

Lebanon's Stagnation

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Brief Analysis

Lebanon has a long history of muddling through, and it may do so again unless Syrian violence reignites sectarian tensions in the perennially troubled state.

In recent months, violence in Syria has been spilling over into Lebanon, culminating in the assassination of a senior security official and ongoing fighting in Tripoli between Sunnis and Alawite supporters of the Bashar al-Assad regime. Although these developments pose a threat to Lebanon's tenuous stability, the country already faced a series of independent social, economic, and political challenges that the Hizballah-led government in Beirut has not handled with distinction.

POLITICAL FAULT LINES

Since the 2005 assassination of former premier Rafiq Hariri -- a crime for which Hizballah members were indicted by a UN-founded international tribunal -- Lebanon has been divided into roughly two camps. On one side is a coalition of anti-Assad Sunnis and Christians (and sometimes Druze) known as "March 14"; on the other is the Iranian-backed pro-Assad bloc called "March 8," led by Shiite Hizballah and its Christian partner, the Free Patriotic Movement (FPM). This divide reflects not only political differences, but also divergent economic approaches.

Despite not winning a majority in parliament, March 8 has controlled the government since 2009. Hizballah's weapons helped intimidate its domestic opponents, but persistent political divisions, widespread corruption, and fallout from Syria ensured that the government accomplished little over the past three years.

ECONOMIC MORASS

The war next door has hurt Lebanon's trade and tourism, curtailing overland exports and -- after a spate of kidnappings -- drying up the steady stream of vacation pilgrims from Persian Gulf states. The prospect of spillover has also led to a decline in foreign direct investment and a 20 percent drop in building permits requested since last year. At the same time, foreign remittances, long a staple of Lebanon's economy, have fallen off. The state's

banks have also taken significant losses in Syria, contributing to flat earnings even for Bank Audi, which recorded its best year ever in 2011.

Yet these factors have only exacerbated existing problems, including continued repercussions from the costly Hizballah-provoked war against Israel six years ago. Taken together, these issues have contributed to a budget deficit increase from \$40 billion in 2006 to nearly \$56 billion today.

Meanwhile, rising unemployment, stagnant incomes, and hikes in commodity prices are increasing economic pressure on lower-income Lebanese, so much so that last month, teachers and other civil service employees went on strike demanding that the moribund parliament pass legislation to raise public salaries retroactively to August. Central Bank governor Riad Salameh opposed the raise, arguing that it would lead to inflation and add \$2 billion to the state's already high 2012 deficit of \$3 billion. To help narrow the gap, he instead recommended additional taxes on interest generated from bank deposits, as well as on cellphones and other luxury items -- a decision sure to generate grumbling among Beirut's jet set.

Lebanon's financial problems coincide with an acute electricity shortage exacerbated by the closing of the Deir Ammar power station, one of the state's largest facilities. Although Beirut has allocated some \$500 million for a new plant, the tender process -- overseen by March 8-aligned energy minister Gebran Bassil of the FPM -- has been mired in scandal and interminably delayed. Basil's effort to secure temporary energy by leasing two Turkish electricity-generating barges has been years in process and tainted by corruption, and it is unclear when, if ever, the boats will arrive. Meanwhile, blackouts have become ubiquitous in the capital -- particularly in the Hizballah-dominated southern suburb of Dahiya -- and elsewhere.

The Energy Ministry's underperformance is especially frustrating given the recent discovery of vast natural gas reserves off the coast. These new resources have not been exploited because March 8 is unwilling to explore a *modus vivendi* via international mechanisms to establish a maritime border with Israel.

ELECTORAL PROBLEMS

In the lead-up to next year's tentative parliamentary elections, the electoral law has emerged as another source of intractable contention. Both March 8 and March 14 are pressing for legislative changes that would disadvantage the other at the ballot box. The arcane dispute has FPM leader Michel Aoun calling for a shift to a proportional-representation model that he believes will strengthen his coalition and weaken the March 14-leaning swing vote of Druze leader Walid Jumblatt. Meanwhile, Samir Geagea of the March 14 Christian party Lebanese Forces is arguing for changes that would allow his sect to directly elect 50 of the 120-member parliament's 60 Christian seats -- well more than the 35 afforded by the 1960 electoral law and the 27 allowed under the so-called "Ghazi Kanan law" during the Syrian occupation. Given Lebanon's demographics, this change would be unacceptable to both Hizballah and Geagea's own Sunni (and potential Druze) coalition partners.

This issue might eventually have been discussed at the National Dialogue, a cross-sectarian political forum convened by Prime Minister Najib Mikati beginning earlier this year. Yet after March 14-aligned Internal Security Forces official Wissam al-Hassan was assassinated in October, the bloc announced that it would boycott both the forum and the parliament. For the foreseeable future, then, neither the National Dialogue nor the legislature will make any significant progress -- in fact, it remains unclear whether the elections will even take place. Even without the boycott, longstanding acrimony meant that significant modifications were at best unlikely; the electoral-law debate will only add more fuel to the fire.

HIZBALLAH STILL STRONG

Although Hizballah's ongoing support for Assad's brutal repression in Syria has undermined its popularity outside Lebanon, it continues to command impressive support among Shiites at home. When the organization was

founded in the early 1980s by Iran, its support was fueled in large part by years of Shiite dispossession, a history of inattention from the state, and a fear of Sunnis, in addition to its anti-Israel message. Today, facing a Sunni takeover in Damascus and sectarian tensions spiking at home, Lebanese Shiites are clinging even more to the powerful militia.

In recent years, a series of embarrassing scandals involving the group and its affiliates have tarnished its reputation, including the distribution of tainted pharmaceuticals by the Hizballah-controlled Ministry of Public Health, reports that the children of senior militia officials have been involved in the production and distribution of narcotics, and a Ponzi scheme perpetrated by the group's chief local financier. Although these missteps are unlikely to threaten its domestic foothold anytime soon, popular support for its Christian ally, the FPM, appears to be eroding amid allegations of corruption in the Energy Ministry and elsewhere.

More troubling to Hizballah is the rather immediate prospect of Assad's fall, which will leave the militia without its chief weapons entrepot and, given its steadfast support for regime atrocities, surrounded by hostile Sunnis. Thus far, the group has responded to mounting pressure by going on the defensive and attempting to avoid escalation at home, but it is difficult to predict how Hizballah will respond to the loss of its key ally in Damascus.

CONCLUSION

Lebanon has a long track record of muddling through periods of severe domestic morass and may do so again if spillover from Syria does not precipitate a further deterioration in security (for more on the Syrian spillover issue, see [PolicyWatch 2009 \(http://www.washingtoninstitute.org/policy-analysis/view/syrias-instability-reaches-lebanon\)](http://www.washingtoninstitute.org/policy-analysis/view/syrias-instability-reaches-lebanon)). At minimum, the country's political and economic paralysis will persist until the Assad regime is dislodged next door. More likely, though, Lebanon's stagnation will continue until post-Assad Syria attains a semblance of calm. Next year's elections may change the government in Beirut, but the trajectory of the Syrian war means that Lebanon's tense political status quo and stagnant economy may be the best-case scenario for the coming year.

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