telecommunications



JEAN LOUIS CARDAH
Minister of Telecommunications

industry, a key facilitator of economic growth, is currently undergoing a process of liberalization. "The objective is to shift from a state monopoly to a liberalized market, opening the door for any private sector investor to come and invest in any new technology," says Jean Louis Cardahi, Minister of Telecommunications.

A telecommunications regulatory authority is being established, which will be responsible for licensing operators, regulating the market, and monitoring compliance

and quality of service. The private sector is already the catalyst for development of the country's fast-growing IT industry.

Meanwhile, work is continuing on development of the physical infrastructure needed to support economic growth. Solidere, the Lebanese company responsible for the development and reconstruction of Beirut's central district, is rebuilding offices, shops, and homes that will cover some 4.7 million square meters of space in the capital city.

Maher Y. Beydoun, Solidere's Vice Chairman of the Board of Directors, says, "We have ambitious plans and we are seeing more and more development projects taking place every year."

FOREIGN RELATIONS. LINKS BETWEEN LEBANON AND THE UNITED STATES GO BACK A LONG WAY



The United States is Lebanon's fourth major trading partner

Traditional ties with U.S. remain strong

AROUND two million American citizens are from a Lebanese background. The Lebanese diaspora is the largest Arab emigre community, comprising millions of people scattered across the globe. That it is particularly large in the United States is a reflection of just how much the Lebanese and American peoples have in common.

The U.S. government is eager to maintain the traditionally close links between the two countries, regarding the existence of an independent, sovereign, unified Lebanon as strategically important.

President Emile Lahoud attributes U.S. support not only

to humanitarian concerns and historical ties but, in particular, to the example that Lebanon offers to the world.

"The United States understands that a peaceful, prosperous, and stable Lebanon can make an important contribution to global comprehensive peace in the Middle East," he says.

Minister of Information Michel Samaha reinforces the point. "Lebanon's security is important for regional stability, and for putting a major obstacle in front of extremism in the region."

Vincent M. Battle, who retired as U.S. Ambassador to Lebanon last month, acknowledges that events in the

Links between Lebanon and the United States go back 150 years

Lebanon



Middle East have presented a challenge to the relationship. However, he insists that the 150-year-old bonds between America and Lebanon are strong.

"They have prevailed because our long-standing educational, cultural, commercial, and personal ties have allowed us to exchange views, acknowledge differences, and work toward common goals," he says. "In the Middle East, those common goals are peace and prosperity."

In 2003, Mr. Battle undertook a seven-city tour of the United States to promote investment in Lebanon's economic revival. "The opportunities in Lebanon are tremendous, and we in the United States would like to be a partner in this awakening," he explains.

The former ambassador believes Lebanon is perfectly positioned to benefit from American projects and promote economic growth and democracy in the region, such as the U.S.-Middle East Partnership Initiative and plans to establish a U.S.-Middle East Free Trade Area.

The U.S. Agency for International Development is working on more than a thousand projects across Lebanon to expand economic opportunity, strengthen good governance, and improve environmental practices.

The United States is assisting Lebanon in its negotiations for membership in the WTO. It is Lebanon's fourth major trading partner, behind Switzerland,

Saudi Arabia and the United Arab Emirates.

U.S. imports from Lebanon are mostly limited to food and beverages, while Lebanon imports American-made goods ranging from cars and computers to clothes. In September 2003 the first-ever U.S. Trade Fair was held in Beirut to promote American environmental and energy products.

More than 160 offices representing U.S. businesses currently operate in Lebanon. Large U.S. companies that have opened branch or regional offices include

American Airlines, Coca-Cola, General Electric, Cisco, and Microsoft.

Salim J. Zeenni, President of the American-Lebanese Chamber of Commerce, says, "U.S. companies have always been here, and this is continuing. Lebanon will always be the place

to make business in this part of the world.

"In 2002, there was over \$100 million of foreign direct investment in Lebanon. Compared to other countries in the area where the U.S. has a lot of interests, we are definitely on top, especially if we compare GDP per capita."

Jean Obeid, Lebanon's Minister of Foreign Affairs and Emigrants, stresses the common ground between the two countries. He says, "We share many human, political, religious and moral values; freedom, democracy, tolerance, etc. We shall maintain all these common values and strengthen our bilateral relations."



JEAN OBEID
Minister of
Foreign Affairs
and Emigrants

FINANCE. LEBANON IS ON THE WAY TO REGAINING ITS STATUS AS A BANKING AND FINANCIAL HUB

Providing services to the region is the way ahead for banks

UNPRECEDENTED growth in Lebanon's banking sector has raised the prospect of Beirut once again becoming an important financial services center in the region.

Over the last ten years, the sector has grown by eight to 10 times, outstripping the growth of the economy. With limited opportunities for further growth at home, Lebanese banks are looking for business elsewhere and turning their attention to regional deployment.

The financial soundness of the banks has been an important factor in Lebanon's economic revival. However, Makram Sader, Secretary General of the Association of Lebanese Banks, says the sector has simply grown too big for the economy.

"We have total assets of \$60 billion, compared with a GDP of \$18 billion. This presents us with a challenge. If our economy is unable to absorb all these resources and capabilities, we have to start exporting our banking services."

The obvious course for the future is to open branches in countries where the banking industry is not developed, such as Syria, Jordan, Sudan, Algeria, and post-war Iraq, and to form strategic alliances with the large regional banks of Bahrain, Egypt, and Saudi Arabia. In addition, the banks are supporting Lebanese



The banking industry has grown much faster than the economy

industries that are export-oriented and assisting the Lebanese expatriate business community in Africa and Latin America.

"We have restructured our

banking sector at all levels—human resources, internal organization, information systems, and communication tools," explains Dr. Sader. "We

follow international standards and principles. We are well-equipped to look beyond the Lebanese economy. If we stay within its limits, we condemn ourselves to limited and narrow growth in the future."

Riad Toufic Salamé, Governor of Banque du Liban, Lebanon's central bank, notes that exporting banking services will have a positive effect on Lebanon's balance of payments and on employment. "The expansion we most encourage is one that keeps the banks geographically near their headquarters, which means in the Arab countries and occasionally in Europe."

Blom Bank, Lebanon's leading bank in terms of deposits and total assets, has recently extended its activities to Syria and Jordan, adding to its presence in the Gulf and in Europe. "This is a natural market for us," says Vice Chairman and General Manager Saad Azhari.

The first Lebanese bank to expand into the region, the Societe Generale de Banque au Liban (SGBL), is looking at extending its activities to Iraq. "We are trying to follow our clients who are interested in doing business there," says the bank's President Director General, Maurice Sehnaoui. "Potentially, it is a very big market."

Farid Raphael, President Director General of Banque

Continued on page IV

Banks of Lebanon

THE GUARANTEE OF
LEBANON'S FINANCIAL STABILITY



SOCIETE GENERALE
DE BANQUE AU LIBAN



بنك لبنان والمهجر
BLOM BANK



LEBANESE
CANADIAN
BANK

HSBC

Banque Audi
sal



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IV

Lebanon

Regional expansion
the way ahead

Continued from page III
Libano-Francaise (BLF), stresses the adaptability of the sector. "The sector adapts constantly to the evolution of the situation, locally or regionally. The banks have to consolidate by merging, then through regional expansion."

The sector currently comprises around 60 banks. Consolidation would create larger national entities better positioned for regional expansion. One of the most significant mergers took place earlier this year between Banque Audi and Banque Saradar to create the Audi-Saradar Group.

Raymond Audi, Banque Audi's Chairman, describes the merger as being in perfect harmony with the strategic orientation of the bank. "It reinforces our regional activity expansion policy."

The importance of catering

to the Lebanese diaspora is emphasized by Georges Zard Abou Jaoudé, Chairman and General Manager of the Lebanese Canadian Bank, which recently opened a representative office in Montreal, Canada.

"Our aim is to serve the Lebanese diaspora," avows Mr. Jaoudé. "Our objective for the next five years is to establish our services wherever the diaspora is to be found."

Mohammed Al Yahya, Chief Executive Officer of HSBC Bank Middle East, points to increased investment by Lebanese expatriates and from other Arab nations. He says, "I have seen a lot of investment coming from outside the country, especially from the Middle East. It is a good sign of the stability of the country in terms of the economy and of security."



MAKRAM SADER
President of the Association of Banks in Lebanon



Use of cards and automated teller machines is being encouraged

TOURISM. WINTER SPORTS AND WESTERN-STYLE NIGHTLIFE AND ENTERTAINMENT ADD TO LEBANON'S APPEAL

Visitor numbers top a million
as tourism industry takes off

FROM Mediterranean beaches to snow-capped mountains, Lebanon has much to offer the visitor, and its mild climate and natural beauty attracted more than a million visitors last year.

Tourism, which once accounted for 20% of Lebanon's GDP, is beginning to make an important contribution to the economy again, with visitors from other Arab states and the Gulf leading the way.

Minister of Tourism Ali Houssein Abdallah says tourism is "Lebanon's petroleum." He adds, "In fact, it is better than petroleum because it is a durable resource that we have to maintain and develop."

Lebanon offers a range of vacation activities, from leisure and sporting to cultural, religious, and therapeutic. It is the only country in the region where visitors can find Western-style nightlife and entertainment facilities, and the only one with skiing and winter sports.

"We benefit from a climate that allows summer tourism with pleasant temperatures and winter tourism in the mountains from mid January until mid April," says the minister.

A giant new resort, Sannine Zenith, covering 1% of the country, is due for completion in 2010

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ELIE GHORAYEB
Chairman and GM of Casino du Liban

at a cost of \$1.4 billion. The resort will offer skiing, hiking, mountaineering, camping, basketball and tennis, two 18-hole golf courses, an international sports academy, and swimming and diving pools.

Business conferences and professional exhibitions are staged throughout the year in Beirut, which is rapidly reestablishing its reputation as the "Riviera of the Middle East." The city's most successful conference center is the luxury

Phoenicia Inter-Continental Hotel. Restored and reopened three years ago, the hotel hosted both the 2002 Arab summit and the OPEC conference in June.

To the north of the capital, another famous Lebanese attraction, the Casino du Liban, is drawing thousands of tourists to its gambling rooms, restaurants, and shows.



CASINO DU LIBAN
Casino du Liban is one of the region's foremost gambling and entertainment centers

Since reopening in 1996, after extensive reconstruction and refurbishment, the casino has regained its place as one of the foremost entertainment centers of the Middle East. As well as gaming and dining, the casino has a 1,015-seat theater which hosts a wide variety of plays, music, and dance as well as opera, ballet, and jazz.

Elie Ghorayeb, Casino du Liban's Chairman and General Manager, has good reason to feel optimistic. "We had revenues of about \$85 million in 1999, and almost \$125 million last year, and we are hoping that tourism will keep on increasing and have an even bigger influence on our results."

U.S. airline would make a perfect
partner for national carrier MEA

MOHAMAD A. EL-HOUT, Chairman and Director General of Lebanon's national carrier, Middle East Airlines (MEA), believes the country's tourism industry has much greater potential to realize.

More visitors will come if Lebanon can succeed in projecting a more accurate image of itself abroad, he says. "We want people to come and see Lebanon. They will enjoy themselves and we would like to receive them here."

Lebanon's open skies policy has boosted the popularity of Beirut International Airport as a hub for airlines, and passenger traffic has increased steadily and significantly.

MEA has concentrated its network on the most profitable areas for business or tourism travel, including daily flights to all major cities in the Gulf region. "As for people coming from the United States, we have three flights per day to Paris," says Mr. El-Hout. "We have an alliance with Air France and we also have agreements via London with American and British companies like Continental, Delta, and Virgin. Where there is demand, we will increase our capacity."

MEA is among the region's most experienced airlines, and operates one of the most modern and luxurious fleets in the world. The



MEA
One of the region's most experienced airlines, MEA operates a modern, luxurious fleet

company is due to be privatized at some point in the future, and in the meantime is continuing to improve its productivity and level of service. "We are prepared for privatization but we are not in a hurry. We will choose the best partner for MEA, for the employees and for the Lebanese economy."

Ideally the airline would like to find an American investor. "There is big potential here for an American airline," insists Mr. El-Hout. "Lebanon is a major hub. We have a very modern airport and you can connect to any point in the Arab or Gulf region."



MOHAMAD A. EL HOUT
Chairman and Director General of MEA

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