



**LEBANON**



## The World Must Help Lebanon's Recovery

Dr. Imad K. Harb  
13 July 2021

## KEY FINDINGS

- Lebanon is suffering from a political crisis, economic hardship, and social disparities, all caused by lack of compromise, government mismanagement, and corruption.
- State failure, collapse of institutions, and widespread dislocations will be the direct repercussions of continuing on the current path.
- While domestic actors are responsible for current conditions and for finding solutions, the international community must offer economic and social assistance to actors outside of the corrupt government.

Since the autumn of 2019, Lebanon has been on a downward spiral of political paralysis, economic collapse, and social ruin. This happened as its politicians and power brokers continue to squabble over the formation of a new government and each party's share in its ministries while trying to score points against each other in preparation for parliamentary and presidential elections in 2022. To be sure, it is hard to imagine how the Lebanese state and its institutions will weather the current conditions and its elite's irresponsibility without serious domestic policy corrections and well-meaning, purposeful, and effective outside intervention.



Figure 1 Hassan Diab, Wikimedia Commons

### Political Stalemate and Economic Challenges

Last October, a large majority of members of parliament chose Sunni politician Saad Hariri to form a replacement cabinet to caretaker Prime Minister Hassan Diab's government that resigned in August 2020. That resignation was precipitated by a [catastrophic explosion](#)<sup>1</sup> that ripped through the Port of Beirut and destroyed it, killing and maiming thousands and displacing more than 300,000 others. Hariri has so far been unable to form his government because of disputes on its composition with Maronite President Michel Aoun who insists on controlling it despite constitutional provisions limiting his powers over the cabinet.



Figure 2 Pro-Lebanon protest Stockholm, Wikimedia Commons

In his stances concerning the government and other issues, Aoun relies on a perceived strength accrued from his fifteen-year-old alliance with armed and powerful Hezbollah. The Shiite party has for a long time operated as a state-within-the-state and thwarted what it considers anathema to its interests in the country. But in the current political deadlock, Hezbollah finds itself stymied: it can neither pressure Aoun to relent on government formation —lest it harm its alliance with the president — nor force Hariri to accept ceding his constitutional prerogatives.

Meanwhile, wide sectors of Lebanese society blame the party for the situation because it allowed the president to use the alliance in his obstructionist policies.

The political stalemate is not the only reason for the current economic collapse, but it has contributed to its prolongation and prevented its resolution. Regional and international investors and lenders have been reluctant to assist Lebanon for fear that their help will once again be wasted because of official and private corruption and malfeasance, as well as fiscal mismanagement.

Governments since the end of Lebanon's civil war in 1990 have been careless with the country's financial wellbeing and neglected to develop sustainable economic plans that could mitigate the reliance on tourism, services, and remittances. PM-designate Hariri has proposed a new government of non-politically affiliated technocrats to tackle ongoing problems, develop a rescue plan for the economy, and convince investors, donors, and lenders to help. Aoun and Hezbollah have rejected the idea. But the longer it takes Hariri to form his cabinet, the longer it takes for his objectives to be realised.

The World Bank [has ranked](#)<sup>2</sup> Lebanon's economic and financial crisis among the top ten—probably top three—most severe since the mid-nineteenth century. Its gross domestic product shrank by 20 percentage points in 2020 to \$33 billion. The country's [national debt](#)<sup>3</sup> is over \$95 billion—or about three times the current GDP—accumulated over the last three decades mainly from government borrowing from the local market and selling bonds. In March 2020, the Diab government defaulted on some Eurobonds, precipitating a global boycott of Lebanon's financial markets and drying up investments.

Since the end of 2019 when the latest fiscal and monetary troubles began, the national currency, the lira, began its slide against the US dollar and other hard currencies, [losing 90 percent](#)<sup>4</sup> of its value. Inflation has soared to unprecedented levels, affecting the vast majority of Lebanese who earn their wages in the devalued lira; it averaged 85 percent in 2020. Banque du Liban (the country's central bank) is short on foreign currency reserves to help control the exchange rate or pay for imports. The caretaker government has already [cut subsidies](#)<sup>5</sup> on fuel and is on its way to do so on other commodities in the near future, which will further devastate the lives of ordinary citizens.

What cannot be discounted as contributing to Lebanon's crises is the presence of [some 865,000](#)<sup>6</sup> refugees from Syria who fled when the Syrian revolution began in March 2011, but the actual number is closer to 1.5 million. They constitute an additional burden on services and infrastructure in Lebanon, especially humanitarian assistance, healthcare, education, and employment, among others.

### **Some Policy Implications of Lebanon's Crises**

The unfortunate — indeed, intentional and irresponsible — stalemate over the formation of the government is impeding both the process of reforming Lebanon's political and economic systems and the willingness and ability of outside actors to help the country. But the deadlock has specific serious implications for policy formulation and implementation in both politics and economics.

First, prolonging the creation of an effective government further weakens the Lebanese state and its institutions. This is starkly manifest in the current crisis felt by the Lebanese army which stands today as arguably the last unified and cohesive institution in the country. The government's inability to control inflation and institute a reform agenda has led to the erosion of the purchasing power of enlisted officers and soldiers, threatening their livelihood and consequently their commitment to their mission.

To help mitigate this threat, France [recently organised](#)<sup>7</sup> an international conference to aid the Lebanese armed forces, not with weapons and military hardware, but with funding for food, medicine and healthcare, and services. The army is the last bastion against civil disorder which is a distinct possibility given the deteriorating economic situation. It also is the last institution that may, just may, be able to prevent the complete takeover of the country by Hezbollah, Iran's proxy in Lebanon. The army's survival is indeed essential for Lebanon's western orientation and friendship with France and the United States, among other countries.

Second, the continuing economic downturn will very likely lead to the collapse of Lebanon's free market economy. There practically is no economic activity in the country. Commercial banks [are failing](#)<sup>8</sup> — they do not have the funds to lend — while the central bank lacks the ability to control the money supply. Shortages of fuel, electricity, and essential and non-essential consumer goods negatively impact transportation, industry, tourism and the hospitality business, and construction, among other activities. The healthcare sector — once the pride of the country — is suffering from [shortages of medicines](#)<sup>9</sup>, the flight of doctors and nurses who emigrate for secure job opportunities, and deteriorating infrastructure.



Figure 3 Soldiers of the Lebanese armed forces, Wikimedia Commons

Third, this economic and political malaise is helping to create social ills and fractures that are in danger of becoming sectarian schisms. Poverty has reached unprecedented levels; the World Bank [estimates](#)<sup>10</sup> that 45 percent of Lebanese are poor and 22 percent live in extreme poverty. Unemployment was [39.5 percent at the end of 2020](#)<sup>11</sup> but wage earners continue to struggle with their meagre salaries. [Criminal activity](#)<sup>12</sup> has increased and [smuggling to Syria](#)<sup>13</sup> is on the rise: of fuel, food, and other necessities. On July 1, 2021, the United Nations International Children's Emergency Fund (UNICEF) [reported](#)<sup>14</sup>, among other things, that 30 percent of Lebanese children went to sleep hungry or did not receive healthcare last month; 77 percent of households did not have enough money to buy food; 77 percent are from families that do not receive any assistance; and 15 percent of children could not go to school.

## Recommendations

In today's interconnected world, hardly any country's problems are devoid of the impact of foreign interference. Lebanon's are no different. But it must be ascertained that the country's current crises are first and foremost the result of domestic factors, including the increasingly limited political space for compromise, mismanagement, neglect, and irresponsibility. If Lebanon is to escape the vagaries of its current conditions, the Lebanese — politicians and people, economic elites, political parties, indeed, all — must find the necessary compromises and take responsibility for their own wellbeing.

In addition, the international community would do well to participate in Lebanon's recovery through:

1. Concentrating on helping civil society actors, not the corrupt government, by funding their social programs and activities that have direct impact on people affected by the socioeconomic crisis.
2. Exerting pressure on Lebanese politicians—possibly imposing individual sanctions—so that they are forced to seek necessary compromises.
3. Increasing international direct assistance to the Lebanese army because it is one of the symbols of a unified Lebanese state and the last resort for law and order.

#### 4. Alleviating the burden of Syrian refugees in Lebanon by helping to work out a formula for their safe return to Syria.

\*\*\*\*\*

### References:

- <sup>1</sup> Kathryn Reid, "Lebanon: Beirut explosion facts and how to help," *World Vision*, August 18, 2020, at <https://www.worldvision.org/disaster-relief-news-stories/lebanon-beirut-explosion-facts-how-help> (accessed July 11, 2021).
- <sup>2</sup> "Lebanon Economic Monitor: Lebanon Sinking (to the Top 3)," *The World Bank*, Spring 2021, at <https://www.worldbank.org/en/country/lebanon/publication/lebanon-economic-monitor-spring-2021-lebanon-sinking-to-the-top-3> (accessed July 11, 2021).
- <sup>3</sup> "Lebanon's Economic Collapse in Numbers," *Naharnet*, March 17, 2021, at <http://www.naharnet.com/stories/en/280161-lebanon-s-economic-collapse-in-numbers> (accessed July 11, 2021).
- <sup>4</sup> "Lebanon's currency reaches new low as crisis deepens," *Associated Press*, June 14, 2021, at <https://abcnews.go.com/International/wireStory/lebanons-currency-plumbs-record-lows-crisis-deepens-78254500> (accessed July 11, 2021).
- <sup>5</sup> "Lebanon reduces critical fuel subsidies amid petrol crisis," *Al Jazeera*, June 25, 2021, at <https://www.aljazeera.com/economy/2021/6/25/lebanon-reduces-critical-fuel-subsidies-amid-petrol-crisis> (accessed July 11, 2021).
- <sup>6</sup> Omer Karasapan and Sajjad Shah, "Why Syrian refugees in Lebanon are a crisis within a crisis?" *Brookings Institution*, April 15, 2021, at <https://www.brookings.edu/blog/future-development/2021/04/15/why-syrian-refugees-in-lebanon-are-a-crisis-within-a-crisis/> (accessed July 11, 2021).
- <sup>7</sup> Donor Nations Line Up to Aid Bankrupt Lebanese Army," *Naharnet*, June 17, 2021, at <http://www.naharnet.com/stories/en/282140-donor-nations-line-up-to-aid-bankrupt-lebanese-army> (accessed July 11, 2021).
- <sup>8</sup> Will Lebanese banks crash Middle East finances?" *Deutsche Welle*, March 31, 2021, at <https://www.dw.com/en/lebanese-banks-financial-crash-middle-east/a-57061393> (accessed July 11, 2021).
- <sup>9</sup> Zeina Karam and Fadi Tawil, "No more Kidney dialysis? Lebanese hospitals issue warning," *Associated Press*, June 10, 2021, at <https://apnews.com/article/beirut-middle-east-lebanon-business-health-7ff67b0bc6154b0fc1eaca63c04baa21> (accessed July 11, 2021).
- <sup>10</sup> "Lebanon's downhill spiral hits the weakest," *Deutsche Welle*, January 18, 2021, at <https://www.dw.com/en/lebanons-downhill-spiral-hits-the-weakest/a-56239234> (accessed July 11, 2021).
- <sup>11</sup> "Lebanon's Economic Collapse in Numbers," op. cit.
- <sup>12</sup> Ibid.
- <sup>13</sup> "Lebanon-Syria: Smuggling and sanctions, the new front line," *France24*, April 16, 2021, at <https://www.france24.com/en/tv-shows/reporters/20210416-lebanon-syria-smuggling-and-sanctions-the-new-front-line> (accessed July 11, 2021).

<sup>14</sup> “Lebanon: Escalating crisis puts children at risk...” UNICEF, July 1, 2021, at <https://www.unicef.org/lebanon/press-releases/lebanon-escalating-crisis-puts-children-risk-majority-families-cannot-afford-meet> (accessed July 11, 2021).

\*\*\*\*\*

## About the author

Imad K. Harb is a political and strategic analyst specialising in Levantine, the Arabian Peninsula, and Egyptian affairs, and in Arab-American relations. He is Director of Research and Analysis at Arab Center Washington DC and sits on SAGE International’s Advisory Board. Imad was also adjunct professor of Middle East studies at the Center for Contemporary Arab Studies at Georgetown University and Senior Researcher at the ECSSR, Abu Dhabi UAE.

*The views expressed here are the author’s and may not necessarily represent the views of SAGE International*



This work is licensed under [Commons Attribution-NonCommercial-NoDerivatives 4.0 International License](https://creativecommons.org/licenses/by-nc-nd/4.0/).

## About SAGE International

[SAGE International](https://www.sageinternational.org.au/) is an independent not-for-profit think-tank based in South Australia specialising in defence, international affairs and security. We provide accessible knowledge and encourage broad-based discussion among policymakers and industry, particularly those engaged in defence, space, cyber and export sectors. We equip and empower organisations with the knowledge and skills to navigate complex regulatory environments. And finally, we also explore and analyse issues often overlooked or forgotten by mainstream thinking that can cause unforeseen Black Swan events.

### MORE INFORMATION AND ENQUIRIES:



[sageinternational.org.au](https://www.sageinternational.org.au)



[enquiries@sageinternational.org.au](mailto:enquiries@sageinternational.org.au)



[twitter.com/sageintl66](https://twitter.com/sageintl66)



[linkedin.com/company/sage-international](https://www.linkedin.com/company/sage-international)



[facebook.com/SAGEInternationalAU](https://www.facebook.com/SAGEInternationalAU)