



FINO-Pointer 15/06/2020

# Syria and Lebanon: On the brink of an economic meltdown

Reinhard Schulze (FINO)

**Syria and Lebanon are facing economic and political collapse. Poverty is rampant in both countries, and in both countries, there is widespread resentment even among those who had previously placed their trust in the government. The two countries are not only facing national bankruptcy, but also a food crisis, which may lead to a widespread disintegration of the social order. In Syria, disintegration has been a reality for more than a decade. In Lebanon, the fifteen-year civil war is threatening to start again.**

## *The Syrian Decline*

Once again, Syrian state media are launching the news that the "Syrian Arab Army" (SAA) has prepared to conquer the rebel-held territories in Idlib province. The Russian media also give the impression that Russian troops want to enforce control over the M4 state road leading through the southern part of Idlib province. This road is considered a border between the Russian and Turkish zones of influence in Idlib.

A meeting of Turkish, Russian and Iranian representatives in Istanbul, scheduled for 15 June to discuss the situation in Libya and Syria, was cancelled at short notice. As if to prove that the regime in Damascus was serious, Russian combat aircraft and SAA artillery intensified their attacks on a 300 square kilometre area south of the state road on 14 and 15 June. However, it is uncertain whether these are really harbingers of an attack with ground troops.

It may also be a matter of putting a double lock on the ultra-Islamic warring factions that have established themselves in the area south of the road, in agreement with Turkey. On June 12, five ultra-Islamic alliances that had split off from the Organization for the Liberation of the Levant

(HTS) announced that they had formed a common "operation room" called "So be steadfast" (fa-thbutū according to Quran 8:45).

## *Economy in ruins*

Certainly, however, this news serves to conceal the catastrophic economic situation in Syria. US sanctions, which will be tightened on 17 June when the US government's Caesar Syria Civilian Protection Act, passed in December 2019, comes into force, and which are explicitly designed "to deny the Assad regime the financial resources used to fuel his campaign of violence and destruction", could cause an economic meltdown in Syria.

For the country's economy is already ruined. The recent increase in prices has made the economic and social disruption abundantly clear. Even before prices got out of control, a third of the population did not have enough to eat, and soon it is expected to be half the population. While the average monthly income in May was still 90 US-\$, in June it is only 20 US-\$. Only about 25% of the population has an income with which a one-person household can be financed. Today, the upper middle class has to rely on

savings to support a family. Now, even a civil servant with a middle income would use up his entire salary if he went to a hamburger snack once a week.

### *Financial disaster*

The government in Damascus has largely used up its financial reserves. Lebanon, whose financial sector has saved Syria from bankruptcy on several occasions, can no longer help. The Lebanese banking sector, which is based on the dollar and used by Syrian companies for their foreign business, has collapsed due to the unrest in the country. New foreign currency is hardly coming into Syria. Oil and gas production in those areas controlled by government troops now supplies almost only a black market; the profits from this strengthen the position of the new oligarchs, local commanders and gangsters. The regime's attempt to remove control of the family of Rāmī Makhḷūf over their companies, which control large parts of the Syrian economy, has not brought about the longed-for relief in the financial sector.

The regime is desperately trying to take countermeasures. The newly appointed Prime Minister Husayn 'Arnūs (67) who has been part of the government apparatus for some time and as an engineer, was most recently responsible for water management, is to head the government until the announced new elections (currently scheduled for 19 July): The focus is on "maintaining strict control over the currency market and the exchange companies". At the same time, the money circulation in the country is to be brought back under the control of "regular institutions", as the governor of the Central Bank of Syria, Hāzim Karfūl announced. The protests in the Druze city of as-Suwayda and in Dar'ā, which have been continuing since June 7, are quickly reinterpreted by the state media as "protests against the US sanctions". In reality, however, the protests are directed both against the regime's economic policy as well as against the presence of Iranian troops in the region.

There is little prospect of success for these countermeasures. Large parts of the Syrian market are kept alive by a black economy and smuggled goods. The directive to the ministries

to compile a list of goods that are mainly smuggled seems cynical. By simplifying import and export procedures, by issuing import certificates and by extending the import list, the state should then ensure that the movement of goods takes place "through the regular channels". The only consolation for the regime is the Russian and Iranian criticism of the "economic terrorism of the Western states". Moreover, delegations from China, who are currently in Damascus, announce that a new, financially strong player will soon settle in Syria.

### *New Protests in Lebanon*

On 15 March, the Lebanese government had largely sealed off the country due to the Covid 19 pandemic. The borders with Syria were closed. So far, the pandemic has only been partially contained. Between 16 and 18 June, the country plans to reopen two border crossings with Syria (in the north towards Tartūs and on the Damascus-Beirut highway). However, only Lebanese who are in Syria will be allowed to cross the border. In the northern Lebanese city of Tripoli, young men blocked the highway to Syria on June 12 to stop two trucks of the United Nations World Food Programme (WFP) that were supposed to transport food aid to Syria. Demonstrators claim the trucks were supposed to smuggle goods into Syria. The protests quickly spread to Beirut and other cities in the country. In the process, numerous public facilities in downtown Beirut were destroyed, shops looted, firebombs thrown and passers-by attacked by motorcyclists.

The government in Beirut agrees that the state must react harshly to the protests. "These are not protests against hunger and the economic situation. It is an organised campaign of sabotage, and a firm and decisive response should be taken to counter this growing phenomenon. Those who instigate finance and direct it must be arrested," said Prime Minister Hassan Diab. President Michel Aoun called for preventive measures against potential "saboteurs". The former prime minister Sa'd Harīrī suspected the Shiite parties Hizbullah and Amal of "fomenting chaos" in order to eventually launch a coup against the government with the help of the

army. As expected, Hizbullah spokespersons rejected these accusations and clarified that the demonstrators called 'Scooter Rioters' did not belong to a certain sect or came from a certain part of the country. Indirectly, Hizbullah thus confirmed there are a growing number of people in Lebanon not only wanting to get rid of the political elite, but having renounced the whole system of regional-sectarian order.

This distancing does not convince many Lebanese. They claim that Hezbollah is "working against a confessional peace" and is opposed to a secular democratic order. They fear that Hezbollah is infiltrating the state authorities in order to force the state to close ranks with the regime in Damascus.

### *The Lebanese Doom*

The country is deeply divided. The only thing the protesters agree on is their anger at politics and the state, which they blame for the catastrophic economic situation. Hunger is spreading in the formerly rich country. Almost 40% of the working population is unemployed. Only 20% of the population can still afford to live in the country without getting into debt, drawing on savings or moving around in an economy. Similar to Syria, the Lebanese currency has lost dramatically in value against the dollar. The dollar shortage, combined with already negative economic growth, has put pressure on the Lebanese middle class and increased poverty. Since the banks have massively restricted the withdrawal of dollars, many families who have invested their savings in dollars are no longer able to pay their debts. Officially, the Lebanese lira has been pegged to the US dollar since 1997, but the lira is now only traded at one-fifth of the pegged value.

In the meantime, the government has also recognised that large sections of the population are rapidly becoming impoverished and many are starving. This is especially true for the approximately one million Syrian refugees in the country, many of whom would like to get rid of them as quickly as possible.

### *Hope for oil*

With a debt ratio of about 180% of GDP, Lebanon is the most indebted country in the world after Japan and Greece. For weeks now, the Lebanese government has been holding talks with the International Monetary Fund to agree a financial rescue plan. Between 10 and 15 billion dollars in external financing will be needed to carry out a minimum of government tasks. However, so far there are no signs of an imminent agreement.

So the government is taking a wait-and-see approach. It hopes that the money will somehow come from outside. It is also counting on Lebanon's share of the presumed oil and gas reserves in the Mediterranean, which are soon to be developed through exploratory drilling. President Aoun had announced that Lebanon had now joined the elitist club of oil producers. However, tenders for bids for a second offshore licensing round for companies like Total in France and Novatek in Russia have only recently been opened. Both companies, together with Italy's ENI, belong to an international energy consortium that has been awarded a contract for test drilling in 2017 in two of the ten exploration blocks claimed by Lebanon.

However, it would still take a decade for money to flow into the state coffers, provided the size of the deposits is in line with expectations. In April, the country's Minister of Energy, Raymond Ghayyār, had to admit that the initial exploration had failed to find any gas that could be developed commercially and profitably. So one hopes for better news about the other nine exploration blocks.

The neighbouring countries, above all Israel and Cyprus, have already made considerable progress. In January 2019, energy ministers from Cyprus, Egypt, Greece, Jordan and Israel met with representatives of Italy and the Palestinian Authority in Cairo to launch the East Mediterranean Gas Forum (EMGF), which aims to create a regional gas market and ensure security of supply and demand. Lebanon did not join the EMGF, as it has no official diplomatic relations with Israel. However, in doing so, the country was gambling away the chance to reach an agreement with Israel to settle the crippling dispute over the offshore border demarcation.

*Expecting a radical new beginning*

Most observers in Syria and Lebanon agree: both countries need a radical new beginning, which means not only far-reaching structural reform but also effective policies against corruption. Only a new departure could build trust and give people the prospect of a self-responsible civil society. The old sectarian patterns of order,

in which the ruling elites have established themselves for almost 100 years, no longer represent the social reality that is reflected in wars and protests. Only when the elites confront this reality without blinkers and, together with the population, develop new patterns of the relationship between power, politics and authority, which have the trust of a larger part of the population, will there be a chance of breaking the Gordian knot.