

Developing Economies on the Brink of Bankruptcy—Lebanon Example

Crisis is an inherent, recurrent feature of capitalism, states Marxism. But as long as developing countries don't stand on their own Capitalist countries escape from their economic crisis by pushing it onto the poor and developing countries. The recent capitalist crisis has bankrupted Sri Lanka, Lebanon, Suriname and Zambia. Another dozen countries are on the brink of bankruptcy. While countries reel under the crisis, Washington twins (IMF, World Bank) enter to slow poison them and vulture funds enter to quickly destroy them. We will discuss the vulture funds in detail in the next issue. Let us look at the current crises in Lebanon and Suriname and the consequences after the entry of the IMF.

Lebanon is a country with a population of only 53 lakhs. It is once known as the Switzerland of the East for its banking sector. The country was hailed as one of the few countries that experienced economic growth during the 2008 financial crisis. But now the current Lebanon crisis ranks as one of the three biggest economic crises since the beginning of the 19th century. People set five to six banks on fire. The Lebanese banking sector, which was hailed as robust for years now faces accusations of lack of transparency and mismanagement by the ruling elite. Switzerland of the East is now termed country in permanent crisis. But are these new changes? No. Then why this new change of opinion from the Big Brothers?

Let us see the reasons for these developments.

Lebanon, was part of Syria during the Ottoman Empire but gradually fell into the hands of France. It declared independence during the Second World War but remained under the hegemony of the West. According to the 1932 census (i.e., under the French rule) Maronite Christians constitute 55% and Muslims constitute 45% of the population. Both of these have sub sects. The country's President is always a Maronite Christian, the Prime Minister, a Sunni Muslim and the Speaker, a Shia Muslim. Sunnis are the majority in Arab and North African countries while Shias are the majority in Iran. They have a long history of rivalry. Till now, census has not happened in Lebanon to not disturb these socio-political equations. All that they have are just estimates based on the 1932 census.

Lebanon has experienced recurrent periods of civil wars and crises (in 1948, 1958, 1966, 1973, 1982, 1991, 1999, 2008, 2011, 2015, 2019) because of its geographic location which has a geopolitical significance. It is a country that depends on imports for 95% of its needs. Even though there are large fertile lands only 12 percent of the labour force is engaged in agriculture. Agriculture accounts for only 6% of GDP. Its industry sector is limited to re-assembly and packaging and employs 25 percent of the work force. The remaining 65

percent of the work force are in the service sector. Finance sector (banking, insurance) constitutes the lion's share of the service sector and the rest are trade and tourism (10%).

Due to the influence of the West, Lebanon's education sector has developed greatly in favour of the West. Their universities have international repute. This made the Lebanese worker the most skilled labour in Middle East. This explains why immigrant Lebanese are three times the Lebanon population. The heart of the Lebanon's trade and commerce is the Beirut port. The heart of the finance sector, that is, the foreign exchange funds, comes from the dollars sent by the expatriate Lebanese and the loans given by the Arab and Western countries.

US dollar is in circulation along with the Lebanese pound. The value of savings made by citizens and expatriates in Lebanon's commercial banks is to the tune of \$ 11,400 crores. Out of that 9500 crores are in the form of dollars itself. We can understand how many dollars the Lebanese immigrants are sending from through their hard work outside their mother country. Commercial banks are owned by the ruling class. Being a highly import-dependent country, the owners of commercial banks being the ruling class force the central bank to borrow heavily for 'developmental works' from their banks at high interest rates. Many a time they gave high interest on savings to customers. At one time these interest on deposits reached 21 percent. So people have been putting all their money in these banks. On the other hand these banks collected even more interest on loans. And almost at the same time they collected the highest interest rate of 44 percent on the loans given to the central bank.

From 1997 to October 2019, one dollar in Lebanon was pegged at 1507 pounds. But Lebanese pound was never stable and continued to depreciate during this period. So Lebanon has four types of exchanges. 1. Official exchange rate - 1507 pounds per dollar. It is used for all official purposes within the State. 2. Lollar rate - 8000 pounds per dollar. This applies when people withdrawing their money from commercial banks. 3. Sirafa rate - 29,800 pounds to one dollar; this is applicable in the case of commercial banks and foreign investors collecting from the central bank. 4. Market rate - 39,800 pounds to one dollar. This is the prevailing rate or actual market rate.

For the past few years Lebanese pound is declining sharply but the ruling class that colluded with the west kept the official rate same. Citizens' salaries were paid in pounds which declined 20-30 times compared to the market value. The economic crisis of the Capitalist countries before the covid pandemic reduced the remittances from expatriate Lebanese. This increased the pressure on its finance sector. In 2018, the IMF entered Lebanon once again. It offered a loan of 300 crores dollars and another \$ 1100 crores assistance from the Paris club with the 'Conditionality' that Lebanon must enforce strict capital controls, improve transparency of banks, restructure the banking sector etc. are required. However, the economic crisis already started affecting the political spectrum that the talks did not reach a conclusion till now.

At the same time, commercial banks, in an effort to reduce their burden of dollar deposits offered 15% interest on deposits (currently 6.7%) if customers converted their dollar savings into pounds. Soon the pound snowballed. Since then, Banks kept unofficial restrictions on withdrawals. Middle and upper middle class suddenly became poor, unable to withdraw their money stacked in the banks in the thought of getting good interest. Doctors, healthcare workers and professionals preferred to go abroad permanently. People's lives were disrupted. Private health care became unaffordable even to the rich. Electricity rates have skyrocketed. Mobile call is a luxury. Even basic facilities have disappeared in the hospitals. The advent of Covid further reduced the remittances. By March 2020, the country was unable to pay its debts and went bankrupt. In August 2022, the Beirut port, the backbone of the commercial sector, was destroyed by a massive explosion. As if this is not enough, the import of food products and fertilizers has completely decreased due to the war in Ukraine.

Finally, in October 2019, the government increased the official exchange rate from 1507 pounds to 15,000 pounds per dollar. By then the market rate was already above 40,000. This means, even with the new exchange rate the salaries of public sector employees are 60 to 70 percent less than the market value. 80 percent of people are pushed into poverty. Multi-dimensional poverty rate nearly doubled from 42% in 2019 to 82% in 2021. Public outcry started. Everyone from government employees to judges went on strike at one point or the other. People are desperate to withdraw their money saved for their future needs, but banks will not give it. Even if they give, it will not be given at the market rate. Want to withdraw their dollars? Forget it. As a result, people's anger against the banks increased. These economic developments brought about changes in politics. The Hezbollah party which is in favour of Iran has become stronger. This is something that the US and Arab countries cannot digest. So they ensured political uncertainty. For the last two to three years, either there is no president, no prime minister or no ministers. Without political stability and commitment from the government IMF will not approve the loans.

There has been increasing incidents of individuals raiding banks with either real or toy guns to retrieve their money saved in the banks. Using these incidents as alibi banks are going on strikes, making it more difficult for people to get back their money. The Lebanese pound fell further to 80,000 against the dollar in the open market this February. A few days back, after a five-month strike by judges, a court in a case ordered a private bank to give cash not the cheque to two customers. The 'Association of Banks in Lebanon' has called for an open-ended strike as courts have ruled in favour of customers. It said that the government should implement IMF reforms and refused to assume responsibility for this crisis, but put threw that responsibility on the people and the governments. Enraged by this act, people under the banner of Depositors Outcry Association formed in 2019, attacked five banks, set them on fire and also attacked the house of the chief of the Association of Banks. Immediately the banks called off the strike but the crisis is continuing. The poverty is continuing its kill.

The contradiction here is that Najib Mikati, the richest man in the country, is elected as the Prime Minister while 80 percent of the country's people are reeling under poverty; The ruling class which also doubles as the bankers gets its money from the public (as bank deposits), loans it to the public bank (central bank) at exorbitant interest rates and then defaults the country to foreign finance capital and International Agencies, putting the default burden on the public.

Suriname is a similar example. It is a small country in South America with a population of 60 lakhs. The Suriname-Guyana Basin is now termed as the Holy-Grail of Oil and Gas due to the discovery of huge deposits there. But extractions have not started yet.

Since Covid, Suriname has defaulted three times. IMF came, dictated tax reforms and removal of subsidies on electricity, water and gas. The government says it will implement the proposals at any cost while the people and the unions are against it. Inflation rose to 55 percent. Life has become very difficult and people are protesting and coming on to roads. On February 17, 2000 people stormed the Parliament and gave slogans against the President. The President is determined to trample the movement. Arrests are made and severe punishments are promised. The news is that people are preparing to make bigger and bolder moves. On the other side, the vulture funds are waiting, not for the dead corpses but for the lively natural resources and the holy-grail.

The crisis and situation in these countries is a mirror to the future of the people of many countries. A common feature in all these countries is the neglect or mortgaging of productive sectors, mainly agricultural, industry and mining, which keep the economies stable. The economies of these countries either went into the clutches of Capitalist countries like USA or they are left only with the service sector that will cater to the economic needs of these capitalist countries and so have become more and more dependent on them. With these developments, it appears that the upper and lower middle classes have temporarily increased in these developing countries; this aspect is propagated as the Development Model by the ruling class and their masters to hide the actual fact that the economic systems of those countries are gradually being captured by the finance capital. Who ever profits from these exploitative economic models invites them, glorifies them, while the majority suffers and hates them. To prevent the peoples' anger from turning into revolt the pro-ruling class opportunist intellectual comes up with new theories. But people too has a theory, Marxism; The Marxist political economy will help people analyse the exploitative systems correctly and come up with a solution to overcome exploitation.