Geopolitics of the Lebanese Crisis: Economic and Energy Perspectives

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The Middle East holds a very special place, being the largest source of oil and natural gas reserves. The securitization of oil pursued by foreign actors in the region has made it the centre of contests and hostilities. In fact, conflicts and wars have marred the region for decades, with the Iran-Iraq War (1980-88), the Gulf War (1990-91), the Iraq War (2003), and the ongoing crises in Syria and Yemen among others being some of the most critical moments in the history of the region. The region has witnessed major socio-economic and (geo)political changes in recent years. For instance, the 2011 Arab uprisings led to the overthrow of longstanding "dictatorial" leaders by the people. The instability caused by the uprisings and sectarian clashes, coupled with foreign intervention involved in these conflicts for geopolitical motives, have led to a virtual collapse of some of the weaker states.

Beirut hit headlines, as Prime Minister Saad Hariri announced his resignation in November 2017. Following the Qatar crisis, the Lebanese political turmoil could be seen as a result of a larger Sunni-Shia proxy conflict, which has dire implications for the country's economy. Against this background, the article attempts to analyze the Lebanese crisis, its sectarian dimension as well as its implications for the economy.

The Saudi Arabia-Lebanon-Iran Triangle

The 'rentier' nature of oil-based economies has defined the social contract, thereby, providing economic legitimacy to various regimes in the region. The post-2011 (Arab uprisings) scenario has been instrumental in restructuring the Middle Eastern setting in social, political and economic terms by toppling rulers who occupied the position of the head of state for decades, such as in Egypt and Libya. At the same time, the conflict in Syria, Libya and Yemen has been a product of a combination of sectarian strife and excessive presence (or influence) of foreign powers, mainly for securitizing energy resources, which has drawn the region to a catastrophic point.

The 2011 Arab uprisings and the events that followed – be it the Qatar crisis, the Yemeni civil war or the Lebanese crisis – have kept the region in a state of continuous turmoil, causing serious humanitarian and socio-economic havoc in the region. To comprehend the situation, the geopolitical significance of the region, the sectarian aspects and the Saudi-Iran tussle have to be taken into account. Notwithstanding the sanctions imposed on Iran, it has managed to sustain itself due to a strong civilizational base, giving it stability, as compared to Saudi Arabia that has been dependent on the US security umbrella. Saudi Arabia has evolved from Bedouin tribes-led land to an oil-rich state; and today, the social fabric of the monarchy is undergoing a change. The emergence of the leadership of Prince Salman and the consequent changes in Saudi Arabia's political and social setup are restructuring country's foundations, as well as impacting the regional scenario. For instance, his anti-corruption campaign and decision to allow women to drive and so on are being considered revolutionary.

Even though, Iran and Saudi Arabia have not been directly involved in war with each other, they have always expressed their animosity through proxy forces – "It is a cold war because these two main actors are not confronting and most probably will not confront each other militarily. Rather, their contest for influence plays out in the domestic political systems of the region's weak states." It is in many ways quite similar to the Cold War (1947-1991) between the US and the Former Soviet Union (FSU) that never declared war on each other but tried to control the global forces through proxy countries around the world. In this case, the two (Saudi Arabia and Iran) have been fighting for a broader control of the Middle East through their allies. Thus, the New Cold War in the Middle East is for control, aimed at not only sectarian dominance (Sunni-Shia), but also in a larger geopolitical sense, resource control.

Lebanon has religious and ethnic minorities, which have been successful in maintaining stability despite an ensuing civil war in neighbouring Syria. Its Prime Minister Saad Hariri was born in Saudi Arabia and has dual citizenship. With his family still living in Saudi Arabia, he has a special affinity with the Kingdom. Nevertheless, many Lebanese, including the country's President, Michel Aoun, believed that he was held against his will in Saudi Arabia. His sudden departure to Saudi Arabia was seen as a kidnapping incident orchestrated by the Saudis. In this regard, President Michel Aoun said that nothing could justify the apparent detention of Saad Hariri in Saudi Arabia. However, it can be assumed that there have been closed-door talks between the Saudis and Hariri, which may have motivated the latter to condemn Iran and Hezbollah in his resignation speech, blaming "Iran's 'meddling' in the country and its Lebanese ally, the Hezbollah movement for his decision, adding that he feared an assassination attempt." Thus, it can be inferred that the "new Saudi leadership holds sway over him, whether through his business (Saudi Ogre) or immediate family still remaining in the Kingdom."

The use of proxies like Yemen, Syria or Lebanon by Saudi Arabia and Iran have flared up the sectarian hostilities; and, in the process led them on the path of self-destruction, with basic infrastructure and emergency services torn down. Ideologically closer to Iran, Hezbollah's position as a strong opposition to Hariri's Future Movement Party has become a bone of contention between Beirut and Riyadh, as "Hariri's Future Movement, the largest party in Parliament, wanted Lebanon out of Syrian affairs, while Hezbollah was sending its militias there to fight on behalf of President Bashar Assad." This was also endorsed by the Lebanese cabinet in December 2017, as a policy statement calling on all Lebanese groups, including Hezbollah, to recommit to the policy of dissociation from regional conflicts.

Hezbollah's leader Hassan Nasrallah has also accused Saudi Arabia of creating chaotic mayhem in the country and of forcing Hariri to alienate Iran and its political ally in Lebanon, Hezbollah. However, Lebanon is largely dependent on Saudi Arabia's aid for its overall growth. Thus, the economic alignment between the two countries forms a strong bond that allows Saudi Arabia to flex its muscles.

Lebanon's Economic Dependence on Saudi Arabia

The Lebanese Civil War, during 1975-1990, led to the dismantlement of its economy. Slow but efficient economic growth did help the country to regain its economic capability. Its potential was realized "by formulating, first the National Emergency Reconstruction Program and subsequently the Horizon 2000 Program…each aimed to rapidly rehabilitate and enhance the country's severely damaged infrastructure in preparation for private sector-led growth over the medium term." Even then, economic problems were profuse, coupled by social fragmentation between the haves and have-nots that got exacerbated.

In addition, the Lebanese economy has been underperforming for some time, as it is bearing the burden of civil wars in the neighbouring countries, which has also impacted its trade. The Syrian conflict wherein, "the pipeline geopolitics became the source of contention involving the US-led alliance in the Syrian war involving international actors", has had adverse ramifications for the neighbouring countries like Lebanon. Around, 1.5 million displaced Syrians have taken refuge in Lebanon since March 2011. This has further pushed the Lebanese people into poverty and put an additional burden on its economy. The Lebanese economy is largely dependent on Syria – not just as a trading partner, but also as a significant transit route. A large proportion of its trade happens through land with the neighbouring countries like the UAE, Saudi Arabia, Kuwait and Oman, to name a few.

Yet a steady rise in sectors like service, finance, construction and tourism, accompanied by financial aid from the neighbouring countries like Saudi Arabia, has helped boost Beirut's economy. The Lebanese Parliament has approved the state budget of $4.8 billion for the fiscal year 2017, for the first time after 2005. The services and banking sector predominate, accounting for almost 70 per cent of the country's gross national product; agriculture constitutes less than 10 per cent and the industrial sector, the remaining 20 per cent.

In effect, the Lebanese economy has become service-oriented, with major thrust on banking and tourism. And as stated in a 2017 World Bank report on Lebanon's Economic Outlook – "In 2016, Lebanon's real GDP growth accelerated slightly to reach an estimated 1.8 per cent, compared to 1.3 per cent in 2015. This was driven by an improvement in the real estate sector—cement deliveries expanded by 4.4 per cent in 2016 compared to a contraction of 8.6 per cent in 2015—as well as continued increase in tourist arrivals."

At the same time, remittances have averaged about 20 per cent of the country's GDP annually over the past 10 years — with an estimated 60 per cent coming from Gulf countries. According to an estimate, "three Gulf countries accounted for 76 per cent of new foreign direct investment projects in Lebanon from 2003 to 2015." Saudi Arabia has injected about $4 billion into Lebanese banks to help Lebanon maintain a healthy economy, but the Kingdom has threatened to pull its money out if President Aoun does not fall in line – a move that could bring Lebanon to its knees.

Lebanon's Energy Dependence

Natural gas became central to Lebanon's economic development in 2009, with the initiation of the Arab Gas Pipeline (AGP) which started supplying Egyptian gas to the Beddawi power plant in the north of Tripoli (Lebanon). This however stopped as a result of frequent disruptions caused by payment delays and explosions targeting the pipeline. Traditionally, the role of gas is modest in the Lebanese energy mix, mainly due to the inaccessibility of the gas reserves in its Exclusive Economic Zone (EEZ). Efforts are now being made to rejuvenate the hydrocarbon sector. Consequently, in October 2017, the Ministry of Energy and Water got their bids on the open blocks within the country's first offshore licensing round. In fact, the mapping process of the oil and gas sector began in 1926, followed by the drilling of first wells during 1947-67; the spectrum 2D seismic surveys were initiated in 1993; the formal establishment of Lebanese Petroleum Administration (LPA) took place in 2012 (April 2012 by Decree 7968/2012); which was followed by offshore 3D and onshore 2D surveys (2013) and geophysical surveys in 2015.

Before the AGP, the Gasyle pipeline became the centre of attraction, as Syria and Lebanon signed a 25-year contract (in 2003), by which Syria would export gas to the Beddawi power plant; this project has run into several bottlenecks such as insufficient production and the Syrian crisis. Nevertheless in 2006, the AGP was initiated and designed to transport gas from Egypt to Jordan, Syria and Lebanon, which turned futile due to the 2011 uprisings. Subsequently, it was envisaged that Iranian gas could meet the Lebanese demand; however, the project of bringing Iranian gas to Iraq and Syria has been jeopardized as it suffered a series of funding and security issues. Fresh discoveries in the East Mediterranean have given a new ray of hope for the energy-importing countries of the region, particularly Lebanon. The Lebanese Exclusive Economic Zone (EEZ) is estimated to have around 122 trillion cubic feet (3.45 trillion cubic meters) of recoverable natural gas, in addition to nearly 1.7 billion barrels of recoverable oil. The development of these reserves will help the Lebanese economy to grow and come out of its import dependence syndrome.

The foreign oil companies' involvement in the country's energy sector will bring in investments and technology, needed for the development of natural gas (LNG), that could overtake oil for power generation in the years to come. The Ministry of Energy has estimated that at a price of $90 per barrel, Lebanon could make a saving of $1.9 billion on its annual fuel bill if it switches its power generation to gas. The economy is hampered by the institutional setting that patronizes non-accountability and corruption in a rent-seeking state. The political structure along with the institutional conditions results in discrepancy between the promises made and the actual outcomes. Hence, reforms are necessary in the energy sector in order to provide secure energy access to all the people.

According to a 10-year forecast as well as statistical information and data provided by the Ministry of Energy, it could be assumed that "Lebanon's total net revenues from gas extraction will exceed $600 billion, to reach $1000 billion" (possibly by the year 2026). It is expected to facilitate Lebanon in overcoming its public debt, which is currently estimated to be "equal to about 145 per cent of GDP" (as of November 2016) and provide opportunities to the youth.

Notably, Lebanon and other stakeholders' interest in the East Mediterranean gas ventures can also be seen through the prism of cooperation. For instance, the changing patterns of cooperation can be viewed in the accord signed between Israel, Cyprus, Greece and Italy, who have entered into an intergovernmental agreement on the supple of gas. The project, known as East Med, involves a "2,000 kilometre long pipeline to channel offshore reserves in the Levantine Basin in the far east corner of the Mediterranean to Greece and Italy, at a cost of up to 6 billion Euros." Also, enormous funds will be needed in the coming years for gas production facilities, for conversion of oil-fired power plants into gas powered ones, and for building new pipelines for export. Technically, exporting Lebanese gas (LNG) along with other regional suppliers like Israel and Cyprus to Turkey (as a transit and market), which can then be extended to the European market could prove to be a more realistic option. The energy discoveries have the potential to positively change the economics of the East Mediterranean region, and most significantly the Lebanese economy.

Conclusion

Given the structural changes in the region and ensuing Shia-Sunni conflict, the weaker countries are being used as bait in this context. These shifts in the region have been complicated and worsened further by the use of military force by stronger actors like Saudi Arabia and Iran, coupled with the presence of external forces like the US and European countries (militarily or economically or politically) for geopolitical reasons. Until recently, effective governance in Lebanon under Saad Hariri provided fewer opportunities for regional actors to intervene in the country's affairs, as it stayed away from regional politics, keeping itself aloof from the power struggle between the giants. Currently, Lebanon has become a mere puppet at the hands of the dominant regional powers. As far Lebanon's economy is concerned, it could get a shot in the arm once the offshore oil/gas resources in the Levant are developed. Tourism, services and construction could also witness a boom; but a sector like tourism is contingent on the resolution of the Syrian refugee crisis to a large extent. Although, its economy has been on a roller-coaster ride in the recent years, it appears that the economic model of diversification has been a successful sign that will stabilize the economy in the long run. Yet, the path to that end not just looks thorny, but also easier said than done.

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