

Minimizing the Impact of the Economic Crisis in Lebanon

Forum: Advisory Panel

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Introduction

Lebanon, a small nation with a population of approximately five million, is a country with the third-highest debt-to-GDP ratio in the world, indicating that it is in a severe economic crisis. Unemployment levels stand at 25%, public debt amounts to more than 150% of gross domestic product (GDP), and nearly a third of the population is living below the poverty line. The situation worsened after the outbreak of COVID-19, but even before the pandemic hit, the World Bank stated that Lebanon's economy has started to diminish since last year. According to the International Monetary Fund (IMF), COVID-19 can shrink the economy further by 12 percent. In its economic crisis, Lebanon struggles with high debt, stagnant growth, crumbling infrastructures, and reduced capital inflows. Despite the government's claim to resolve the issue with the aid of others and the creation of new policies, the situation was not alleviated, but rather was intensified by the government's actions. In response to this, angered citizens started a massive protest against the political elite, especially targeting banks. Political analyst Moufid Mostafa asserted that the crisis should be resolved at its foundation, and all other steps are temporary and useless.

Background

Lebanon is struggling with the debts piled up from the government's successive participation in the Lebanese Civil War lasting from 1975 to 1990. As a solution, Lebanon's central bank enacted a state-sponsored Ponzi scheme, which was an act of borrowing from commercial banks above their market interest rates to pay back its debts and maintain the Lebanese pound's fixed exchange rate with the US dollar. This policy was suggested by Salameh, the governor of the Lebanese central bank, and while it helped the country to raise their reserves, the policy was strictly criticized for contributing to higher interest rates that undermine the economy.

On October 17, 2019, the Lebanese government started to impose additional tax fees on calls made over WhatsApp and similar internet call applications to raise revenues. This triggered sporadic protests with people rallying against the government's handling of Lebanon's economic crisis. Fueled by their discontent in the years of corruption and mismanagement, people have taken to the streets, causing clashes with the police. One of the



Lebanese Protesting Against the Government

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biggest protests that occurred had demonstrators blocking roads across Lebanon with burning tires. In response, security forces fired tear gas at demonstrators in central Beirut. As such protests continued, the Telecoms Minister, Mohamed Choucair, revoked the proposed tax on WhatsApp calls.

Further, COVID-19 worsened the economic crisis and exposed Lebanon to the inadequacies of its economic and social welfare systems. One of the most reliable sources of money in Lebanon were remittances by those who went abroad to find work. They made up about 12.7 percent of Lebanon's total GDP, marking Lebanon the second most remittance-dependent Middle Eastern country. With the impact of the coronavirus pandemic on remittances, however, the concern about the economic crisis in Lebanon has deepened. Due to lockdowns and quarantines enforced to alleviate the impact of COVID-19, the tourism sector, which accounted for nearly a fifth of Lebanon's GDP in 2018, suffered a huge hit. Even before the lockdown, the World Bank had raised the fear that half of the population could face poverty due to the economic situation; now, the Social Affairs Minister declared that up to 75 percent of the people require aid.

Problems Raised

Fleeing Lebanese

The severe economic crisis, along with the famines and security crises, is urging the Lebanese to emigrate to other nations, seeking to start a new stabilized life. Even the country's best-educated and the ones that are in a better economic situation are looking for a way out. The United Nations High Commissioner for Refugees (UNHCR) counted 18 boats leaving Lebanon in less than a month, which is a number more than all that have left last year. The government's incompetence to handle the economic and political crisis is making the Lebanese life insecure, and the recent explosion of the port in Beirut further



Lebanese Migrants Fleeing on a Refugee Boat

highlighted the negligence of the Lebanese government, which has been receiving series of criticism. Despite the criticisms, sectarian leaders failed to take serious reforms and argued among themselves, fueling further anger from the citizens. In addition, private universities and schools have also become unaffordable for many Lebanese families since they started adjusting to the black market. The number of Lebanese people emigrating has thus increased significantly during recent times, and now Lebanon has a diaspora that is nearly three times larger than the number of inhabitants. This brings further problems to the country's economic recovery, and nearby countries will have to handle a flood of Lebanese people trying to come in.

Violent Protests

The worsening economic crisis and the breakdown in Lebanon's banking system

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triggered massive protests. The Lebanese security forces, including army personnel, parliament police, and internal security forces, have used excessive force against protestors on several occasions. Since 2015, Lebanon intensified their responses against peaceful speech and increased prosecutions against people exercising freedom of speech. Due to increased protests, there has been more tensions between the Lebanese people and the government, along with an increased population feeling insecurity in Lebanon.

Corruption in the Lebanese Government

In 2018, the Lebanese Center for Policy Studies (LCPS) reported that approximately 98 percent of the Lebanese citizens believe that corruption is a large issue in Lebanon, with more than 75 percent of the respondents expressing their belief that corruption had increased noticeably or at a certain degree in the previous years. The corruption prevailing in the Lebanese government has been a huge obstacle for Lebanon to overcome its economic crisis and make successful reforms. With 55 percent of the national income concentrated in the top 10 percent of earners, Lebanon is ranked as one of the most unequal countries in the world in an economic view, and according to the Lebanon Transparency Association, it has been estimated that Lebanon loses two billion US dollars in



Lebanese People on the Streets Demanding Eradication of Poverty

customs revenue each year due to corruption. The countries that have been previously willing to provide economic aids to Lebanon has also been hesitant in their activities due to the low accountability of the Lebanese government, which has shown to be incapable of using the provided economic support efficiently and has rather shown to have a political system serving their private interests. The French President Emmanuel Marcon stated that “France would provide medication and food, but not via corrupt officials,” and the talks between Lebanon and the International Monetary Funds have not been successful mainly due to Lebanon’s unreliable proposals and attitudes. Thousands of protesters in Lebanon have been demanding an end to corruption within the Lebanese government, but the people have often been suppressed with unlawful violence. The parliament seemed to respond to the protesters when passing legislation to combat corruption such as the Access to Inform Law and a Law protecting whistleblowers, but these legislations have not been fully enforced yet.

Political Sectarianism

Despite the ongoing protests against the government’s responses, Lebanon continues to struggle in implementing adequate solutions. The key factor behind this issue is Lebanon’s political sectarianism, where different groups look after their own interests. Lebanon has 18 religious communities, and the three main political offices are divided among the three biggest religious groups. This religious diversity influences the country to be easily targeted by external powers, causing disruption. The government attempted several negotiations with the

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International Monetary Fund (IMF) and the World Bank, but their inability to meet the required reforms brought the talks to an end. In order to resolve the issue, the government needs to focus on settling their political conflicts first and start implementing policies that could revive the economy in the long run.

International Actions

Many neighboring countries have sent aid to help Lebanon manage its financial crisis, especially after the Beirut explosion in August. On August 9, in a conference led by France to provide support to the Lebanese people, thirty-six countries and world organizations pledged 254 million euros (approximately 300 million US dollars) for emergency support.

Along with many other countries, European and Gulf countries have sent financial aid to help Lebanon manage its economic issues, and the central bank instructed the lenders to have zero-interest dollar loans to be repaid over the next five years. However, a portion of the donated aid is likely to be deterred by corruption and mismanagement of the government, and thus the aid provided is expected to fall far short of what Lebanon needs to be pulled out from their economic situation.

Positions of Key Nations and Organizations

United States of America

The United States supports the Lebanese people's effort to reform and is willing to help pull Lebanon out of their economic situation. However, they expressed that they will not provide assistance unless the Lebanese government comes up with a more practical proposal to resolve their corruption issues.

China

China is a country Lebanon is relying heavily on for economic aid. However, the Lebanese receiving help from Beijing risks alienating the United States, which can come at a cost of the Lebanese-U.S. ties. China has offered to aid Lebanon's electrical power crisis through its state companies and has also offered to build power stations and a railway along Lebanon's coast.

United Arab Emirates (UAE)

Lebanon and the UAE, both located in the Middle East, share close cultural ties and thus have long been close political and economic partners to each other. The 'UAE Volunteers' campaign, announced by the Higher National Committee for Regulating Volunteering during Crisis, was launched in early April to alleviate the economic impact of COVID-19, which was an urgent national humanitarian initiative to support the Lebanese people.

Saudi Arabia

Saudi Arabia is a historic supporter of Lebanon, but the ties have recently been strained as Hezbollah has grown in influence. Saudi Arabia made several important talks with Lebanon in terms of economic support, and the two countries are preparing to sign several deals. It has led other countries to coordinate support for Lebanon based on economic reforms, as stated by

Saudi Arabia's finance minister. However, similar to many other countries, though Saudi Arabia is willing to support the financially burdened Lebanon, it wants to ensure that a realistic reform plan is prepared before they take action or provide further support.

Possible Solutions

As the economic crisis of Lebanon requires a multi-faceted approach involving solutions to fundamental issues, the following three main crises must be addressed:

1. Balance of payments and currency crisis – the current gap between supply and demand is about 8 billion US dollars, and if not solved, this will continue to create currency devaluation, good shortages, and economic contraction.
2. Public Finance – with a continuing deficit, the government's revenues are in severe collapse with recession and banking crisis.
3. Government corruption – though aid is provided by different organizations and nearby countries, the corrupted governmental system is not capable of using such effectively. The government is also not able to manage the economic issue well, and thus protests occur frequently.

Here are some ways to approach the issues:

Creating a Transparent Entity

Since the Lebanese government has shown to be incapable of channeling aid in a way to fully protect the economic and social rights of the Lebanese citizens without discrimination and mismanagement, there is a great need to ensure that the economic support is used as it is supposed to be. International donors should ensure that their emergency aids are not given directly to the Lebanese government, but instead are used to protect those that have been affected by the crisis. Specifically, funds should be disbursed directly to the people in need or to the organizations that are in charge of providing the related services. A possible method is to use a transparent entity with a clear responsibility to protect rights, such as creating a consortium in which Lebanese civil society groups or organizations that meet strict standards of transparency and respecting rights have the formal decision-making and oversight roles.

Addressing Root Causes

The root causes of Lebanon's economic crisis should be addressed in order to effectively resolve the issue as a whole. There have been numerous financial supports from foreign countries and entities, but they only served to be a temporary remedy. In order to ensure that the crisis is being solved not only as a temporary effect but as an improvement in the long run, step by step solutions resolving Lebanon's fundamental issues should be proposed.

Implementing the IMF Plans

Another possible solution is for the Lebanese government to follow the IMF plans and start having tax increases, reductions in electricity subsidies, public debt restructuring, currency devaluation, pension reforms, legal reforms, fair trade, etc. Though it may be impossible for all

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these goals to be achieved, this will be able to lay the foundation for both domestic and foreign investment.

Glossary

Debt-to-GDP Ratio: a ratio comparing a country's public debt to its GDP; what a country owes compared to what it produces.

Beirut Explosion: an explosion occurred on August 4th, 2020 at the port of Beirut, a port housing Lebanon's only grain silo and 80% of its imports.

Ponzi Scheme: a fraud where earlier investors are paid with money from more recent investors. The investors are then lured into believing that the profits come from product sales and remain unaware that the money's source are other investors.

Diaspora: a large, scattered population with a similar heritage or homeland who have since moved out to places all over the world, often involuntarily.

Remittances: money sent by a foreign worker to people in their home country.

Timeline

1975-1990 – The Lebanese Civil War occurs, devastating the nation.

2005 Feb 14 – Prime minister Rafik al-Hariri is killed.

2020 May 1 – Beirut signs request for IMF assistance, but is rejected.

2020 October – The Lebanese government announces 20 cents per day tax for WhatsApp voice calls.

2020 October 17 – Massive protests occur in Beirut's Riad al Solh Square. Prime minister Saad Hariri steps down.

2020 August 4 – The Beirut Explosion occurs.

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