

Exiting Trade Deficits: Does Lebanon Have What it Takes?



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Introduction

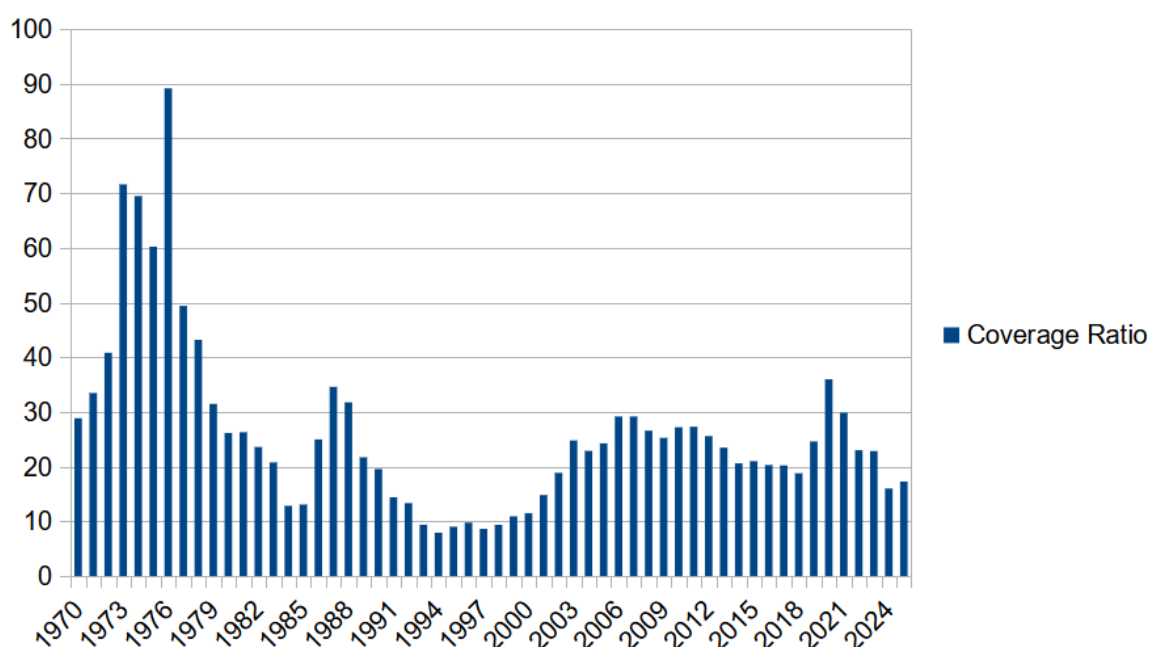
In the popular imagination, Lebanon is a country that has no resources, and the Lebanese state is a state that lacks ‘fundamentals’. Hence, Lebanon cannot be self-sufficient, and must rely on the outside world. However, the facts say otherwise, and the real story of Lebanon is completely different. Lebanon has the potential to be an industrial nation, and despite the fact that it has never been like that since its modern establishment in 1920, the Lebanese economy has every capability to transform to a real productive economy instead of rentier one, and to rely on local manufacturing instead of external sources like remittances and foreign aid. So how can Lebanon reverse its chronic (goods) trade deficits? How can its economy transform to an export-oriented economy? What resources does Lebanon have? What real assets does the Lebanese state possess? Can the Lebanese state emerge from financial bankruptcy without relying on external support, or the backup from International financial institutions? This note tries to show the way forward. It is worth mentioning that we are going to exclude any discussions of oil and natural gas reserves which Lebanon potentially own in the Mediterranean basin, as these reserves have not yet been proven.

Overview

Since its establishment in 1920 (Greater Lebanon), the Lebanese state has maintained a perpetual trade deficit in goods (what we refer to as trade deficit throughout the note), and has never had a positive trade balance in any given year. Even in the late 1960s and early 1970s, when sharp spikes in oil prices increased the demand for Lebanese products from the Gulf, Lebanese exports failed to outpace imports, even during its industrial peak in 1976 when the exports (to imports) coverage ratio stood at roughly 90%, as shown in the Figure 1 below. After the Civil War, and starting in 1990,

reconstructing a destroyed country widened trade deficits drastically. Lebanon also adopted an open market policy which widened the door for foreign imports and intensified consumers' reliance on foreign goods. As such, up to 85% of consumed goods were imported, to the extent that trade deficits peaked in 2017 reaching 20.3 billion dollars. Lately, exports have witnessed an improvement and a notable jump, as it also coincided with the election of new president and formation of new government in early 2025, and with the subsequent reforms and revival in Lebanon's regional relations. However, the improvement is far from eliminating the trade deficit, as the trade deficit reached 17.44 billion dollars in year 2025.

Figure 1: The Export-To-Import Ratio in Lebanon (1970 to 2025)¹



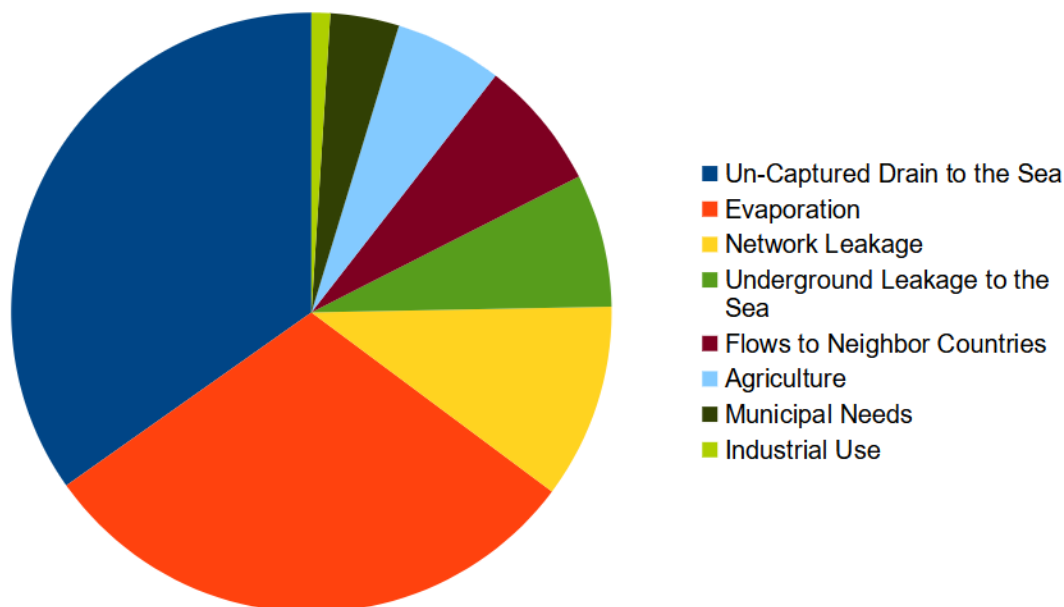
¹ The export-to-import ratio is known as coverage ratio. It is an economic metric that divides the total value of a country's exports by the total value of its imports. A ratio above 100% means trade surplus, a ratio below 100% means trade deficit

Natural Resources: Water

Just as Lebanon was once called ‘Switzerland of the Middle East’, it also was named ‘Reservoir of the Middle East’. Lebanon is among the richest country in the region in natural water resources. It receives an average of 8.6 billion cubic meters (BCM) annually of rain and snowmelt, and as per the Ministry of Energy and Water estimate, 30% of it evaporates back into the atmosphere, 7% of it leaks to the sea from the underground, and 7% of it on the surface flows to neighbouring countries. Eventually, near 4.8 BCM is left as exploitable water. Worth mentioning here that this equals roughly 80% of the total desalinated seawater per year in Gulf Cooperation Council countries that supply their municipal and drinking water needs². However, the shocking truth is that Lebanon annual revenue from selling bulk water is zero. Lebanon only produce bottled water that is roughly 0.0007 to 0.0008 billion cubic meters annually, and that is largely sold in the domestic market. According to World Bank data, Lebanon annual water withdrawals are only 1.81 BCM, 55% of which is used for domestic agriculture, 35% for municipal needs, and 10% for industrial use. The second shocking truth is that over half this whole supply is lost due to network leakages before reaching consumers. And even though the Lebanese state owns four regional public water establishments, Lebanon suffers from poor infrastructure, pollution due to lack of waste treatment (like sewage and farm chemicals and factory waste), and from government mismanagement. In addition, and due to shortage of electricity, the government fails to reliably pump water to homes. Not to mention the fact that water itself can be used to produce electricity. Ultimately, Lebanon loses this priceless treasure draining to the Mediterranean Sea. France is the top global water exporter for combined drinking water and sanitation, and it sells the cubic meter for 5.10 dollars. Based on such a figure, and if Lebanon would retain and sell only the water lost after withdrawal due to network leakage, which amounts to 0.9 BCM (see Figure 2 below), this will yield 4.59 billion dollars per year as exports revenue. As important, this number is enough to shift gears in the trade balance of Lebanon.

2. Based on data collected from Fanack Water Platform. KSA produces and refines approximately 2.9 BCM of desalinated seawater per year, UAE 1.9 BCM, Kuwait 0.6, Bahrain 0.3, Qatar 0.22 and Oman 0.196

Figure 2: Lebanese Water Budget Breakdown



Natural Resources: Land

Talking about the real assets of the Lebanese state that can be exploited to support the trade balance, the Lebanese state owns up to 25% of Lebanon's total land: 27% of it is tied to public institutions, 21% is a Public Domain³. This leaves 52% of the quarter of Lebanon's total land as Amiri Land⁴. Around 80% of this land is in the Bekaa and Akkar, in farming and agricultural regions. As per the World Bank, 65.9% of total Lebanese land is classified as agricultural land; however, up to 23% only of total Lebanese land is an actual arable land that actively generates agricultural output. And keeping in mind that the vast majority of agricultural land in Lebanon is held under private ownership, this means that the vast majority of Amiri Land is not active and not generating agricultural output. Lebanon's total raw and processed crop exports average between \$200 million and \$400 million annually. And adding livestock to it, the number reaches roughly \$747.5 million USD. If the Lebanese state would fully or partially invest the Amiri lands it owns in crops and livestock, it will be capable of

³Public Domain includes natural resources and public goods meant for collective use, such as sea shores, riverbeds, lakes, and public roads

⁴Amiri land is a category of state-owned real estate where the state holds ultimate ownership, but private individuals or groups hold a legal right to use, farm, or exploit the land

boosting this number very largely. However, today, and despite all these capabilities, Lebanon still imports roughly 80% of its total food and agricultural consumption needs

Industry

The Lebanese state may build or facilitate the building of factories on the land it owns to support local manufacturing and Lebanese industrial output. Industry is the mainstay of Lebanese exports. Official reports state that the country's total industrial and manufacturing exports reach up to \$4 billion. Major manufacturing contributors include precious stones and jewellery, electrical equipment like wires, switches, and electrical appliances, chemical products like cosmetics, pharmaceuticals, and plastic goods. Thousands of private facilities and factories function and are dispersed across residential or mixed-use areas. Dedicated industrial zones occupy a tiny fraction estimated at less than 1% to 2% of Lebanon's total land area as per Ministry of Industry. Besides, the Lebanese state does not own or operate manufacturing facilities or factories that produce industrial goods for either exports or domestic use.

Funding

That said, maybe the first question that comes to mind is that how can a bankrupt state which is reeling amid the biggest financial crisis in its history accomplish all these projects? How can water pollution and waste be properly treated? And how can maintenance of poor water infrastructure be run? How can the state build and run industrial factories? How can it reclaim and operates agricultural land? How can all this be done without the support of the international community? The reality is that Lebanon has many options that can be relied on to secure funds or accomplish intended plans, keeping in mind the financial limitations of the state. The most prominent of which is Public-Private Partnership (PPP or 3P), this tool was used lately to redevelop and reopen René Mouawad Airport in Qlayaat under Build-Operate-Transfer (BOT⁵) model. In this framework, the government and a private company cooperate under a long-term contract. The private company may fund, build and run projects, while government handles rule and law and ensure provisioning the public needs. In most PPP models, once the contract time limit is met, ownership of the asset goes back to the state.

⁵Build-Operate-Transfer model is a contractual arrangement where a private entity builds a facility, runs it for a set period to recover costs plus, and then transfers full ownership and control to the government

Another option is creating a Sovereign Fund, where the state may use savings built from taxes. This does not necessarily require raising taxes or imposing new ones and burdening the Lebanese people with additional taxes; rather saving a portion of existing tax revenues in a fund dedicated to certain projects. This can also be further supported by crowdfunding, where the state may invite everyday citizens to invest small amounts of money in local projects.

The state has also many policy tools to stimulate investments from the private sector in industry and agriculture. Tools such as specialized tax incentives, interest incentives, launching awareness campaigns, and financial support from specialized funds previously mentioned.

Conclusion

Of course, all these suggested options require regaining citizens trust in their state, establishing lasting peace and restoring security conditions, in addition to eliminating corruption and upholding the rule of law and accountability, in other words a state of good governance and citizenship. Of course, borrowing from the international community, bonds issuance, and foreign direct investment, are also ways that help to get us where we want, provided we meet the conditions of the international community, implementing reforms, and restoring investors' confidence. But, above all and more importantly, we can see that Lebanon is a very rich country, and that if coupled with a capable state, it has the potential to rise to become a developed, well-governed country.

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