



ASSESSING THE ECONOMIC CRISIS IN LEBANON

By
Arhama Siddiq
Research Fellow

Centre for Middle East & Africa (CMEA), ISSI

Edited by
Najam Rafique

August 26, 2020

(Views expressed in the brief are those of the author, and do not represent those of ISSI)



On August 17, 2020 a UN-backed tribunal in the Hague found a member of the militant Hezbollah group, guilty of the 2005 assassination of former Lebanese Prime Minister Rafik Hariri along with 22 others. The other three defendants (also members of Hezbollah) were acquitted. In its decision, the tribunal stated that there was no proof that Hezbollah or Syrian leadership was involved. The motivation was cited to be political and has been called an ‘act of terrorism designed to cause fear in the Lebanese population’.¹

Over the years, critics had pointed out the prodigious expense this absentee trial was incurring. The 400 member staff which included 11 judges cost \$60 million annually. However, some say the rationale behind the high cost lies in how the murder provided the flicker that lighted the match of a revolution in Lebanon and changed the face of Lebanese politics. The resulting protests forced the Syrian army to end its presence in Lebanon in 2005. The following month, the March 8 (Hezbollah and pro-Syrian) and March 14 (Sunni, Christian and Anti-Syrian) political coalitions emerged and partook in massive demonstrations. These alliances still define the direction of the country’s policies.

Notwithstanding the anticipation surrounding the trial, the streets of Beirut were nearly empty, devoid of unrest. Completely natural given that the dead were still being buried in the aftermath of the Beirut port explosion amidst a heavy sense of defeat.

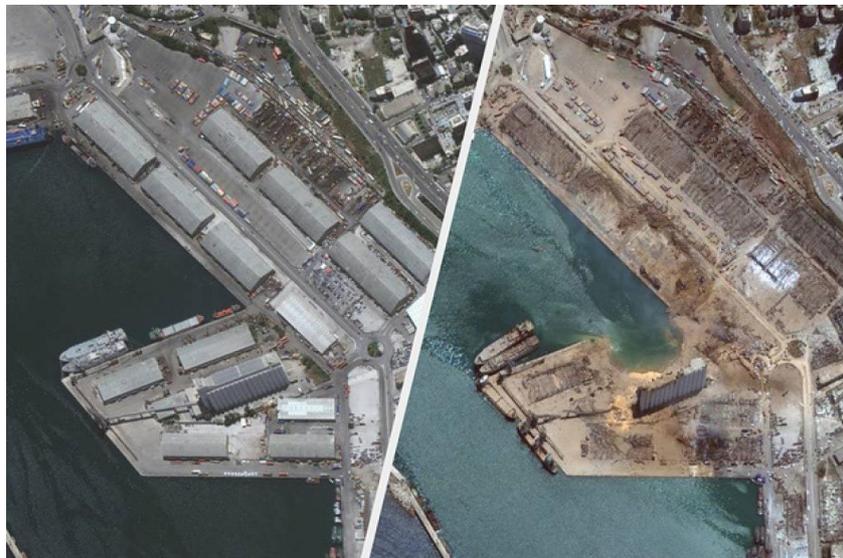
¹ “UN tribunal: Hezbollah member guilty in Rafik Hariri killing,” *Al Jazeera*, August 19, 2020. <https://www.aljazeera.com/news/2020/08/tribunal-hezbollah-member-guilty-rafik-hariri-killing-200818091029067.html>

Beirut Blast

On August 4, 2020, Beirut experienced an explosion which according to the Lebanese officials the United Nations equated to the devastation caused during the country's civil war (1975-1990). The blast left approximately 200 dead, 6000 injured and 300,000 homeless. Soon after the explosion, conspiracy theorists posited plausible causes for the blast. These included the usual entrants Israel and Hezbollah. The former more so because of Prime Minister Netanyahu's controversial tweet six hours prior to the incident, citing revenge for increased flare ups on the Golan Heights border. The latter was implicated because of the (then) upcoming verdict on the murder of former Lebanese Prime Minister Rafik Hariri in 2005.

However, the culprit was downright neglect by a corrupt, power hungry government.

The explosion was a result of 2750 tones of ammonium nitrate which had been confiscated in 2013 from an abandoned Russian-owned cargo ship. Over the years, the custom officials' repeated requests for license to dispose of the material were met with silence and the material continued to stay in a warehouse at the port. Now amidst a flurry of visits by foreign officials from Turkey, France, Russia and Iran to name a few, investigations are being carried out. Hezbollah leader Hassan Nasrallah has already voiced his mistrust, stating that any international investigation would be suspect of clearing Israel of any responsibility in the explosion. ²



Source: CNN³

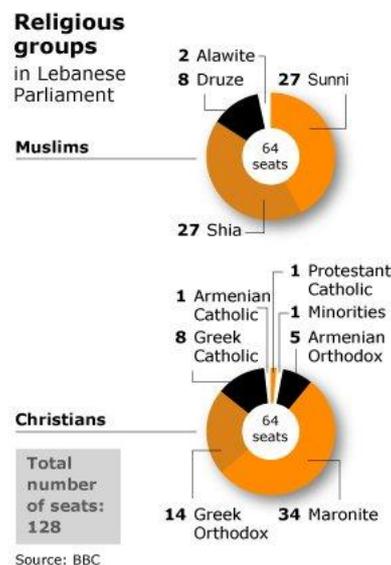
² "Hezbollah will respond if Israel behind Beirut blast, says Nasrallah," *Reuters*, August 14, 2020. <https://www.reuters.com/article/us-lebanon-security-blast/hezbollah-will-respond-if-israel-behind-beirut-blast-says-nasrallah-idUSKCN25A18R>

³ "Satellite images of Beirut explosion show massive crater at port," *CNN*, August 5, 2020. <https://edition.cnn.com/2020/08/05/world/satellite-images-beirut-explosion-before-after-trnd/index.html>

Not surprisingly, on August 10, Lebanon's government (which had taken up its role in January 2020) resigned. So far, no likely candidate names have emerged. Consequently, a state of emergency was approved by the Parliament on August 13. However, it goes without saying that the setting up of any new government would involve the same sectarian politics as before. The fact that no country has had any qualms in stating that all aid for Lebanon would be given directly to the people not via the government is testament to the depth of the deeply embedded corruption in Lebanese politics. On August 10, France and the UN led a virtual donor conference during which 250 million euros in 'direct aid' for Lebanon's people were generated.⁴

Political Order

In Lebanon the political order is based on the notions that power sharing and sectarian quotas for the country's various groups is the ideal way to preserve peace. This idea extends to include all aspects of Lebanese life such as allocation of public funds and provision of social protection. The political system is distributed along sectarian lines so that all groups are represented in decision making. The three main political offices - president, speaker of parliament and prime minister - are divvied among the three biggest communities (Maronite Christian; Shia Muslim; and Sunni Muslim, respectively) in accordance with agreement in 1943.



Source: *Fanack.com*⁵

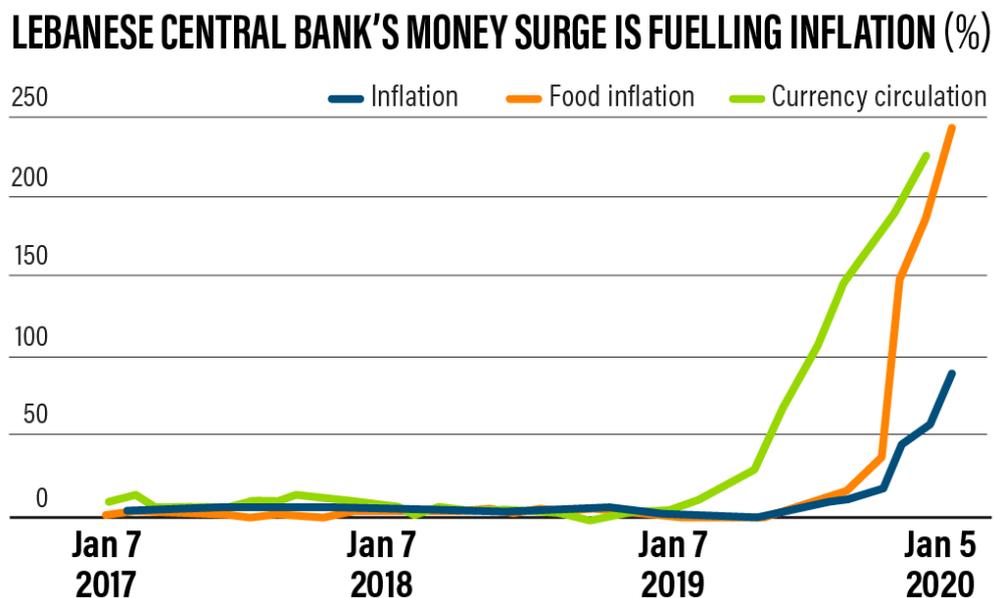
⁴ "Macron hosts donor conference for Beirut, raises €250 million," *The Nation*, August 10, 2020. <https://nation.com.pk/10-Aug-2020/macron-hosts-donor-conference-for-beirut-raises-euro-250-million>

⁵ "Governance and Politics," *Fanack.com*, July 13, 2020. <https://fanack.com/lebanon/governance-and-politics-of-lebanon/>

Lamentably, the religious diversity has also made Lebanon easy prey for foreign interference. For decades, Lebanon has been a proxy battleground for both Iran and Saudi Arabia. While Iran backs the country's most powerful Shia group, Hezbollah, the Saudis have enjoyed close ties with former Lebanese Prime Minister Saad Hariri's family for decades. Recently, Saad Hariri's name has been making the rounds for the Prime Minister post again.

Economy

For years, Lebanon's population of 6.8 million people have been voicing discontent with the government. Even though the Lebanese economy had been experiencing slow down since 2011, it was in 2019 that it went into a freefall state. Mismanagement by consecutive governments, conveyed by complex patronage systems and a government run Ponzi scheme all stacked up into an economic implosion. Since the end of the Lebanese civil war in 1990, Lebanon established a predominately service-based economy, which heavily relies on imports. Factors such as the war in neighboring Syria, excessive dependence on imports, decline in tourism, investment scams and larger US dollar withdrawals pushed officials to engage in financial engineering which involved borrowing US dollars from commercial banks at high interest rates. However, when bank deposits started to waver, the plan collapsed. As a result of the dollar shortage, the Lebanese pound plummeted to half of its official rate.



Source: *The National* ⁶

⁶ "How to save Lebanon from looming hyperinflation," *The National*, August 3, 2020.

Real estate, construction and tourism which were the primary levers of growth for the country have effectively come to a stall. The Lebanese pound has lost 80 per cent of its value. According to the International Monetary Fund (IMF), the Lebanese GDP is set to decrease by 12 per cent in 2020.⁷ This figure also includes the impact Covid-19 has had on the economy. Added to this, Lebanon hosts the largest number of Syrian refugees (30 per cent of its population).⁸ This has put additional pressure on the labor market and supply of public services which were already in shortage. This in itself is axiomatic of the fact that the state has been absent from the daily lives of the Lebanese populace for quite some time now.

The frustrations of the Lebanese citizenry can also be seen in how a petition to put Lebanon under the mandate of its former colonial-era protectorate, France, on August 5, garnered more than 50,000 signatures within 24 hours.

External Players

Post August 4, the world is suddenly viewing Lebanon with a renewed focus. Ever since the war in Syria started, Lebanon's value as a means of logistical support for its war-torn neighbor has increased. Concurrently, it has become one of the main frontlines for Israel-Hezbollah confrontations. In the aftermath of the blast, shadow battles between Iran and the US-Israel alliance have intensified with renewed force.

Another important specimen in Lebanese geopolitics is the growing confrontation between Turkey and its rivals. President Erdogan has been accused of expanding control over gas reserves in the Eastern Mediterranean and thereby impeding the establishment of a gas pipeline from Lebanon into Greece. Such prospects do not bode well with many countries, including, Greece, France, Egypt and Jordan. Meanwhile Turkey has been on toehold, offering to rebuild Port Beirut and proposing that its own port Mersin Port be used till reconstruction is completed.

China is another participant in the Lebanese power play. Beijing has a long-standing military presence in Lebanon in the form of the unit serving in the United Nations Interim Force in Lebanon (UNIFIL). Chinese companies too have long been negotiating with Lebanese officials for projects such as refurbishing the Beirut-Damascus highway and a railway project which will connect Beirut to Damascus and ultimately the Silk Road.

<https://www.thenational.ae/opinion/comment/how-to-save-lebanon-from-looming-hyperinflation-1.1056755>

⁷ "Lebanon," *International Monetary Fund*.

<https://www.imf.org/en/Countries/LBN>

⁸ "Lebanon," European Civil Protection and Humanitarian Aid Operations.

https://ec.europa.eu/echo/where/middle-east/lebanon_en

Conclusion

Rebuilding Beirut alone requires an estimated \$15 billion- money which the country does not have. At this point, Lebanon needs to establish a new monetary system which would provide a stable backbone to the rebuilding of society. In this regard, options such as dollarization and bitcoin should also be explored.

There is also a question mark on which country will step in to provide the required financial support. It goes without saying that the sprint between economic growth and debt formation is already mathematically adrift. Chinese investment is a strong viable option. Back in July, officials in Beirut and Beijing were already in talks on how to bail Lebanon out of its economic crisis. Hezbollah strongly advocates Chinese help opposed to aid from the IMF because the group blames the US for an 'informal financial siege' on the Lebanese economy.⁹

Suffice it is to say that the one of the powder kegs of the Middle East has exploded and it remains to be seen who will profit from the remains. At the moment the Lebanese populace is concerned about survival but the country cannot afford further delay since the country is fast propelling along a crash course towards complete economic collapse.

⁹ "Lebanon Looks to China as US, Arabs Refuse to Help in Crisis," *The Diplomat*, July 16, 2020. <https://thediplomat.com/2020/07/lebanon-looks-to-china-as-us-arabs-refuse-to-help-in-crisis/>