

PolicyWatch #1188

## Lebanon Goes to Paris III: High Stakes in France and Beirut

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On January 25, Lebanon will participate in Paris III, the third international donor conference for Lebanon convened by French president Jacques Chirac since February 2001. The top agenda items are grants and soft loans for Lebanon and the economic reform plan of Lebanese prime minister Fouad Siniora. For Siniora and his "March 14" ruling coalition, the success of the conference -- i.e., international commitments to provide billions to Lebanon -- is exceedingly important, as the government is coming under increasing pressure from the Hizballah-led opposition. Indeed, this week, the opposition upped the ante in its continuing effort to topple the Siniora government, closing key Lebanese arteries, including the highways into Beirut and the airport road. If Paris III is broadly perceived as "successful," it will strengthen Siniora and demonstrate that the March 14 coalition can govern and advance key Lebanese interests without Hizballah participation in government. Should international donors not prove particularly generous, the momentum will shift toward the opposition.

### Current Strife in Lebanon

For months, Hizballah and members of General Michel Aoun's Free Patriotic Movement had already been camped out in downtown Beirut near the Grand Serail, protesting against what they said was a lack of "power sharing." Hizballah cabinet ministers had left the government in November 2006 to press their demand for additional cabinet seats in an effort to secure a "blocking third" and the ability to veto government initiatives. But the Siniora government did not give in and proceeded to push forward with its agenda, including its economic reform initiative, the cornerstone of which is Paris III.

Recent weeks have seen a number of demonstrations in Beirut. Concerned about the implications of these economic reforms, unions in Lebanon staged a series of sit-ins at government ministries, rallying against proposed reforms, which they said would be detrimental to their constituents. The demonstrations were not particularly well attended -- less than 2,000 of 200,000 union members showed -- but Hizballah and Aoun joined the cause, linking their efforts to topple Siniora and scuttle Paris III with the unions'.

On January 21, the opposition called for a national strike. When the initial response to the call proved tepid, strategy shifted from a voluntary to an opposition-enforced strike. In this context, on January 23 the opposition closed down several key roads throughout Lebanon (including in the north and en route to Damascus), stopping traffic into Beirut, obstructing the airport road, and effectively closing the airport. Although Hizballah leader Hassan Nasrallah counseled his followers in a January 22 speech, "We don't want fighting and we don't want bloodshed," three protestors were killed and 50 wounded in clashes with the Lebanese Armed Forces (LAF) and accompanying sectarian violence. The "strike" was called off that evening.

### The Paris Conferences

Despite the ongoing civil unrest, in Lebanon tomorrow all eyes will be on Paris. The quid pro quo of Paris is relatively simple. In exchange for what Siniora hopes will be an extremely generous package of grants and soft loans to Lebanon from the 40 international donors attending the conference, the government of Lebanon will commit to an economic reform program consisting of: (1) an increase in the Value Added Tax (VAT)

from 10 to 12 percent; (2) a decrease in government subsidies on fuel, and (3) the privatization of electricity and telecommunications (mobile phone) sectors. The funds raised at the conference would be used to help defray some ongoing recurrent costs, and to service Lebanon's estimated \$41 billion in debt. In 2003, this crushing debt cost \$3 billion a year in interest payments, equivalent to nearly 40 percent of Lebanon's annual budget.

This will be the third in the series of conferences convened in Paris to assist Lebanon's economy. At Paris I in February 2001, among other commitments, Lebanon pledged to stimulate the economy and modernize its tax system. In exchange, France provided Lebanon with 500 million euros to finance development projects. At Paris II in November 2002, the Lebanese government under then-prime minister Rafiq Hariri agreed to privatize key industries, pay down debt, cut recurrent expenditures, and increase tax revenues. In return, the international community pledged some \$4.4 billion, of which Lebanon has to date received only \$2.5 billion.

Notably, the United States did not contribute to Paris II because it wanted Lebanon to commit to a program similar to those of the International Monetary Fund (IMF), which would have linked disbursements to reform. In retrospect, this was prescient: from 2002 to 2006, Beirut failed to deliver on its commitments to reform the economy. But the calculus for Paris III is different: many Arab and Western states are concerned about the Iranian and Syrian-backed opposition efforts to topple Siniora and will look to strengthen his March 14 forces via the conference. Unlike his predecessors, Siniora seems committed to remedying Lebanon's economic woes via reform. Moreover, it is likely that Paris III will be underpinned by either an IMF or an IMF-monitored program. The U.S. commitment has not yet been announced, but State Department officials say it will be substantial.

### **Opposition to Paris III**

The Hizballah-Aoun alliance and its sympathizers have couched their opposition to Paris III in terms of criticism of foreign influence in Lebanon and government corruption. During his January 22 speech televised on al-Manar, Nasrallah said Hizballah "supported Paris III . . . and any international help without political conditions . . . but the conditions of Paris III are not clear." Nasrallah also accused the Siniora government of financial mismanagement: "You controlled the economic file [during the Syrian occupation] . . . and now we are headed toward bankruptcy." Aoun has also focused on the same message of corruption and foreign influence. His website ([www.tayyar.org](http://www.tayyar.org)) raised three primary objections to the conference: (1) there are "hidden conditions" on the assistance, (2) the aid will be given to Siniora and not to the Lebanese people, and (3) grants at Paris III would be tied to "a secret agreement to settle the [Sunni] Palestinian refugees in Lebanon," a move that threatens to skew the delicate sectarian balance of Lebanon.

Aoun's conspiracy theories aside, the opposition has raised the stakes now to prevent a Siniora success in Paris III. After months of protests and sit-ins failed to shake the Siniora premiership, the opposition saw it necessary to exacerbate the crisis. As Suleiman Franjiyeh, an opposition leader closely tied to the Syrians, told al-Manar television earlier this week, "Our campaign will escalate day by day . . . As long as they won't listen to us, we will not let them rest."

### **Conclusion**

Paris III is not without risks for the Siniora government. First, it is not clear whether donations will meet Lebanese expectations. In Lebanon, many are speculating that \$6-\$9 billion will be pledged, but government officials have tried to lower expectations, fearing that if donations fall short, the perceived failure will be exploited by the opposition. Indeed, conservative estimates are that pledges will be closer to \$5 billion than \$10 billion. Meanwhile, the current standoff between the opposition and the LAF in Lebanon has brought the state once again to the precipice of sectarian violence, raising tensions that will be difficult to defuse.

Conversely, if the Siniora administration walks away from Paris III with sufficient funds, it will return to Lebanon vindicated and strengthened, proving that it can effectively govern and pursue key initiatives without

Hizballah and Aoun. At the same time, Hizballah and Aoun may emerge from this latest showdown with Siniora and the LAF diminished; not only could the opposition not prevent Paris III, but, in the process of trying, Hizballah closed down the Beirut airport. For the Lebanese, closure of the airport is something typically associated with Israeli airstrikes, not Hizballah. Likewise, the image of Shiite Hizballah holding Lebanon hostage may tarnish the militia's reputation -- enhanced by its performance in the summer war with Israel -- in the Sunni Arab world.

Regardless of what happens in Paris, the March 14 forces will declare victory, and the opposition will claim conspiracies and secret deals. More important than what Siniora actually receives will be the perceptions of what was achieved, and his government's renewed focus on moving forward with reform. In this environment, it will be incumbent on the Lebanese government to demonstrate, in Siniora's words, that "this reform program is not for one Lebanese party. All the Lebanese will benefit from this reform program."

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