

ARTICLE 1

What is Lebanon Exporting?

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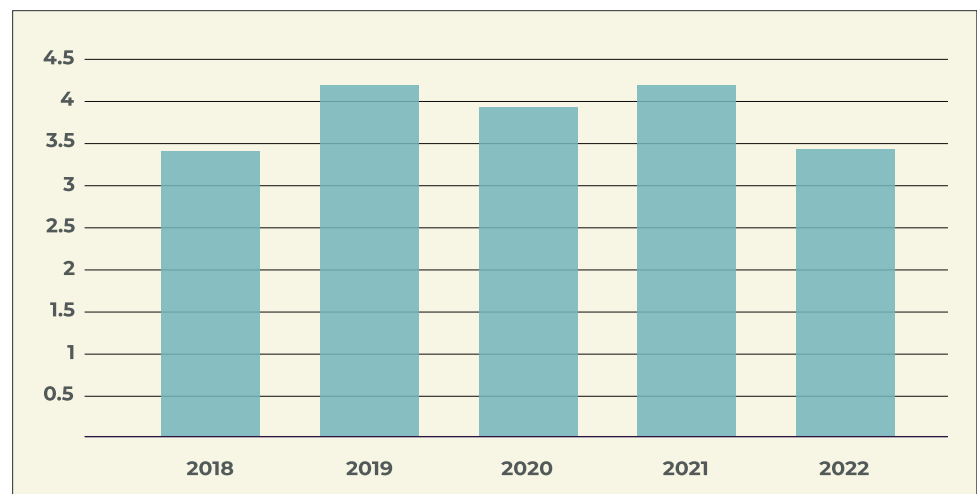
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While often considered a negative development, currency shocks can positively affect a country's export-oriented sectors by giving them a competitive edge in global markets. One might therefore expect that despite a rapid onset of challenges and hardship for so many people across Lebanon, the country's devalued currency has provided a boost to some of its productive sectors. However, understanding how the Lebanese financial crisis and currency devaluation has affected the export landscape remains a complex task. Despite some minor improvements at an aggregate level during the crisis period, these effects have been mixed and challenging to interpret.

Even though total Lebanese exports surged to \$4.2 billion in both 2019 and 2021, they regressed to pre-crisis levels in 2022, when exports totaled \$3.4 billion when adjusted for global inflation (Figure 1). While this may suggest that Lebanon is losing some of the competitiveness that it gained due to currency devaluation, it is necessary to examine how exports have evolved throughout the crisis to understand the broader impact of currency devaluation on various sectors and the economy, particularly in light of Lebanon's de-facto dollarization policy.

This article aims to evaluate export trends by comparing them to pre-crisis levels, specifically by focusing on changes at both the sectoral and product levels, as well as alterations in the comparative advantage of Lebanese products. In doing so, we intend to provide insights that can guide policymakers and market participants by highlighting the genuine potential of Lebanese exports and situating them within the wider macro-economic context of recovery.

Figure 1: Total exports (\$ billion)

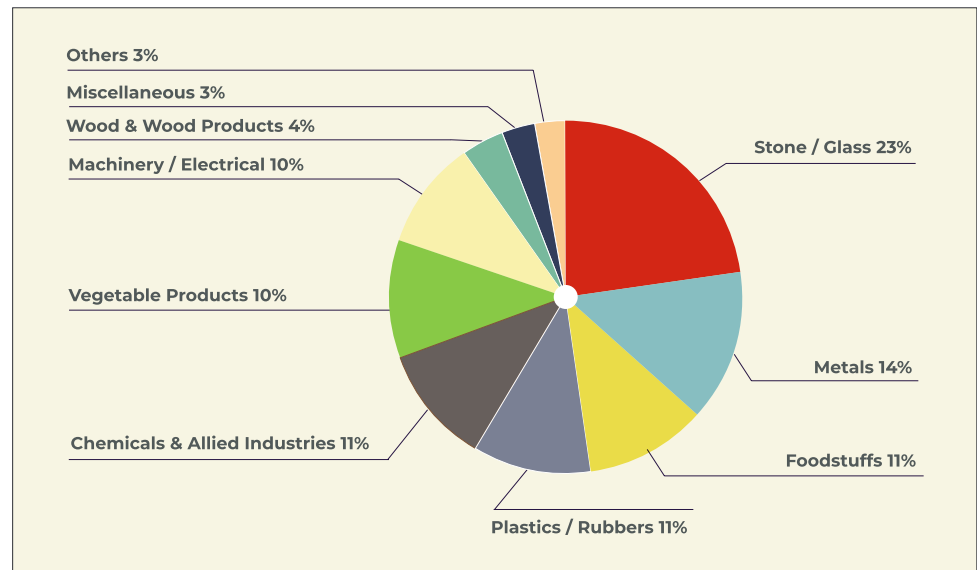


Source: Lebanese Customs Administration

A Diversified Export Basket

Lebanon boasts a diversified basket of exports despite their modest volume. The country exported a total of 936 different products in 2022, only marginally less than the 948 products exported in 2018. These products can be grouped into 10 main categories, of which "Stone and Glass" (23%) and "Metals" (14%) have the highest share (Figure 2).

Figure 2: Distribution of exports across sectors in 2022

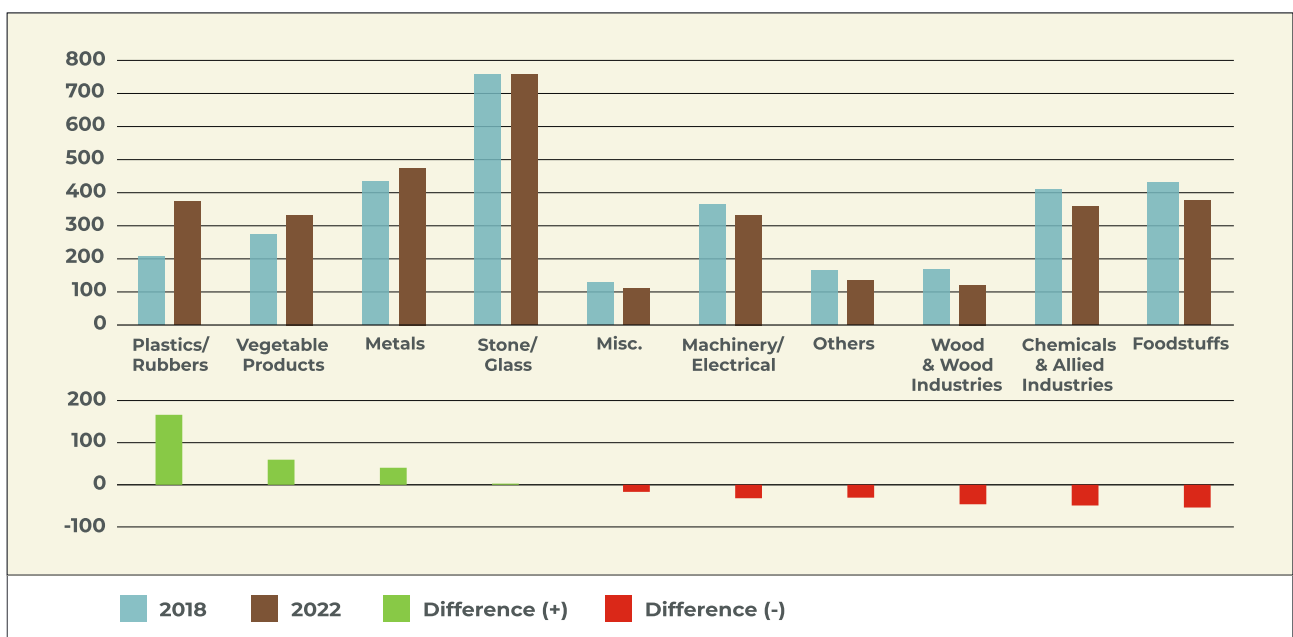


Source: Lebanese Customs Administration

Despite marginal changes at the aggregate level between exports in 2018 and 2022, some significant changes can be observed across categories. Exports of “Plastics and Rubbers” increased by the most significant amount, rising by \$177 million (an 85% increase compared to 2018), followed by “Vegetable Products” (increased by \$67 million or 24%), and “Metals” (increased by \$46 million or 10%) (Figure 3). Meanwhile, the country’s most significant category of exports, “Stone and Glass”, was unchanged.

Contrasting these categories, “Foodstuff” exports decreased by \$56 million, marking the most pronounced decline (13%), followed by “Chemicals and Allied Industries”, which decreased by \$53 million (27%).

Figure 3: Exports by sector (\$ million)



Source: Lebanese Customs Administration

Lebanon exported 77 new products in 2022 that it did not in 2018, which in total were worth \$11 million. However, only 12 of these products were valued at higher than \$100,000, making up 93% of the total. Notably, "Aluminium Powders and Flakes" and "Oil Cakes" (soybean livestock feed) comprised 70% of the total value of newly exported products. Meanwhile, Lebanon stopped exporting 65 products in 2022 that were part of its 2018 export basket, which together were valued at \$69 million. The most valuable of these were "Lead Products", "Live Sheep and Goats", "Antiques Older than 100 Years Old", and "Cement".

Holding on to Lebanon's Comparative Advantage

Comparative advantage is both a function of local economic dynamics and international market trends. The Revealed Comparative Advantage (RCA) indicator highlights whether a country is particularly adept at making and selling certain products on the global market. RCA is calculated by comparing a country's share of exports in a particular product to the world's share of exports in the same product. If a country's share of exports is larger than its share in the world's total exports ($RCA > 1$), it suggests a revealed comparative advantage in that product.

Lebanon had a comparative advantage in 203 out of its 936 exported products in 2022. For comparison, Lebanon had a comparative advantage in 216 out of 948 exported products in 2018. The value of high RCA products in both years stood at about \$3 billion, or about 87% of total exports.

The highest concentration of RCA products in 2022 was in "Vegetables" (33 products), followed by "Foodstuffs" (25 products), "Chemicals and Allied Industries" (25 products), and "Metals" (25 products) (Table 1). The five products in "Precious Metals" totalled \$750 million, accounting for 25% of the value of products with high RCA and include "Diamonds" (\$436 million), "Gold" (\$105 million), and "Articles of Jewellery" (\$116 million). This was followed by products in the "Metals" sector with a value of \$450 million (15%), which include "Ferrous Waste and Scrap" (\$147 million), "Waste and Scrap of Copper" (\$115 million), and "Waste and Scrap of Aluminium, Unwrought Lead" (\$54 million). RCA Products in the foodstuffs sector were valued at \$377 million (12.4%), including "Water" (\$49 million), "Wine" (\$30 million), "Sauce Preparation" (\$51 million), "Fruits and Nuts" (\$31 million), and "Bread and Pastry" (\$21 million). Lebanon's "Vegetable Products", which amounted to \$30 million and constituted 10% of the share, included "Potatoes" (\$20 million), "Bananas" (\$25 million), "Apples" (\$47 million), "Grapes" (\$47 million), "Apricots" (\$30 million), and "Coffee" (\$25 million).

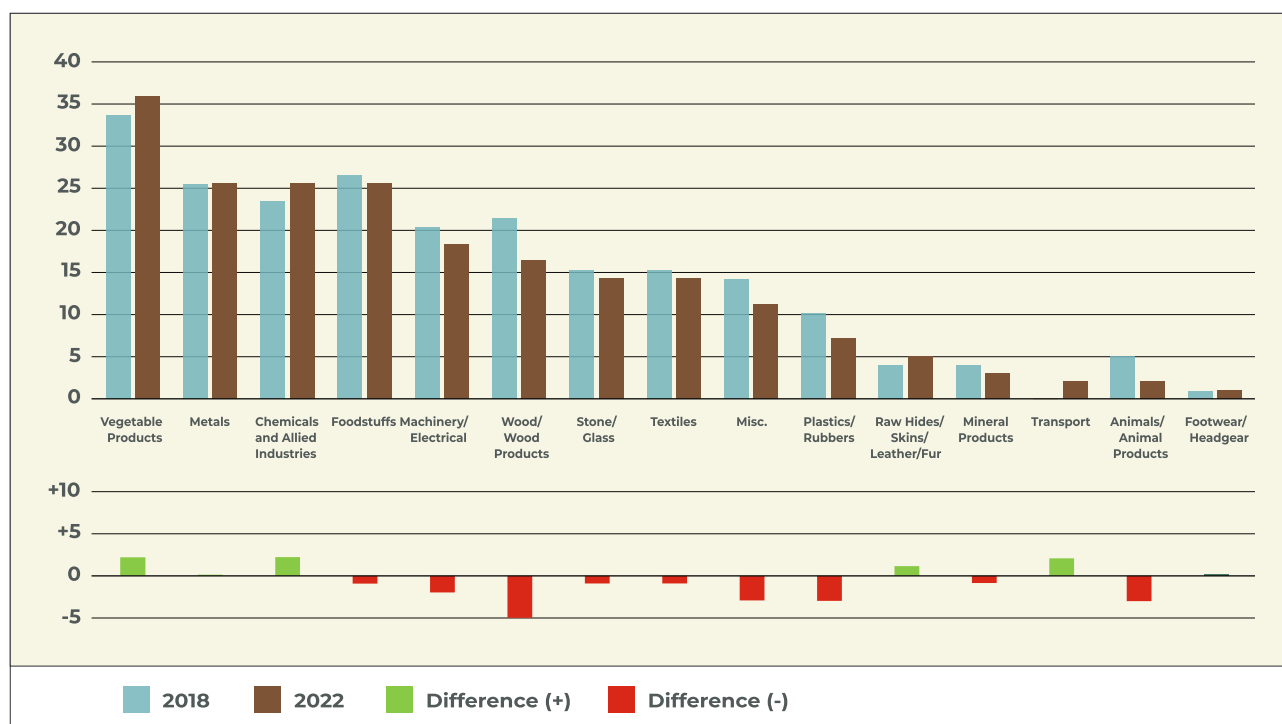
Table 1: Number, value, and share of products with $RCA > 1$ in 2022

Section	Number of products	Value (\$)	Share of the total
Animal products	2	5,866,000	0.19%
Vegetable products	33	305,889,000	10.06%
Animal and Vegetable	2	25,963,000	0.85%
Foodstuffs	25	377,721,000	12.42%
Mineral products	3	983,000	0.03%
Chemical products	25	319,154,000	10.49%
Plastics and Rubber	7	359,890,000	11.83%
Animal Hides	5	6,994,000	0.23%
Wood products	3	8,599,000	0.28%
Paper goods	13	99,069,000	3.26%
Textiles	14	12,890,000	0.42%
Footwear and headwear	1	239,000	0.01%
Stone and glass	9	24,237,000	0.80%
Precious metals	5	751,050,000	24.70%
Metals	25	449,247,000	14.77%
Machines	18	190,542,000	6.27%
Transportation	2	6,840,000	0.22%
Instruments	2	9,993,000	0.33%
Weapons	2	1,642,000	0.05%
Miscellaneous	7	84,354,000	2.77%

Source: Lebanese Customs Administration and authors' calculation

Notably, Lebanon lost its comparative advantage in products across nine out of the 15 sectors and gained a comparative advantage in four. In fact, Lebanon had a comparative advantage in 65 exported products in 2018 that by 2022 it was no longer producing, which in total were valued at \$290 million (Figure 4). The value of new products in which Lebanon had a comparative advantage in 2022 shrank by \$59 million, primarily comprising items from the "Wood, Plastic and Rubber", "Animal Products", and "Machinery and Equipment Sectors".

Figure 4: RCA in 2018 and 2022 across sectors



Source: Lebanese Customs Administration and authors' calculation

The impact of the financial crisis on exports is not straightforward. The devaluation of the currency did not lead to a surge in the number or volume of exports. However, it did change the composition of exports where value of products in the "Plastics and Rubber", "Vegetables" and "Metals" sectors increased while that of products in the "Foodstuffs" and "Chemical and Allied industries" decreased. Although Lebanon exported 77 new products in 2022, it also stopped exporting 65 products in the same year. The country managed to maintain its comparative advantage in 203 out of 936 products across several sectors including "Precious Metals", "Metals", "Foodstuffs", and "Vegetable products". The inability of the country to expand its comparative advantage is indicative of a structural challenge within the Lebanese economy. These findings underscore the need for a strategic approach to enhancing production capacities, quality standards, and market access. Focused interventions in high-potential sectors could help Lebanon rebuild a more resilient and competitive export sector, which are essential to its economic recovery and sustainable growth.