

Opinion – Lebanon’s Economic Crisis: An Opportunity to Contain Hezbollah?

Written by Massimiliano Fiore

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MASSIMILIANO FIORE, JUN 25 2020

Hezbollah’s reputation has declined since the start of the street protests in October 2019. Positioning itself against the protest movement, which embraces citizens of all faiths directing their anger across the political spectrum, and with some of its supporters beating up protesters, Hezbollah’s halo has slipped. Recent instances of corruption have also shed light on the modern nature of the party, now so embedded in Lebanese politics that it has created a clique of politicians and staffers removed from their Shia constituency. To add to these difficulties, Lebanon is close to economic collapse. The currency has depreciated by over 60% since October, leading to price hikes of essential imports, while unemployment has been running at an estimated 17% since September. Large fiscal deficits accumulated since the end of the civil war mean Lebanon has the world’s third highest debt-to-GDP ratio. For the first time in its history, the country failed to make a \$1.2 billion Eurobond payment due on 9 March and the International Monetary Fund has forecast a 12% contraction of the Lebanese economy in 2020.

The nationwide lockdown introduced on 15 March to prevent the spread of Covid-19 has only exacerbated the downward spiral, bringing almost all economic activity to a halt. Popular discontent at the spike in food prices and sharp depreciation of the currency led citizens in several cities to take to the streets and vent their grievances against the government. At the end of April, Prime Minister Hassan Diab announced that the government had sought the International Monetary Fund’s advice on an economic rescue plan and requested a bailout, saying that the country needed over \$100 billion in international aid on top of the \$11 billion in loans tied to reforms that had been pledged at a conference of international donors in Paris led by former Prime Minister Hariri in 2018. But despite efforts to control depreciation, the Lebanese pound has hit a new low on the black market in recent weeks (over 5,000 to the dollar as opposed to the official rate of around 1,507 to the dollar six months ago), provoking violent demonstrations nationwide.

Lebanon has hit a perfect storm that is growing in intensity, a situation that presents an opportunity to contain and even degrade Hezbollah. The international community should keep the pressure on, taking a firm stand and spelling it out that, while it wants to avoid the financial and political collapse of Lebanon, its financial and economic support is wholly dependent on Lebanese officials tackling corruption and abandoning their indulgence of Hezbollah. It is also high time Europe stopped minimizing the threat from Hezbollah and designated all of it as a terrorist organization, ensuring that its illegal activities are exposed, curbed and punished.

Hezbollah’s response to Covid-19

Under the current political arrangements, Hezbollah controls the Health Ministry and has run an assertive public policy campaign aimed at showing off its ambulance fleet and various hospitals and health centers, but its close links with Iran and slow response to Covid-19 have left it at a disadvantage. A sluggish response after initial denials has made Iran the Middle East epicenter of the pandemic: nearly 200,000 cases and 9,272 deaths have been recorded, though the actual figures are likely to be much higher. Hezbollah’s media opponents have blamed the group for importing the virus on flights from Iran and spreading it through the country.

Lebanon’s first coronavirus case – a 45-year-old woman who had traveled to Iran – was confirmed on 21 February.

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The government immediately cut the number of arrivals from Iran, but Hezbollah held out for two more weeks before banning all flights from there. It wanted to protect its patron's image and to satisfy its own logistical needs (including massive transfers of increasingly sophisticated Iranian rockets and precision-guided weapons). There was further hostile scrutiny as Hezbollah fighters and party officials became infected, with allegations in the Arab media that Hezbollah was secretly treating Iranian military leaders in hospitals it controlled.

So far there have been 1,510 Covid-19 cases and 32 related fatalities confirmed in Lebanon. However, factors such as the growing street protests, the move to phase four of repatriation flights and the imminent airport reopening on 1 July offer little reassurance, and many have raised concerns about the potentially devastating effects of the virus in Lebanon's densely populated refugee communities. The country hosts around 1.5 million Syrian and Palestinian refugees.

Financial impact

Intelligence estimates put the funds Hezbollah receives annually from Iran at around US\$700m (some 70% of its budget). But the pressure of the coronavirus outbreak, combined with the dramatic fall in oil prices and the impact of sanctions, mean that Iran's GDP could shrink by up to an estimated 20%, forcing deep cuts in defense spending and limiting its ability to finance Hezbollah.

While it is true that Hezbollah is not wholly dependent on Iran for its funding – it has other sources of income, including a global network of illegal operations comparable to those of organized crime syndicates – this is still a heavy blow and has forced the organization to make swinging spending cuts. It finds itself less able to offer the subsidies, services and jobs its supporters relied on, just as the Lebanese economy falters: it has postponed salary payments for some of its inner staff and no longer pays new recruits, young Shiite men lured by the prospect of a salary in a country with few economic opportunities. The Hezbollah TV station Al-Manar has canceled programs and laid off staff. The formerly generous spending programs underlying the group's support among poor Shiites have been slashed, including the supply of free prescription drugs and even foodstuffs to the families of fighters and party employees.

The German government's decision to ban all Hezbollah activities inside the Federal Republic has also hit the organization hard. Along with France, Germany had been the hub of its economic activity in Europe. Nearly all European Union member states maintain a legal distinction between Hezbollah's military and political wing: while the former is officially designated a terror organization, the latter is deemed sufficiently distinct to operate freely. The Netherlands is the only other European Union member state to treat all of Hezbollah as a terrorist organization. Elsewhere, the Arab League, Australia, Britain, Canada, the Gulf Co-operation Council, Israel and the United States have all taken a similar line. In fact, there has never been a convincing argument for maintaining the distinction between political and military Hezbollah. It is wholly fictitious. Even Hezbollah spokesman and Deputy Secretary Naim Qassem has repeatedly denied the existence of any separation between the two, asserting: "We don't have a military wing and a political one; we don't have Hezbollah on one hand and the resistance party on the other."

The German government ban is a significant setback for the organization, depriving it of a key economic pillar in Europe. Particularly in the context of the precarious Lebanese economy, valuable foreign exchange is an indispensable tool for bolstering their power.

Smuggling rings

Smuggling across the Lebanese-Syrian border has increased visibly in recent weeks. Images of long truck convoys smuggling petrol and flour into Syria through illegal passageways have been shown on several media. While cross-border smuggling is nothing new to the region, the scale of these current operations differs from traditional practices to the extent that they have become a threat to Lebanese security – both economic and political. That is above all because the two main commodities being smuggled to Syria are subsidized by the Lebanese government, so it is spending hard currency on petrol and flour imports, only to see them smuggled on into Syria. The Lebanese government reports 124-plus illegal border crossings leading to annual losses of over \$600 million, a conservative

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estimate that downplays the multi-billion dollar operation ongoing between Hezbollah and the Syrian regime.

If Hezbollah does not actually operate these smuggling rings, it sanctions them. Control over Lebanon's eastern border enables it to maintain an elaborate military infrastructure, providing cover and pseudo-legitimacy to a range of illicit activities. Some of the smuggling does go through the northern border with Syria, but the bulk of it happens in the rugged Hezbollah-controlled Anti-Lebanon mountain range.

Street protests

The government's announcement on 17 October 2019 of a US\$6/month tax on Internet voice-call services such as WhatsApp and Facebook Messenger sparked nationwide protests. These have recently turned more violent, with crowds vandalizing banks and clashing with the Lebanese Armed Forces due to the worsening economic conditions and rampant corruption of the governing class. This anger could now funnel in two possible directions: early elections, or further street violence.

The 2005 protests, which drove entrenched Syrian military and intelligence interests out of Lebanon, offer an important lesson about the power of home-grown protest when combined with effective external support. Sustained and sympathetic focus on the part of the United States, United Nations, European Union and Gulf Co-operation Council can protect the protesters and help the Lebanese people take the democratic initiative, seizing the chance the next election gives them to deprive Hezbollah of parliamentary partners. Even so, the international community's support for the protesters should not extend to interfering directly in the Lebanese election, as that would make it all too easy for Hezbollah to discredit the protesters as acting at the behest of foreign powers.

This is the context for the Lebanese government's negotiations with the International Monetary Fund, launched on 13 May, offering an opportunity to force them to uncouple from Hezbollah. The organization might have surprised some by endorsing a potential bailout, but it has pre-emptively rejected any terms imposing political conditions. The international community therefore needs to find ways of publicly reinforcing the message that if the Lebanese government really wants to prevent complete socio-economic collapse, it must pursue an agenda of reform, accountability and transparency, relying on national institutions rather than Hezbollah. However, if it fails to purge all the symbols of corruption and continues to indulge Hezbollah, the international community will be unable to mobilize support and Lebanon will be condemned to collapse.

Nevertheless, the voices calling for the Lebanese Armed Forces to confront and disarm Hezbollah should be ignored for now: it would risk pushing Hezbollah into a corner, and thus maybe leading to either a diversionary conflict with Israel to reassert the protagonism of the resistance, or to another bloody civil war. Hezbollah should not be provoked to the point where it would embark on a desperate course leading to a war of national destruction. That was what happened in 2005: Hezbollah felt cornered as fingers began to point in their direction following the murder of former Prime Minister Rafik Hariri, and war with Israel offered a welcome distraction.

In 2008, Hezbollah gave further evidence of how it would react to any attempt to curb its power. In response to Prime Minister Fouad Siniora's attempt to dismantle Hezbollah's telecoms network and his dismissal of Wafic Shkeir, the pro-Hezbollah Security Chief of Beirut International Airport, Hezbollah fighters seized control of several West Beirut districts from pro-government militias in bloody street battles. With a death toll of 42 and 164 wounded, a deal was reached on 21 May 2008 that reversed the government decisions, permitting Hezbollah to preserve its telecoms network and re-instating the airport security chief.

Any push for a broader disarmament in Lebanon at this stage would elicit a comparably aggressive response from Hezbollah. A confrontation between Hezbollah and the Lebanese Armed Forces would quickly escalate into civil war, with the inevitable chaos only benefiting Iran and Sunni extremists. The civil wars in Syria, Iraq, Somalia and Yemen have all proved to be useful vehicles for the expansion of Iranian influence as well as fertile ground for Al Qaeda's brand of terrorism.

Also, Hezbollah's Lebanese opponents know they cannot win such a conflict. Hezbollah has a large arsenal at its

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disposal, an expanding military infrastructure in Lebanon, and greater combat experience. It could also count on considerable foreign assistance, along with a steady flow of weaponry and funds. Its opponents cannot match those means, and their lack of military training and organization would render external military aid futile.

Military aid to the Lebanese Armed Forces

A group of congressmen recently requested United States Secretary of State Mike Pompeo halt all aid to the Lebanese Armed Forces, arguing there was no real difference between them and Hezbollah. Since 2010, the United States has invested more than \$1.82 billion in security assistance to the Lebanese Armed Forces. This support has enabled the Lebanese Armed Forces to defeat the Islamic State in Lebanon, reassert control over Lebanese territory bordering with Syria, and increase its presence in southern Lebanon in tandem with UNIFIL. It has been a primary policy tool in the effort to reinforce Lebanese sovereignty, secure the country's borders, counter internal threats and bolster legitimate state institutions.

While not necessarily affording appreciable United States leverage over the Lebanese government, and despite the Lebanese Armed Forces' worrying inability to actively counter Hezbollah, a case can still be made for the continued provision of military aid.

The Lebanese Armed Forces is Lebanon's most representative institution, its popularity transcending sectarian divisions. It is one of the few state institutions regarded by most Lebanese citizens as truly national. The current street protests against the political class highlight how important an effective Lebanese Armed Forces is to internal stability. It has on occasion used excessive force against demonstrators, but in general has proved highly professional in its treatment of protesters, recently forming a human chain to separate rival rallies in the vicinity of the presidential palace. It has proved impressively resistant to exhortations from political leaders to employ more repressive methods. As its popularity trends upwards in contrast to Hezbollah's apparent reputational decline, military assistance – or long-term investment in a key Lebanese institution – might even help usher in a peaceful end to Lebanon's sect-based political order.

A call to the European Union

In light of the German government ban, Hezbollah seems likely to establish new structures elsewhere and shift the focus of its financial activities to France and Eastern Europe. For its part, the European Union must now stop minimizing the threat from Hezbollah and hold it legally responsible for its actions. All of Hezbollah should be designated a terrorist organization, its illegal activities exposed, curbed and punished. Only an European Union-wide ban on the entire organization can ensure that it no longer uses Europe as a base for recruiting, financing and planning its attacks. More pressure should thus be brought to bear on European governments to proscribe both the political and military wings of Hezbollah as a terrorist organization, and to clamp down on its sources of funding.

About the author:

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