

The Middle East and the New Global Economy: The Drive for Competitiveness, Skills and Innovation

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Introduction to the Series

Economic performance in the Middle East is increasingly connected to global trends and policies. The region has experienced the economic slowdown through a variety of channels, including commodity price and export market volatility and declining tourism and investment. While specific policy priorities during the global recovery will vary across the Middle East, nearly every country in the region must meet the challenge of diversifying its economy to stimulate new, innovative markets and sources of growth. As this entails moving toward greater competition in new global markets, it is certain that the Middle East will play an increasingly significant role in future global economic stability.

Following from our successful online interview series which began last fall – “Food, Fuel, and Finance: How Will the Middle East Weather the Global Economic Crisis?” – the Middle East Youth Initiative (MEYI) turns once again to our network of scholars to ask how the region is faring. Have chronic unemployment challenges in the region been exacerbated by the economic slowdown? Has the global crisis forced a rethinking of development strategies in the region? Have ambitious programs been put on hold due to declining revenues from commodities, investment, exports and tourism?

Part 3: Economic Recovery and a New Government in Lebanon

An edited transcript of a discussion between Tarik Yousef and Jad Chaaban on the economic situation in Lebanon follows. Chaaban is assistant professor of economics in the department of agricultural sciences at the American University of Beirut and author of “The Costs of Youth Exclusion in the Middle East,” Middle East Youth Initiative Working Paper 7 (Wolfensohn Center for Development at the Brookings Institution and the Dubai School of Government, 2008).



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Lebanese Economy Largely Resistant to Global Shocks

Tarik Yousef: In May of this year, you spoke with MEYI [Middle East Youth Initiative] Director Navtej Dhillon and gave an initial assessment of how Lebanon was faring in the midst of the global economic slowdown. You indicated that Lebanon's strong and heavily regulated financial sector was mostly shielded from the crisis, but predicted that the real economy might see a decline in remittances, which would in turn affect real estate investments and Lebanon's important construction and telecommunications sectors. Recently, the IMF [International Monetary Fund] published a note entitled "[Resilient Lebanon Defies Odds In Face of Global Crisis](#)" projecting that Lebanon could grow faster in 2009 than previously predicted. What is your current assessment of how Lebanon has fared in weathering the crisis so far, and what are its future macroeconomic prospects?

Jad Chaaban: As you mention, growth in Lebanon [in 2009] is predicted by the IMF and several other institutions, such as private banks working in Lebanon, to be between 6 and 7 percent. That is a pretty good number for this year, especially since we are still in a global financial crisis.

There are many reasons why Lebanon is still faring pretty well compared to other countries. The one essential factor this year was that there has been some kind of stability in political terms and also on the security front. We had a very good tourist season with a lot of Lebanese immigrants and international visitors coming in: about 2 million visitors in 2009 compared to 1.3 million in 2008.

You also have to add that, due to the stable financial system and the stable banking system in Lebanon, we still have very good inflows coming in... The balance of payments surplus now is almost \$3.3 billion for the first seven months of the year. This is double the surplus posted in the same period last year. This mostly comes from petrodollar-rich Gulf countries, where many Gulf investors are still looking to Lebanon as a destination for their investments. Unfortunately most of this is still going to real estate investments and major real estate compounds; although they are good for the Lebanese economy, in the long run they create a certain crowding out of other activities like agriculture and industry.

Lebanese Migration: Costs and Benefits of the "Brain Drain"

Yousef: One of the other important linkages between Lebanon and the Gulf is that of migration. There were some initial concerns in the context of the downturn that we might see a large number of Lebanese migrants returning from the Gulf. However, when



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we spoke previously, you suggested that many of the Lebanese migrants working in the Gulf were not returning to Lebanon in large numbers, partially because they tend to be highly educated and thus seek higher wages than those available in Lebanon. Has this situation changed?

Chaaban: The problem with Lebanese migration is that we do not have accurate numbers on the inflows and outflows, or the movement, of Lebanese workers. One recent estimate was that there were almost 150,000 Lebanese working in the Gulf, most of them being high-skilled workers in Saudi Arabia and the UAE. We have not seen massive returns yet. This is supported by recent research posted by human resource institutions...that interviewed workers and see what their strategies would be if they were fired or if there was any restructuring in their companies. Most of those surveyed did not say that they would return to their home countries. Among the Lebanese in the Gulf, I think that most would search for alternatives in other countries and not necessarily return.

Yousef: Lebanon benefits from this migration in terms of remittances, but what are some of the costs in terms of the loss of human capacity in Lebanon?

Chaaban: For Lebanon, migration is mostly a “brain drain.” Most of our emigrants are highly skilled...I have looked at some numbers concerning Lebanon, but unfortunately they are only published only for [countries in the] OECD. There you find that [70 percent of Lebanese migrants](#) have more than 9 years of schooling, which is very high.

Now, of course, most Lebanese migrate to the Gulf... almost 30 percent of first-time Lebanese migrants abroad are in the Arabian Gulf countries. They send remittances; however, they represent a net loss to our human capital and our workforce, as you said. We are spending a lot in Lebanon on private and public education, but once these people have the right skill set, they migrate. In a way, they are an indicator that we are paying locally for an education which has its returns abroad.

Another interesting thing about the brain drain in Lebanon in positive terms is that there is an increase in the skill stock among Lebanese students because everyone dreams about migrating and finding a job abroad. So, you end up having competition for talent, languages and more education...Unfortunately, we are losing it in the long run, but it has created in the last ten years a huge increase in educational enrollment – especially in universities – and language competencies.

A lot of research has shown that if you lose skilled individuals, you end up having negative growth in the long run. The problem in Lebanon is that growth is still shielded



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by monetary inflows and other inflows from tourism and investments. So, we are not seeing this negative effect on paper. But you can see it in the way, for instance, public sector institutions are not staffed with competent workers and you cannot really find good, creative environments for...knowledge pooling within the country.

It is true that the brain drain has some positive effects: you mentioned remittances. In the case of Lebanon, we were ranked this year by the UNDP as the [second highest remittance-receiving country](#) in per capita terms in the world: almost 23 percent of GDP per capita. Around \$5.8 billion per year comes into Lebanon in the form of remittances.

At the same time, I have looked at some numbers about outward remittances: what are the foreign workers in Lebanon sending back home? The number is close to \$4 billion. Thus, the difference [between inflows and outflows] is not really big in net terms. We are receiving money from our skilled migrants abroad, but we are also paying locally for our unskilled labor, mostly Egyptian and Syrian, and also household workers, mainly women from Sri Lanka, Ethiopia and the Philippines.

There are potential gains through return migration and knowledge transfer – when returnees come, they bring back ideas – but we have not yet seen a big impact from this. The Lebanese economy is dominated by real estate and other financial services, therefore the knowledge transfer from return migrants is not really felt across the board.

Also, inward remittances are spent in Lebanon on domestic consumption. There was a [study](#) done by the European Investment Bank and, while it had a small sample, it showed that 80 percent of remittances was spent on daily expenditures, such as education and health expenditures, and only 20 percent was invested or saved.

Another interesting thing about the role of migration in Lebanon – in positive terms – is that there is an increase in the skill stock among

Lebanese students because everyone dreams about migrating and finding a job abroad. So, you end up having competition for talent, languages and more education. It creates a sort of automatic upgrade of skills among people. Unfortunately, we are losing it in the long run, but it has created in the last ten years a huge increase in educational enrollment – especially in universities – and language competencies.

Migration also decreases unemployment. It is interesting to see that youth unemployment is around 20 percent until 30 years of age, and then it drops to around 11 percent when people get older. This is largely because, in between, people are migrating, which releases pressure on labor markets.



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Overcoming Lebanon's Political Stalemate and Its Effects on the Economy

Yousef: Let us turn now to the current political situation in Lebanon. Prime Minister-designate Saad Hariri has just formed his cabinet and submitted it to President Michel Sleiman on November 9. Did the 5 month-long political stalemate preceding this announcement pose challenges to the Lebanese economy? Second, does the Lebanese political process, in general, change incentives for young people to get involved in public policy or leadership positions?

Chaaban: On your first question...the former government was also paralyzed for almost two years: there were sit-ins in downtown Beirut; the pro-Hezbollah, pro-Syrian group left the government; and, there was the schism between the March 14 and March 8 [coalitions]. At that time, we also had paralysis in the government.

What is a bit funny, in a sarcastic way, is that [during the recent stalemate] the country was still working: we still had electricity, roads, and functioning services. We did not have legislation, and the importance of having a government is in [passing] reforms and new legislation. For instance, there is a need to reform the electricity sector, which is a key sector ...and which has been facing other problems. We are paying \$1 billion per year on electricity in terms of losses and subsidies for the electricity sector, which represents around 5 percent of GDP. This is a huge number.

So, the political stalemate posed risks on the enactment of legislation and also on moving forward for certain key reforms that are needed for the country. However, the way that Lebanon works and has been working for a long time is consociational democracy among political and religious leaders... There is little prospect for any other movement, like a more democratic or more participatory movement to replace this, and that is unfortunate.

This brings me to your second question: what are the prospects for youth to participate or to kind of change this political system? ...There was a survey done in 2006 by Professor Theodor Hanf based in the Byblos UNESCO research center, which showed that many Lebanese youth still follow their local political leaders and this is even more



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true when they are of a given confession.¹ So, Shi'a [youth] tend to follow Hassan Nasrallah, the Hezbollah leader; Sunnis follow Saad Hariri; and the Christians [are] divided between Michel Aoun and Samir Geagea from the Lebanese Forces. ...[There are] few activities of political parties that cut across the board, and I think this is dangerous for the country's stability in the long run.

Now and then, there are clashes. There was an important security incident that happened [October 6, 2009] where someone was killed in clashes around Ain el-Rummaneh, an area where the Lebanese war was ignited in 1975. There were clashes between two groups – Shia Muslims and Christians – with each one belonging to a different political group, and these were youth fighting. It was a small incident, with several wounded and one killed, but these kinds of incidents fuel the scene. If they are repeated there will be a problem ...It is kind of the politics of fueling fear in order to keep on dominating. I am seeing this happening more, and it is worrying.

¹ Hanf, Theodor. "E pluribus unum? Lebanese opinions and attitudes on coexistence." *Letters from Byblos* 14 (2007).