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**THE GEOPOLITICAL CONTEXT OF
THE CEDAR CONFERENCE AND ITS
IMPACT ON THE DOMESTIC FRONT**

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Introduction:

The economic Cedar Conference was held on April 6, 2018 on the background of seismic and momentous ongoing geopolitical shifts, ushering new arrangements in the region and inside Lebanon which jeopardize chances to implement the roadmap it has outlined. Lebanon is mired in a long running political crisis mirroring regional conflicts, especially the Syrian war raging on its borders. Three months after the dust has settled in its parliamentary elections, the formation of a new government is still stymied by continuous stalemates among political players, which have been re-elected, although in different weights; a government that will return some measure of predictability to the country's constitutional institutions. If the formation of a new government is a first prerequisite step for donors at Cedar Conference to enforce its outcome, it will surely not be the last. To unlock pledged investments and soft loans, the tiny country is urged to move swiftly on political and economic reforms. These reforms are stalled by the country's disrupted social contract, deeply engulfed in sectarian shackles.

The current crisis is not the first of its kind in Lebanon as crises have raged since 2005, when the Syrian Army withdrew from the country following former Prime Minister Rafik Hariri's assassination. After this drastic

event, the country witnessed widespread popular movements, known as the Cedar Revolution, which led to Syria's political and military exit from the Cedar country. Over the course of the period stretching between the end of the civil war in 1989, the signing of the Taif Agreement in 1990 and 2005, Lebanon was under the mandate of Syria, which acted as the powerbroker in the country. It has managed to impose its interpretation of the Taif Agreement and its selective application of its clauses, relying on an intelligence-security system and a ruling political class overwhelmingly loyal to Damascus. The economy was generally under the patronage of Hariri, one of the most important architects of the Taif Agreement.

In the wake of the 1992 Madrid Conference, Hariri and others were betting on economic prosperity because of anticipated peace in the Middle East. He launched the reconstruction of Lebanon, relying back then on the country's ability to borrow and the solvency of Lebanese banks to finance an accumulating public debt. Some have applauded Hariri's policies for his ability to bring the country out of war rubble, while others have criticized him for three reasons: First, the high cost of reconstruction, especially in terms of high interest rates on treasury bonds, exceeding the threshold of 35%; second, concentrating reconstruction efforts in central Beirut; and third, the policy of reconstruction did not introduce profound reforms to the national economy structure. While such criticism could be well-rooted, one cannot but acknowledge that Hariri's rebuilding of Beirut

Central District and rehabilitation of the infrastructure networks were the last capital investments Lebanon had made.

Regional Shifts:

The 2003 US invasion of Iraq and overthrow of Saddam Hussein had a severe impact on the region in general and on Lebanon in particular. The “democracy agenda”, set up by then US President George W. Bush as the foundation for a “New Middle East”, found its echo in the “Cedar Revolution”, which was considered a model for peoples’ aspiration for freedom and the state of law. Bush and French President Jacques Chirac -known for his closeness to slain PM Hariri- joined forces in supporting the popular movements, and managed to force Syrian troops out of Lebanon in the spring of 2005, as well as to establish the Special Tribunal for Lebanon under UN Security Council Resolution 1757 in May 2007, with the aim of bringing the perpetrators of the Hariri assassination to justice.

Syria withdrew from Lebanon leaving behind its ally Hezbollah and its military arsenal. A front opposed to the Syrian-Iranian axis, known as the March 14 Movement, was formed. In the aftermath of these events, Lebanon was struck by a wave of assassinations mainly targeting political figures and security chiefs affiliated with the March 14 Movement, the most recent of which was the assassination in a bombing on December 27, 2013 of Mohammad Shatah, a former Lebanese minister and adviser to Prime Minister Saad Hariri.

Since 2005, the Lebanese political landscape has been tainted by a sharp polarization between two protagonist coalitions: The March 14 Movement, backed by the West and the Gulf States, and the March 8 Movement, led by Hezbollah, an integral part of Iran's military apparatus. With the political and military withdrawal of Syria al-Assad, Lebanon staggered from one political crisis to another, most of which have taken on constitutional and structural characters. These crises reflected various regional conflicts, particularly the conflict that has raged between Iran and the Arab Gulf states since 2008 on the background of Tehran tightening its control over Iraq after then US President Barack Obama's administration unilaterally withdrew from Iraq. Iran was able to fill the void left by the exit of US forces, and the US initiative allowed Tehran to project influence across the Middle East by establishing a regional sphere of influence or a "land bridgehead" linking Tehran to the Mediterranean through Iraq and Syria. Iran's expansionist ambitions in the region were reinforced after it reached an agreement with world powers on its nuclear program on July 14, 2015, especially with its cosignatories, the 5 + 1 group, mostly the European Union and the United States, giving priority to progress on the nuclear track at the expense of other tracks.

Balance and Allocation of Roles:

Rafik Hariri's assassination was a blow to the Lebanese economy. The growth rate dropped from 7% in 2004 to 1% because Hariri's name was associated with the reconstruction process and Hariri himself was for many

in the Arab and Western world a source of confidence in Lebanon and its economy. Nevertheless, three years after his assassination and despite the July 2006 war, the Lebanese economy experienced a boom reaching its peak in 2008, when the gross domestic product (GDP) growth rate exceeded 8% and foreign direct investments reached \$4804 million. In the meantime, the convening of the Paris 3 Conference in January 2007 gave a positive signal in terms of Lebanon enjoying an international safety net which supports its economic and political stability. This safety net was strengthened by the 2008 Doha Agreement, which ended the presidential vacuum with the election of the then army commander in chief, General Michel Sleiman, as President of the Republic. It is true that the Lebanese economy has been suffering and continues to suffer from a structural imbalance characterized by the growing deficit of the treasury, the accumulation of public debt and the absence of fundamental reforms that relax its productive sector and control waste and corruption in the public sector; however, Lebanon benefited, albeit minimally, from the third oil boom (2002-2008) in the Gulf States, a key destination for Lebanese expats working abroad and a major source of tourists to Lebanon.

At the geo-economic level, the economic weight of the Gulf States, led by Saudi Arabia and supported by the West in general, balanced the political and military weight of the Syrian regime and the growing role of its ally Iran in the region. This balance formed the geopolitical basis upon which the various settlements

that Lebanon has witnessed since the signing of the Taif Agreement were reached. On this backdrop, PM. Rafik Hariri enjoyed in the 1990s a broad free margin in terms of economic decisions, while Syria held a firm grip on internal security and foreign policy. It was said at the time: “Hariri deals with the economy and Syria deals with security and foreign policy”. After his killing, the system of governance relied on a similar equation: Hezbollah, Iran’s proxy and the strongest militarily on the ground, opposite to a movement diplomatically backed by the West and politically and financially backed by the Gulf States, especially Saudi Arabia. The internal power configuration of Lebanon was also closely dependent on the regional balance of power between Saudi Arabia and Iran, and any change of relations between them was to affect Lebanon’s stability. Tension between the two regional axes severed relations among internal forces tied to them, and their harmony led to stability in Lebanon. Thus, for example, in 2010 we witnessed the so-called “S-S (Syrian-Saudi) settlement,” which culminated in a joint visit to Beirut by Saudi King Abdullah and Syrian President Bashar al-Assad in July 2010, in an attempt to alleviate the crisis resulting from the Special Tribunal for Lebanon indicting members of Hezbollah (formalized on June 2011) in the assassination of Rafik Hariri. While Iran’s support has focused on Hezbollah and its anti-Israeli resistance endeavor, the overall Western support focused on empowering the Lebanese Armed Forces (LAF) and strengthening the Lebanese banking sector, considered as the two pillars of Lebanon’s stability.

The Syrian War and Its Implications on Lebanon:

After the popular uprisings snaked their way to Syria, Hezbollah intervened militarily in the conflict that broke out in 2011 siding with al-Assad's regime. Hezbollah's full-fledged military involvement in the Syrian upheaval, exacerbated cleavages among Lebanese especially in what pertains to the country's foreign policy and its regional posture, two constitutional issues considered as the basis of the Lebanese National Pact. Furthermore, Hezbollah involvement in the Syrian war torpedoed its domestic standing, and substantially tarnished its carefully cultivated image in the eyes of the pan-Arab audience, as a resistance movement against Israel that has emerged as champion in the 2006 war. Hezbollah was further demonized across the Arab world with the Syrian war turning sectarian and Syria emerging as a primary site for the broader regional Sunni-Shiite rift. This sectarian regional contest reverberated in Lebanon with the specter of renewed war looming, when between 2013 and 2014 sporadic terrorist attacks akin to bouncing boxing rounds hit the country's both Sunni and Shiite strongholds: The city of Tripoli and the southern suburbs of Beirut.

The Syrian war and its subsequent sectarian tensions and shift in the regional military balance of power - have had tremendous effects on the Lebanese economy. Since 2011, and for seven years in a row, the growth rate has not exceeded the 1.5% threshold - a clear sign of stagnation when compared to population growth. In 2007, for example, population growth was twofold

the rate of GDP growth. The most serious indicator of economic stagnation may be the balance of payments shifting from surplus to deficit in the period that falls between 2011 and 2018, with the exception of 2017 during which *Banque du Liban* undertook a widely controversial “financial engineering”, with opponents slamming its high cost. Lebanon has always recorded a balance of payments surplus that has acted as a safety valve against its balance of trade deficit. The significant decline witnessed by the tourism industry, mainly because of severed ties with the Gulf States and the issuance of travel ban to Lebanon by the Gulf Cooperation Council (GCC) countries, the dramatic drop in foreign investments and the waning of expat remittances have all been undermining the cash inflow into Lebanon. Despite the economic and financial deterioration reaching red lines, it did not entice the authorities to undertake instant positive measures, especially in terms of controlling the treasury deficit, leaving the country engulfed by “twin deficits” (the treasury deficit and the balance of payments deficit). This increased the pressure on its banking sector, the main financier of public debt, and led to an alarming rise in interest rates, threatening to cripple the economy and deepen the recession.

Since the dissolution and re-formation of governments are more subject to internal balances of power -and therefore to the regional balances of power- rather than to constitutional regulations and deadlines, Lebanon saw between 2015 and 2017 a series of constitutional

vacuums due either to the parliament failure to elect a president, or to failure to form a government. These recurring vacuums further inhibited the establishment of a decent and efficient governance system that respects the minimum requirements for good governance at a time the country was in deep need for structural reforms to avoid economic collapse.

Saudi Arabia's Shifts and "Lebanon's Particularity":

Against the backdrop of the Syrian war and the Arab revolutions the war broke out in Yemen and soon turned into a regional confrontation between Iran and Saudi Arabia. Hence, a new proxy battlefield for the two regional powers emerged alongside Iraq, Palestine, Syria and Lebanon. Kuwait and Bahrain were also caught in this rivalry, reflecting a wider regional sectarian schism between Sunni and Shiite. However, in Yemen Saudi Arabia directly intervened in the conflict at the head of a military alliance because developments there amounted to a direct security and existential danger to the Kingdom, especially after escalating threats by the Houthi, with their missiles reaching the depth of Saudi Arabia.

Two months before launching the Saudi Arabian-led military intervention in Yemen, the ascendance of King Salman to the throne in January 2015 and the appointment of Prince Mohammed bin Salman as crown prince ushered profound structural shift in Saudi policies at all levels, particularly foreign policy. The Kingdom abandoned its strategic policy of appeasement

and “patience” and charted a new more aggressive and robust one. This shift reverberated in Lebanon especially after the GCC on March 2, 2016, accused Hezbollah of supporting the Houthi and labeled the group as a terrorist organization, blacklisting individuals and institutions for having links to Hezbollah. The Arab League followed into the GCC’s steps, declaring on March 11, 2016 Hezbollah a terrorist organization. At a meeting held on November 19, 2017, the Arab League said that Hezbollah, “a partner in the Lebanese government, is responsible for supporting terrorism.” This reference to the Lebanese government’s direct responsibility for Hezbollah’s actions was the first of its kind.

Arab and Western states had always distinguished between the Lebanese government and Hezbollah, owing to the so-called “Lebanon’s particularity.” However, with the Saudi-Iranian conflict reaching its peak and Hezbollah’s involvement in both the Syrian and Yemeni wars they followed into Riyadh’s steps in adopting a more stringent approach towards Lebanon. The regional and Western mood was increasingly uncompromising with Lebanon mainly because of Hezbollah’s cross-border activities and direct intervention in the affairs of Arab states threatening their political orders, security and stability. It should be noted that the financial assistance provided by Saudi Arabia to Lebanon during 1990-2015 amounted to about \$70 billion, as cited in an international report featured by the *Asharq al-Awsat* daily on February 26, 2016. Undeniably, this unique Saudi aid played a crucial role in supporting

the Lebanese economy and constitutional institutions. Fears were growing over the fate of Lebanese expats working in the Kingdom, with its labor market attracting the majority of Lebanese working in the Gulf States. Notably, remittances from Lebanese working in Saudi Arabia account for 55% of remittances sent to Lebanon. It is notorious that these remittances have kept Lebanon afloat, preserved its monetary stability and represented key growth driver especially after the decline of other economic levers such as tourism.

In exchange for the Arab and international recognition of “Lebanon’s particularity,” Beirut adopted a “dissociation” policy vis-à-vis regional crises. According to this tacit deal, regional and international powers consider Lebanon’s diversity and its crucial need for maintaining a delicate confessional balance, and in return Lebanon disengages from the ongoing regional geopolitical battle. Along these veins, one can understand the circumstances surrounding PM Saad Hariri’s resignation announced from Saudi Arabia. Speculations about his resignation have poured rivers of ink – especially with Hariri keeping silence- yet, it was obvious that his return to Lebanon was the result of diplomatic efforts led by France with key regional and international actors, i.e. the United Arab Emirates, Saudi Arabia, Iran and the United States. The crisis ended up in a compromise under which Hariri revoked his resignation in return of Hezbollah deescalating its rhetoric barb against Saudi Arabia; the group Secretary-General announced in a televised address that Hezbollah had not intervened in

Yemen, and all Lebanese parties reiterated their quasi-commitment to the dissociation policy at its minimal level. However, such stance meant one thing: Hezbollah would renounce its sharp rhetoric escalation about the Saudi intervention in Yemen, without constraining its activities in Syria supporting al-Assad regime forces. Hariri went from Riyadh to Paris before heading to Beirut. Once again, Europe restated its long-standing support for Hariri mainly driven by a couple of impetus: The Hariri family moderate posture in the midst of rampant Islamic extremism; and the fact that Hariri's popular aura has no substitute within the Sunni leadership spectrum able to counterbalance the Iranian influence, expressly after the Christian divide along regional lines with the strongest party brokering alliance with Hezbollah. Such were the political domestic and regional environments when a series of conferences to support Lebanon were announced, including the Cedar Conference, voicing the European, and especially the French, intention to support Hariri.

Delicate Balances:

The Cedar Conference overlapped with two other conferences: The Rome Conference (February 27, 2008) intended to support the LAF and the Brussels Conference (April 25, 2008) intended to alleviate the burden of Syrian refugees. The main headlines of these pledging conferences laid out the strategic objectives of the European policy towards Lebanon. Indeed, supporting the LAF has long been a cornerstone of the international community's policies apropos Lebanon,

mainly after its achievements in fighting diehard Islamic organizations (Nahr al-Bared and Aرسال). Europe has adopted a realpolitik approach towards Lebanon akin to the one adopted by the Obama administration or Saudi Arabia prior to King Salman rise to power. This pragmatism relied on a long-term strategy of backing the Lebanese legitimate institutions, including the LAF, despite the lacking of a robust decision-making system instrumental to ensuring the military operational agility, coupled with a blurring foreign and defense policy upon which it can build its national doctrine. On the other hand, the European policy towards Lebanon also focused on shielding the country's national economy as Europeans were more propelled than the Iranian-led axis was due to international sanctions. To sum up, European countries resorted to economic and diplomatic leverages, always promoting political compromises over military solutions. Critics of this pragmatism say it bowed to the Iranian-led axis, which has managed to gain hegemony over the Lebanese State, slowly tilting the domestic balance of power in its favor; a long way from its waning days, when in the wake of Rafik Hariri's killing, it was curtailed.

Actually, Hezbollah managed to overcome its isolation mainly by gaining a Christian cover; indeed, one of the most important alliances that Hezbollah struck has been with Christian leader Michel Aoun and his Free Patriotic Movement, considered as the strongest Christian party in terms of parliamentary representation. This alliance allowed Hezbollah to form a bloc, which between

2005 and 2012 emerged to be the main powerbroker in political decision-making due to its disabling power from within the institutions, either by raising the Shiite veto or by withholding one third of votes on decisive matters in both the cabinet and the parliament. On the other hand, despite Hezbollah's military power, the March 14 Coalition, which enjoyed international and Arab support, managed to create a political balance as it won parliamentary majorities in two consecutive rounds of legislative elections - in 2005 and 2009 - and garnered substantial weight in afterwards cabinets.

Lebanon's Exposure to the Syrian War:

In 2009, the Saad Hariri cabinet was overthrown by a near-coup while he was at the White House meeting with Obama. Hezbollah undertook a lightning military operation in West Beirut and it was the first time in postwar Lebanon that the party had turned its firepower inward to reverse the domestic political equation. A new cabinet led by Prime Minister Najib Mikati was formed and some Western media labeled it as Hezbollah's cabinet. Despite the substantial majority enjoyed by the March 8 Movement within this cabinet, it failed to accomplish much at the economic level. Indeed, the economic recession, represented by the twin deficits currently seen in Lebanon, began that year. In March 2013, the Mikati cabinet stepped down as Lebanon was exposed to the Syrian war and the security situation was shaken by the series of bombings described above. Since then, the Lebanese domestic scene has been linked to developments in Syria. The only achievement

of this period may be the signing of all parties, including Hezbollah, of the so-called Baabda Declaration on June 6, 2012, calling for dissociating Lebanon from regional and international axes and struggles, namely Syria's. The world welcomed this agreement, and it remains a reference recalled by the United Nations from time to time. Yet this agreed upon modus operandi in the Syrian conflict proved to be stillborn, with Hezbollah further embroiling in Syria, especially after the Russian intervention which tilted the course of the war.

In 2013, a series of important events took place locally, regionally and internationally: The election of Hassan Rouhani as president of Iran, Iran and the P5+1 resumed negotiations over Iran's nuclear program and the US appeasement approach towards Iran. These events coincided with the resignation of PM Mikati. Tammam Salam was charged with forming a new cabinet in April 2013. However, he was unable to fulfill his mission until February 2014, and his cabinet included substantial representation of the March 14 Movement. It was not surprising to see such a cabinet assume office in light of international rapprochement with Iran. In fact it was Foreign Minister Mohammad Javad Zarif who, on the sidelines of the 2014 World Economic Forum in Davos, announced that the Lebanese cabinet would soon come into being. That cabinet saw two battles: The regional battle in Syria and its repercussions on the Lebanese economy and social conditions, especially with the influx of Syrian refugees into the country; and the battle for the presidency after the end of President

Michel Sleiman's mandate without the election of a successor. The country stayed without a president, and the entire executive authority was entrusted to a cabinet divided over regional conflicts and by the ambitions of presidential aspirants.

The Compromise, the Elections and the Toppling of Existing Balance:

Since September 30, 2015, when Russia launched its military intervention in Syria alongside the regime, the balance of political and military power changed in favor of the latter. The Syrian forces and pro-Iranian militias fighting in Syria have managed to avoid collapse and improve their positions on the ground. Tehran and Moscow carried the banner of "war on terror" in general and targeted the Islamic State in particular, simulating the war announced by Obama in 2014. However, the US and the Russian-Iranian classification of terrorism differed, like their goals which conflicted on the battlefield. As the equation changed in Syria day after day, Hezbollah found it can manage without the Sunni cover provided by Salam cabinet. With the onset of the Yemeni war, the conflict between Iran and Saudi Arabia climaxed. The general scene was as such: Washington was appeasing with Tehran to avoid disturbing nuclear negotiations, while its relationship with both Saudi Arabia and Israel got strained as they voiced concerns about those negotiations; the two states viewed these negotiations as a cover for Iran's strategic expansion ambition in the Levant. At this crucial moment of Levantine political history, and while Obama was taking his final laps in the

White House, Hariri and the Lebanese Forces, the key players in the March 14 Movement, decided in the fall of 2016 to proceed with a historic compromise: Putting an end to the presidential vacuum through backing a presidential bid by their rival Hezbollah, General Michel Aoun; in exchange, Hariri will be brought back to the premiership.

Under Aoun's tenure, the first cabinet was formed with the task of holding parliamentary elections based on a new election law. The electoral law was tailor-made to the advantage of the existing political establishment, and the results of the elections enshrined the robust representation of traditional parties and reproduced the same established political parties, marking however a shift in their weight. While Hariri Future Movement lost one third of its parliamentary seats, the Lebanese Forces, the other pillar of the traditional anti-Iranian axis, improved its representation in parliament by getting 15 seats compared to eight seats in the previous legislature. The portrayal by some international media of the elections results as a landslide victory for Hezbollah may be exaggerated, however, the majority in parliament shifted from political groups affiliated to the March 14 bloc to those closer to March 8 bloc, undermining the former balance, where political, parliamentary and institutional forces countered the pro-Iranian coalition's military power. Perhaps that is what prompted the commander of the Iranian Revolutionary Guard, General Qasem Soleimani, to say a day after the parliamentary elections in Lebanon that Hezbollah reaped 74 out of

128 parliamentary seats. He described these results as “a great victory” that has established the group’s legitimacy, in what appeared to be a response to Washington and its allies classifying Hezbollah as a terrorist organization.

If Lebanon has emerged as a primary battleground where regional powers exchange blows and score points, the Lebanese players in turn used regional political and military developments to make gains in their domestic battles. This issue might explain the long time spent to form a cabinet and the bickering among political parties over quotas and sizes: Local parties are waiting for a nod from their foreign patrons. In other terms, the race for ministerial quotas allegedly waged to protect communities’ rights, not only showed deep differences among political adversaries but echoed the struggle among regional powers over shares in the Lebanese decision-making process. Adding to the bargain, a constitutional crisis is looming over the role and jurisdictions of both the prime minister-designate and the president. Even worse, nothing in the Taif Agreement set a deadline for the cabinet formation and both the PM-designate and the president are required to sign the formation decree, therefore, if they do not agree on a cabinet lineup, things will remain hanging on endlessly.

The stagnant situation indicates that all the parties, especially those at odds with one another, still want Hariri to be prime minister because of his weight, especially among the Sunnis, and because of the Arabic and international support he is still enjoying. However,

they are not ready to make compromises with him as indicated by the president's rejection of Hariri first draft cabinet lineup on September 3, 2018. As for Hezbollah, it is distancing itself from the heated debate over the cabinet lineup and the quarrel about ministerial quotas, at least in the media; however, the party wants to accelerate the formation of the cabinet on the ground of its gains in Syria. Nevertheless, the scene emerging from Syria tells another story. It is true that Iran has avoided complete collapse when Russia was called upon to help al-Assad, but it is also true that Russia is now the key player in Syria and not Iran. It is Russia who is making deals with all regional and international players: The United States, the European Union, Turkey, Israel, Saudi Arabia and Egypt. Meanwhile, Iran is boycotted by most of these players. It is true that Moscow needs Iranian forces on the ground, but it is also true that this need diminishes with every battle the regime wins. The agreement between Moscow and Tel Aviv, which calls for the removal of Iranian forces and their affiliated militias from the Israeli border, and the one lately brokered between Moscow and Turkey over Idlib, are only proof of the limited Iranian role within Syria.

The US Role - Economic Sanctions:

The influence and role of Iran in Syria was not only limited by its Russian partner's entry into the Levant in the autumn of 2015, but also by the significant overhaul the US Middle East policy has undergone since Trump took office. The battle against terrorism has deescalated with the Islamic State's defeat, and the American

appeasement policy towards Iran has been replaced by a much harder stance. For the time being, curbing Iran's ambitions in the region tops the US diplomacy's priority list. Washington has re-established ties with its historic allies in the region - Israel and Saudi Arabia - which were the most vehement critics of Obama's Middle East policy. It withdrew from the nuclear deal and reimposes economic sanctions against Tehran, including the ban on the sale of oil, which is expected to come into force in November 2018. The reimposition of sanctions did not go unnoticed inside Iran; in response to the looming sanctions, Iranians took the streets in Tehran and other cities to protest worsening economic and living conditions.

The deterioration of US-Iranian relations has cast a shadow over Lebanon, and it might prove to be the most influential external factor on the country's stability. This is not because Lebanon is a US national security policy priority in the Middle East, but because Washington largely views relations with Beirut through the prism of its arch enemy and subject to sanctions Iran, and specifically through the lens of Hezbollah being an organic part of Iran's military apparatus. The US sanctions against Iran have always taken a toll on the political and economic situations in Lebanon, no matter how the imposers were keen to distance Lebanon economy and its banking sector from sanctions impact, and no matter how they have emphasized their distinction between Hezbollah and the legitimate Lebanese authorities. Actually, these sanctions have imposed additional constraints on a

battered economy that has been in sustained recession for years. The confrontation between Hezbollah and the international community held the Lebanese economy hostage, and put the banking sector in the eye of the storm. Lebanese banks are between a rock and hard place: They face sanctions if they do not comply with the restrictions on banking operations, and face political pressure from Hezbollah if they do comply. The bombing of one bank's headquarters (June 14, 2016) amid the internal debate over how to deal with these sanctions, is a case in point.

It is ironic that Hezbollah, which has been till now focusing on its anti-Israeli resistance showing no interest in economic dossiers, changed recently its position announcing its intention to fully engage in all economic files. Does this shift reflect an attempt by Hezbollah to contain restlessness by the Lebanese, including its supporters, over worsening economic and living conditions and rampant corruption? Or is it an attempt to be more involved in Lebanon's legitimate institutions and economic fabric with the goal of fending off coming sanctions and using the business environment as a shield on the ground of what affects Hezbollah will affect the whole national economy? The party expressed reservations concerning the terms and conditions of pledges the international community announced for Lebanon at the Cedar Conference, claiming they will swell the already sky-high public debt, and increase dependence on donors (Western countries and international organizations). Regardless of whether

alternatives to the Cedar Conference are available, a question arises: Is Hezbollah's willingness to be involved in economic matters part of a policy aiming to establish new deterrent or pacifying rules of the game with the West, especially at a time when economic support is the only remaining lever Europeans can use, and imposing economic sanctions is the first weapon the US administration will raise?

This idea is further reinforced by the fact that Hezbollah has embraced the Syrian refugee dossier, before Moscow mulls a plan to repatriate Syrians from Lebanon and other hosting countries. Hezbollah and its allies have stepped up calls to coordinate and negotiate with the Syrian regime in order to facilitate the return of the refugees; these calls have had a populist resonance in light of a socio-political consensus towards resolving this crisis. Russia and Iran may be competing or cooperating on this matter, but in any event, urging Lebanon to normalize its ties with the Syrian regime as a condition for the return of refugees is a prelude to ask the international community to do the same if it wants the refugee crisis to be solved. It is no secret that the refugee issue has caused in-depth changes in Europe, threatening to put the old continent on the brink of breaking up. The issue of refugees has become the primary concern of European countries and a key factor in determining the elections outcome in most of these countries. In other words, the question of refugees has become the Achilles heel to these countries, making them prone to blackmail or compromise. In this context, recent leaks unveiled

efforts to reach a compromising settlement between Europe and Russia, where refugees return home in exchange for normalization with the Syrian regime and contribution to the reconstruction of Syria.

Eventually, it seems that the dossiers of economic support for Lebanon and that of the Syrian refugees have taken regional and international dimensions, disregarding Lebanon's sovereignty and interests. This leaves us under no illusion as to the effectiveness of all the initiatives taken within this framework, as they have yielded little result due to lack of substantive political conditions ensuring their success. Prior to the recently launched "Russian initiative" on refugees, the International Support Group for Lebanon was established in September 2013 on the sidelines of the UN General Assembly, and a fund was set up to support Lebanon in bearing with the burden of Syrian refugees. This group has not achieved much, and little has been disbursed from the fund, due to lack of a political settlement that paves the way for a sustainable solution acceptable by all parties. As for Syria reconstruction, the victorious parties (Russia and Iran) are under the brunt of economic sanctions and therefore unable to finance the process. Meanwhile, the capable parties (Europe and the Gulf States) are not happy with this kind of settlement, and the cost for their involvement in the reconstruction process is yet to be seen. For these reasons, these issues have been turned into bargaining chips for major players, but time for trading is yet to come.

Upcoming Challenges:

The Cedar Conference, which focuses on investments in the infrastructure sector, comes amid the overall impression that the US economic sanctions on Iran and Hezbollah are on an upward trend rather than a downward trend. This alone inhibits the onset of an attractive environment for investment and poses high risks for investors should the US-Iranian standoff climax. How will Washington deal, for example, with a government in which Hezbollah has a say on economic decisions, not only security and political ones? What is the fate of aids and loans previously allocated to ministries if they are assigned to Hezbollah in the next cabinet lineup? What is the fate of companies that may be targeted by sanctions if it turns out that they have direct or indirect relations with the party? Will they follow into the footsteps of the European companies that have pulled out of the Iranian market because of US sanctions, despite the opposition of their governments to the new foreign policy of the US administration in this matter?

These dangers could have been contained if Lebanon had abided to its dissociation policy; however, all indicators point towards the ending of the solidarity wave that has engulfed the country during the Hariri resignation crisis, as well as the collapse of the 2016 political deal that has ended the presidential vacuum in exchange for committing to the dissociation policy; the president-elect has indeed called in his swearing in speech for “staying away from regional conflicts” (October 31, 2016). Hezbollah Secretary-General Hassan

Nasrallah's meeting with a Houthi delegation in August, 2018, re-immersed the country into the phase of political escalation that has preceded the resignation of the prime minister in the summer of 2017.

The role and limits of Iran's influence in Syria once the fighting reaches an end are yet to be seen. Will the guarantee given by Russia to Israel about Iranian forces staying at an 85-kilometer distance from the Syrian-Israeli border be reliable or effective? Will the rules of disengagement between Syria and Israel instated since 1974 be respected? Will Iran commit to the Russian-Israeli agreement? The implications of this agreement on Lebanon are yet to be seen, especially in terms of the sustainability of UN Resolution 1701, which was adopted in the wake of the July 2006 war and has formed the basis of the rules of disengagement between Lebanon and Israel. It was recently reported that Russian troops might be stationed 20 kilometers away from the borders with Israel; this area is under Hezbollah's control. Neither Iran nor its allies have commented on the move. Are we facing a coordinated process between international parties or just a testing ground Russia is executing over an eventual role it might play in Lebanon as guarantor of security for all parties, including Israel?

Meanwhile, Washington is hardening its rhetoric vis-à-vis Hezbollah. Following the UN Security Council meeting on August 30, 2018 during which the extension of the mission of UN Interim Force in Lebanon (UNIFIL) was approved, the political coordinator of the US mission to the United Nations, Rodney Hunter, accused

Hezbollah of violating the UN resolution, “the Lebanese sovereignty” and “the will of the Lebanese people” through “strengthening its arsenal.” This pressure was met by an official Lebanese stance- which might have been coordinated with Hezbollah- asking for not expanding the UNIFIL mission. In sum, the situation in southern Lebanon is volatile, and no investor, especially in infrastructure networks, can disregard recent widespread Israeli media reports about an imminent war the Jewish state is to launch against Lebanon and Syria. The most recent Israeli act of aggression on Lebanon (2006) targeted the infrastructure networks, including roads, bridges and power plants; Gulf States had helped Lebanon rebuilding these networks. Yet, back then, Hezbollah was seen as a heroic anti-Israeli resistance group and the region was not ravaged by the Syrian and the Yemeni wars.

Additionally, another factor has recently emerged endangering the country’s stability that is the Israeli-Palestinian conflict along with the US altering its policy towards this issue. The decision taken by Washington on September 31, 2018 to suspend its contribution to the financing of the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) and the backing of Israeli prime minister of this move, reopen the possibility of resettling the Palestinians in Lebanon, even though The Taif Agreement was conclusive about this issue, enshrining in the preamble of the Constitution the Lebanese rejection of any form of resettlement. However, Israeli Prime Minister Benjamin Netanyahu’s statement,

accusing the UNRWA of seeking to consolidate the refugee status of Palestinians and linking the refugee return issue to the “deal of the century”, raises doubts about future policies in this regard and the resulting pressures on Lebanon’s stability.

Finally, there is another factor pressing on Hezbollah and overshadowing the situation in Lebanon, which is the Special Tribunal for Lebanon and the prosecution of the perpetrators of Rafik Hariri’s assassination. The proceedings are nearing completion and the date of sentencing is approaching. What if the rulings were identical to the indictments that accuse members of Hezbollah? On this subject, the Secretary-General of Hezbollah has said, “the court does not concern us” before repeating several times: “Do not play with fire.”

Summary:

In summary, five months have passed since the Cedar Conference was held and Lebanon is still subject to regional tensions that are likely to worsen, especially on the backdrop of the conflict between the United States and its allies in the region on one side, and Iran on the other. The only way for the forces holding power in Lebanon to contain the dangers of this conflict is to neutralize the tiny country. However, the indicators discussed above do not reveal the intention to do so. Hence, the compromise in Lebanon remains fragile and subject to regional developments, especially in Syria which is currently divided into areas of influence among the United States, Turkey, Russia, Iran and Israel. At a

time when the roles and sizes of all the players in Syria have been decided, the size and role of Iran in Syria in particular and in the Arab Levant in general, remain uncertain. It will depend of the new hardline US policy towards Iran, and the compromising deals Russia will struck with all regional players. Russia has no interest in the military collapse of Iran because this will contribute to its own isolation, but it may be in its interest to curb Tehran's role in the region, at least to maintain its need for the "Russian protector."

As for the Lebanese-Arab relationships crucial for the country's economic future, the margin of maneuver once enjoyed by Lebanon has diminished because Arab tolerance towards Lebanon has hit a wall, following Hezbollah's involvement in Arab conflicts, especially in Yemen and Syria. On the other hand, Hezbollah's engagement in economic dossiers will not help normalize the Lebanese-Arab relations, if Lebanon does not change its policy. The same applies to relations between Lebanon and European countries and to their policy of economic support for the country. Despite Europe's quest to save the nuclear deal and its conflict with the US over the latter pulling out of it, Washington reimposing sanctions on Iran and its proxies and restrictions on European companies doing business with Tehran, reduce the margin of economic maneuvering for European countries. The withdrawal of companies such as Siemens, Total, Air France and others from the Iranian market is a case in point.

While the margin of political maneuvering has been

strained for Lebanon because it has failed to abide by its dissociation policy, the margin of economic maneuvering has also been narrowed by the worsening financial and economic crisis due to growing deficits, declining growth and lack of reforms. Taking a neutral stance towards regional conflicts is necessary, however it remains insufficient if not coupled with the implementation of structural reforms set as a prerequisite by donors in order to unlock pledged aids at the Cedar Conference. On top is reforming the electricity sector, as the French ambassador to Lebanon, Bruno Foucher, said on July 13, 2018.

Will these reforms be hindered by the quota system instated since the departure of the Syrian powerbroker under the banner of forming national unity cabinets? This system has transformed governance in Lebanon into some sort of contract between political forces which claim exclusivity in representing their respective communities, putting them all in a continuous standoff. This system has not only undermined the Lebanese sovereignty by inviting regional interventions and pushing sectarian political elites to align with regional actors either for protection or to restore and preserve their rights, but has also prevented achieving good governance that fights corruption and revives the economy.