

Is it still possible to reconstruct Beirut?

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Lebanon does not have the means to reconstruct its port and city centre. The horrific 4 August explosion and the financial crisis are the result of a dysfunctional system put in place after the country's civil war. Foreign aid is needed for reconstruction, but more urgent still is the reform of a system that proved not only corrupt and criminal but profoundly dysfunctional.

Even before the blast at Beirut's port on 4 August, Lebanon was suffering from a profound financial crisis, with its banking system bankrupt, and the state massively in debt. The explosion of some 2700 tons of ammonium nitrate — a dangerous and explosive substance that had been stored without proper security measures at the port since 2013 — has caused 220 deaths and over 7,000 injuries, left 300,000 homeless, as well as wreaking damage to property estimated at several billions of dollars [1].

Lebanon, a mercantile country, does not have the means to rebuild the port. Since summer 2019, the country is in a profound financial crisis of its own making. It started with private banks that were having liquidity problems, which then stopped paying their depositors. The Lebanese currency, largely stable for the last three decades, entered a period of free fall, and since mid-2019 has lost some 80% of its value. In March this year, Lebanon defaulted on \$90bn of public debt, practically declaring bankruptcy.

At the time Lebanon defaulted, its debt to GDP (Gross Domestic Product, the size of its economy) ratio was 170%, making it the third most indebted country in the world. This was largely borrowed internally through state bonds issued by the central bank. While Lebanon had an important banking sector, the state's need for cash, and its inability to borrow from international sources, made the central bank pay high rates on internal borrowing: only 25% of bank investments went to investing in the private economy, while state bonds were forced to pay increasingly high rates — between 10% and 20% or even higher, at a time when interest rates were less than 1% or even negative elsewhere — to attract more dollar deposits. [2]

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This came at a cost. In the last few years, nearly half of government revenues were used to service this colossal debt. According to one account, this debt-servicing profited the banks and the political class behind them: from the budget every '\$9 that go straight to commercial banks out of every \$20 spent by the government' [3]. This system not only increased social discrepancies between a minority in power, or the well connected, and the vast majority of Lebanese, but it was also economically destructive. With high interest rates, banks preferred buying state treasury bonds with high yields guaranteed, than investing in economic and productive activities. The result was an economy that was based on imports, producing nearly nothing in return. In 2019, Lebanon had exported the equivalent of \$3.8bn and imported for \$20.3bn, with a huge trade deficit of over \$16bn.

Since the end of the war in 1990, Lebanon — or rather its political class — was spending far beyond its means. For example, the 2018 budget was \$16.4bn, and the budget deficit \$4.8bn — equivalent to 11% of the GDP. The gap between state revenues and expenditures was covered by increasing internal debt, but also by cash flows from Gulf states. Each political faction had a foreign sponsor assuring cash flow of hundreds of millions to sustain their clientelist relations. This came to an end in 2017 when Mohammad bin Salman placed the Lebanese prime minister under house arrest and stopped Saudi financial flows to Lebanon. It took one further year for the Lebanese financial system to collapse. Yet, in spite of the country's huge debt and meagre income, in 2017 the president signed a law increasing public wages, adding \$800m to the already unbearable state burden.

Lebanon accumulated its public debt through mismanagement, huge corruption and over-consumption. The financial deformations reflected the economic disequilibrium, the only surprise being that it survived for so long. The economy was deformed because of the compromises imposed on Lebanon at the end of its long civil war (1975-1990).

Liberal and sectarian

The financial crisis and the Beirut explosion reveal that post-war Lebanon is now dead: its institutions are being dismantled or destroyed. In the past, Lebanon played a unique role in the Middle East as a commercial and cultural bridge between the Arab East and European West. As most Arab states chose authoritarian political systems and nationalised their economies, Lebanon offered a liberal economy and banking secrecy, as well as cultural freedoms. Beirut was the centre of Arab media and book publishing, while its private universities were the most prestigious in the entire region.

This liberal Lebanon had a dark side: as a political system, Lebanon was the outcome of sectarian conflict and sectarian compromise. It started with the 1860 communal conflict between Maronites and Druze in Mount Lebanon, followed by the intervention of European powers, and compromise by a reformist Ottoman administration under Fuad Pasha. It established a power-sharing agreement between warring Maronites and Druze creating the Mutasarrifate of Mount Lebanon. The French Mandate (1923-43) added Beirut, Tripoli, Jabal Amel and the Bekaa Valley to Mount Lebanon, and privileged Maronite Christians in administration. The 1943 National Pact finalised the evolution of Lebanon: Maronites and Sunnis, instead of relying on Europe or pan-Arab unity, agreed to Lebanon's independence. Lebanon became a sectarian power-sharing arrangement, in which the Maronite political class had the final word, monopolising key posts including the presidency, head of the army and head of the central bank.

The agreement on the independence of Lebanon was a fragile one: Sunnis and Shia did not recognise the legitimacy of Christian rule and considered it the result of colonial intervention; instead, they were attracted by Jamal Abdel Nasser's pan-Arab promises or those of the Baathists. Economically, major discrepancies existed between educated and rather well off Christians in urban centres, and villagers in the south or Bekaa, often from the Shia community.

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Lebanon could have managed internal and external tensions, but only with diplomacy and highly skilled leaders, and these proved in short supply: Camille Chamoun, the second president, chose to join the pro-western Baghdad Pact, provoking a civil war in 1958, exactly 15 years after the declaration of independence. After September 1970, Palestinian guerrilla groups moved to Lebanon, posing a serious challenge to the Lebanese political equilibrium. Palestinian refugees coexisted with shanty towns of rural migrants, mostly impoverished Shia villagers from the south, creating a

'misery belt' around Beirut and other urban centres. Managing socio-economic tensions, as well as having non-state armed groups, is a serious challenge. Instead, the Maronite ruling class and especially the right-wing Kataeb (Phalangist) Party chose violence, igniting the long Lebanese war.

The 15-year-long war did not end because the Lebanese wanted peace: it was external powers that agreed to end it. After Saddam Hussein invaded Kuwait (1990), his allies in Lebanon, led by the army general Michel Aoun, lost their international protection. In return for Syrian support to the war against Iraq, the US permitted Damascus to impose its domination over Lebanon, a *pax Syriana*.

This post-war arrangement, which survived the departure of Syrian troops in 2005, was based on division of state power and access to resources between the sectarian warlords. Yet the post-war system was different in two fundamental ways from that of pre-war Lebanon: now sectarian power-sharing came without a decision-making centre. Neither the Syrian occupation nor Hizbullah (the de facto dominant force after 2005) managed to replace the role of the Maronite notables in running the state. The result was different segments of the state being dominated by sectarian groups, but lacking any decision-making process, paralysing state institutions.

Second, Lebanon had lost its previous role as commercial and banking broker between the West and Arab Middle East. Instead, the new political class made its profit from rent, for which there were three sources. First, by taking over certain ministries and other public sectors, such as the port or the notorious electricity company. Second, through real estate development, starting from the reconstruction of Beirut's downtown to the endless construction of luxury buildings to attract foreign buyers, often from the Lebanese diaspora or Gulf investors. Third, by financing public debt; Riad Salamé, head of Banque du Liban, chose to stabilise the exchange rate of the Lebanese lira to the US dollar at 1,500, which remained at the same value until October 2019.

This policy, introduced in 1997, brought monetary stability to the country at times of turbulence, such as the 2008 crisis, at the price of accumulating public debt borrowed largely internally from major Lebanese banks — an exercise that profited the banking sector and the political class behind them. Such 'rentier capitalists' were interested in capturing wealth thanks to privileged positions or access to the state, but did not care about economic development [4].

Anti-sectarian social movements

Post-war Lebanon was highly inefficient, its economy unproductive, and the country suffered from a lack of political leadership. The system could be maintained at the cost of attracting cash flows and growing its public debt. Social polarisation only worsened, with the richest 1% owning 40% of national wealth. [5] It was also inefficient. In 2019, \$1bn to \$1.5bn was transferred from the budget to the public electricity company EdL, which continued to function at a massive loss, in spite of huge investments made since 1990, estimated at \$49bn [6]. Lebanon still does not have a regular electricity supply; Beirut has three to six hours of cuts per day, with longer cuts outside the capital [7].

In 2015, the streets of Lebanon were filled with filth, as the contract of Sukleen — the private firm that collected garbage — ended, and the powers-that-be did not manage to agree among themselves how to divide the garbage collection rent [8]. It provoked a social movement with the slogan 'You stink!' that demanded a fight against corruption and an end to sectarian power-sharing. Yet the political class did not react. The financial crisis of 2019 provoked a larger, national, anti-sectarian movement, and yet again the ruling class made only formal changes, replacing one government with another, without touching a political system nourished by corruption.

The central reason for Lebanon's inability to reform itself is that its political class, and also its

population, are deeply divided along sectarian lines. Moreover, the Lebanese sectarian system is heavily dependent on foreign sponsorship. Hizbullah, the major political force, with a private army that has projected its power throughout the Middle East (Syria, Iraq and Yemen), is armed, trained and financed by Iran. Therefore, the leadership of Hizbullah is unable to change its policies based on the needs of Lebanon, as it is an extension of Iranian state structures and policies. The armed presence of Hizbullah, and the lack of transparency regarding its influence inside state institutions — including the Beirut port — is a major obstacle at a time when Lebanon urgently needs western or Arab Gulf financial support. The Special Tribunal for Lebanon found, on 18 August, that there was no evidence Hizbullah's leadership were involved in the 2005 assassination of the former prime minister Rafik Hariri; convictions might have sparked further unrest.

The current crisis is dismantling institutions that once made Lebanon unique. The banking crisis has ended any trust left in its financial sector, while the August explosion has taken away one of its trading assets. The Lebanese media and printing industry have been through years of crisis, and its glory days are well over. In July this year, the American University of Beirut fired 850 of its workers, a step towards dismantling this leading educational centre, as well as its hospital. As the Lebanese political class creates one crisis after another, the question is now: is it still possible to reconstruct Lebanon?

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<https://mondediplo.com/outside-in/reconstruct-beirut>

Footnotes

[1] Noor Zainab Hussian, Carolyn Cohn, 'Insured losses from Beirut blast seen around \$3 billion', Reuters, 7 August 2020.

[2] Carlos Abadi, 'Time is Running out for Lebanon's unsustainable debt', *The Financial Times*, 21 October 2019.

[3] Nisreen Salti, '[No Country for Poor Men: How Lebanon's Debt Has Exacerbated Inequality](#)', Carnegie Middle East Center, 17 September 2019.

[4] Hannes Baumann, 'The Causes, Nature, and Effect of the Current Crisis of Lebanese Capitalism', *Nationalism and Ethnic Politics*, Vol 25, No 1, 2019, pp 61-77.

[5] Hajar Alem and Nicolas Dot-Pouillard, '[Behind Lebanon's protests](#)', *Le Monde diplomatique*, January 2020.

[6] Jim Muir, '[Le Liban à la derive sur une mer démontée](#)', Orient XXI, 13 July 2020.

[7] Uwe Böwer, 'Can Lebanon Defy Gravity Forever?', European Commission, Economic Brief 46, 7 June 2019.

[8] Ziad Abu-Rish, '[Garbage Politics](#)', Middle East Report, No 277, Winter 2015.