



*Does political sectarianism lead to
the economic failure
of countries?
- Lebanon as a model*



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Does political sectarianism lead to the economic failure of countries?

- Lebanon as a model -

The Arab region suffers from the negative effects of sectarianism of various kinds; religious, political and ethnic; which inevitably ends with the failure to manage the economic materials and the country's role in regulating economic and social activity. In Lebanon, political quotas led to devastating effects that ended with Lebanon declaring its bankruptcy and out of control of its banking system, and religious sectarianism may lead to the failure of states at all levels, as is happening in Yemen, or the occurrence of proxy wars and the depletion of economic resources as is happening in Iraq, or the spread of conflicts armed forces, which Libya suffered from.

Despite what distinguished the Lebanese economy and its adoption of a free economic system, which made it a destination for Arab and Western funds and investments, which made the West consider it the Switzerland of the East, these funds did not contribute to creating a state of sustainable growth and achieving the desired economic development, as Lebanon focused on the service sector without real development of the productive sector, this made the Lebanese economy exposed to the outside, in addition to the political quotas that drained the Lebanese economy, as a more balanced consensual arrangement for power-sharing led to an even bigger expansion of the public sector, an increase in corruption and a decline in its independence; the public sector was concerned with predatory rentier practices on sectarian basics, and in the end, the country did not have as much bureaucratic independence, extractive capabilities, and a national agenda. And it ended with Lebanon declaring its bankruptcy, seizing depositors' money in banks, and the collapse of the currency's value. How did Lebanon reach this situation?



Sectarianism in the Arab region

Many forms of pluralism characterize societies, whether it is religious and sectarian pluralism, cultural or linguistic pluralism, or social, tribal, family and clan pluralism, or ethnic pluralism, Arab societies did not depart from this societal pattern. Rather, they are the impact of societies that abound with diversity in all its forms and colors, this convergence of cultures and primary affiliations paralyzed a strengthening factor for Arab societies, through which several ancient civilizations were built, but as a result of wars, political conflicts and the phenomenon of European colonialism witnessed in the Arab world, the concepts and issues of sectarianism and minorities arose; this diversity has become an obstacle to social cohesion with the emergence of feelings of exclusion fueled by a sense of injustice from the authoritarian appropriation of values and the uneven or unfair distribution of resources and wealth among societal components in the cities and countryside. Sectarianism appears in the Arab world for several reasons, including response to perceived threats to security or for sufficient representation in the political system.

The nature of sectarianism varies greatly in the Arab world, and this is a result of the different ethno-religious composition in each country, which constitutes a different political environment and is also affected by the nature of external alliances and the goals set by those actors such as the conflict in Syria and Iraq as well as Yemen and of course Lebanon where we find sectarianism from the inside tearing Iraq apart and weakening the country's ability to exert full influence over its wealth, in addition to the lack of sufficient stability. Sectarian alliances and Iranian influence have also contributed to deepening the Russian crisis.



The complexities of the Syrian scene have increased since 2011, as the Syrian economy has weakened significantly, and the Syrian country has become torn between several sects and the influence of sectarian external forces, also, Yemen and Lebanon were subjected to the same external sectarian influence and the deterioration of political stability in the countries significantly, in addition to a strong economic decline and the deterioration of various economic sectors.

Therefore, playing on the sectarian pace contributed to the exposure of these countries to great losses and a huge deterioration in their development plans as a result of these devastating effects and the conflicts that led to them, which contributed to wasting the value of the wealth enjoyed by those countries and the increase in the rates of asylum and migration abroad to escape these difficult conditions.

The sectarian problem and its impact on the Lebanese economy

Sectarianism, as the political structure of the country based on a free market economy, affects the status of Lebanese citizens in terms of the sect to which they belong, instead of treating them as citizens, and this leads to wide effects on the social and economic life of the people and on the process of social reproduction; especially since the political, social and economic rights are achieved through the individual's community affiliation. In practice, sectarianism in Lebanon is shaped by a specific legal context of the Personal Status Law, which approves anything from legislation related to marriage,



divorce, child custody, inheritance, birth, and death, according to the laws of each of the religious courts of each sect. In addition, this sectarian legal structure represents the channel for reaching political representation.

Lebanon is one of the most diverse and complex countries in the Arab world, and includes a large number of sectarian and confessional formations. The Lebanese system is very special, as it reflects great sectarian diversity, and this has caused many crises throughout its long history, Lebanon includes about 18 sects, and each sect constitutes a separate entity, and each sect seeks to control the Lebanese political structure and seeks to provide social and economic services to its sect; one of the most prominent agreements that brought about consensual solutions to sectarian conflicts in Lebanon was the Taif Agreement, which led to political and economic changes in the structure of the Lebanese system, the Taif Agreement that put an end to the Lebanese civil war (1975-1990) gave Syria the right of trusteeship over Lebanon, and made it the first and direct influence in it for a long time, as well as making it the supervisor of the reconstruction process, "in which the Kingdom of Saudi Arabia had a prominent role through economic support The huge investments it made, through the trust it gave to the former Lebanese Prime Minister, Rafik Hariri; where Damascus' priorities related to its internal balance and its regional position were the determinants of how it would manage the Lebanese file through the two "resistance" papers, in which Hezbollah played a key role, and the "reconstruction" and economic and financial construction paper, which was led by Hariri.



One of the most prominent features of the Lebanese system is the sectarian division of constitutional authorities and administrative positions, ensuring the representation of certain groups in a sectarian manner. The Taif Agreement addressed these disparities in order to reduce the intensity of the conflict between the different sects. These divisions greatly affect equal opportunities and move away from selection based on efficiency. The Taif Agreement focused on rebuilding public facilities and infrastructure destroyed by the civil war, as a prerequisite for promoting the investment climate and improving economic growth rates.

However, despite what was achieved in this regard in the second half of the nineties, the state of the infrastructure networks and public utilities quickly ended, after a relatively short period from the launch of the construction project, to a terrible degree of deterioration, as witnessed by the current state of the electricity sectors, energy, water, public transportation, and formal education (in its three cycles: public education, vocational education, and higher education). This is as a result of sectarianism that has torn institutions apart as a result of competition through distributive policies to attract the masses, making them overlook responsibility for the low volume of public investment to unprecedented minimums (as a percentage of the existing gross domestic product and as a percentage of total capital investment). This made the actual pattern of the implementation of the Taif Agreement coincide with the localization of wealth-wasting policies and the weakness of the efficiency of institutions. Over the course of the three decades, blame has always been directed at the ruling class, and the people hold it responsible for the continuous deterioration and



the inability to face challenges, and this was clearly evident in the 2019 movement to demand effective policies to confront this deterioration because it is a major cause of the deteriorating economic conditions. The extent of the impact of sectarianism was also clear after the Syrian crisis, as Lebanon was one of the most affected by sectarian alliances, which led to a deterioration in economic indicators.'

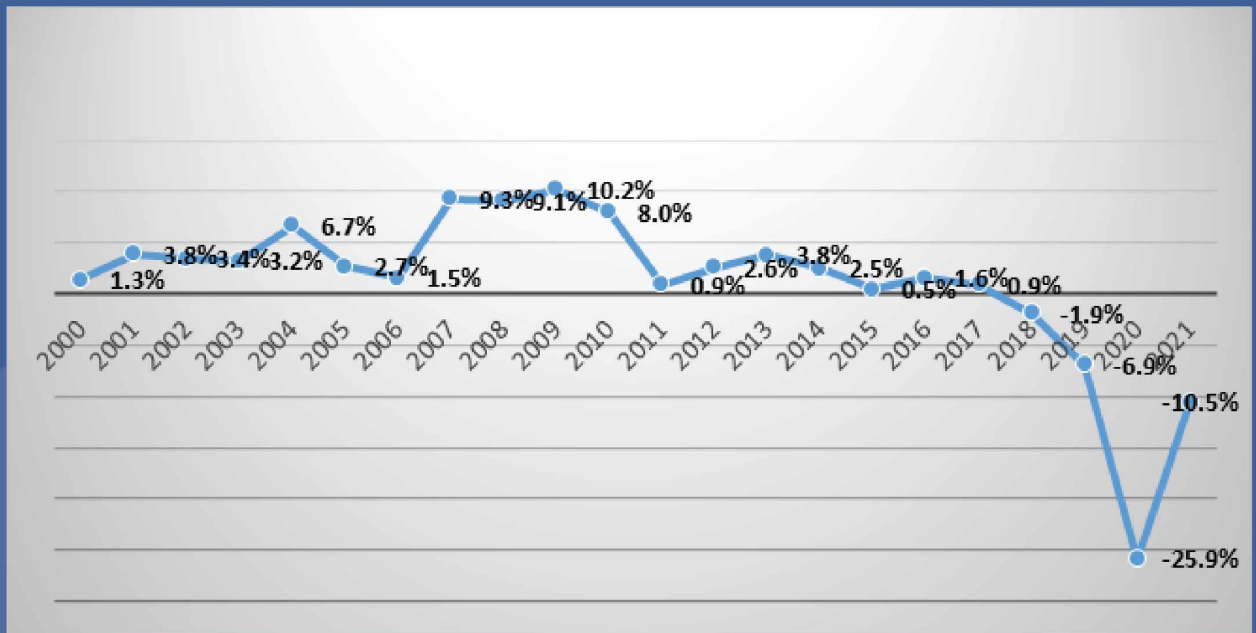
Lebanon from economic recovery to bankruptcy

The Lebanese economy has witnessed dramatic changes, especially since the 2000s, as it was a period full of political events that affected all the course of economic and social life in Lebanon, and that period was a dedication to sectarian quotas in Lebanon. From mid-2000 until 2005, Lebanon witnessed good economic developments, as most indicators recorded marked improvement, particularly after the Israeli withdrawal from the south; however, the year 2005 and 2006 witnessed enormous economic pressures as a result of the assassination of Prime Minister Hariri in 2005 and the July 2006 war.

Real growth declined to 2.7% in 2005 and then to 1.6% in 2006 compared to about 5.06% in 2004, and most economic indicators deteriorated. By the end of 2006, Lebanon began to witness a period of economic improvement until 2008 when the global financial crisis erupted, from which Lebanon benefited until 2010, unlike most developed and developing countries; Lebanon achieved an unprecedented economic boom and a rise in real estate prices, bank deposits and foreign transfers, bringing the average growth for the 2007-2010 period to about 9.2%. In the period from 2011 to 2014, Lebanon was one of the countries most affected by the outbreak of unrest in a number of Arab countries. From the pressures faced by its banks operating in Egypt

and Syria, to the decline in transit trade and export by land, to the decrease in the number of tourists, and the influx of more than one million displaced Syrians and the pressures that this posed on the infrastructure.

Figure No. 1: Growth rate of Lebanon's GDP in the period (2000-2021)



Data source: The World Bank database

The decline of the Lebanese economy since the Arab Spring, leading to the Russian and Ukrainian wars, and passing through what was left by the Corona pandemic in stopping economic activities, especially its impact on foreign trade and tourism, has had a great impact on the Lebanese economy, followed by a steady increase in the domestic and external public debt.

The fiscal deficit has risen and resulted in an increase in the public debt, which has exposed the entire financial system to weakness, and in light of the stagnation that the Lebanese economy is experiencing, it is less able to generate more revenues, and thus the possibility of going to external borrowing remains strong.



The choice between short-term economic stability and medium-term financial sustainability is a clear example of the dilemmas facing policy makers in Lebanon . It is worth noting that it was difficult for the Lebanese economy to provide sufficient liquidity to enable the government to meet its debt obligations. However, the accumulation of public debt will lead to significant inflation in the long-run service .

Lebanon is facing major crises during the current period, and Lebanon has witnessed a deterioration in the economic and social conditions as a result of the work disruption in a number of import-based institutions and sectors. The manifestations of the economic crisis were represented in the decline in foreign exchange reserves to about 11 billion dollars in 2022, and the unprecedented stumbling suffered by the banking sector, which was accompanied by the seizure of depositors' money in dollars, contributed to the shaking of external confidence ; in addition, dollarization operations increased in the local market, and the exit of capital from Lebanon.

All of these factors have deepened the economic crisis in light of the Corona pandemic, which undermines the chances of financial sustainability in Lebanon

The public finance deficit continued in 2020 and 2021, due to structural imbalances in the tax system, declining economic growth and austerity policies, as well as the sharp decline in tax revenues as a result of economic stagnation and the high rate of tax evasion and the achievement of negative growth rates as shown in Figure (1).

Dr. Hazem Al-Bunni, Lebanon between Yesterday and Today, an economic vision of a growing problem, <https://cutt.us/cxrW8>

Dakhlallah, K. M. (2020). Public debt and fiscal sustainability: the cyclically adjusted balance in the case of Lebanon. Middle East Development Journal, 12(2), 340-359.



The Lebanese government's failure to pay debt installments or restructure financial obligations is one of the conditions that hinder financial adjustment, and defaulting on debt repayments has serious consequences as it limits the state's ability to access financing in the future. Lebanon abandoned the repayment of outstanding debts of 1.2 billion euros on March 9, 2020, due to the lack of sufficient liquidity with the government to provide medical supplies and basic needs of citizens during the spread of the Corona pandemic .

The excessive indebtedness, with which the public debt reached record levels, reached 360% by the end of the fiscal year 2021, with a significant decrease in the volume of foreign reserves at the Central Bank of Lebanon. Lebanon hopes to reach an agreement with the International Monetary Fund in order to maintain internal stability and to rebuild confidence in the banking system is expected to reach only 101% of the debt by 2026 .

The economic, financial and monetary challenges that Lebanon is witnessing led to the collapse of the exchange rate of the lira at unprecedented rates, especially in the absence of sound and sustainable treatments, and the continuation of the financing policy through borrowing.

The poverty rate in Lebanon increased significantly during this year due to the crisis, according to the report of the United Nations Economic and Social Commission for Western Asia (ESCWA), as poverty affected approximately 74% of the total population in Lebanon, after it recorded 55% in 2020, and 28% in 2019 .

Kassim M. Dakhllallah, 2020, the dilemma of public debt in Lebanon, Economic Research Forum (ERF), JUNE 30, 2020, <https://cutt.ly/BE9ay2R>

Al-Arabiya Channel, Governor of the Banque du Liban: Foreign reserves have decreased by \$2.2 billion since the beginning of 2022, 6/2022, <https://cutt.us/bJo61>



Toward building a new economic model in Lebanon

Achieving fiscal sustainability and financial reset requires Lebanon to reach an agreement on debt restructuring and to establish a structural adjustment program to achieve financial and economic reform. And which form the basis of a possible agreement with the International Monetary Fund - which gives a certificate of confidence in the economy - to facilitate Lebanon's access to sources of foreign financing, which will open the way for international creditors to invest in Lebanese bonds.

In addition to the above, Lebanon needs a structural reform in the structure of the tax system, as well as the imposition of a wealth tax - to provide other sources of revenue and reduce large income disparities, reduce corruption and tax evasion to increase the tax base, and on the other hand, rationalize expenditures to restore balance to public finances . Especially with the fiscal deficit reaching 10% of GDP in 2020, according to International Monetary Fund (IMF) data.

The Lebanese economy has become in need of new corrective policies, but before that, Lebanon still needs strong political changes that focus on opening the horizons of dialogue, rejecting sectarianism, working to strengthen the

Isaac Diwan, Why is it so difficult to solve the public debt problem in Lebanon?, Lebanese Center for Studies, April 20, 2020, <https://cutt.ly/WE9an5f>

Fitch Ratings, Fitch Affirms Lebanon's Long-Term Foreign-Currency IDR at 'RD' Wed 18 Aug 2021, <https://cutt.ly/vE9av5j>

Economy of the East, Lebanon aims to reduce public debt to GDP from 360% to 101%, May 2022, available at: <https://www.acharqbusiness.com/article/37310>

ESCWA, ESCWA sounds the alarm: Poverty affects more than three quarters of the population in Lebanon, July 3, 2021, available at: <https://shorturl.at/adft9>

Lydia Aswad, Lebanese Political Economy: From a Predatory Economy to a Self-Devouring Economy, Malcolm Kerr-Carnegie Center, March 2021, <https://cutt.ly/eE9aW6B>



principle of citizenship and avoiding entering into alliances and sectarian conflicts, because in light of the turmoil in the region, Lebanon's political and economic interest must be balanced and Lebanon's interests firstly taken into account. It should also work in parallel to take economic policies, no matter how difficult they are, to address this deterioration in the economic conditions, so that it focuses on addressing the structural problems of the Lebanese economy, foremost of which are:

- Restore the role of the Lebanese state and work to increase services and improve their efficiency, in addition to enhancing transparency, governance and peaceful coexistence among members of society, considering society as a single fabric away from sectarianism and quotas in all its forms and manifestations.
- Enhancing the participation of the private sector and strengthening its roles. There are still opportunities to make Lebanon a destination for investors from East and West due to its geographical nature, its being a source of tourist attraction and its cultural openness to the world.
- Working to find mechanisms to reduce the impact of sectarianism in various institutions and sectors in order to provide job opportunities for all without discrimination, as the current situation, which makes the public sector operate according to a sectarian bureaucratic basis, only worsens the Lebanese economy.
- Re-drafting the tax system so that it is more effective and takes into account social differences, and builds balanced economic relations with everyone and not based on sectarian alliances.