

THE ISPD EASTMED GEOSTRATEGIC OUTLOOK SERIES

Lebanon's Prolonged Economic
Crisis: Impoverishment, Political
Stalemate and Geopolitical
Challenges

Dr. Sotiris Roussos

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Cover picture : Al-Sisi, IMF Managing Director discuss
bilateral partnership following loan agreement,
Source: Daily News Egypt, 11 June, 2022

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Lebanon's Prolonged Economic Crisis: Impoverishment, Political Stalemate, and Geopolitical Challenges

Executive summary

The prolonged economic crisis is leading to the rapid impoverishment of large sections of the Lebanese society, especially for the middle class. According to a Human Rights Watch survey between November 2021 and January 2022, 70% of households had experienced significant difficulty in meeting their basic needs compared to the previous year.

At the same time, 1% of the population corresponds to 70% of the national income, albeit without any real taxation, and according to OECD corporate taxes are among the lowest in the world. Lebanon is a case of peculiar Levantine neoliberalism. The state is spending increasingly less on health, insurance and education, and an increasingly bigger part of public goods has been handed over to private operators. The oxymoron is that the state budget remains particularly large, and this is due to a huge network of clientelism and the corruption of political parties that are set up as hereditary fiefdoms of large families. The basic needs of the poorer classes are primarily met either through charity of the said families or through social services provided in a more organised way by Hezbollah.

The Lebanon-Israel agreement on the delimitation of the EEZ and the exploitation of natural gas deposits reached in October 2022 is promising for the future of the Lebanese economy. It is a compromise that does not resolve the border disputes of the two states, nor does it lift the state of war between them. Similarly, this agreement does not constitute recognition of the State of Israel by Lebanon, nor does it prejudge an agreement on the border disputes, nor does it certainly lead to a peace agreement. It is, however, a model for negotiating an agreement of a purely economic nature between parties that do not recognise each other through the intervention of a third power, namely the US, and through the influence of multinational companies.

"According to a Human Rights Watch survey between November 2021 and January 2022, 70% of households had experienced significant difficulty in meeting their basic needs compared to the previous year"

The catastrophic crisis that began in 2019 led to an explosion in the number of protests against the ruling elite, without excluding any party or organisation. In 2022 the protests were halved as there was an expectation that the May general election would reflect the movement's momentum at the ballot box. In the end, the movement managed to elect 19 MPs (out of 165), but they failed to form a cohesive and solid political group. It was clear that the Lebanese society is still very much under the influence of the patronage networks of the big political families and sectarian organisations, which provided assistance during the crisis in exchange for political allegiance. During the same period the number of attacks by armed gangs increased significantly. Furthermore, the economic crisis increased the control of gangs involved in smuggling (mainly from Syria), drug and human trafficking in many areas of Lebanon.

The elections have not solved Lebanon's political problem, as witnessed by the failure to elect a new President by the Parliament after the end of Michel Aoun's term of office. The root of the problem lies in the different criteria employed to choose the right person by the two main political forces of the 'national sovereignty' coalition led by the Christian Lebanese Forces Party, on the one hand, and Hezbollah and its allies, on the other. The former wants to deprive Hezbollah of its privileged position in the society and politics of the country and, above all, to deprive it of the right to maintain armed forces and challenge the Lebanese state's monopoly on violence. This coalition is calling for the new president to reaffirm the state monopoly on violence, to impose state sovereignty on the areas controlled by Hezbollah and to preserve Lebanon's neutrality in the Middle East conflicts. Hezbollah and its allies oppose any such prospect since it runs counter to the line of "resistance" against Zionist and American policies in the region.

The inability to elect a president was exacerbated by the geopolitical conflicts in the region. Tehran's fears are growing that the alliance of Saudi Arabia, the US and Israel is strengthening separatist and anti-regime movements by exploiting the wave of protests against the regime. There is, however, hope that the recent deal between Iran and Saudi Arabia with Chinese mediation can help the Lebanese politics out of the stalemate and the spiraling descent to chaos.

Economy

The economic crisis plaguing Lebanon is rooted in the social and political power networks that have controlled the country since the Second World War and especially since the end of the civil war in 1989. The economic crisis has been rapidly exacerbated by two major recent developments: the outbreak of the COVID-19 epidemic and the massive catastrophic explosion in the port of Beirut in August 2020.

"The cost of this explosion is estimated to be between \$3.6 and \$4.5 billion and the lost revenue to the Lebanese economy between \$2.9 and \$3.5 billion"



The cost of this explosion is estimated to be between \$3.6 and \$4.5 billion and the lost revenue to the Lebanese economy between \$2.9 and \$3.5 billion.

In the first decade of the 2000's, the Lebanese economy was based on remittances and foreign direct investment, mainly from the Gulf Arab monarchies. Remittances account for 20% of Lebanon's GDP and 60% of this comes from the Gulf. Similarly, 75% of foreign direct investment in the last decade also came from the Gulf. This makes the regional geopolitical political developments even more significant for Lebanon. Since the outbreak of the Syrian civil war, and especially since the intensification of regional competition between Saudi Arabia and Iran, the Gulf funding spigot has been closed. Saudi Arabia, the Emirates, Kuwait and Bahrain consider Lebanon to be dominated by Hezbollah and its allies, and therefore view the country as an outpost of Iranian influence in the Near East region. Neither Iran, nor the expanded resources in Hezbollah from the Shiite diaspora, can compensate for this huge loss of economic resources.[1]

The World Bank considers the economic crisis to be one of the worst worldwide since the mid-19th century. In the three years after 2019 there has been a 36.5% collapse in GDP. The lack of "fresh dollars", due to the low oil price in 2018 and a severe reduction in remittances led the banks and the state to an unprecedented shortage of foreign currency. As a result, inflation rose and remains in triple digits and unemployment rose from 11.4% in 2018-2019 to 30% in 2022. Utilities such as electricity and water supply have also experienced a decline in their ability to fully function, due to the rapid decline in foreign exchange reserves and the consequent inability to acquire enough fuel. This causes continuous blackouts in the electricity supply and makes it impossible to ensure a continuous supply of clean water and regular supply of basic goods.[2]

The prolonged economic crisis is also leading to the rapid impoverishment of large sections of Lebanese society, especially the middle classes. According to a survey by Human Rights Watch, in the period between November 2021 and January 2022, 70% of households had experienced significant difficulty in meeting their basic needs in the previous year. The average monthly income is estimated at \$122 but 40% of the population earns less than \$100 per month. About half of Lebanese do not have enough income to cover the purchase of basic food items. The abolition of subsidies on medicines and the dominance of the private sector in hospital care pose major health risks not only to the poor, but also to the middle classes. About 42% of the population could not cover the costs of pharmaceutical and medical care. [3]

Much of the population was unable to withdraw their savings in dollars. The official exchange rate of the dollar to the Lebanese lira at which the banks traded was one dollar to 1,507 pounds, while the market price was as high as 60,000 pounds for each dollar. For this reason, the banks had set very low withdrawal limits, and as a result the people, especially the middle class, were unable to use their deposits for serious hospital emergencies.

[1] Roussos, Sotiris (2020), "Lebanon: Crisis, Geopolitics and the 'social contract'", I Epohi, July 12 (in Greek).

[2] The World Bank (2022). "Lebanon Overview: development news, research, data", <https://www.worldbank.org/en/country/lebanon/overview#1> (assessed 31/1/2023).

[3] Human Rights Watch (2022), "Lebanon: Rising Poverty, Hunger Amid Economic Crisis," <https://www.hrw.org/news/2022/12/12/lebanon-rising-poverty-hunger-amid-economic-crisis> (assessed 31/1/2023).

The conditions also led to the development of a widespread black market, where families are selling valuable items, even furniture or electrical appliances, to make a living. Part of the wave of bank robberies after 2019 is also due to this reason.[4] In late January 2023, the Bank of Lebanon Governor, Riad Salameh, announced a change in the official exchange rate to 15,000 lira for every dollar to address the huge gap between the official and market rates.[5]

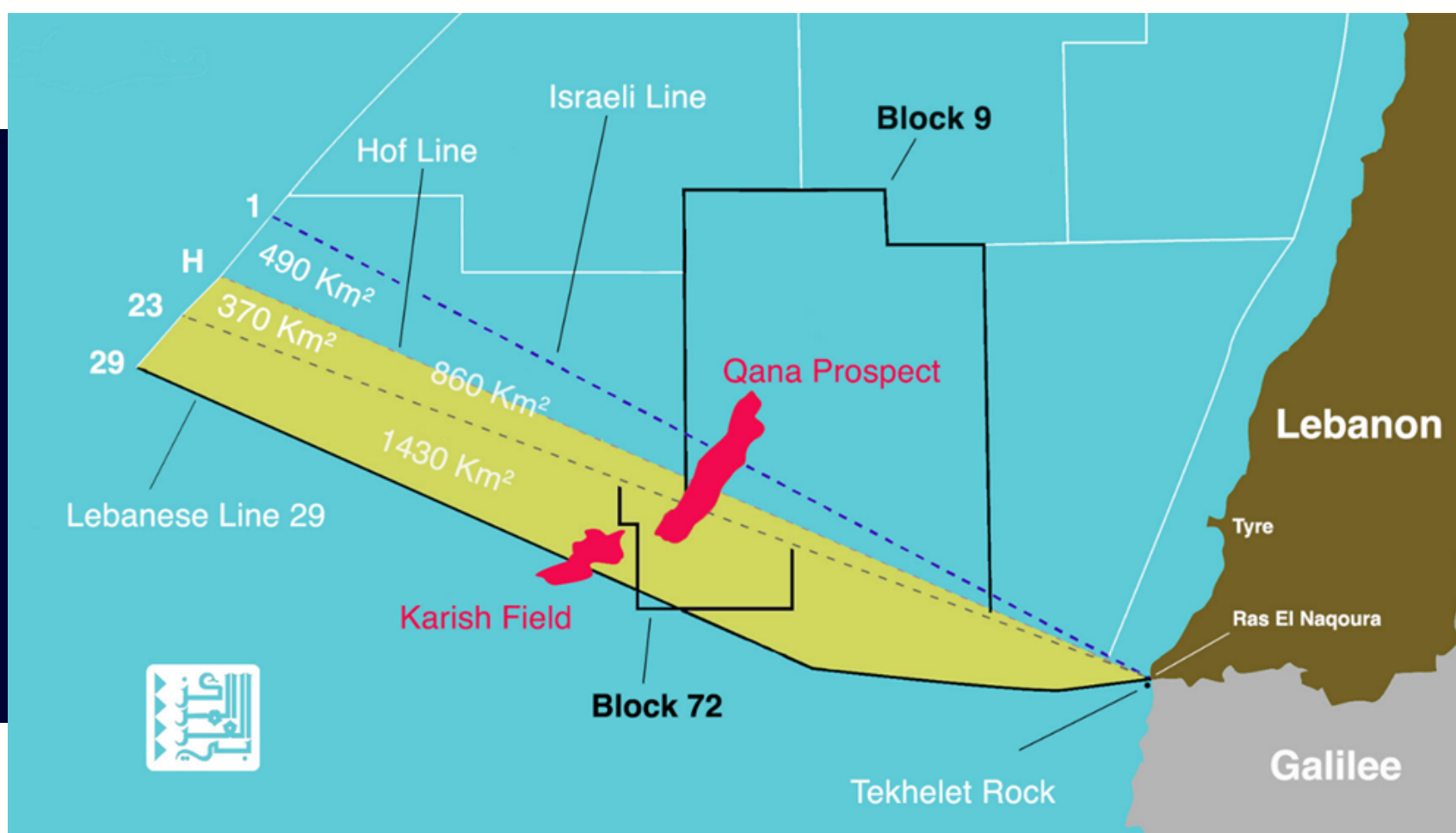
At the same time, as the OECD notes, 1% of the population owns 70% of the national income without any real taxation, and corporate taxes are among the lowest in the world. [6] According to UN calculations if the wealthiest 10 percent were taxed at 0.9% it would be possible to address the problems of people living below the poverty line, while if the tax rate were increased to 3.6% it would be possible to aid effectively those just above the poverty line. Such policies are probably impossible to implement as long as the political and economic class is characterised by deep corruption.

Lebanon is a case of peculiar Levantine neoliberalism. The state is spending less and less on health, insurance, and education, while more and more of the public goods have been handed over to private operators. It is oxymoron that the state budget remains particularly large; this is due to a huge network of clientelism and the corruption of political parties that are set up as hereditary fiefdoms of large families. The basic needs of the poorer classes are met either by the charity of these families, or by social services provided in a more organised and institutionalised way by Hezbollah.

The Lebanon-Israel agreement on the delimitation of the EEZ and the exploitation of natural gas deposits reached in October 2022 is promising for the future of the Lebanese economy.

A sketch of the areas of dispute in the eastern Mediterranean. Adapted from maps released by the Lebanese Armed Forces.

Source: Arab Center Washington DC



[4] Steavenson, Wendell (2022). "My money or your life: the bank robbers of Beirut," The Economist 1843 Magazine, December 27, <https://www.economist.com/1843/2022/12/27/my-money-or-your-life-the-bank-robbers-of-beirut> (assessed 31/1/2023)

[5] Lucente, Adam (2023). "Explainer: what is behind Lebanon's new exchange rate?", Al-Monitor, February 1, https://www.al-monitor.com/originals/2023/02/explainer-what-behind-lebanons-new-exchange-rate?utm_medium=email&utm_campaign=daily (assessed 3/2/2023).

[6] Holleis, Jennifer (2022). "Lebanon's middle class vanishes as economy collapses," DW, <https://www.dw.com/en/lebanons-middle-class-vanishes-as-economy-collapses/a-64442064> (assessed 31/1/2023).

It is a compromise that does not resolve the border disputes of the two states, nor does it lift the state of war between them. Lebanon accepted Line 23 instead of the Line 29 it was initially claiming, which practically means that Israel will have exclusive rights to the entire Karish field, while Lebanon will have exclusive rights to 83% of the Qana field. The rest of the Qana field will be exploited through Total, which will enter into an agreement with Israel. [7]

The agreement was made possible by three factors. First, the strong US mediation of the US State Department Energy Advisor, Amos Hochstein. The second is Lebanon's deplorable economic situation and the pressure from society on the two main political forces, Hezbollah and the Free Patriotic Movement (FPM), to step down and allow the country to recover. Most importantly, the Hezbollah leadership was forced to agree that the Karish field would not be a target in the event of a military confrontation with Israel. Qatar's mediating role is also important. Qatar Energy, at the urging of the American mediator Amos Hochstein, replaced the Russian Novatek in the consortium exploiting the Lebanese fields in the Eastern Mediterranean by buying out its share. Qatar Energy now owns 30% of the consortium, in which Total Energies and Eni each hold 35%. [8] Thirdly, there was a favourable regional context for reaching the agreement. Hezbollah's involvement in Syria does not allow it to open a bigger front with Israel. At the same time, negotiations between Iran and Saudi Arabia were taking place in Baghdad and Hezbollah played an important role in achieving a ceasefire in Yemen.

This agreement does not constitute recognition of the State of Israel by Lebanon, nor does it prejudice an agreement on the border disputes, nor does it certainly lead to a peace agreement. It is, however, a model for negotiating an agreement of a purely economic nature between parties that do not recognise each other through the intervention of a third power, mainly through multinational companies.



"Israel will have exclusive rights to the entire Karish field, while Lebanon will have exclusive rights to 83% of the Qana field"

[7] Hussain, Hamzah Rifaat (2022), "Lebanon's Maritime Deal with Israel", Sada, October 31, https://carnegieendowment.org/sada/88292?utm_source=rssemail&utm_medium=email&mkt_tok=ODEzLVhZVS00MjIAAAGH_FNeDJaOGTlOwQ%E2%80%A6 (assessed 31/1/2023).
[8] "Qatar's energy giant cements Lebanon deal, substituting Russia," Al-Monitor, January 30, 2023, https://www.al-monitor.com/originals/2023/01/qatars-energy-giant-cements-lebanon-deal-substituting-russia?utm_medium=email&utm_campaign%E2%80%A6 (assessed 1/31/2023).

"the number of attacks by armed gangs increased significantly. The economic crisis has increased the control of gangs involved in smuggling (mainly from Syria), drug trafficking and human trafficking in many areas of Lebanon"

Society and Politics

The catastrophic crisis that began in 2019 led to an explosion in the number of protests against the ruling elite, without excluding any party or organisation. From 2015 to 2019 the governance of Lebanon was in the hands of a coalition led by Hezbollah. Despite a change of prime minister and a radical reshuffle at the end of 2019, this coalition failed to resolve the economic problems. The uprising resonated with social strata of young people who are outside the client networks and lack the lived experience of the Lebanese civil war and Hezbollah's resistance against Israel in 2006. They are facing the collapse of Syria and the huge influx of refugees that reaches one third of the Lebanese population. The uprising also included young Shiites despite Hezbollah's attempt to distract Beirut's Shiites from the protests. In southern Lebanon, many young Shiites from the Amal organization participated in the protests. These strata are essentially calling for a "social contract" that would cut across the different religious communities and change the basis for the constitution of the Lebanese political system from sectarian to democratic. [9]

In 2022 the demonstrations were halved as there was an expectation that the May general elections would reflect the movement's momentum at the ballot box. In the end, the movement elected 19 MPs out of a total of 165, but they failed to form a cohesive and solid political group. It was clear that Lebanese society is still very much under the influence of the patronage networks of the big political families and sectarian organisations, which offered assistance during the crisis in exchange for political allegiance. Two other factors played an important role in weakening the movement. The central bank intervened to strengthen the lira in the first half of 2022 and there was a marked increase in remittances from the diaspora and from tourism, which had been depressed after the Beirut port explosion.[10]

On the contrary, the number of attacks by armed gangs increased significantly. The economic crisis has increased the control of gangs involved in smuggling (mainly from Syria), drug trafficking and human trafficking in many areas of Lebanon.



A protest against the Lebanese government in Beirut
<https://arabcenterdc.org/resource/the-political-transformation-of-protest-movements-in-iraq-and-lebanon/>

[9] Roussos, Sotiris (2020), "Lebanon: Crisis, Geopolitics and the 'social contract'".

[10] Mehvar, Ameneh (2023) "Lebanon Mid-Year Update. Political Violence Intensifies Despite Decline in Demonstrations", Armed Conflict Location & Event Data Project (ACLED), <https://acleddata.com/10-conflicts-to-worry-about-in-2022/lebanon/mid-year-update/> (assessed 3/2/2023).

Competition from these well-armed gangs has brought a 20 % increase in armed clashes. The number of these clashes was further increased by clashes between armed supporters of the major political organisations and their allies, culminating in the days just before the elections.[11]

The elections have not solved Lebanon's political problem, as the failure to elect a new President by Parliament after the end of Michel Aoun's term of office shows. According to the Lebanese Constitution, the President of the country must be a Maronite Christian, the Prime Minister a Sunni Muslim and the Speaker of the Parliament a Shiite Muslim. The root of the problem lies in the different criteria employed by the two main political forces of the 'national sovereignty' coalition, led by the Christian Lebanese Forces Party, on the one hand, and Hezbollah and its allies, on the other, to choose the right person. The former wants to deprive Hezbollah of its privileged position in the society and politics of the country and, above all, to deprive it of the right to maintain armed forces and challenge the Lebanese state's monopoly on violence. This coalition of parties is calling for the new president to reaffirm the state monopoly on violence, to impose state sovereignty in the areas controlled by Hezbollah and to preserve Lebanon's neutrality in the Middle East conflicts. Hezbollah and its allies oppose any such prospect since it runs counter to the line of "resistance" against Zionist and American policies in the region.

In this tug-of-war, the candidate of the "national sovereignty" alliance, Michel Moawad, received only 42 votes out of 165 and did not manage to be elected. Hezbollah with its allies, the Christian Free Patriotic Movement and the also Shiite Amal could have secured the necessary votes for the election, but the first choice which was the son-in-law of the outgoing president M. Aoun, Gebran Bassil, a leading member of the Free Patriotic Movement, had two main difficulties. Firstly, he had clashed with the Amal leader Nabih Berri and secondly, he is under sanctions by the US, thus making it impossible for him to perform his duties. The second choice is Suleiman Frangieh, leader of Marada Movement and grandson of former President Suleiman Frangieh (1970-1976), who despite being accepted by Hezbollah and Amal, is not currently accepted by the Free Patriotic Movement. This is not the first time that we have had a prolonged period without a presidential election in Lebanon. Michel Aoun was elected in October 2016 after 29 months of fruitless attempts.[12] But the inability to elect a president comes at a time of deep economic crisis and the presence of over a million refugees from Syria exacerbating social problems. This weakness is aggravated by the geopolitical conflicts in the region. There is, however, hope that the recent deal between Iran and Saudi Arabia with Chinese mediation can help the Lebanese politics out of the stalemate and the spiraling descent to chaos.

[11] Ibid.

[12] Harb, Imad, K. (2022), "Lebanon Faces a Prolonged Presidential Vacuum," November 29, <https://arabcenterdc.org/resource/lebanon-faces-a-prolonged-presidential-vacuum/> (assessed 3/2/2023).