

Lebanon: How the Post War's Political Economy Led to the Current Economic and Social Crisis

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Lebanon: How the Post War's Political Economy Led to the Current Economic and Social Crisis*

Joseph Daher**

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Executive Summary

Lebanon's economy has been getting weaker since the financial crisis of October 2019. The rate of poverty rose from 25% in 2019, to 74% in 2021. This has mainly been the result of the depreciation of the Lebanese pound and of the incremental lifting of subsidies, especially on oil derivatives, since June 2021.

The roots of the current crisis in Lebanon are, however, to be found in the country's political economy and the way it has developed since the end of the Lebanese Civil War. There has been a consistent emphasis placed on deeper integration into the global economy and, likewise, on private-sector growth. These neoliberal policies have reinforced certain historical features of the Lebanese economy: a development model focussed on finance, real estate and services, in which social inequalities and regional disparities have become pronounced.

These policies have accentuated spatial and social inequalities in Lebanon and are closely linked to the heavily financialised nature of the country's political economy and the marginalisation of important sectors such as agriculture and industry. The economic and political elites of sectarian communities benefited most from these policies through the various privatisation schemes and through, too, the clientelist allocation of state contracts.

Neighbouring and Western states also played an important role in the economic trajectory of Lebanon. Regional foreign capital inflows have helped to strengthen the position of various bourgeoisie factions in the country. In addition, international actors, both states and monetary institutions, have played a significant role in consolidating the ruling elite and the neoliberal system in Lebanon.

The financial crisis of October 2019 has only reinforced Lebanon's economic limitations, while the social and health consequences of all this have also been dramatic. In this context, potential lessons can be learned for Libya from Lebanon's post war experience. Lebanon is, indeed, far from unique in this respect. A number of countries, emerging from wars and/ or severe crises have pursued and/or deepened economic liberalization, often with the assistance of international financial institutions.

Introduction

Lebanon's economy has been getting weaker since the financial crisis of October 2019.¹ In the midst of this crisis, in August 2021, an explosion in the port at Beirut left more than 200 dead, more than 6,500 injured and 300,000 homeless. This tragedy made an already dire socio-economic situation unimaginably worse. The rate of poverty shot up from 25% in 2019, to 74% in 2021. Foreign workers² subjected to the kafala system, and Syrian refugees³ also saw conditions deteriorate. This has mainly been the result of the depreciation of the Lebanese pound and the incremental lifting of subsidies, especially on oil derivatives, since June 2021. Lebanon recorded one of the highest inflation rates in the world in 2021, with a rise of 137.8% in the consumer price index between August 2020 and August 2021, and the Lebanese pound has devalued 90% since the beginning of the crisis.⁴ The current Lebanese economic and financial crisis is likely to rank in the top 10, possibly in the top three, most severe financial global crises since the mid-nineteenth century.⁵

Lebanon has suffered different periods of instability in the past three decades. There was, for example, the assassination of Rafiq Hariri on 14 February 2005, which was followed by the Israeli war on Lebanon in the summer of 2006. The Israeli attack resulted in the death of more than 1,100 people, the displacement of over a quarter of the Lebanese population, and an estimated \$2.8 billion in direct costs with more than 60% of the damage affecting the housing sector.⁶ The Syrian uprising in 2011 and rising tensions between Saudi Arabia and Iran have also had negative consequences for the Lebanese economy.

The roots of the current crisis in Lebanon are, however, to be found in the country's political economy and the way it has developed since the end of the Lebanese Civil War. There has been a consistent emphasis placed on deeper integration into the global economy and, likewise, on private-sector growth. These neoliberal policies bolstered certain historical features of the Lebanese economy: a development model focussed on finance, real estate and services, in which social inequalities and regional disparities have been very pronounced.

Lebanon is far from unique in this respect. A number of countries, emerging from wars and/ or severe crisis have taken the opportunity to pursue and/or deepen economic liberalization, often with the assistance of international financial institutions. As argued by professor Adam Hanieh, these policies should not be considered as merely "technocratic". Rather they are attempts "to restructure and push forward changes in ways that were previously foreclosed and significantly extend the reach of the market in a range of economic sectors that have hitherto been largely state dominated".⁷

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- 1 A massive protest movement erupted in Lebanon in October 2019, when the government announced new taxes, including on instant messaging applications like WhatsApp. At the same time, the Ponzi scheme run by Lebanese banks since the early 1990s, offering high interest rates to attract US dollar deposits and then lending the money to the government, came to an end with the crisis.
 - 2 Most of these workers are African and Southeastern Asian women. Their demands for repatriation have increased, especially after hundreds of them were recently abandoned by their employers and dumped in front of their consulates, often without money, food, or even their official documents. A number of obstacles prevent many people from leaving, including the cost of airfare, unpaid wages, and the failure of employers to return passports.
 - 3 Nearly 91% of Syrian refugees lived on less than \$3.80 a day at the end of 2020, while out of every 10 Syrian refugee families, nine had reached levels of extreme poverty, compared to 55% in 2019, according to UNICEF.
 - 4 UNESCWA (2021), "Multidimensional poverty in Lebanon (2019-2021), "Painful reality and uncertain prospects", <https://bit.ly/3nAPukF>
 - 5 World Bank (2021), "Lebanon Sinking into One of the Most Severe Global Crises Episodes, amidst Deliberate Inaction", 1 June, <https://bit.ly/3nQbmJi>
 - 6 United Nations Development Programme (UNDP) (2009), "The National Human Development Report 2008-2009: Towards a Citizen's State", <https://bit.ly/3xsntzq>, p. 42.
 - 7 Hanieh, Adam (2018), *Money, Markets, and Monarchies: The Gulf Cooperation Council and the Political Economy of the Contemporary Middle East*, Cambridge, UK, Cambridge University Press.

This paper relies on a vast literature of books, reports, newspaper and media articles published in Lebanon, as well as on academic papers and reports by research centres and monetary institutions. It first presents a brief history of the roots of the Lebanese political system, with its sectarian distribution of power, and of the country's economic development model. It then examines the evolution of Lebanon's political economy after the end of the Civil-War and its deepening neoliberal policies. The role of the Lebanese ruling elites and of regional and international actors in favouring and consolidating the country's political economy is also studied. Finally, the paper looks at the lessons that countries exiting war could usefully learn from the Lebanese experience.

1. The Foundations of Lebanese Political Economy – A Deepening of Neoliberal Economics

The two main characteristics of the Lebanese state, even prior to independence, have been its sectarian nature and its liberal economics. These features were accentuated following the Civil War.

1.1. The National Pact and the roots of the Lebanese economic model

In September 1920, with the collapse of the Ottoman Empire, the country of Greater Lebanon was established under the authority of the French Mandate. During France's occupation of the country, the sectarian nature of Lebanese state institutions was consolidated, as well as its role as an economic intermediary with Syria. Following the independence of the country in 1943, power was divided between different religious communities. This was based initially on the National Pact, an unwritten understanding between Maronite and Sunni leaders, and the Constitution of 1926.⁸ Both documents assert political representation along sectarian lines and confirm the Maronite community's control of the higher echelons of the state. The President, according to the Constitution, has to be Maronite, and had broad powers, while Christian deputies also have a majority in the parliament in a 6:5 ratio to Muslims. At the time, this reflected the country's demography, as well as the domination of the Maronite bourgeoisie over much of Lebanon's economy, something which would last until the Civil War.⁹

Lebanese state institutions have played a significant role in consolidating and fuelling sectarianism in society to serve the ruling elites' interests. This system of laws and this political framework, which are governed along religious and patriarchal lines, preserve divisions within society and, therefore, the rule of sectarian elites. Institutions sustain divisions in the country. Different rights and duties depend on one's religious identity and ethnicity. This system (like all instances of sectarianism) is an instrument for keeping the popular classes subordinated to Lebanon's ruling political parties.

The country's sectarian system emerged with Lebanese capitalism (which in turn was interconnected with colonial rule). As a result of its intermediary position between the West and the Arab world, the Lebanese economy was dominated by the service sector, in the decades after independence in 1943, which in 1976 constituted 72% of the Lebanese economy.¹⁰ Within this sector, banking was dominant. Compared to finance and services, industrial production was limited, growing only minimally from 14.52% of GDP in 1950 to 16.7-18% in 1974. Lebanese industry evolved much as a typical dominated

8 This sectarian distribution of power has its origins in the mid nineteenth century and was constructed in the context of European domination and Ottoman reforms. Its creation included the colonial (Europe), imperial (Ottoman) and local (Lebanese) echelons.

9 In 1973, the Christian bourgeoisie owned 75.5% of commercial companies, 67.5% of industrial companies and 71% of Lebanese-owned banks. Despite these differences, it is important to note that the gap between the Christian and Muslim populations had nonetheless narrowed between independence and the Civil War; it would be wrong to ascribe class position solely on the basis of affiliation to sect (Labaki, Boutros 1988b, "L'Economie Politique du Liban Indépendant, 1943-1975", in Mills H. D. and Shehade N. (eds.), *Lebanon: a History of Consensus and Conflict*, Oxford: I. B. Tauris, p.166).

10 Dubar, Claude and Nasr, Salim (1976) *Les classes sociales*, Paris: Presses de la Fondation Nationale des Sciences Politiques, p. 67.

developing economy (or the periphery) in the period, with most production concentrated in low-wage light industry.¹¹ The agricultural sector was dominated by large landowners and mirrored the commercial and financial bourgeoisie, with their close ties to Western capital. The relative share of agriculture in the national economy declined from 20% of the GDP in 1948 to less than 9% in 1974, while the share of the working population in the sector decreased from 48.9% in 1959 to 18.9% in 1970.¹²

By the early 1970s, Lebanese society was characterised by pronounced social, regional and sectarian inequalities, the result of its economic model and certain historical factors.¹³ It was estimated in 1959-1960 that 4% of the “very rich” were seizing 33% of national income, while the poorest 50% of the population only 18%.¹⁴ Another indicator of these inequalities was that 84% of all savings belonged to 3 to 4% of households until the mid 1960s.¹⁵ Following independence, control of the state and the economy continued in the hands of a narrow oligarchy. Between 1920 and 1972, deputies in the Parliament represented some 245 of Lebanon’s most prominent families. By 1972, and after nearly 50 years of parliamentary life, there were 359 MPs: 300 of these had inherited their seat because of family ties. Meanwhile, great disparities remained between the centre (Mount Lebanon and Beirut) and the periphery (the outskirts of Beirut, the South of Lebanon, Akkar and the Bekaa). The annual *per capita* income in Beirut was estimated at \$803 in the early 1970s, while in South Lebanon it did not exceed \$151.¹⁶

The ruling economic and political elites in Lebanon have depended on this sectarian political system and the country’s liberal economics to expand their power, something which was reinforced following the end of the Civil War.

1.2. The Ta’if Agreement: The Consolidation of the Lebanese Neoliberal Model in the Post Civil War Period

The Ta’if agreement¹⁷ of 1989 which came at the end of the Civil War,¹⁸ constituted a new political consensus between the Lebanese elites. It consolidated the sectarian division of power, while reinforcing the position of the Sunni and Shi’a in the political system.¹⁹ Lebanon’s political economy was marked by a fragile sectarian system dominated by a growing Sunni bourgeoisie. These wealthy Sunnis were led by Rafiq Hariri and various militias that ruled over much of the country as a result of the Civil War (see below).

Political transformations involved an expansion in the Prime Minister’s powers (a Sunni Muslim), while

11 Ibid. pp. 76-80.

12 Nasr, Salim (1978), “Backdrop to Civil War: The Crisis of Lebanese capitalism”, *MERIP Reports*, No. 73, p. 13.

13 The periphery of Lebanon (Bekaa, North and South), are largely Muslim and are less developed than, for instance, Maronite Mount Lebanon. These areas had not yet experienced the social disruption, peasant revolts or rapid expansion in export farming that had already transformed Mount Lebanon as it had been integrated into the world capitalist economy as far back as the nineteenth century.

14 The French mission of inquiry IFRED (Institut Français de Recherche et d’Etudes du Développement) cited in Farsoun, Karen and Farsoun, Samih (1974), “Class and Patterns of Association among Kinsmen in Contemporary Lebanon”, *Anthropological Quarterly*, Vol. 47, No. 1, pp. 95-96.

15 Gaspard, Fouad (2004) *A Political Economy of Lebanon, 1948-2002: The Limits of Laissez-Faire*, Leiden: Brill, p. 76.

16 Traboulsi, Fawaz (2007), *A History of Modern Lebanon*, London: Pluto Press, p. 161.

17 The Ta’if Agreement of 22 October 1989 was the outcome of a Saudi, US and Syrian agreement imposed on Lebanese deputies.

18 The Lebanese Civil War lasted nearly 15 years and resulted in the deaths of 71,328 people, with a further 97,184 injured. The demography of Lebanon was modified during this period with displacements, from certain cantons, of 670,000 Christians and 157,500 Muslims. This meant an increasing sectarian homogeneity in the various districts and a corresponding segregation of the population along sectarian lines – patterns that would endure into the post Civil War environment. No more than 30% of the displaced were to return to their homes after the Civil War. Moreover, nearly a third of the population of Lebanon, estimated at 894,717 people, left the country during the Civil War.

19 In addition, the Ta’if Agreement allowed Syria *de facto* hegemony over the country, a situation that was endorsed by the US in 1990 following Syrian participation in the US/UN-led military operation against Iraq in that year.

the powers of the President (a Maronite Christian) were reduced. These changes not only reflected demographic changes, but also the weakening of the Maronite bourgeoisie and the rise of the Sunni and Shi'a equivalents. Furthermore, the Muslim-Christian ratio in the new Lebanese Parliament increased to 6-6, up from 5-6. The term of the Speaker in the Lebanese Parliament, occupied by a Shi'a, was raised to four years (and the speaker protected from being voted out during the first two years).²⁰

The Ta'if Agreement also considerably deepened the country's economic liberal order, with an emphasis on increased integration into the global economy. In this context, neoliberalism in Lebanon was emphasised opening up the economy to foreign investment flows. These were primarily aimed at the banking, financial and real estate sectors, further deepening the heavily financialised nature of the economy, while diminishing the weight of the agricultural and manufacturing sectors. In this respect Lebanon followed the general economics dynamics of the MENA region since the early 1990s, with the privatization and liberalization of public goods, particularly in trade, real estate and financial sectors.

1.3. Rafiq Hariri's Era

Plans for reconstruction started to take meaningful steps forward after Rafiq Hariri's became Prime Minister in 1992. Hariri's vision for Lebanon's political economy aimed at the liberalisation of capital flows and the deregulation of the tax system as a way to entice foreign capital to invest in economic infrastructure.²¹

The major outlines of the Hariri government's reconstruction plans were described in a document called "Horizon 2000, for Reconstruction and Development". This was a sectoral and regional expenditure program of \$14.3 billion that lasted from 1993 to 2002. In 1994, the program budget rose to \$18 billion over a thirteen-year period extending from 1995 to 2007.²² The geographic allocation of reconstruction funding reflected similar regional inequalities to those in play prior to the Civil War. Eighty percent of investments were made in Beirut and Mount Lebanon .

These projects were characterised by the blurring of lines between public and private property and they entrenched Hariri's expanding political and financial power. The most notorious example of this is the case of the private company Solidere. The Hariri family was the most important shareholder in Solidere and the leading force in lobbying for the firm. Solidere was offered exclusive rights to rehabilitate infrastructure and to build the downtown business area in Beirut, and property owners claimed that Solidere forcefully acquired their properties at less than their market value.²³ The main objective of the Solidere project was profit maximisation with the aim of providing for the high-end and luxury segment of the market: hotels, retail, and residential developments. Hariri's reconstruction of Beirut City Centre sought to present it as the sole viable option for Beirut once again to become a centre of international finance and trade.²⁴

By the late 1990s and the early 2000s, a new set of neoliberal policies and austerity measures, were implemented in order to officially tackle the heavy fiscal burden of rising public debt and a relatively high debt service. By 1996, government wages in public administrations were blocked and automatic wage increases were terminated. In this context, real wages decreased considerably as a result of rising inflation (prices rose by about 120% from 1996 to 2011).²⁵ In addition, a new 10% VAT was put on goods and services. Furthermore, the government, in 2001, diminished the share paid by employers to

20 Traboulsi, Fawwaz (2014), "Social Classes and Political Power in Lebanon", *Heinrich Boll Stiftung*, <https://bit.ly/3CTA27D>, p. 72.

21 International Crisis Group (ICG) (2010), "Lebanon's Politics: the Sunni Community and Hariri's Future Current", <https://bit.ly/3577TfL>

22 Makdissi, Samir (2004), *Lessons of Lebanon: The Economics of War and Development*, London: I.B Tauris, p. 119.

23 Ibid. p. 83

24 Mango, Tamam (2004), "Solidere: The Battle for Beirut's Central District", *Massachusetts Institute of Technology. Dept. of Urban Studies and Planning*, <https://bit.ly/3INy8tJ>

25 Zaraket, Maha (2014), "A B Series Ranks and Salaries" (in Arabic), *Al-Akhbar*, <https://bit.ly/3DOPOIO>

the National Social Security Fund (NSSF) from 38.5% to 23.5%.

Privatisation intensified in the early 2000s with a new law, which created a Higher Privatization Council, which would sell off public-sector companies. In 2002, new legislations for the privatization of the electricity, telecommunications, and water sectors were adopted. During this period, the state TV station and Middle East Airlines (MEA) were also restructured, resulting in 2,000 redundancies.

As part of the Hariri government's attempt to encourage Foreign Direct Investment (FDI), a new law on investments was enacted in 2001 that set up a "One stop shop" for private investors.²⁶ Another law was also adopted seeking to attract "bien fonds", or property funds: restrictions on property ownership were removed and taxes for foreign investors were set at a similar level to those for Lebanese citizens.

1.4. Lebanon After Hariri

Successive Lebanese national governments pursued similar types of policies following the withdrawal of the Syrian army from Lebanon in 2005. For instance, in 2017, law number 48 regulating public-private partnerships (PPP) was adopted. The PPP initiatives involved, among other things, the management of parking meters in Beirut, duty free at Rafiq Hariri International Airport, solid waste management, and postal services.²⁷

With policies like these, services had come to account for 78.85% of GDP by 2019, with manufacturing at 5.6% and agriculture at 3%.²⁸ This weakness in the productive sectors was reflected as well in the dependence on foreign capital inflows and remittances from the Lebanese diaspora. FDI has been mostly concentrated in real estate and tourism-related investment for the past two decades, while they have averaged between \$2 and \$3 billion since 2010.²⁹

Another significant source of foreign capital came from Lebanese expatriates, with remittances constituting an average of 15 and 20% of GDP through the 2010s. Remittances remained, over the years, of paramount importance to the Lebanese economy, with an influx reaching, annually, an average, since 2008, of nearly \$7 billion and representing at its highest 24.66% of the GDP in 2008.³⁰ Between 2005 and 2015, Lebanon had attracted about USD 94 billion of capital. Around USD 72 billion of these funds, representing 70% of the total, served to purchase real estate and imported consumer products, while about USD 22 billion were placed in banks, mainly to fund the State's debt (see below).³¹

The political economy of Lebanon in the post Civil War period continued to be characterised by growing socio-economic inequalities. The structure of bank deposits reflected this: as of 2018, 0.8% of accounts (24,421 accounts) controlled 51.8% of deposits (\$85,286 billion), while 60.5% of accounts (1,749,104) controlled only 0.5% of deposits (\$935 million).³² Moreover, around 44% of the Lebanese population lacked, in 2019, any health insurance coverage according to the Central Statistics Office, while temporary foreign workers, who are estimated to number more than one million, had no social protection.³³

26 Nasnas, Roger (2007), *Le Liban de demain, Vers une vision économique et sociale*, Beirut: Dâr An-Nahâr, p.87

27 Kostanian, Albert (2021), "Privatization of Lebanon's Public Assets, No Miracle Solution to the Crisis", *Issam Fares Institute for Public Policy and International Affairs*, <https://bit.ly/3DKajza>, p.13

28 World Bank Data, "Lebanon", <https://bit.ly/3G5mrwf>

29 The share of FDI in GDP reached 13.6% in 2009, amounting to about \$4.8 billion, which constituted the highest amount of FDI in the post Civil War period. One of the main reasons for the subsequent diminution in FDI are that large flows of investment have halted from one of Lebanon's key sources of capital, the Gulf Cooperation Council countries.

30 World Bank Data, "Lebanon", <https://bit.ly/3G5mrwf>

31 Muriel Rozelier and Sahar al-Attar (2019), "From a Merchant Republic to Rentier Capitalism – A Story of Failure", *Commerce du Levant*, <https://bit.ly/3oVpam2>

32 Nabil Abdo, Dana Abed, Nizar Aouad and Bachir Ayoub (2021), "The IMF and Lebanon: The Long Road Ahead", *OXFAM*, <https://bit.ly/3EdR7L>

33 Central Statistical Office (2019), "Health, Insurance & Disability", <https://bit.ly/310vI9A>

Furthermore, half of workers and more than a third of the country's farmers found themselves below the poverty line in 2018, while informal workers, who do not benefit from any protection from their employers, represented 55% of the workforce.³⁴

There were significant regional inequalities. Peripheral areas, such as Northern Lebanon, the Beqaa Valley, and Southern Lebanon remain marginalised and underdeveloped, while Beirut and Mount Lebanon are still the motor of economic growth. According to the Central Administration for Statistics (CAS) in 2012, there were only 17,000 (commercial) establishments in the Northern Lebanon governorate, compared to 73,000 in Mount Lebanon and 72,000 in Beirut.³⁵ Northern Lebanon hosted in 2015 only 2,000 or 7% of the industrial manufacturing companies operating in the country, according to the Association of Lebanese Industrialists. This was a much lower proportion than that of Mount Lebanon (65%) over an equivalent area, while Beirut alone hosts 12% of the total. At the end of September 2017, 53% of the 630,000 people of working age in northern Lebanon were unemployed, according to a World Bank report.³⁶ Poverty has been most acute in some parts of northern Lebanon, in particular Tripoli and its outskirts. In the city of Tripoli, the poverty rate was estimated to stand at 60% by the end of 2019. Health care is substandard, while dropout rates, unemployment, and female illiteracy are among the highest in the country. No large-scale development project has occurred since the 1990s.³⁷

More generally, Lebanon has one of the most unequal wealth distributions in the world, and one of the highest concentrations of billionaires *per capita*. In 2019, the top 10% of adults owned 70.6% of the country's wealth.³⁸ At the same time, the top 10% of the country's wealthiest individuals received between 49 and 54% of national income between 2005 and 2016: the middle 40% earned 34%, and the poorest 50% of the population (including refugees and foreign migrant workers) received between 12 and 14%.³⁹ This concentration of power was also reflected in the Pandora Papers leak in which the names of hundreds of Lebanese officials, politicians, and businessmen, including the current Prime Minister Nagib Miqati appeared. The Pandora Papers revealed how the international financial elite hide their wealth in opaque offshore tax havens.⁴⁰ Lebanon's 346 companies are actually the most important client of Trident Trust, a specialist in offshore company domiciliation. By comparison, the United Kingdom, which comes second, is far behind with 151 companies.⁴¹

34 Central Statistical Office (2019), "Labor Force Statistics", <https://bit.ly/310vl9A>

35 Abou Zaki, Rasha (2012), "Hundred Years Journey in Search of Food" (in Arabic), *Al-Akhbar*, <https://bit.ly/3FRcnGX>

36 Hage Boutros, Philippe (2017), "Les Industriels lorgnent le Liban Nord", *Orient le Jour*, <https://bit.ly/3cT0800>

37 El-Hage, Anne Marie (2021), "Tripoli, une Ville Livrée à la Pauvreté", *Orient le Jour*, <http://bit.ly/3qe8CUH>

38 UNESCWA (2020), "Poverty in Lebanon: Solidarity is Vital to Address the Impact of Multiple Overlapping Shocks", <https://bit.ly/32r9qhP>

39 World Inequality Base (2021), "Income Inequality, Lebanon, 2005-2014", <https://bit.ly/3EXSEFn>

40 International Consortium of Investigative Journalists (2021), "Pandora Papers", <https://bit.ly/3JMqn7S>

41 Hazem al-Amin and Hala Nasreddine (2021), "Pandora's Box Opens the Lid on Bankrupt Lebanon", *Daraj Media*, <https://bit.ly/3lorx8H>

2. The Role of Local, Regional and International Actors in Strengthening the Neoliberal Economic System

Lebanese neoliberalism, in the three decades following the Civil War, has been characterised by its urban-led restructuring and the financialisation of the economy, connected to foreign capital inflows. Lebanese economic features and neoliberal policies have been supported and reinforced by various regional and international actors. This resulted in the financial and economic crisis of October 2019.

2.1. Local Political Actors Supporting and Benefiting from Lebanese Neoliberalism

A new economic elite emerged in Lebanon during and after the Civil War and came to rival the commercial and financial bourgeoisie, who had fled the country during the conflict. As a result, a new bourgeoisie formed around the fusion of different sections of capital: wealthy “Gulf entrepreneurs” who had amassed large fortunes in the Gulf (the most prominent being Rafiq Hariri); rich émigrés returning to the country (especially Shi’a from West Africa); and some war profiteers and new wealthy businessmen who were associated with the militias. Moreover, there were now stronger relationships between the Gulf Cooperation Council (GCC) and the Sunni bourgeoisie.

Rafiq Hariri epitomised this pattern. Hariri had strong links with Saudi Arabia, and had amassed a large fortune in the Saudi construction and public works sector. In Lebanon, he established an independent network of services and charitable activities, including the provision of education, healthcare, jobs, food and financial aid, targeting Sunni communities, but spreading his largesse in other communities as well.⁴² This business network gave him a social base in the country’s clientelist system.

More generally, the clientelist nature of the political system was strengthened in the post Civil War period with social services and public employment being used in order to boost the popular bases of the country’s political parties. Posts at ministries and institutions were, for example, filled with partisan members and supporters. The nature of state employment was, however, rather unequal in terms of distribution through the different institutions, as out of 300,000 Lebanese public employees in 2019, between 120,000 and 150,000 were active in the security forces and the Lebanese Armed Forces.⁴³ Salaries and benefits for military personnel accounted for the most important budget line in public sector employment, reaching 63.1% in 2017.⁴⁴ At the same time, new institutions were established after the Civil War, including the Council for Development and Reconstruction, the Fund for the Displaced, and the South Fund, each serving particular political parties.

The various factions of the Lebanese bourgeoisie were, for the most part, involved in sectors such as banking, trade (both imports and exports) and real estate development/construction through large family-owned conglomerates. This sectoral distribution of economic interests is linked to the form of neoliberalism discussed above. It has also been marked out by the strong interpenetration of both the political and economic spheres, with these large families straddling high-ranking positions in banking, commerce and government. Perhaps the most striking example is that of Saad Hariri, head of the Future Movement and majority shareholder of BankMed (42.24%). The bank’s board of directors is chaired by its former finance and interior minister, Raya al-Hassan.

42 International Crisis Group (ICG) (2010), “Lebanon’s Politics: the Sunni community and Hariri’s Future Current” <https://bit.ly/3tOhFQZ>

43 According to a study by the daily an-Nahar in 2019, out of some 300,000 state employees, only 25,000 (8%) work in public administration, with the majority employed in the armed forces (40%), public institutions (such as Electricity of Lebanon or the Lebanese Tobacco and Tombacs Authority, 38%) and public education (15%). Moreover, a great number of state employees, outside of the armed forces, did not have any stable contract, but were engaged as “daily workers”.

44 Habib, Osama (2018), “Civil Servants End-of-Service Benefits a Time Bomb”, *Daily Star*, <https://bit.ly/3m48YNE>

His brother, Fahd Hariri, also owns 12.25% of Bank Audi, via FRH Investment Holding SA.⁴⁵

This cross-over between Lebanon's political and economic elites was seen in state policies, which benefited the banking sector. Successive governments offered very high interest rates on public debt securities, bought by Lebanese banks directly or through the Banque du Liban (BdL). On the other hand, these banks provided appealing rates to depositors, while working with relatively high margins. The system was ameliorated at the end of the 1990s to reach an artificially engineered USD-LBP peg in 1997, with the introduction of the parity of the Lebanese pound and the State's debt in dollars, which fuelled an inflow in capital. Between 1993 and 2019, the Lebanese state disbursed \$87 billion in interest to the banks. Over this period, public debt increased from \$4.2 to \$92 billion, a rise of more than 2000%, while bank assets expanded by more than 1300% (achieving a total of \$248.88 billion) and GDP by only 370%.⁴⁶ In addition, private banks' net profits expanded massively from \$63 million to \$2 billion between 1993 and 2018, a 3,000% increase.⁴⁷

Similarly, in post war Beirut and amid the reconstruction process, the presence of an economic elite, emerging from the real estate development sector, in the political arena, intensified. A study conducted by Gherbal platform, published in 2021, demonstrated the significance of real estate investment by the Lebanese elite by releasing a non-exhaustive list of properties owned by 66 Lebanese politicians, which held 1,792 properties, an average of 27 properties for each politician.⁴⁸ The real estate sector has proved the largest service sector, reflecting some 13.7% of GDP, on average, from 2004 to 2016.⁴⁹ The investments in the real estate and construction sectors corresponds and reflects more generally the speculative and commercial capitalism that dominates the region, a capitalism characterised, as Gilbert Achcar has set out, by short term profit goals.⁵⁰ Land speculation is driven by (1) the need to shelter investments in real estate; and (2) an economy of commercial and tourist services funded, in large part, by regional oil revenues, by capital and consumers alike from rentier states.

2.2 Role of Regional and International Actors in Consolidating the Lebanese System

Regional and Western states also played an important role in the economic trajectory of Lebanon. Regional foreign capital inflows have helped to strengthen the position of various bourgeoisie factions in the country.

Most significant in this respect has been investment from the GCC countries, further confirming the link between the Lebanese government and the Gulf monarchies (particularly under Hariri's leadership). Between 2002 and 2007, for instance, around 60% of FDI to Lebanon originated from the GCC. More than half of this Gulf FDI was in real estate, and the rest in services and banking.⁵¹ As a consequence of these FDI flows, Gulf capital has become a major shareholder in key Lebanese banks – including Audi Bank⁵²,

45 Maucourant Atallah, Nada and Tamo, Omar (2020), "Banquiers et Politiques, Une Grande Famille", *Commerce du Levant*, <http://bit.ly/3sDUtln>

46 Ibid

47 Nabil Abdo, Dana Abed, Nizar Aouad and Bachir Ayoub (2021), "The IMF and Lebanon: The Long Road Ahead", op. cit.

48 The leader of the Progressive Socialist Party (PSP), Walid Joumblatt, was at the top of the league based on the data collected, with 505 properties in his name, mostly in the Chouf. The Tripoli MP, Mohamad Kabbara, affiliated with the Future Movement, had 221 properties, mainly in North Lebanon and Yassine Jaber, an Amal MP and former Minister, with 186 properties spread between the South and Beirut, came after him. Hijazi, Salah and Tamo, Omar (2021), "Le Patrimoine Immobilier des Hommes Politiques au Liban, des Données Révélatrices", *Commerce du Levant*, <https://bit.ly/3ulQCn1>

49 Deutsche Gesellschaft für Internationale Zusammenarbeit (2019), "Employment and Labour Market Analysis Lebanon", <https://bit.ly/3m23hzy>, p. 24.

50 Achcar, Gilbert (2013), *Le Peuple Veut, une Exploration Radicale du Soulèvement Arabe*, Paris: Sindbad-Actes Sud, p. 102.

51 Association of Banks in Lebanon (2013), "The Lebanese Banking Sector, Pillar of Lebanon's stability", <https://bit.ly/3cNmXm1>

52 Gulf investors hold 23.72% of Audi Bank. These investors include the Al-Homaizi family from Kuwait 4.42% and the Al-Sabbah Family from Kuwait 3.21%, *Sheikh* Dhiab Bin Zayed Al-Nehayan from UAE 7.96%, Abdullah Ibrahim Al-Hobayb from the Kingdom of Saudi Arabia 5.76% and Mohammed Bin Dhoheyen Bin Abdul Aziz Al Dhoheyen from the Kingdom of Saudi Arabia 2.37%.

Blom Bank⁵³ and Credit Libanais.⁵⁴ The Hariri family reflected this connection with Gulf Capital and moreover, as Adam Hanieh has noted: “could be considered a subcomponent of Khaleeji (Gulf) Capital”, while adding that Hariri’s family main source of capital “accumulation is centered in its ownership of the Saudi-based construction company Saudi Oger, and the family holds Saudi citizenship. In this sense, the neoliberal trajectory of the Lebanese government – and the country’s economic penetration by Khaleeji Capital – are directly linked to the GCC’s political influence”.⁵⁵

Iran has massively funded Hezbollah, which led to the creation of a vast network of economic and social institutions connected to the party. But inflows of Iranian cash also led to the emergence of a new Shi’a bourgeoisie faction linked to the party through Iranian capital and investments. Other parts of the Shi’a bourgeoisie, both in Lebanon and in the diaspora, have also become increasingly implicated with Hezbollah because of its growing importance as a political and economic actor within the country.⁵⁶

International actors, both states and international monetary institutions, have played a significant role in consolidating the ruling elite and the neoliberal system in Lebanon. In the beginning of the 2000s, as the policies of Prime Minister Hariri were failing to revitalise the economy and reduce continuous growing public debt, the need for further external support became more and more significant.

France has been a key actor in this process. The first Paris I Conference was organised on 23 February 2001, with the support of international institutions such as the World Bank (WB), the European Investment Bank (EIB), and the European Commission. At this meeting, 500 million Euros were provided to Lebanon, in accordance with pledges by the Lebanese government to stimulate the economy by liberalizing and facilitating trade, with public expenditure, privatisations, attracting FDI and modernising the tax system.⁵⁷

A further meeting was called in Paris by then French president Jacques Chirac in November 2002. In preparation for this conference, the Lebanese government put forward a budget for 2003 that incorporated further expenditure cuts and revenue enhancing measures, including new taxes and fees. The measures envisioned in the document submitted to the Paris II Conference included plans for fully privatising the cellular phone system and energy sectors, and for transforming the fixed phone system and power sectors into commercial entities. At this conference, donor countries and institutions provided a total package of financial and developmental assistance of \$4.4 billion. The International Monetary Fund (IMF) was also given an important role in supervising financial assistance and implementing neoliberal measures in the country. In 2004 and 2005, the privatisation of the water sector, ports and airports through concession arrangements was agreed.

These plans were disrupted following the assassination of Rafiq Hariri on 14 February 2005, which was followed by the Israeli war on Lebanon in the summer of 2006. Political instability further increased after the resignation of Hezbollah ministers and their allies from the government in November 2006.⁵⁸

53 Saudi-Lebanese Ghassan Chaker, son of one of the bank’s founders, owns 4.83% of BLOM’s shares through Shaker Holding and his wife Nada Oweini (daughter of former Prime Minister and BLOM founder Hussein Oweini) owned 5% until 2014. Hussein Oweini was the first Saudi-Lebanese to become Prime Minister of Lebanon in 1951 and between 1964 and 1965. He was also a business agent for the Saudi royals between 1923 and 1947. Oweini continued playing this role even while he served as Prime Minister.

54 Credit Libanais’ ownership is split between EFG Hermes Holding, an Egyptian company whose largest shareholder is from the UAE, and CIH Bahrain Holding owned by Saudi investor Khaled Ibn Mahfouz.

55 Hanieh, Adam (2011), *Capitalism and Class in the Gulf Arab States*, New York: Palgrave Macmillan, p. 160.

56 See Daher, Joseph (2016), *Hezbollah: The Political Economy of Lebanon’s Party of God*, London: Pluto Press

57 Sherry, Hassan (2014), “Post-War Lebanon and the Influence of International Financial Institutions: A “Merchant Republic”, *Civil Society Knowledge Center, Lebanon Support*, <https://bit.ly/3q9OIXp>

58 On 11 November 2006, two Hezbollah ministers, in addition to three others (two from the Amal movement and one independent) resigned from Siniora’s government, protesting at what Hezbollah described as a lack of “power sharing”. Hezbollah demanded a national unity government in which it would hold with its allies at least one-third – plus one – of the total cabinet seats. This would enable it to veto any important decisions, such as the upcoming budget or the international tribunal on the assassination of former Lebanese Prime Minister Rafiq Hariri, which it opposed.

At the Paris III Conference on Assistance to Lebanon on 25 January 2007, the international community pledged \$7.6 billion in financial assistance in the form of loans and grants to the Lebanese government. The bulk of these loans, especially those provided by international institutions such as the WB and the IMF, were accompanied by strict conditions and were based on the implementation of the neoliberal reforms announced few weeks before by Prime Minister Siniora. However, because of internal political conflict, a number of privatisation processes were delayed.

A sort of Paris IV was held on 6 April 2018 in Paris: “Conférence économique pour le développement, par les réformes et avec les entreprises,” known as CEDRE and supported by France again.⁵⁹ This conference pledged more than \$11 billion in loans and grants for Lebanon. In return for these funds, the Lebanese government had to commit to public-private partnerships, reduced debt levels, and austerity measures. The government, for example, committed to reduce the deficit /GDP ratio by 5% over the next five years.

In total, 37 states and 14 international and regional organizations (IMF, World Bank, EU, etc.), as well as representatives of the private sector (General Electrics, CMA CGM, etc.), participated in CEDRE. Among the biggest donors were the WB, which pledged \$4 billion in loans over the next five years, and Saudi Arabia, which renewed a \$1 billion line of credit, which had not been spent. For its part, the European Union granted loans through its financial institutions: the EBRD granted 1.1 billion Euros over six years, and the EIB 800 million Euros in loans over five years. The EU also announced a donation of an additional 150 million Euros over three years.⁶⁰

The financial crisis in October 2019 did not change Lebanon’s economic direction, quite the opposite. With the organization of elections in 2022, Prime Minister Miqati has actually declared that one of the main tasks of his government would be to “implement the French initiative,” which had proposed (in September 2020) a series of economic reforms in return for international aid. This “French initiative” is based on “CEDRE” the Paris conference held in April 2018, mentioned above.

59 The CEDRE conference was part of a cycle of three conferences scheduled during the meeting of the international support group for Lebanon. The first, Rome II, was devoted to strengthening the Lebanese army and internal security forces. The one in Brussels, which took place at the end of April 2018, focused on Syrian refugees in Lebanese territory.

60 John Irish and Marine Pennetier (2021), “Lebanon Wins Pledges Exceeding \$11 Billion in Paris”, *Reuters*, <https://reut.rs/3Dqn0in>

Conclusion

Lebanon's neoliberal reform process began in the early 1990s following the end of the Civil War, was accelerated under Rafiq Hariri, and has been consistently followed by all subsequent Lebanese governments. These policies have aimed at attracting financial flows from abroad, with a focus on urban reconstruction as a main sectoral pivot of economic growth.

The outcomes of the Civil War have been used to deepen neoliberal reforms in the country. It is a trajectory supported by all the main political actors in Lebanon, international institutions such as the WB and the IMF (coordinated through the successive Paris aid conferences), regional investors (particularly from the Gulf states) and international actors (France). The consensus among these actors has been based on the need to protect and to advance their political and economic interests.

These policies have accentuated spatial and social inequalities in Lebanon and are closely linked to the heavily financialised nature of the country's political economy and the marginalisation of important sectors such as agriculture and industry. The economic and political elites of sectarian communities benefited most from these policies through the various privatisations schemes and clientelist allocation of state contracts.

The eruption of the financial crisis in October 2019 has only reinforced Lebanon's economic limitations. For example, a report by the Lebanese Center for Research and Agricultural Studies (CREAL) noted a "sharp and dangerous decline" in agricultural production from 2019 to 2020. The centre found that the value of agricultural production for fruit and vegetable crops was \$736.9 million in 2020 compared to \$1.1 billion in 2019, a 33% decline. For the beginning of 2022, a new contraction in the sector was expected by some farmers' associations.⁶¹ This will further increase the country's dependency on imported food products.⁶²

The social and health consequences of all this have also been dramatic, especially in a country with 55% of the population not covered by any form of health insurance. The share of Lebanese households deprived of health care surged to 33% from 9% in 2019, while the share of families who are unable to obtain medicines has increased to 52%. Most hospitals lack medicines and are operating at less than 50% of capacity because of their lack of energy resources; there have been oil shortages. In addition, nearly 40% of qualified doctors and 30% of nurses have already left the country permanently or temporarily since the end of 2019. This has been due to the continuous deterioration of living and working conditions.⁶³

Potential lessons can be learned for Libya from Lebanon's post war experience. Libya also suffers from an over predominance of one economic sector (oil)⁶⁴, just like Lebanon with the service sector, while it is similarly dependent on imports for essential products. The country continues to suffer from the unequal distribution of oil revenues according to the different regions of the country, while social inequalities and poverty levels are still significant.⁶⁵ State institutions and resources are used to consolidate the power of political elites. Finally, Libya's political scene remains regionally divided, as well, of course, as in other ways. As mentioned above, economic policies are not "neutral and technical measures".

61 Orient Today (2021), "Farmers' Association Head: Planting May Decrease by 70 Percent in the Next Season", <https://bit.ly/3Ghlsbf>

62 Lebanon is a net importer of food. Indeed, food accounted for nearly 20% of the country's total imports in 2020, according to the World Bank, and covered a wide range from wheat to rice, sugar, fruits and vegetables, and cattle.

63 Orient Le Jour (2021), "Près de 40% des Médecins et 30% du Personnel Infirmier Ont Quitté le Liban, Déplore l'OMS", <https://bit.ly/3pQcYT4>

64 Oil and gas counts for over 60% of Libyan aggregate economic output and over 90% of both fiscal revenues and merchandise exports. World Bank (2021), "Libya Economic Monitor", <https://bit.ly/3GnI0s9>

65 Some 1.3 million people (17.6% of the total population) needed humanitarian assistance in 2020. World Bank (2021), "Libya Economic Monitor".

Rather they reflect the domination of particular political elites and their economic direction. Economic outcomes should, therefore, be analysed from this perspective.

The need for political stability and the transition towards a democratic framework ought to be accompanied by an economic recovery and development plan for the country. This plan should try to diversify the economy, especially by strengthening the industrial manufacturing and agricultural sectors that could be key elements in stability for the economy and more generally for the country.⁶⁶ It would boost local production, decrease prices in general and create job opportunities, while reducing the rentier side of the Libyan economy. The absence of such measures might lead to negative consequences resembling, in some ways, Lebanon's crisis.

In conclusion, Libya's post war political economy should not be allowed to become a new source of conflict. Rather than deepening previous socio-economic and political inequalities, the country needs to tackle them.

⁶⁶ For example, state banks could provide concessionary loans to farmers and manufacturers (more especially SMEs) or the Libyan state could seek partnership with international actors (both states and non states) to invest in new technologies for machinery and equipment to be able to modernise technics of productions.

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