

# FOCUS IN BRIEF

## The Lebanese Transportation sector: Moderate Growth amid Poor Infrastructure and Legal Framework

### Communications Services Output Ratio of Value added by Sector to GDP

The transportation sector is a minor contributor to the Lebanese economy, providing a mere value added<sup>1</sup>, averaging at \$451 million over the past decade, the lowest after that of the energy and water supply sector. In terms of GDP, the value added of the sector stood at a low average of 2% over the considered period. In terms of trend movement, the sector improved over the past ten years, growing at a CAGR of 7% to reach \$785 million in 2009.

The expansion is considered mere as the value added in transportation sector to GDP remained constant, with no major improvement or demotion, fluctuating within the narrow range of 1.9% to 2.4%. The stationary of the sector, enabled through the deterioration of some other sectors, such as industry, and the improvement of others such as construction, echoes the lack of governmental investment to enhance the transportation system in Lebanon.

However, this value added computed by the national account statistics unit seems to underestimate the weight of the sector in the GDP as it does not take into account the transportation of goods. It is solely composed of the transportation of passengers as shipping of goods would appear as output in the trade and the market service sectors. The inclusion of goods

in the transportation sector's value added would then require its removal from the latter sectors' value added to avoid double counting. Thus, comprising goods in the transportation sector would not affect the final output or the Gross Domestic Product (GDP), nonetheless it will impact its composition.

Hence, the output of the transportation sector, as measured through its value added, comprises road transport, and air transport – and others - of passengers. Excluding transport of goods, the value added underestimates the economic weight of the sector by about 70%<sup>3</sup>, or \$535 million, a significant amount, but not enough to boost the economic position of transportation among other sectors. Transportation of passengers, accounting for a mere share of the total, is included under air transport –and others.

Domestic transportation flows are of national, regional, and international significance, comprising shipments of goods and passengers movements. The infrastructure of the sector relies on three active groundworks. The first being the maritime system, includes four ports of very unequal importance. The port of Beirut, the most crucial in terms of quantity and the value of freight, is followed by the port of Tripoli. The port of Saida and the port of Sour, play a relatively minor and limited role.

The aviation transport, the second mean of transportation, is enabled through Beirut International Airport (BIA), the only airport in Lebanon. It was redeveloped several times with the latest development plan extending from 1994 to 2002.

The land transport, the third mean, embraces two corridors within the country. The first is the Coastal Highway which crosses Lebanon from its southern end to its northern end and expands entirely in a flat coastal strip. The corridor allows the connection Northern Lebanon-Syria-Turkey. The second regional land transport corridor, the Beirut Damascus International Highway, crosses Lebanon from its western borders to its eastern borders. This road is roughly mountainous with steep slopes and absence of climbing lanes to allow overtaking of slow making trucks, which render it a relatively low-speed facility. The regional road connections allowed by this second corridor are Lebanon-Syria-Iraq; and Lebanon-Syria-Jordan- Saudi Arabia-Gulf countries.

A fourth mean of transportation, a rail network, existed before the war but was completely destroyed during the years of the conflict. The network covered hundreds of kilometers of coastal and inland links, and served both domestic and international destinations.

The value added in the road transportation sector has been significantly higher than that in the air transportation sector. However, the gap has shrank over time, from the highs of fivefold in early 2000 to less than twofold in late 2000s, due to the higher pace of growth in air transport versus road transport. To put things into perspective, traffic on the coastal highway and the Beirut Damascus Highway is high. On the former road, traffic reaches more than 150,000 vehicles<sup>4</sup> per day (2-way traffic), resulting in significant traffic congestion, while on the second it reaches more than 75,000 vehicles<sup>3</sup> per day (2-way traffic). The air traffic at the Beirut International Airport (BIA) is hectic as well and has been designed to increase its capacity to handle 6 million passengers a year, with an ultimate capacity of 16 million by year 2035.

The flow of passengers, comprising residents, tourists, and expatriates, is affected by internal as well as external factors. On the internal front, the economic and political situation stands as the major determinant of the level of activities. A better perceived economy along with promising political developments would boost people's confidence, lead to more frequent traveling inside and outside the country, and hectic passengers flows on the Lebanese territory<sup>5</sup>. On the external front, factors such as lower commodities prices, along with a growing global economy, would boost tourism activity in Lebanon and consequently the value added of transportation as airfares and land travel costs would decline and more tourists would be able to afford traveling. Other factors such as a weaker dollar may boost the number of incomers from European countries.

In 2001, the end of the economic slowdown and the revived economic and political environment has led to a 13% rise in tourists' arrivals, which echoed partly into a 6.1% rise in the value added of transportation and a subsequent 10 percentage point increase in the share of the value added to GDP. Prices during the year were down, leading to a respective 2.7% and 14.1% real growth in road transportation and air transportation.

Similarly, the eruption of war in 2006, led to a deterioration of the economy, perceived through a sharp 3.8% and 1.1% decline in road transportation and air transportation respective real growth. The imposed embargo has however led to 2.9% and 1.7% rise in the respective prices of outputs for both sectors.

In 2008, the 9.3% economic growth following the Doha agreement and the political composure that prevailed brought confidence to the market, and led to a 31% rise in tourist arrivals, thus boosting the real growth of road and air transportation by a respective 4.4% and 11.8%. The sharp rise in oil prices that peaked around \$142 in July boosted prices of the sectors by a respective 16.2% and 12%. The expansion witnessed echoed a 28% growth in value added of the transportation sector that set at \$720 million.

In 2009, the factors contributing to growth in the prior year persisted, boosting the value added of the sector by 9%. In terms of volume, road and air transportation sectors grew by a respective 6.4% and 0.4%, whereas prices continued to grow less sharply, rising by a respective 7.4% and 0.7%.

On the regulatory framework front, the ministry of Public Works and Transport (MPWT) controls all three sub-sectors dealing with transportation activity, namely the land, aviation, and maritime systems. However, deregulation in the land passengers' transport sub-sector has been almost total, leading to congestion, pollution, and numerous accidents<sup>6</sup>. As for land freight transport, it is more organized than land passengers' transport, although still far from optimal.

Regarding maritime transport, Lebanon is part of almost all International Maritime Organization (IMO) conventions and agreements. However, the national laws and regulations for maritime transport are very old and outdated thus, there is a crucial need to renew them and make them consistent with international laws.

As for air transport, it is considered the most advanced in Lebanon when compared to the other transport sub-sectors. The Lebanese flag carrier (Middle East Airlines) has undergone restructuring, and modernized its aircraft fleet.