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Constructing Resilience:  
Real Estate Investment, Sovereign Debt and Lebanon's Transnational Political Economy

by

Julia Tierney

A dissertation submitted in partial satisfaction of the

requirements for the degree of

Doctoral of Philosophy

in

City and Regional Planning

and the Designated Emphasis

in

Global Metropolitan Studies

in the

Graduate Division

of the

University of California, Berkeley

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Abstract

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In urban studies scholarship, Lebanon is often theorized on the frontiers of sectarian conflict as well as on the frontlines of neoliberalism. Entangling real estate investment, sovereign debt and transnational financial circulations from Arab Gulf investors and the Lebanese diaspora, managed by the Banque du Liban and scrutinized by the United States Treasury, the Lebanese political economy was – and still is – swayed by the fortunes of war. According to literature on the political economy of violence, profits are often made in times of war, a context appropriate to the civil war and postwar eras, during which spoils of war enriched the pockets of warlords-turned-politicians. Yet as the effects of the Syrian conflict spill across the border, encumbering Lebanon's long paralyzed politics, straining its already deteriorated infrastructure and intensifying uncertainty with punctuated bombings, certain sectors prosper not because of violence but in spite of it. The skyline of Beirut is covered in construction cranes erecting affluent, if empty, apartments; the banks are infused with deposits invested in the debt of a sovereign bankrupt in ways not simply financial. Both real estate and banking are said to be resilient, a discourse so often repeated that resilience has become the dominant mode by which Lebanon is broadly understood, and not only by the developers and bankers with a financial interest in this depiction. Resilience has taken on the status of a self-evident truth. Tracing transnational investment into these two sectors, the pillars of the economy, this dissertation excavates the history around which resilience arose as a concept and thereafter endured. Rather than a description or explanation, resilience is instead – this dissertation argues – a *dispositif* organizing an entire political economy around the attraction of foreign financial inflows and ongoing emigration, ensuring the resilience for which Lebanon is renowned also perpetuates much of its underlying instability.

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## CHAPTER ONE: Real Estate, Banking and War

Around the reconstructed downtown near to where construction financier and former Prime Minister Rafiq Hariri was assassinated by a massive car bomb in February 2005, there is an intersection that perhaps perfectly captures the paradox of Beirut. On one side are the Damac Tower and Beirut Terraces, lavish property developments financed by petro and diaspora dollars; on the other, are the luminous BankMed headquarters and the rocket-pierced Holiday Inn, devastated during the Lebanese civil war (1975 to 1990). Beirut's political economy is constructed around banks and real estate, against the backdrop of war.

Among a banking sector with assets almost four times the size of the economy, BankMed is Lebanon's fifth largest.<sup>1</sup> According to its website, BankMed was established in Lebanon in 1944 and renamed Banque de la Méditerranée in 1970. Amid the civil war, when fighting brought material damage to banks headquartered in Beirut's devastated downtown and foreign investors fled, the Lebanese Parliament passed the Free Banking Law of 1977 to open the financial sector to further investment.<sup>2</sup> In 1980, the majority of BankMed's shares were acquired by the Méditerranée Investors Group, which in 1982 was fully acquired by the Rafiq Hariri, then chairman of Saudi Oger construction. Today, BankMed is fully owned by GroupMed Holdings (the re-named Méditerranée Investors Group), a banking, insurance and real estate conglomerate with investments in Lebanon and across the Middle East, and owned by the Rafiq Hariri's wife Nazek and sons Ayman and Saad,<sup>3</sup> the latter who was once Prime Minister and is today leader of the Future Movement political party. The Chairman and General Manager of BankMed is the late-Hariri's cousin. The billionaire Hariri family epitomize what Hannes Baumann terms "the new contractor bourgeoisie in Lebanese politics," emigrants who became wealthy in the Gulf and returned to Lebanon as investors and politicians.<sup>4</sup> BankMed's politically-connected ownership resembles that of other Lebanese banks, although perhaps not as concentrated as the fully Hariri-owned bank, as does its international expansion beyond Lebanon into Cyprus, Switzerland, Turkey, Iraq and Dubai.<sup>5</sup>

The Damac Tower (and Beirut Terraces behind it) in turn exemplify the construction of luxury real estate that characterizes Beirut's postwar reconstruction. Damac Properties, the largest property development company in Dubai, chose Beirut for their first foreign venture in 2006,<sup>6</sup> before the July war with Israel, after which their construction plans were put on hold until 2010 when they recommenced.<sup>7</sup> Construction appears to be complete, but the Damac Tower is also empty (although the company's chairman claimed that 45 percent of the apartments had been sold at prices 20 percent higher than those downtown, where the average price per square meter varies between \$6,000 and \$10,000.)<sup>8</sup> According to the World Bank, real estate accounted for 70 percent of physical capital formation in Lebanon since

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<sup>1</sup> Bank deposits from Banque du Liban (<http://www.bdl.gov.lb/statistics-and-research.html>) and BankMed assets from Association des Banques du Liban, "Almanac of Banks in Lebanon" (2015).

<sup>2</sup> Clement Henry Moore, "Le système bancaire libanais" (1983), 33.

<sup>3</sup> Jad Chaaban, "Mapping the Control of Lebanese Politicians over the Banking Sector" (2015).

<sup>4</sup> Hannes Baumann, "The New Contractor Bourgeoisie in Lebanese Politics" (2013), 125.

<sup>5</sup> Association des Banques du Liban 2015, op. cit.

<sup>6</sup> *Lebanon Opportunities*, May 2006.

<sup>7</sup> *Lebanon Opportunities*, August 2010.

<sup>8</sup> *The Executive*, "Behind Beirut's Newest Luxury Development" (2013).

1997.<sup>9</sup> From 2002 to 2010, apartment prices in Beirut rose by over 300 percent,<sup>10</sup> especially as a result of investment from the Gulf Arab countries. Yet since the outbreak of hostilities in Syria, foreign investment has practically vanished and expatriate investors became more prominent. Behind the Damac Tower, the visually-striking Beirut Terraces, with hanging gardens on their oversized, unenclosed terraces, is under development by Bassim Halaby, a Lebanese expatriate whose Benchmark Development company is also building across Saudi Arabia, Qatar, Yemen and Morocco. Apartments in Beirut Terraces start selling at \$7,300 per square meter, meaning the smallest apartments sell for more than \$1.8 million.<sup>11</sup>

Yet both BankMed, with more than \$12 billion in deposits, and the luxurious towers across the street, where apartments are beyond the purchasing price of significantly less than even 1 percent of Lebanese, expatriate or resident, stand beside the bombed out building of what was once the Holiday Inn. Opened in 1973, two years before the start of the Lebanese civil war, it was destroyed during “the war of the hotels” between late 1975 and early 1976, when the Holiday Inn was situated on the frontlines of fighting between sectarian militias.<sup>12</sup> Its war scarred *façade* is preserved because of an ownership dispute between its Lebanese and Kuwaiti shareholders, the former who want to renovate it into luxury lofts and the latter who seek to demolish the building and rebuild in a style similar to those surrounding it, such as the Damac Tower and Beirut Terraces.<sup>13</sup>

This image that opens my dissertation also encapsulates the essence of the Lebanese political economy: banks, real estate, against the backdrop of war. It points to the question at the heart of my dissertation: *why is there so much money flowing through Lebanon when there are so many risks of investing here?* Lebanon is not a country at war, nor is violence even an everyday threat in Beirut, but by measures of investment risk – political uncertainty, economic fragility and regional insecurity – Lebanon ranks rather high. The past decade has witnessed political assassinations and paralysis with the non-election of a President; the economy, long centered around real estate investment and banking (as well as tourism) has been unable to employ its population-turned-emigrants; and mundane electricity blackouts and water shortages made international headlines in the summer of 2015, when the failure to collect the garbage led to protests against corruption and the sectarian political system in the streets of Beirut. Yet walking down these very streets what most caught my eyes were the bank offices on almost every corner, the affluent architecture under construction and the heritage buildings, often threatened with demolition by this new construction, whose bullet-marked walls materialize the anticipation of another war.<sup>14</sup> Although visual remembrances of the civil war have been vanishing with reconstruction, the contemporary political economy can be characterized by ongoing investment in real estate and rising bank deposits, despite what may appear as the myriad risks of doing so. My dissertation traces the financial flows that make this possible.

Large capital inflows define the Lebanese economy, according to the World Bank, “foreign financial inflows are related to regional oil wealth, to the attractiveness of the Lebanon’s real estate and banking sectors, considered as safe havens in times of crisis and to

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<sup>9</sup> World Bank, “Using Lebanon’s Large Capital Inflows to Foster Sustainable Long-Term Growth” (2012), 33.

<sup>10</sup> Author’s calculations based on data presented at Lebanon Opportunities conferences 2009, 2010, 2014 and 2015 (<http://www.opportunities.com.lb/Lebanon/BusinessRef/OppConference.asp>).

<sup>11</sup> *Lebanon Opportunities* “Properties” (Summer, Autumn, 2015).

<sup>12</sup> Moe-Ali Nayel, “Beirut’s bullet-riddled Holiday Inn” (2015) Also Sara Fregonese, “The Urbicide of Beirut” (2009).

<sup>13</sup> *Lebanon Opportunities*, June 2014.

<sup>14</sup> Sami Hermez, “In the Meanwhile: Living Everyday in Anticipation of Violence in Lebanon” (2011).



the existence of a large Lebanese Diaspora.”<sup>15</sup> Thus, capital flows to Lebanon from overseas, both from the region’s petroleum economies and emigrants abroad, and these inflows are invested in Lebanese real estate assets and banking deposits. With domestic policy oriented around securing these foreign financial inflows, “the most powerful groups,” again writes the World Bank, “are in the banking and real estate sectors.”<sup>16</sup> Charbel Nahas, formerly Minister of Labor, spoke about the intertwining of real estate and banking at the American University of Beirut, arguing that “capital that comes to Lebanon either goes as bank deposits or goes to purchase real estate and land that in turn is placed in banks.” Moreover:

Real estate in Lebanon is a major component of the placement strategy of a persistently growing, due to the emigration and increasingly rich because of the price of the barrel, in parallel and in complement with financial placements in the financial markets, mainly in the Lebanese banks.<sup>17</sup>

Capital thus flows into Lebanese real estate and bank accounts in parallel, and perhaps also as part of a risk-based investment strategy. Many lost much of their savings during the civil war, with the sharp decline in the value of the Lebanese pound. Yet despite the destruction, whose bullet-riddled remnants are evident on almost all of Beirut’s older buildings, the value of land quickly recovered once hostilities also ended. In the words an economist and former Cabinet Minister C.L., “land does not lose its price, its value, and this experiment (lost savings during the civil war) being particularly harsh and long has been imprinted deeply in the memories of the Lebanese.”<sup>18</sup> According to many (and not only developers) with whom I spoke, the price of property is thought never to decline, a statement repeated so often it is taken as simply common sense that Lebanese real estate is a secure investment. Investment in property, which is necessarily a long-term investment, thus balances bank deposits, which in Lebanon tend to be short-term. As explained by C.L.:

I would say that most of the people behave in a dual manner, meaning that they keep their financial assets extremely short, one month, three months being an exceptional in terms of maturity of deposits. And on the other hand, in the long-term, they stick to land, which is considered a secure asset, while money is kept very short term.<sup>19</sup>

In sum, the postwar political economy is structured around securing capital flows into real estate and bank deposits, the latter easily liquidated and the former often considered the only secure investment in the country.

Yet the paradox is that circulations of wealth navigate the insecurity also immersing Beirut, where at times the logic of capital has colonized the context of war. “Political risk,” writes Ian Bremmer of the Eurasia Group, “is the probability that a particular political action will produce changes in economic outcomes.”<sup>20</sup> In other words, it is the potential that assets will be negatively impacted by political instability, which in Lebanon is undoubtedly elevated. Outside the logics of investment, there are broadly two different explanations for why these

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<sup>15</sup> World Bank 2012, op. cit., 3.

<sup>16</sup> *Ibid.*, xi.

<sup>17</sup> Charbel Nahas, “Towards Property Taxation Regime in Lebanon” (2014).

<sup>18</sup> Interview with the author on December 9, 2015.

<sup>19</sup> *Ibid.*

<sup>20</sup> Ian Bremmer and Preston Keat, *The Fat Tail: The Power of Political Knowledge in an Uncertain World* (2010), 5.

circulations of wealth do not evade Lebanon. One is from the literature on the political economy of violence, which elucidates the ways in which profits are made in times of war. The other is from policy papers by the World Bank, sovereign rating analysis by Moody's Investor Services as well as statements by the governor of Lebanon's Central Bank (Banque du Liban), which is the concept of resilience, namely that the financial inflows into the Lebanese banking sector and the prices of real estate are resilient. According to the political economy of violence, war can be lucrative for those controlling the resources financing the conflict, delivering the weapons of conflict or monopolizing the distribution of basic goods and services to the civilians trapped by conflict. Violence is not only destructive but also profitable for sectors or personages who take advantage of conflict. The political economy of violence speaks to the context of the civil war and postwar eras, during which the spoils of war enriched the pockets of warlords-turned-politicians. Yet as the effects of the Syrian conflict spill across the border, encumbering Lebanon's already paralyzed politics, straining its already deteriorated infrastructure and punctuating insecurity with bombings of Beirut's southern suburbs, the economy does not prosper because of violence but in spite of it. The discourse of resilience has become the dominant mode by which Lebanon is understood, and not only by the financiers and developers framing their sectors as resilient. My interest is not analyzing whether resilience is an accurate descriptor but instead excavating the history around which resilience as a concept arose and thereafter endured, and especially around an apparatus of overseas investment. In the chapters following, I trace the construction and circulation of resilience through both the real estate and banking sectors. I focus on what I – following Foucault – understand as a *dispositif* in the ways that resilience is understood and organized in an entire political economy based upon the attraction of transnational financial inflows. In so doing I conclude with a critique of this apparatus, which is the emigration of Lebanese overseas, who in turn circulate the investment that props up a political economic system not simply resilient but reliant on the ongoing export of the young and the educated.

### **Political Economy of Violence**

In relation to the literature on the political economy of violence, I would argue that Lebanon's political economy prospers, if only for a few, not because of violence but in spite of it, internally in its anticipation and regionally in its repercussions. The pocketbooks of the sectarian militias of the Lebanese civil war perhaps conform with the notion that war-making is profit-making, but instability has since instead hindered postwar economic development, especially as insecurity and geopolitical tensions have bled across the border from Syria. By the calculations of Professor Nisreen Salti at the American University of Beirut, the cost of political instability is annually around 5 percent of per capita gross domestic product.<sup>21</sup> She studied the period between 2005 and 2010, when Lebanon witnessed the assassination of Prime Minister Rafiq Hariri in February 2005; the July war with Israel in 2006; the fighting between the Lebanese army and Islamists in mid-2007; and the clashes between Hezbollah and their opponents in the streets of Beirut in May 2008 that resulted in a political agreement brokered in Doha and the election of a President. She found that while construction was not impacted by political instability, bank deposits reflected moments of instability with brief conversions from Lebanese pounds into dollars. Nevertheless, the total sum of deposits rose throughout this period. "These findings seem to support the idea that political instability did not have a major negative influence on the Lebanese economy;" however in her words, "the

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<sup>21</sup> Nisreen Salti, "The Economic Cost of Political Instability" (2012), 2.

seeming resilience of various sectors suggested by the immunity of indicators of sectoral performance to political shocks comes at a high cost.”<sup>22</sup> Taking her argument forward, the Syrian conflict has deepened Lebanon’s economic malaise, although “the seeming resilience” of the construction and banking sectors is still somewhat deceptive. In this section, I review the literature on the political economy of violence, interweaving the ways in which the Lebanese economy, especially during its civil war, relates to this literature, as well as the ways it does not, which in turn calls forth for other explanations to which the chapter then turns.

Unsurprisingly, conflict has been calculated as negative for economic development. The most cited argument is that of Paul Collier’s conflict trap, wherein underdevelopment makes a country more susceptible to conflict, because by devastating the economy, war raises the risk of further violence. As stated by Collier’s econometric analysis, civil war is “development in reverse,” for countries at war tend to grow 2.2 percentage points slower than during peace; hence after a “typical” civil war of seven years, incomes are around 15 percent lower than if the war had not happened, in turn implying a 30 percent increase in poverty.<sup>23</sup> Another cost of conflict, in addition to increased military expenditures, is capital flight, for according to calculations of a characteristic conflict, capital flight accelerates by 20 percent during civil war, rising to 26 percent in the post-conflict era of investor uncertainty.<sup>24</sup> Through quantitative analysis of swath of civil wars, Collier locates the central problem, “the key root cause of conflict is the failure of economic development.”<sup>25</sup> Citing statistics showing how economic growth has raised incomes across the developing world, his argument is that “development has not been reaching those countries most prone to civil war”<sup>26</sup> because they have been not implemented the necessary reforms. The most essential among what he terms the “policies for peace” is access to global markets.<sup>27</sup>

The World Bank’s 2011 *World Development Report* echoes his argument that “insecurity not only remains, it has become a primary development challenge of our time.”<sup>28</sup> Their focus is less interstate and civil wars, which have declined in past decades, but insecurity between the binaries of war/peace and criminal/political violence, as “the tendency to see violence as (only) interstate warfare and major civil war obscures the variety and prevalence of organized violence – and underestimates its impact on people’s lives.”<sup>29</sup> Much like Collier’s, the World Bank’s emphasis is mostly econometric: on average, a country in conflict had a poverty rate 21 percentage points higher than a country without violence.<sup>30</sup> Conflict-affected countries also had lower health and education indicators, and none had achieved a single millennium development goal.<sup>31</sup> While Collier recommended economic reforms, specifically market integration, the World Bank’s policy platform is institutional strengthening. Yet Michael Watts argues that the report overlooks the imbrication of economic reform and civil conflict in the other direction, because while poverty may perpetuate conflict, so too can conflict be catalyzed by the very reforms the World Bank puts forward.<sup>32</sup> The World Bank thus writes

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<sup>22</sup> *Ibid*, 2 & 21.

<sup>23</sup> Paul Collier, *Breaking the Conflict Trap* (2003), 17.

<sup>24</sup> *Ibid*, 21.

<sup>25</sup> *Ibid*, 53.

<sup>26</sup> *Ibid*, 93.

<sup>27</sup> *Ibid*, 138.

<sup>28</sup> World Bank, *World Development Report: Conflict, Security, and Development* (2011b), 1.

<sup>29</sup> *Ibid*, 53.

<sup>30</sup> *Ibid*, 60.

<sup>31</sup> *Ibid*, 1.

<sup>32</sup> Michael Watts, “Economies of Violence: Reflections on the World Development Report 2011” (2012), 126.

out the impact of its practices, and therefore its culpability. One evasion he identifies is the impact of imperialism, as no where in the report is there an accounting for the United States' incursions into Afghanistan and Iraq. The report mentions the "external stresses" of transnational drug traffickers and terrorists,<sup>33</sup> but not the threat of interference by states, such as drone attacks on countries, such as Somalia and Pakistan, where the United States is not legally at war.

Another critique of these aforementioned conflict and development analyses is their econometric approach. Both have side boxes more thickly describing specific conflicts, but they draw mainly from cross-country (large-n) data, namely quantitative studies to measure associations among violence and other socioeconomic or political variables. Although these economic models have an appeal – the methodological precision, for example, of calculating the poverty gap among countries affected and unaffected by violence (2.7 percentage points more poverty for every three years a country is affected by major violence)<sup>34</sup> – a critic of the econometric approach argues:

... that rational choice theories of conflict typically lay waste to specificity and contingency, that they sack the social and that even in their individualism they violate the complexity of individual motivation, razing the individual (and key groups) down to monolithic maximizing agents.<sup>35</sup>

One of the most cited econometric analysis of violence is again Paul Collier's, on the greed versus grievance dichotomy of civil wars. Taking 750 five-year conflict episodes, comprising 98 countries, over the period from 1960 to 1999, he constructs two models of motivations for civil war. The grievance one is based on four variables: ethnic or religious hatred, political repression, political exclusion and economic inequality. The greed model comprises proxies for opportunity (the economic means for financing conflict) and those for foregone income (the economic losses incurred by fighting). Opportunities arise from the extortion of natural resources, donations from the diaspora and foreign government funding. Costs are measured by per capita income, male secondary schooling and economic growth rates, all of which are expected to decline with fighting. On the causes of conflict, "factors which determine the financial and military viability of a rebellion are more important than objective grounds for grievance."<sup>36</sup> Collier writes that countries are more conflict-prone if they possess abundant natural resources, as these finance the coffers of the rebels and the state.<sup>37</sup> Countries with extensive diasporas also have a higher propensity conflict, as wealthy expatriates are lucrative source of financing. Another finding is that when the costs of conflict are high, such as high levels of income, male schooling and economic growth, that the risks of falling into conflict are thus reduced.

The quantitative findings thus point to the irrationality of civil war, the necessity of economic expansion, as not only does development make conflict less likely but also conflict is understood to derail development. Yet Christopher Cramer proposes a more provocative perspective on war as the continuation of political economy by particular means.<sup>38</sup> While war

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<sup>33</sup> World Bank 2011b, op. cit., 76.

<sup>34</sup> World Bank 2011b, op. cit., 4.

<sup>35</sup> Christopher Cramer, "Homo Economicus Goes to War" (2002), 1846.

<sup>36</sup> Paul Collier and Anke Hoefler, "Greed and Grievance in Civil War" (2004), 563.

<sup>37</sup> *Ibid*, 580.

<sup>38</sup> Christopher Cramer, "Civil War is Not a Stupid Thing" (2006), 3.

exacerbates poverty and inequality portends conflict, by his argument violence also provides opportunities to those prepared to exploit them. The rise to prominence of these alleged entrepreneurs of violence often reflects underlying tensions and obstacles to development that were present in the prewar era. “The political economy of war,” in his words, “can be characterised as an acceleration and exaggeration of trends and patterns that were present in some form before the war.”<sup>39</sup> Moreover, those profiting from war are not simply speculators enjoying the profitable spoils of economies outside the state’s control but often those with close ties to, if not part of, the state apparatus. Peter Andreas thus describes conflict as a continuation of business by clandestine means. Rather than a strict separation between greed and grievance, he shows how they can substantially penetrate in practice. His example is the Bosnian war, when Sarajevo’s defenders contracted security to smugglers and the Serbian government deployed criminal combatants to obscure their complicity.<sup>40</sup> This blurring adds another complication to the econometric approach. Moreover, by way of ethnography the boundaries between greed/grievance, state/non-state, legitimate/unlawful are made porous, with the shadow economies of war straddling the legal and the illicit.<sup>41</sup> Janet Roitman writes of the money to be made in the insecure, impoverished borders of the Chad Basin, where soldiers and customs officials turn into “fighting customs officials,” their illicit commerce, even banditry, “blurring the lines denoting civil versus military status, and even civilians versus administrators.”<sup>42</sup> These so-called shadow states of contemporary Africa, where the World Bank would likely see the evasion of governmental authority or the consequences of a corrupt administration, are often purposeful strategies of rule.<sup>43</sup> William Reno traces their clandestine economies back to Charles Tilly’s understanding early state-making as moving along the continuum from banditry, piracy, gangland rivalry, policing, and war, with states simply “quintessential protection rackets with the advantage of legitimacy.”<sup>44</sup> It is Tilly’s argument that early states emerged from war-making, their leaders and bureaucrats the early entrepreneurs of violence who developed economies to finance their expansion and protection, eventually monopolizing the means of violence under their authority, and in turn becoming recognized as states.

Bringing this back to Lebanon, the literature on the political economy of violence is relevant to its disintegration during the civil war. Following on the argument that civil war is development in reverse, the World Bank measured more than \$25 billion in destruction. By 1990, per capita income withered to one-third of its 1975 level.<sup>45</sup> An estimated 40 percent of the population had emigrated,<sup>46</sup> and their remittances (estimated to account for half of personal income) maintained some standard of living for the Lebanese that stayed behind.<sup>47</sup> Yet remittances were also essential to sustaining the conflict by financing the warring sides. As the state was fragmented into sectarian enclaves, their emissaries opened “embassies” in countries where the Lebanese had emigrated, bringing back to Lebanon around \$2 billion annually.<sup>48</sup> Blurring the boundaries between greed and grievance, the sectarian militias were

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<sup>39</sup> *Ibid*, 18.

<sup>40</sup> Peter Andreas, “The Clandestine Political Economy of War and Peace in Bosnia” (2004).

<sup>41</sup> Carolyn Nordstrom, *Shadows of War* (2004), 87.

<sup>42</sup> Janet Roitman, *Fiscal Disobedience* (2005), 162.

<sup>43</sup> William Reno, “Clandestine Economies, Violence and States in Africa” (2000).

<sup>44</sup> Charles Tilly, “War Making and State Making as Organized Crime” (1985), 169.

<sup>45</sup> World Bank, “Country Assistance Strategy” (1994), 1.

<sup>46</sup> Labaki 1991, op. cit., 609.

<sup>47</sup> Elizabeth Picard, *Lebanon: A Shattered Country* (1996), 142.

<sup>48</sup> Elizabeth Picard, “The Political Economy of Civil War in Lebanon” (2000), 301.

also entrepreneurs of violence in their fashioning of clandestine economies to finance their conflict. They were both the providers of public services no longer delivered by the state, as well as protection rackets for various enterprises along the continuum from the legal to the illicit. A civil administration to coordinate services was created in West Beirut in early 1976, and later that year its counterpart was established in East Beirut. A popular administration was also set up in the mountains. Each serviced their sectarian constituency by collecting taxes, managing traffic and maintaining roads, providing water and electricity, collecting garbage and operating shops of subsidized goods.<sup>49</sup> Yet they were also entrepreneurs of a “militia economy,” one in which war was turned into a strategic resource.<sup>50</sup> Early into the war, several militias looted downtown Beirut of \$1 billion dollars, with the Christian militias taking control over the port, where they earned several billion dollars on customs fees, in addition to another \$1 billion that militias made annually from drug trafficking.<sup>51</sup> With the pillaging of the port, the state lost one of its primary revenue sources.<sup>52</sup> The militias seized military armaments, another reason, in addition to the 1982 Israeli invasion, for the state’s disintegration in the mid-1980s. Yet the militias were also real estate developers, with land speculation serving not only greed but also grievance by securing their sect’s control over territory. The Christian militias developed the coastline north of Beirut into unregulated housing, shopping malls and private beach clubs, as their Shiite counterparts oversaw the urbanization of the southern suburbs with their constituents.<sup>53</sup> Gated communities first formed during the war, when Christians fled to the mountains controlled by the militias, who in turn profited from housing construction.<sup>54</sup> Yet Éric Verdeil argues that wartime urban planning did not differ significantly from that afterwards, as real estate speculation was the guiding principal in both periods, with reconstruction merely the continuation of war by other means.<sup>55</sup>

The collapse of the state also came from collapse of the banking sector, also militia induced. During the civil war’s early wars only the banking system resisted “cantonization,” as money continued to cross communal lines.<sup>56</sup> The Lebanese pound also remained relatively stable. Yet the depletion of foreign exchange reserves (partly because the decline in oil prices reduced remittances from the Lebanese based in the Gulf), together with the militias’ pressuring the banks for long-term credits, brought speculation against the pound.<sup>57</sup> Whereas Beirut’s role as an regional financial center long linked Lebanon to the petroleum-producing economies and beyond, the militias drew on deposits for money laundering purposes, in turn profiting from banking collapses in the late 1980s.<sup>58</sup> Focusing on the financial connections between regional petrodollars and Lebanese banks, Najib Hourani traced the ways “the militia economy was never outside larger processes of financial globalisation.”<sup>59</sup> Moreover, all militias received significant financial support from their foreign backers, between \$300

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<sup>49</sup> Judith Harik, “The Public and Social Services of the Lebanese Militias” (1994).

<sup>50</sup> Picard 2000, op. cit., 294.

<sup>51</sup> Jonathan Marshall, *The Lebanese Connection* (2012), 13.

<sup>52</sup> Georges Corm, “The War System: Militia Hegemony and Reestablishment of the State” (1994), 216-217.

<sup>53</sup> Elizabeth Picard, “Trafficking, Rents, and Diaspora in the Lebanese War” (2005), 39-40.

<sup>54</sup> Georg Glasze and Abdallah Alkhayyal, “Gated housing estates in the Arab world” (2002), 330.

<sup>55</sup> Éric Verdeil, “Reconstructions manquées à Beyrouth” (2001).

<sup>56</sup> Picard 1996, op. cit., 149.

<sup>57</sup> Salim Nasr, “The Political Economy of the Lebanese Conflict” (1989), 49.

<sup>58</sup> Corm 1994, op. cit., 217.

<sup>59</sup> Najib Hourani, “Transnational Pathways and Politicoeconomic Power” (2010), 290.

and \$400 million annually in the first part of the war, about half that in the second.<sup>60</sup> By the civil war's end, some one-third of the total domestic product was tied to militia economy.<sup>61</sup>

Several authors have commented on the connections between the political economy of the Lebanese civil war and that of the present, wherein “economically motivated violence gave way to new and unprecedented peacetime corruption.”<sup>62</sup> Elizabeth Picard writes that the civil war cemented land and money as the sectors around which the Lebanese economy revolved, circulated by the emigration of the young and the educated.<sup>63</sup> It is also commonly said, when commenting on present-day Lebanese politics, that the country is still run by the same war criminals of the civil war, as militia leaders (or their sons, sons-in-law, or nephews) turned into political party leaders. These entrepreneurs of violence, following the conclusion of hostilities, continued their predation by controlling public resources, as well as extending their control over the real estate and banking sectors. Although not a former militia leader, as most other postwar Lebanese politicians became, former Prime Minister Hariri, with his ownership of BankMed and significant shareholding interest in the Solidere reconstruction project of downtown Beirut, blurred the boundaries between the political and the economic, as well as the legal and the illicit, as described by the literature on the political economy of violence. Hourani thus describes Hariri's economic-based ascension to political power along the same lines as Hezbollah, which also arose during the civil war. While Hezbollah adopted a more militaristic strategy and are thus said to be more powerful than the Lebanese military, both their weapons and the Hariri business empire undermine the authority of the state.<sup>64</sup>

There are myriad examples linking the present Lebanese economy to the political economy of violence. Until it was canceled, primarily over the regional rivalry between Iran and Saudi Arabia and the Lebanese political divisions that break down along these loyalties, Saudi Arabia's donation of \$4 billion in weaponry to the Lebanese military represented the country's largest foreign aid donation. Past Saudi infusions of capital went to the Banque du Liban to support the financial system through difficult times, such as the late 1990s and early 2000s when on the back of reconstruction Lebanon became the world's most indebted state. Although the war in Syria caused the Lebanese economy to stumble, past regional tensions – as will be traced in more detail in the real estate and banking chapters to follow – infused the economy with significant capital inflows. For example, following September 11, 2001, Gulf Arab investment was welcomed by Lebanese real estate developers, as well as by local banks under the banking secrecy law. Although most of the money that left Iraq after the United States' invasion in 2003 is untraceable, a significant sum of \$2 billion in cash is reported to have ended up in Lebanon, part of the \$18 billion in Iraqi assets frozen in bank accounts in the United States, later airlifted to Iraq to finance reconstruction and today said to be stored in a secret bunker in rural Lebanon, with the knowledge of the United States embassy and inaction by the Lebanese judiciary, awaiting to be spent by powerful Iraqis.<sup>65</sup> Moreover, as the Lebanese real estate market entered one of its most profitable periods in the mid-2000s, many believe that the construction of luxury apartments, which today are empty, unsold, but not marked down, is tied to money laundering. These are not rumors I researched, but in the

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<sup>60</sup> Nasr 1989, op. cit., 47.

<sup>61</sup> Picard 1996, op. cit., 144.

<sup>62</sup> Picard 2005, op. cit., 27.

<sup>63</sup> *Ibid.*

<sup>64</sup> Najib Hourani, “Hybrid Sovereignties and US Foreign Policy” (2013).

<sup>65</sup> James Risen, *Pay Any Price* (2014).

words of A.W., a leader within the Lebanese diaspora and a real estate developer in his home country:

Between parenthesis this is something that scares me about Lebanon – the real estate situation in Lebanon is not so real. I don't want to say exactly dirty money, but uncertain origin money, that is brought to Lebanon, in cash or in suitcases, and then stuck in these types of buildings and it's crystal clear (as he pointed to the skyline). You have \$500 million, build a tower like this, you don't care about how expensive it is...and afterwards they will have an empty tower, because they are empty, have you noticed?<sup>66</sup>

Additionally, among many real estate developers, their only aspiration, amid an otherwise stagnating sector, is Syrian reconstruction, which promises to bring billions in business opportunities through Lebanon.

Nevertheless, I cannot explain the enigmatic image opening my dissertation – of real estate, banking, against a background of war – through the political economy of violence, especially not in the years when I was researching and writing my dissertation (2015 to 2016) when domestic political paralysis and insecurity emanating Syria stagnated the Lebanese economy, putting it on the precipice of collapse. More than 1.5 million refugees fled from Syria, adding more than one-third to the local population, the highest ratio of refugees of any country worldwide.<sup>67</sup> The World Bank estimates that between 2012 and 2014 the Syrian war reduced growth in Lebanon by 2.9 percentage points annually, totaling losses of \$7.5 billion. On the microeconomic side, they estimate 170,000 more Lebanese will be pushed into poverty, above the 1 million already living on four dollars per day. Macro-economically, tax collection has been reduced by \$1.1 billion and expenditures on public services raised by \$2.6 billion.<sup>68</sup> These costs arose from the insecurity spilling across the border, as well as the pressure Syrian refugees place on already deteriorating infrastructural services and bankrupt public finances. For example, forty percent of Lebanon's public debt has gone to subsidies to *Electricité du Liban*, which provides 21 hours of daily electricity to Beirut and 12 hours to the rest of Lebanon, forcing 92 percent of households to purchase more power from private generators.<sup>69</sup> The World Bank has calculated that without these annual transfers exceeding \$2 billion that the public debt would decline from 143.1 to 87.8 percent of GDP.<sup>70</sup> While many are accustomed to living amid uncertainty in a city where violence is often anticipated, one of the few certainties is that electricity will go out, though in the summer blackouts happen more often and are accompanied by tanker trucks on Beirut's traffic-congested streets delivering additional water when the cisterns are emptied. When garbage stopped being collected in summer 2015, Lebanon witnessed widespread protests, the result of frustration with deficient public services as well as the fact that private alternatives are impossible for collecting trash, unlike compensatory measures for scarce electricity and water shortages. Thus while there are those who profit from predatory infrastructures, it is not the political economy of violence that explain the prosperity – even despite the difficulties of the present – of the Lebanese real estate and banking sectors.

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<sup>66</sup> Interview conducted by the author on October 19, 2015.

<sup>67</sup> World Bank, "Lebanon Economic Monitor" (Fall 2015), 10-11.

<sup>68</sup> World Bank 2013b, op. cit., 43.

<sup>69</sup> World Bank, "Lebanon Economic Monitor" (Spring 2015), 30.

<sup>70</sup> *Ibid*, 31.



This breakdown in the provision of public services, which mirrors the paralysis of political institutions, points to a paradox beyond the political economy of violence, namely how has the Lebanese economy not collapsed under these myriad crises? In other words, in a city with (at least) three hours of daily electricity cuts, frequent water shortages and piling, putrid garbage, how has the average price of apartments remained relatively steady at around \$1 million, especially when the average price per square meter is almost nine times the minimum wage?<sup>71</sup> Moreover, how has a government which has not passed a budget since 2005, twice extended its parliamentary mandate without elections, been without a president for two and a half years and currently has the third highest debt to gross domestic product in the world, managed not only to roll over its debt but also to have its bonds oversubscribed with investor interest?

## Myriad Meanings of Resilience

The answer to the questions above is a discourse so-often applied to Lebanon that it has evolved from a description into an explanation: resilience. The unraveling of the paradox of the economy's stability, if not prosperity, is said to be its resilience in times of turbulence, whether during the civil war, throughout the Syrian conflict or despite the perennial paralysis of Lebanese politics. In the chapters following, I trace how resilience is portrayed in the real estate and banking sectors, specifically why property prices remain so high when so many of Beirut's apartments are empty and how the bankrupt Lebanese state continues to finance its ever-rising sovereign debt. I also analyze the apparatus that evolved around these sectors, ensuring their so-called resiliency, in the promulgation of Banque du Liban policies as well as emigrant investment. By beforehand and by way of introduction, I outline how resilience has evolved from a scientific, engineering term into a political platform, policy prescription and development pursuit more broadly.

Coming from the Latin root *resi-lire*, meaning to leap or spring back,<sup>72</sup> resilience came to prominence in the physical sciences with C.S. Holling, who termed resilience "a measure of the persistence of systems and of their ability to absorb change and disturbance and still maintain the same relationships between populations or state variables."<sup>73</sup> He contrasted this capacity to cope with change with stability, which represented a system's ability to return to the same equilibrium after a temporal disruption. The difference was between persistence and efficiency, constancy and change, predictability and unpredictability. Whereas resilient systems persisted because they absorbed change and evolved with it, stable ones predictably returned to the same, and therefore resilient systems could be highly unstable. In fact, this instability, by Holling's argument, "may introduce a resilience and a capacity to persist."<sup>74</sup> The capacity to persist was what underlined resilience.

Holling extended this contrast between stability and resilience by distinguishing two different types of resilience. Efficiency, constancy and predictability, what he characterized as stability, were attributes of an engineer's desire for a fail-safe design, whereas persistence, change and unpredictability were more aligned with an ecologist's evolutionary perspective on how species evolved (or not) in the face of shocks or disturbance.<sup>75</sup> The first he termed

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<sup>71</sup> Real estate prices presented at Lebanon Opportunities conference in Beirut, November 2015.

<sup>72</sup> Simin Davoudi, "Resilience: A Bridging Concept or a Dead End?" (2012), 300.

<sup>73</sup> C.S. Holling, "Resilience and Stability of Ecological Systems" (1973), 14.

<sup>74</sup> *Ibid.*, 15.

<sup>75</sup> C.S. Holling, "Engineering Resilience versus Ecological Resilience" (1996), 32-33.

engineering resilience, which concentrated on stability near an equilibrium steady state and was measured by the resistance to disturbance and speed of equilibrium return. The second he termed ecological resilience, which evolved far from one equilibrium and instead revolved around instabilities which could push a system into a different stability domains, wherein the measurement of resilience was the magnitude of disturbance that could be absorbed before the system changed. The difference between the engineering and ecological perspectives on resilience, Holling argued, were fundamentally around assumptions regarding whether multi-stable states actually existed. If only one stable state existed, then it was the engineer's desire to build things to make them work consistently, but the natural world was different, as there were multiple equilibriums and evolution was not only possible but desirable.

Others have extended the concept of resilience beyond engineering and ecology to the social sphere. W. Neil Adger defined social resilience as a community's ability to cope with external stresses.<sup>76</sup> Resilient socio-ecological systems were those that lived with and learned from unexpected shocks; resilience, in other words, "the ability to persist and the ability to adapt."<sup>77</sup> By both Holling and Adger's understanding, resilience was an aspiration, but resilience in the realm of security studies is critiqued as a mode of neoliberal governance. Drawing on the Foucauldian delineation between discipline as circumscribing a closed space, and security as standing back while things happen, Nikolas Rose and Filippa Lentzos (2009, 243) understand resilience as integral to governing through security, "resilience implies a systematic, widespread, organizational, structural and personal strengthening of subjective and material arrangements so as to be better able to anticipate and tolerate disturbances in complex worlds without collapse, to withstand shocks, and to rebuild as necessary." More than being prepared, resilience implies freely coming to live with risk. Relating resilience to national security, the culture of preparedness thus means living amidst permanent emergency, "what is resilience, after all, if not the acceptance of disequilibrium itself as a principle of organization?" (Walker and Cooper 2001, 154). Requiring adaptation to turbulence, even at extremes, resilience is therefore not about preventing security threats but foregoing the very possibility of security (Evans and Reid 2014).

Urban planning is another discipline that has adopted the concept of resilience, especially in the field of post-disaster urbanism. In their book *The Resilient City*, Lawrence Vale and Thomas Campanella cite cities as "among humankind's most durable artifacts," because despite being "sacked, shaken, burned, bombed, flooded, starved, irradiated, and poisoned – the have, in almost every case, risen again like the mythic phoenix."<sup>78</sup> In the case of the Chicago fire of 1871 and the San Francisco earthquake of 1906, these disasters were conceived as "instruments of progress," thus fostering a narrative imagination of the United States' "renowned resilience in the face of natural disasters."<sup>79</sup> In other words, disasters were reframed as opportunities for progress, with calamities disguised blessings, resiliency not in spite of adversities but because of them. In contrast, in this volume Diane Davis revealed the ways in which resilience, despite the seismic shocks of the earthquake that struck Mexico City in 1985, meant a return to the politically corrupt and socio-economically unjust policies in place before the disaster. Reconstruction was made so difficult because among the most "resilient" institutions were the police, whose destroyed stations contained dead bodies with evidence of torture, and the political party that had governed Mexico unchallenged for six

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<sup>76</sup> W. Neil Adger, "Social and Ecological Resilience: Are They Related?" (2000), 347.

<sup>77</sup> W. Neil Adger, "Building Resilience to Promote Sustainability" (2003), 1.

<sup>78</sup> Lawrence Vale & Thomas Campanella, "Introduction: The Cities Rise Again" (2005), 5 & 3.

<sup>79</sup> Kevin Rozario, "Making Progress" (2005), 28.

decades at the time of the earthquake. “Resilience,” in her words, “must be understood as more than physical reconstruction...reconstruction is not necessarily recovery, and resilience is not always a good thing (and can even be a bad thing).”<sup>80</sup>

If resilience is taken to mean persistence, adaption, the absorption of shocks, then it would be difficult not to describe Lebanon as resilient. After sixteen years of devastation, the architect Hashim Sarkis, in the volume *The Resilient City*, reflected on Beirut’s reconstruction as providing “historical continuity between the city’s defining myths – the myth of self-consumption and the myth of self-renewal.”<sup>81</sup> The first myth referred to the conflict between Beirut and the country, the cosmopolitanism of the capital and the traditionalism of the mountain, what Albert Hourani terms the warring ideologies of the mountain and the city.<sup>82</sup> “The second defining myth,” Sarkis wrote, “relates that Beirut will be destroyed but that it will rise again from the ashes,” and it is this “myth of self-destruction that feeds the myth of resilience.”<sup>83</sup> He traced the different meanings of Martyr’s Square in downtown Beirut, from the Ottoman through the French to the modern period when it was the frontline during the civil war and afterwards the location of luxury real estate, to wonder whether Beirut’s resilience may be in its constant change, wherein “much of the square’s resilience and vitality can be explained by its constant change rather than through an examination of its salient features.”<sup>84</sup>

In Lebanon, resilience has been applied both as a descriptor of its political economy and an explanation for its persistence and prosperity, but always with the understanding that this resilience is a good thing. The reason why property prices remain beyond the reach of the majority of the population is said to be their resiliency. Lebanese real estate is depicted as a safe haven in a difficult region. Lebanon is thought to sustain its staggering sovereign debt, the world’s third highest relative to the size of its economy, due to the supposed resiliency of its banking sector, which continues to attract significant deposits despite political paralysis. In times of turmoil, as when violence bleeds across the border and destabilizes both politics and the economy, the Banque du Liban ensures the transnational financial inflows that make this possible through policies such as maintaining the currency peg to the dollar. In fact, in my interviews with financial professionals, the currency peg was cited extensively as the very essence of this resilience.

Citing its enduring attraction of financial inflows, international development institutions and investment advisors also portray Lebanon through discourses of resilience. Entitled “Growing Tensions in a Resilient Economy,” the World Bank’s economic monitor in Spring 2013 writes “real estate and banking have proven to be resilient” despite insecurity and uncertainty affecting Lebanon due to the Syrian war.<sup>85</sup> That same year, and for the first time since the Syrian crisis, Moody’s Investor Services revised their outlook on Lebanon’s sovereign debt downwards (before downgrading their credit rating in late 2014); nevertheless their notice cited “the proven resilience of domestic banks, which continue to finance the government deficit.”<sup>86</sup> The International Monetary Fund’s 2015 assessment likewise turned

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<sup>80</sup> Diane Davis, “Reverberations: Mexico City’s 1985 Earthquake and the Transformation of the Capital” (2005), 260-261.

<sup>81</sup> Hashim Sarkis, “A Vital Void: Reconstructions of Downtown Beirut” (2005), 285.

<sup>82</sup> Albert Hourani, “Ideologies of the Mountain and the City” (1976).

<sup>83</sup> Sarkis 2005, op. cit., 286.

<sup>84</sup> *Ibid*, 296.

<sup>85</sup> World Bank, “Lebanon Economic Monitor” (Spring 2013), 4.

<sup>86</sup> Moody’s Investors Service, “Moody’s changes outlook on Lebanon’s government bond rating to negative from stable” (2013).

to resilience to explain why the financial system continues to draw in deposits despite the heightened risks, describing the nexus between the banks the sovereign debt as the “source of resilience.”<sup>87</sup> Yet with the economy precariously dependent on enticing investment from overseas, especially into luxurious properties in Beirut and banks that then onward invest in the sovereign debt, the question becomes to what extent the “resilience” of this model may contribute to its underlying instability. As Prof. Carmen Geha of the American University of Beirut writes in reference to the United Nation’s resiliency agenda for Syrian refugees:

International donors’ promotion of the narrative of Lebanon’s resilience has come at a cost, namely the further delay of structural and political reforms that are of critical importance to the country’s future...Glorifying the concept of resilience has tended to normalize Lebanon’s abnormalities. Given the Lebanese government’s belated and inept handling of the refugee crisis, championing Lebanon’s ‘resilience’ nearly amounts to absolving the Lebanese state of its responsibility to contribute to that very resilience.<sup>88</sup>

While report after United Nations report celebrates Lebanon’s renowned resiliency, especially amid the Syrian war, she argues that the turmoil has resulted in the resilience of the Lebanese sectarian political system, as disagreements over intervention in Syria have divided the political elite, in turn pushing them towards their different foreign patrons for support and thereby further weakening the state. Although affirming the economy’s “almost inherent resiliency” in times of turbulence, the World Bank has also sharply criticized the persistence of its confessional governance, which they estimate costs 9 percent of annual gross domestic product.<sup>89</sup> Corruption is endemic, notably elite capture, wherein “illegal activities are not sanctioned by the state when involving politically/confessionally connected and/or wealthy actors, exacerbating elite capture and the pervasive patronage system.”<sup>90</sup> This system was solidified following the civil war, when “warlords turned politicians, ministers and even heads of the executive and legislative branches of government,”<sup>91</sup> but with the withdrawal of Syrian troops, once the external power-broker able to impose decisions over Lebanon, the result was political paralysis, with the Parliament rarely meeting, meaning that in 2007 not a single law was passed, in 2013 only two laws were approved – though these related to extending the parliamentary mandate without elections – and in 2015 the only laws passed were related to money laundering and terrorism financing, in order to avoid being blacklisted by the United States Treasury. Despite the very high, rising and increasingly unsustainable sovereign debt, Parliament has not managed to pass an official budget since 2005. In their indictment of the Lebanese political economy, the World Bank writes:

The confessional system of governance – in its current incarnation where it has been captured by elites...(has) engendered deep structural inequalities and deficiencies, inhibited economic growth and inclusive development, and (is) at the core of the country’s current fragility and vulnerability to destabilizing national and regional

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<sup>87</sup> IMF, Staff Report for the Article IV Consultation (2015), 10.

<sup>88</sup> Carmen Geha, “The Syrian Refugee Crisis and Lebanon’s Endemic Deadlocks” (2016).

<sup>89</sup> World Bank, “Lebanon: Promoting Poverty Reduction and Shared Prosperity” (2015), vi.

<sup>90</sup> *Ibid*, 5.

<sup>91</sup> *Ibid*, 9.

shocks.<sup>92</sup>

The International Crisis Group also criticizes the resiliency for which Lebanon has become renowned, writing that “resilience has become an excuse for a dysfunctionality and *laissez-faire* attitude by its political class that could ultimately prove the country’s undoing.”<sup>93</sup> Their focus is not only the political system, but the effect of its paralysis on public services and the population, who have resorted to survival strategies undermining their already precarious quality of life. Faced with persistent political stalemate, infrastructure that barely functions and various forms of violence:

Lebanese have adjusted to a malfunctioning state by lowering their expectations, bypassing its institutions and resorting to privatized alternatives. These apply to virtually all sectors, from health, electricity and water to more complex activities such as education, employment, justice and even security.<sup>94</sup>

The devolution of state powers to sectarian actors or the private sector has, in their words, “prevented collective collapse” but with the pernicious effect that most people “have given up hope that officials may find (or even seek) solutions to their multiplying problems,” and thus “they have relinquished any notion of holding their political class accountable, seeking instead to maximize individual gains and protect private interests.”<sup>95</sup> One oft-cited example would be the public electricity company, which the World Bank termed “the Poster Child of Confessionally-Induced Waste in Public Spending that Plagues Public Finances, Businesses, and Households since 1981,”<sup>96</sup> or another analyst called “a model case study in corruption because you can find every single kind of corruption inside it.”<sup>97</sup> Yet the Lebanese (who can afford to) are also compelled to resort to private alternatives for water, health and education, as the public alternatives are so dismal. Around 15 percent of the population is estimated to have emigrated since 2010, and among the tertiary educated this rises to almost 44 percent.<sup>98</sup> Although the World Bank argues that this emigration has been driven by political instability and in pursuit of economic opportunities, I would also argue that it stems from mundane frustrations, from the deadlocked traffic to the slow internet to the unreliable electricity and water, which from my own experience and conversations with Lebanese friends are making everyday life increasingly difficult and unbearable. I am often told the only reason foreigners, like myself, enjoy living in Lebanon is because they/we can leave.

Thus, resilience, in reference to Lebanon and in its engineering, ecological, socio-economic and urban planning means stability, springing back, persistence, absorbing shocks and adaptation. Yet the resiliency for which Lebanon is renowned, both as a descriptor of why capital continues to flow into Lebanon and an explanation for why this is so, may not necessarily be a good thing. This is a possibility that my dissertation will explore, meanwhile tracing the narrative of the political economy’s resilience, specifically through the real estate and banking sectors, as well as the resulting apparatus ensuring the attraction of the financial

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<sup>92</sup> *Ibid*, 43.

<sup>93</sup> is Group, “Lebanon’s Self-Defeating Survival Strategies” (2015), i.

<sup>94</sup> *Ibid*, 11-12.

<sup>95</sup> *Ibid*, 12.

<sup>96</sup> World Bank 2015c, op. cit., 53.

<sup>97</sup> Riad Tabbarah quoted in Wendy Perlman, “Emigration and the Resilience of Politics in Lebanon” (2013), 195.

<sup>98</sup> World Bank 2015c, op. cit., 26 & 62.

inflows that support these sectors. If this resiliency is based on the export of the young and the educated – as I will argue – then the source of resiliency, the investment of Lebanese emigrants, may be perpetuating the permanent weakness of the economy, the very reason why emigration is so prevalent. As there are so few employment opportunities in Lebanon, and as there is so little to invest in beyond property or putting one's money in the bank, it is only by emigration that this circular system, of labor and capital, can continue to function.

## Research Methodology

For most of the post-civil war period, resilience has been both a descriptor and an explanation for Lebanon. Resilient is how Lebanon is described and resilience explains how its economy somehow survives, even prospers, especially the real estate and banking sectors. Resilience is thus a discourse that determines how Lebanon is broadly understood. It is not only propagated by the real estate and banking professionals with a financial interest in doing so, but also prevalent in the press, the publications of international financial institutions and everyday discourse. Resilience, in other words, has taken on the status of a self-evident truth.

My dissertation traces this narrative of resilience, uncovering how resilience became the dominant mode by which the economy is put into discourse and thereby understood. It excavates the history around which resilience arose as a concept and thereafter endured as an explanation by focusing on transnational financial inflows as the essence of this resilience. In so doing, my dissertation maps the apparatus erected around attracting overseas investment, initially from the region's petroleum-producing economies, but presently around what I term the diaspora's affective investment. This apparatus imbricates real estate, banking and war. It established property and finance as pillars of the economy, and overseen by the Banque du Liban, directs financial inflows into the sovereign debt. It is therefore not resilience that defines the Lebanese economy but the apparatus constructed around the ongoing circulation of capital, and their opposite in enduring emigration. To analyze the discourses of resilience, and especially the apparatus around which they are based, I draw from Michel Foucault.

Discourse, in the Foucauldian understanding, is a way of speaking, the set of things said, in all their unities, contradictions, discontinuities and disruptions. Discourses are intertwined in relations of power and knowledge; they are systems of knowledge that make true and false statements possible, which in turn pose questions of how, why and by whom truths are attributed to some arguments but not to others. In tracing the historical construction of what was hitherto taken as self-evident, Foucault thus sought to “question those ready-made syntheses, those groupings that we normally accept before any examination, those links whose validity is recognized from the outset; we must oust those forms and obscure forces by which we usually link the discourse of one man with that of another; they must be driven out from the darkness in which they reign.”<sup>99</sup> Discourse analysis, in sum, takes what is seen as truth, what is understood as necessary, and discloses how this is necessarily contingent. By way of example, in *Discipline and Punish*, Foucault tells the history of the prison, narrating the disappearance of torture as public spectacle by more effective means of control through the disciplines. Through the production of docile bodies, the disciplines – monasteries, armies, schools and factories – “became general formulas of domination.”<sup>100</sup> By means of training, they enforced time, guided movements and imposed a disciplinary power that was exercised from within. The disciplines thus formed an apparatus that diffused penitentiary techniques

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<sup>99</sup> Michel Foucault, *The Archaeology of Knowledge* (2010), 22.

<sup>100</sup> Michel Foucault, *Discipline & Punish: The Birth of the Prison* (2012), 137.

throughout society, so while the panoptic prison assured an automatic functioning of power through the interplay of gazes the disciplinary apparatus perfected power by rendering its exercise unnecessary. When interviewed about what was meant by an apparatus, he defined it as “a thoroughly heterogeneous ensemble consisting of discourses, institutions, architectural forms, regulatory decisions, laws, administrative measures, scientific statements, philosophical, moral and philanthropic propositions...The apparatus itself is the system of relations that can be established between these elements.”<sup>101</sup> At the intersection of power and knowledge, an apparatus is thus a way of thinking, articulating, organizing, practicing. Translated to my dissertation, an apparatus is therefore how I understand the assemblage of real estate investment, sovereign debt, the Banque du Liban’s management and emigration. Under discourses of “resilience,” an apparatus was constructed – notably in the post-civil war period – around attracting transnational financial inflows into Beirut’s reconstruction by ways of luxury real estate and banking, which were also pillars of its pre-civil war economy. This apparatus necessitated the interest of Gulf Arab investors and the wealthy Lebanese diaspora. As a means of excavating this apparatus, I dwell on discourses of resilience that infuse descriptions of the Lebanese economy. In the chapters that follow, I seek to reveal that “resilience” is not self-evident; rather it references an apparatus that may have absorbed regional turmoil and withstood infrastructure collapse, political impasse and the anticipation of war, but comes with immense costs in a capital city of empty buildings, a deeply indebted sovereign and national narrative of emigration.

The paradox of why property prices do not decrease despite the plethora of vacant apartments is the topic of my second chapter. Beirut’s skyline is covered with construction cranes and building materials spill onto the sidewalks and streets. “The entire city is a construction site,” according to A.M., a scholar of urbanism at the American University of Beirut, “with high-rise buildings marketed as luxurious, even if they are not.”<sup>102</sup> With their *façades* unfinished and windows darkened, it would seem property prices would be pushed downwards, especially as investment by Gulf Arabs has vanished and interest among the Lebanese diaspora has also declined. Yet according to the discourse of developers, this is not the case because of the real estate market’s resilience. By their telling, property prices are resilient because of the law of scarcity, with Beirut between the sparkling Mediterranean Sea and spectacular mountain backdrop naturally attracting investment from vacationing Gulf Arab investors and Lebanese expatriates seeking a home in their homeland. Yet by tracing their transnational investment, I point to the policies constructing the seeming resiliency, notably the Banque du Liban. As the Lebanese economy stumbles, the Banque du Liban has infused annual stimulus packages of between \$1 and \$1.5 billion, more than half of which is directed towards subsidized mortgages. There is thus an apparatus that accounts for the skyline of uninhabited buildings across Beirut, one which imbricates private capital flows and government policy supporting real estate as one of the pillars of the Lebanese economy.

My third chapter ties together these transnational inflows, again overseen by the Banque du Liban, into the sovereign debt. It presents a history of Lebanon’s financialized economy. Resilience is a discourse often repeated in descriptions of why Lebanon – as the world’s third most indebted sovereign – is able to roll over its debt despite financial solvency indicators to the contrary. The essence of this resilience is said to be the Banque du Liban’s management of the currency peg to the dollar, which ensures that capital continues to flow into the banks, because depositors believe that the value of their deposits will be protected.

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<sup>101</sup> Michel Foucault, *Power/Knowledge* (1980), 194.

<sup>102</sup> Interview conducted by the author on June 10, 2015.

In turn, the Banque du Liban directs deposits into Treasury bills such that the majority of bank assets are invested in the sovereign.<sup>103</sup> While this apparatus has evaded default, it has necessitated ongoing emigration, as non-resident deposits are instrumental to sustaining the financialized economy. My critique is not of the resiliency of this financial nexus. Instead, in examining the apparatus channeling deposits into debt and borrowing from the argument of Charbel Nahas, I put forth a more critical interpretation, namely that beyond the currency peg's stability, the resiliency of the sovereign debt is founded upon ongoing emigration.

The political economy of emigration is the topic of my fourth chapter. Emigration has defined Lebanon since the late 19<sup>th</sup> century until today, when it is often claimed there are 15 million Lebanese emigrants worldwide,<sup>104</sup> although more accurately only about 1.2 million maintain financial ties.<sup>105</sup> My emphasis is on emigrant investment as an economic policy. Those organizing conferences aimed at enticing expatriate investment argue that buying a home in their homeland is how they can ensure Lebanon's very survival. Advertisements in turn interweave profit-making and affect, inducing emigrant investment by pointing to their pocket-books and tugging at their heart-strings. While affective investment is not detached from making money, their entanglement informs my conclusion. Drawing on the reflections of returned emigrants, I point to the ways their remittances, at the heart of this apparatus, are being destabilized, especially as many are wary of remaining, investing, even having hope for Lebanon. Although the political economy has long persisted, prospering in spite of the turbulence beyond its borders and the paralysis of its infrastructure and institutions, the question remains what will cause these thus far persistent transnational inflows to cease? Possibly disillusionment among emigrants, more than the anticipation of violence, because despite the wars, assassinations and insecurity it has endured, Lebanon is not an account of the political economy of violence. Rather, resilience as absorbing shocks and adaptation may be a more appropriate concept by which to understand Lebanon, all the while understanding that this resilience may be simultaneously reinforcing its underlying fragility.

Before this concluding contemplation, I deviate from the apparatus of resilience to its undermining, by wondering what would disrupt the transnational inflows into the banks that thus far sustain the sovereign debt and Lebanon's financialized economy. The subject of my fifth chapter is money laundering and terrorism financing as defined by the United States Treasury. My focus is the Lebanese Canadian Bank, which the Treasury said was financing Hezbollah, thus causing the then-eighth largest bank to collapse in early 2011. My interest is not in determining complicity but in discourse analysis, namely the circular citations through which the Treasury decides guilt upon classified evidence and sees the Lebanese emigrants of West Africa with inherent suspicion, as well as the immense and unrestrained power of the dollar, which permits the United States government to engage in a war by other means, one without setting any boots on the ground against Hezbollah. Through a succession of self-referencing laws barring those with suspected Hezbollah sympathies from accessing the international financial system, their parliamentary deputies have had their bank accounts frozen, although the source of their salaries is known (Ministry of Finance) and in a currency outside the United States' sovereignty (Lebanese pound). The congressional passing of the Hezbollah International Financing Prevention Act in late 2015 and the Lebanese banking

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<sup>103</sup> World Bank 2016, 19.

<sup>104</sup> For example, Foreign Minister Gibran Bassil's opening speech at the Lebanese Diaspora Energy Conference, May 5, 2016.

<sup>105</sup> According to R.I., a representative of the Investment Development Authority of Lebanon. Interview conducted by the author on January 22, 2016.



sector's wariness of dealing with anyone potentially affiliated with Hezbollah ensure this is one of the most contentious issues for the contemporary Lebanese political economy.

I undertook field research in Beirut, Lebanon from February 2015 through November 2016. I drafted my entire dissertation from Beirut, as this allowed me to follow up with informants and stay intimately up-to-date with the developments which were/are making headlines in ways that – thus far – do not alter my arguments but bring them more into the present. This present was much informed by events ongoing over the course of my research – protests against parliament's extension of their mandates without elections during my summer of Arabic language study in 2013, the non-election of a president for almost two and a half years from my summer of preliminary fieldwork in 2014 until immediately before I left Lebanon in October 2016, the street protests in Beirut against the non-collection of the garbage and corruption in the summer of 2015, as well as the persistence of the war in Syria and the inundation of over 1.5 million refugees. Although often doctoral students are urged to separate themselves from the field while drafting their dissertations, my writing seemed to flow more simply, and hopefully more eloquently, from Beirut, especially as a foreigner who is everyday coming to better know Lebanon through experiences I cannot strictly define as research, from walks when I came to notice the empty buildings to evenings with my friends when the topic of emigration took over many of our conversations.

Through semi-structured interviews, I spoke with over sixty experts for my research, including ten real estate developers; three architects; six commercial bankers; three officials at the Banque du Liban; five current or former representatives from the Ministries of Labor, Finance and Foreign Affairs and the International Development Authority of Lebanon; eight officials from international organizations including the World Bank, International Financial Corporation, International Monetary Fund and United Nations; eight professors from the American University of Beirut, Lebanese American University and Lebanese University; and four professionals working directly on drawing emigrant investment back to Lebanon. In order to trace the discourses of resilience around the Lebanese economy, I studied reports by the real estate and banking sectors and the publications by the International Monetary Fund and World Bank. I also examined the archives of the leading local financial journals, *L'Orient-le Jour*, *The Executive* and *Lebanon Opportunities*. Through participant observation, I studied how resilience was put into discourse by attending conferences organized by national and international economic publications, the World Bank, Ministry of Foreign Affairs and Emigrants and the American University of Beirut. All but two interviews were conducted in English. A significant shortfall of my research is that it is drawn almost exclusively from French and English-language publications, given my rudimentary reading ability in Arabic. Although resilience, often translated as steadfastness in Arabic, is not confined to foreign language discussions, my dissertation predominantly is. Another limitation is the lack of accurate statistics, a difficulty underlined by the fact that a national census has not been undertaken since 1932.<sup>106</sup> Even basic economic indicators such as gross domestic product are published about with four years of delay. Therefore, most of my quantitative data are by definition estimates. The Banque du Liban provides monthly data on deposits, although due to banking secrecy little is known beyond their totals and currency composition. Therefore, there are no definitive real estate prices for Beirut, nor the number of empty apartments, nor the size of remittance inflows into Lebanon, nor the sum of those who have emigrated from Lebanon. Nevertheless, I do not believe that the dearth of quantitative data undermines my argument, especially as I strove to write ethnographically of how the political economy is

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<sup>106</sup> Rana Maktabi, "The Lebanese Census of 1932 Revisited: Who are the Lebanese?" (1999).

actually experienced. In examining discourses of resilience, I excavate the apparatus erected around inducing transnational investment, and in so doing my objective has been to thickly describe how this apparatus has been translated into a reality of emigration for the majority of Lebanese who at one time must leave not only to sustain their struggling families but to stabilize their precarious political economy.

## CHAPTER TWO

### Building Resilience

Walking in Beirut, I often have to keep my eyes down so as not to stumble over the concrete blocks set up to prevent cars (or their car bombs?) from parking. Architectures of security are interwoven across the sidewalks and streets. There are high walls and rolls of barbed wire outside government buildings, armored vehicles arming the intersections when the Cabinet is in session and occasional checkpoints blocking access to my street. Yet when I take my eyes off the street and look at the skyline, everywhere there are construction cranes are erecting avant-garde apartments. They are evocative of affluence, or as written on one building's gated walls: *it's about the new Beirut: metropolitan, cosmopolitan and expressive*. It is this experience of walking through the city – negotiating its architectures of security while also marveling at how these architectures of affluence also defy insecurity – that inspired my dissertation. The logics of investment point to the imprudence of investing in fixed assets, such as apartments in Beirut, when the past decade has witnessed assassinations, wars and a refugee crisis, political tensions bordering on paralysis, and infrastructural break-down such that daily interruptions of electricity and water services are mundane. Meanwhile, Beirut is a construction site of high-rise towers advertised as luxurious, whose average price per square meter is \$4,000 while the minimum monthly wage is \$450.<sup>1</sup> Property investment implies a long-term position, one not as easily liquidated as immaterial financial investments in times of turmoil. Nevertheless, construction continues almost unabated.

The puzzle is that many of these affluent apartments appear empty, their windows dark when I walk through Beirut in the evening. The most common explanation is that they are owned by foreigners from the Gulf or expatriates, and therefore are uninhabited but not unsold. According to developers, the reason why property prices remain so high, when many buildings remain vacant is because of the immutable law of scarcity. By their description, the city's natural allure and the nature of the fact that space is scarce, makes real estate prices resilient to the many adversities that would otherwise destabilize a market such as Beirut's. The law of scarcity thus naturalizes persistently high prices even when an untold number of apartments are unoccupied. "This is a city that endures when it comes to real estate," in the words of M.F., a developer, "It is almost universal, like an economic law, that investors will receive a handsome return on their investment in land." At a conference hoping to inspire emigrants to invest in Lebanon, a different developer presented the inevitable returns from real estate in the form of an equation:

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<sup>1</sup> Author's calculations based on data presented at *Lebanon Opportunities* conference, November 3, 2016.

# REAL ESTATE IN LEBANON: GUARANTEED INVESTMENT



80% of the Lebanese population is living in 20% of its surface



lack of plots suitable for Construction



7% annual Growth rate in Lebanon (Population)

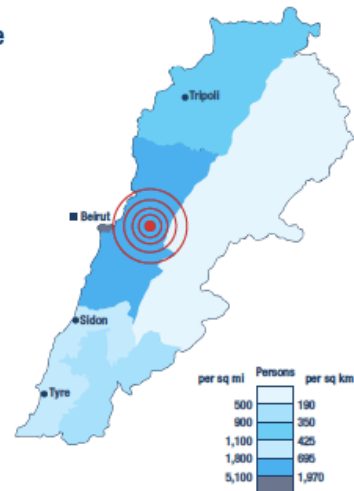


14 million Lebanese Expat



**DEMAND > SUPPLY**

→ **INCREASE OF PRICES**



Although the population growth rate is much lower and the number of expatriates retaining connections to Lebanon only around 1.2 million,<sup>2</sup> it is difficult to dispute this mathematical logic. It is a basic law of economics that when supply is constrained vis-à-vis a demand that prices will rise. The law of supply and demand is thus what Timothy Mitchell would portray as “principles true in every country,”<sup>3</sup> which translated to Beirut maintains persistently high property prices beyond the means of the majority, even when most buildings remain empty.

In this chapter I present the apparatus sustaining this skyline of seemingly empty apartments. I begin with the discourses constructing the real estate sector as resilient. These center around the law of scarcity and portray the persistently high prices of property as part of a universal law materialized in the built environment. Repeated again and again until they take on the status of truth, these narratives of resiliency overlook the ways in which the laws of supply and demand have been socially constructed, primarily by postwar reconstruction policies and reinforced by the Banque du Liban’s economic stimulus package. In Lebanon, real estate has long been a store of value and an attraction for foreign investment.<sup>4</sup> In the pre-civil war years, foreign investment was directed towards construction, averaging around two-thirds of total investment, concentrated primarily in apartments in Beirut.<sup>5</sup> During the war, when hyperinflation destroyed the value of the Lebanese pound, land was seen as the only safe way to store money. According to N.B., the research director at one of Lebanon’s largest commercial banks, “people still consider property the only safe investment in the

<sup>2</sup> Interview conducted by the author with R.I., a representative of the Investment Development Authority of Lebanon, on January 22, 2016.

<sup>3</sup> Timothy Mitchell, *Rule of Experts: Egypt, Techno-Politics, Modernity* (2002), 54.

<sup>4</sup> Carolyn Gates, “The Merchant Republic of Lebanon: Rise of an Open Economy” (1998), 117.

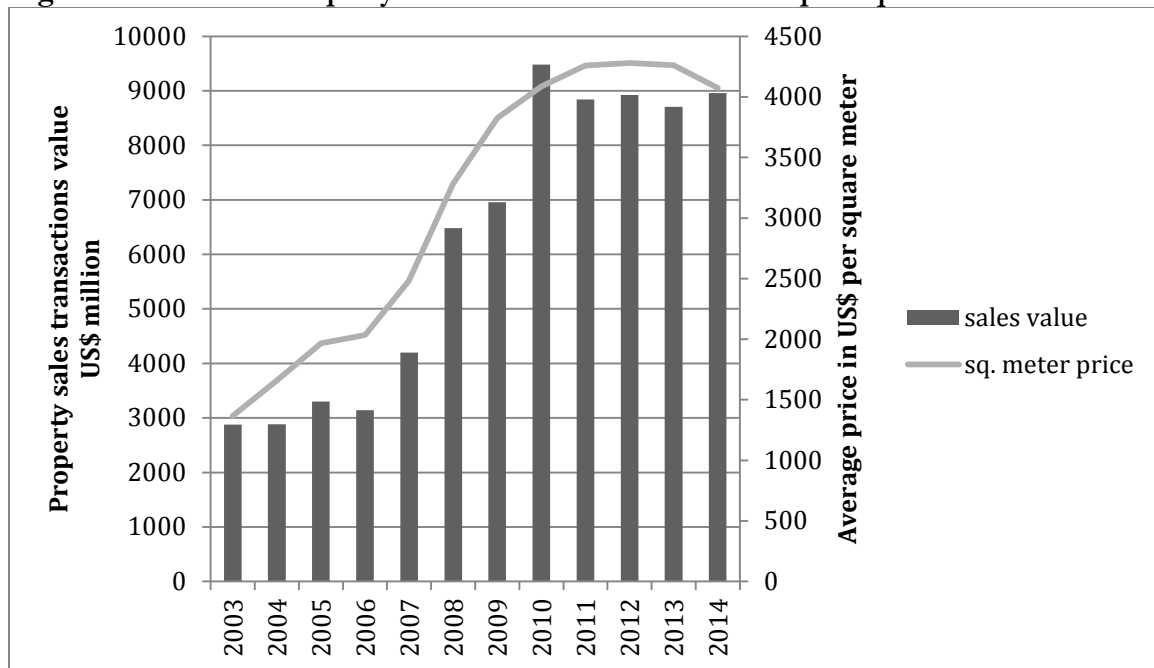
<sup>5</sup> Toufic Gaspard, *A Political Economy of Lebanon, 1948-2002: The Limits of Laissez-Faire* (2004), 150 & 153.

country.”<sup>6</sup> Until today, there is still the fear that bank deposits will lose value, in the words of W.M., a Lebanese economist working with the World Bank:

Real estate is a safe haven for the Lebanese. They are still worried their savings will lose value, as they lived through periods of inflation during the war, and that is why they invest in real estate. They know that real estate has never lost value. There have been periods of stagnation, and now is one of them, but prices have never been lowered and they are not going down now.<sup>7</sup>

The International Monetary Fund estimated the construction and housing sectors contributed 9.3 percentage points to the growth of the Lebanese economy between 1998 and 2010.<sup>8</sup> Between 2004 and 2010, when the property market was booming, real estate prices rose by more than 17 percentage points annually.<sup>9</sup> As shown in Figure 2.1, there was a slight downturn in property prices in 2006 due to the war between Israel and Hezbollah, but afterwards prices kept climbing despite domestic political turmoil. At the time, some even argued that the sector was disconnected from politics; in other words, there was said to be a decoupling of risk between investing in a luxury apartment in Beirut and perceptions of the political risks of Lebanon more broadly.

**Figure 2.1: Value of Property Sales Transactions and Price per Square Meter<sup>10</sup>**



<sup>6</sup> Interview conducted by the author on July 14, 2015.

<sup>7</sup> Interview conducted by the author on June 26, 2015.

<sup>8</sup> IMF, “Lebanon: Real GDP Growth Analysis, 1997-2010” (2011), 4.

<sup>9</sup> Author’s calculations based on InfoPro data. Accessed online on May 30, 2016:

<http://www.opportunities.com.lb/Lebanon/BusinessRef/OppConference.asp>

<sup>10</sup> Bank Audi annual real estate reports and InfoPro data. Note: Value of property sales transactions in Lebanon and the average prices of square meter of property in Beirut.

It was in this context of optimism that the real estate market started to stumble alongside the rest of the Lebanese economy around the time the Syrian uprising descended from civil strife into a regional conflict. Suddenly, the discourse of property being detached from political risks was reversed, and these very risks instead undermined what was said to be an otherwise resilient sector. In the words of Z.C., the manager of a real estate investment firm, “yes, land is scarce, Beirut is small, and real estate is demanded, but still people aren’t going to invest \$1 million in an apartment when they don’t have confidence in their country. It’s as simple as this.”<sup>11</sup> Yet while the market was said to abide by the simple law of scarcity, it seemed that the law of supply and demand no longer applied, because despite the decline in construction permits and cement deliveries and the downturn in the value of property transactions, the price per square meter of built space in Beirut did not drop, at least not significantly. When demand dipped, elegant apartment were oversupplied, but prices stayed essentially the same. There are said to be discounts here and there but overall prices have not declined. Even the turn to building smaller apartments to meet the more affordable demand maintained prices at their heights, because developers could subdivide what was once one \$1 million apartment into several apartments each slightly under \$1 million, and therefore sell less expensive apartments but at higher prices per square meter.

There is a crisis facing the real estate market that has as much to do with the over-supply of large, luxury apartments as with insecurity and uncertainty stemming from the Syrian conflict.<sup>12</sup> However, policies put in place since reconstruction have ensured that the sector need not suffer. Following David Harvey’s concept of a spatial fix, wherein capital is fixed in space (in luxurious apartments in Beirut, for example) in order to overcome space (to facilitate its profitable circulation),<sup>13</sup> real estate investment was not simply a spatial fix but the very essence of Beirut’s reconstruction. Prime Minister Hariri’s intention was to turn Beirut into “the Singapore of the Middle East,”<sup>14</sup> but the result, according to Georges Corm was “the Monte Carlo of the Arab world, a tax haven, a large casino, a tourism center and a luxury supermarket for wealthy Arabs.”<sup>15</sup> Beirut was rebuilt around the attraction of foreign, especially Gulf Arab, investment into the downtown’s luxury real estate sector. Until today, taxation law and building codes favor the pocketbooks of property developers, instead of architectural aesthetics, affordable housing, public space, parks or access to the seashore. In response to the downturn simultaneous with the Syrian conflict, the Banque du Liban implemented a stimulus of over \$1 billion annually, with more than half the funds allocated to subsidized mortgages. By simply by stimulating the demand for housing, the Banque du Liban is supporting the real estate economy, rather than directing investment towards real sectors that would broaden the economy and especially employment. As they are responsible for stabilizing the economy and not framing macroeconomic policy, the Banque du Liban’s choices are constrained, and thus with the restricted tools within their mandate perhaps subsidized mortgages are the optimal of their very limited policy possibilities. However, the stimulus is a component in an apparatus under construction since postwar reconstruction, with real estate constructed as a pillar of the Lebanese economy such policies must be put in place to ensure its resilience.

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<sup>11</sup> Interview conducted by the author on November 17, 2015.

<sup>12</sup> Hisham Ashkar, “Benefiting from a Crisis” (2015).

<sup>13</sup> David Harvey, *The New Imperialism* (2005).

<sup>14</sup> Guilain Denoeux and Robert Springborg. “Hariri’s Lebanon” (1998), 158.

<sup>15</sup> Georges Corm, *Le Liban Contemporain* (2003), 227.

## Social Construction of the Law of Scarcity

I begin this chapter with the discourses of resilience in the real estate sector. With Beirut's skyline constantly under construction, property prices are said never to decline. But against assertions that these ever-rising prices are the result of immutable economic laws, my argument is that an apparatus has been erected around the real estate market, such that its stability – even amid the present turmoil– is tied to supportive public policies. The discipline of economics, especially since the advent of capitalism and its precepts of minimal state intervention, has long been based on certain laws understood as intrinsic. One of these is the law of scarcity. This states that limited the supply of land, such as the mountains and the sea surrounding Beirut or the politically precarious countries alongside Lebanon's borders, entail that land will always be expensive, provided there is a demand. These descriptions were said over and over again in interviews with developers that they appeared to take on the status of self-evidence. Never mind that the dearth of official statistics made these assertions difficult to verify. The price of apartments is always said to be ascending, much like a staircase. The law of scarcity has been made absolute almost at the level of the law on gravity, except to argue that in Beirut property prices never fall.

In my analysis, I draw on Karl Polanyi's interpretation of the economy's emergence as the separation of market relations from society within which they were once constrained. By his argument, there had always existed a form of economy, but whereas the market was based on reciprocity and redistribution, in the 19<sup>th</sup> century a struggle intensified to disembody it from social relations. This was marked by the transition from regulated markets to a self-regulating one, directed only by prices and manifest in the commodification of everything, wherein "the self-regulating market was now believed to follow from the inexorable laws of Nature."<sup>16</sup> Economic liberalism, in other words, took on the vestiges of "secular salvation through a self-regulating market."<sup>17</sup> Yet Polanyi argued that there was nothing natural about this situation when "the road to the free market was opened and kept open by an enormous increase in continuous, centrally organized and controlled interventionism."<sup>18</sup> Public policy was instead directed towards planning the self-regulating market.

The market economy was something that came into being, understood as governed by natural laws as irrefutable as those of physics. While Polanyi traced its emergence to the 19<sup>th</sup> century, Timothy Mitchell argued that arose in the 20<sup>th</sup> with those professionals tasked with developing the economy. It was represented as rational and subject to statistics, putting into practice a new politics of calculation:

The realization of the economy made possible new practices (of development, management, and government, to name a few), new claims to expertise, new equivalences, and new silences, not one of which is easy to uncover when we project the economy onto periods whose politics were not organized around this object.<sup>19</sup>

The advent of the economy in colonial Egypt was with the introduction of private property, when, "the political economy of Egypt was to be reestablished on the basis of principles true

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<sup>16</sup> Karl Polanyi, *The Great Transformation: The Political and Economic Origins of Our Time* (2001), 132.

<sup>17</sup> *Ibid*, 141.

<sup>18</sup> *Ibid*, 146.

<sup>19</sup> Mitchell 2002, op. cit., 83.

in every country.”<sup>20</sup> The laws of private property were understood as universal, an axiom of a modern economy upon which the market existed. Yet the naturalization of private property is silent on the conditions that produced it, “the ad hoc, violent, and exceptional character of the law of property was entirely hidden by the presentation of law as something abstract, as a universal rule, with its origins elsewhere, applied to particular circumstances.”<sup>21</sup> Peasants were compelled onto large agricultural estates, which were transformed into sources of tax revenue, intended to pay the government’s debts to foreign bankers, and in turn many small farmers were forced into debt and lost their land. Private property, based on principles said to be true in every country, was instead the foundation of an extractive economic system based on coercion.

Translated to the present, one of the ways by which the economy becomes known is in the practice of international development. James Ferguson details the de-politicization of poverty through development, textually dissecting World Bank reports on Lesotho, which describe the country as “untouched by modern economic development.”<sup>22</sup> However, Lesotho was intricately interwoven in the money economy and regional markets, not as a subsistence society but a producer of cash crops, nor as a traditional peasant economy but a reservoir of wage laborers exported to South Africa. The intention of this discourse was to point toward specific interventions, whereby the “political and structural causes of poverty in Lesotho are systematically erased and replaced with technical ones.”<sup>23</sup> The problem of underdevelopment was thus located in the lack of roads and markets, for these could be built or conceived into being; the lack of training and education, because these services were provided by technical assistance; the lack of agricultural credit, as this could be resolved by way of loans. Parasitic bureaucracy and structural unemployment were unmentioned as these would have required politically destabilizing interventions. Similarly, Mitchell cites a report by the United States Agency for International Development that portrays the penurious Egyptian population densely-crowded close to the Nile. The visual simplicity of the image powerfully dismisses the complexities of economic development as demographic problems within an inhospitable geography. Depicting poverty as the inevitable outcome of the fixed amount of usable land and an unsustainable population growth thus obscures market reforms, unequal land tenure and development loans as contributors to Egypt’s dependence on imported food and other forms of external economic assistance.<sup>24</sup> With development defined by the simple image of the river, surrounded by the desert, the solutions were the scientific management of natural resources as well as technological means of overcoming these limits, disappearing into the background the nature of political powerlessness that impoverished much of the Egyptian population. As poverty in Egypt is rendered as natural, and Lesotho’s underdevelopment also naturalized, the problems of poverty were in turn depoliticized and underdevelopment was taken to be the natural order of things.

In parallel with the naturalization of *laissez-faire*, and by necessity the enactment of policies propping what is otherwise said to be a self-regulating market, the price of property in Beirut is thought to always increase. The resilience of real estate is persuasively explained with the visual simplicity of an image: the snowcapped mountains around Beirut on one side, the sparkling Mediterranean Sea on the other. Simply, and following the law of scarcity, the

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<sup>20</sup> *Ibid.* 55.

<sup>21</sup> *Ibid.*, 57.

<sup>22</sup> James Ferguson, *The Anti-Politics Machine* (1994), 25-26.

<sup>23</sup> Ferguson 1994, 66.

<sup>24</sup> Mitchell 2002, op. cit., 210.



limited supply of land means that prices will never decline...and when they stumble, they are supported by policies ensuring that never are the profits of property developers, nor the real estate sector's primacy within the broader Lebanese economy, ever called into question. Ask most developers about the resiliency of the real estate market and they will likely respond in a similar manner. The reason why prices rarely fall despite wars and assassinations; political corruption and paralysis; electricity blackouts, water shortages and uncollected garbage is said to be because of scarcity. It is quite simply a question of supply and demand, with the supply of apartments naturally constrained by geography but demand ever-rising due to the growth of the population, the desire of expatriates to retain a *pied-à-terre* in their country of origin and the enduring allure of Lebanon as an investment destination for Gulf Arabs.

The following excerpts from my interviews with real estate developers illustrate the picture well. My first question was almost always, why is real estate an attractive investment in Lebanon?

There are many reasons why real estate is an attractive investment for Lebanese who have a little bit of cash, or a lot of cash. Let me tell you one of the basic grounds for this. Lebanon is 10,452 square kilometers. From this amount, you have some lands that are basically reserved for the priests and for the clergy, and on these lands you cannot build anything on them. You also have a large amount of lands reserved for agricultural purposes. And you have lands that are not fit for building. So you are left with a very small amount of plots, and the majority of these plots are not located in areas where people want to live...They are located in the extreme areas, at the edges. So you are left with this small amount of plots, which will eventually go away, with the population growing and with people buying. Then you have the Lebanese expats; you have around 3.9 million residents and 14.5 million Lebanese expats. Imagine if 1 percent of these 14.5 million would like to a house in Lebanon, then you will be left with nothing, extremely nothing.

– A.P., a representative of a real estate development company interviewed by the author on November 13, 2015.

Why is real estate a good investment in Lebanon? It's only 4,000 square miles...And half of Lebanon is owned by the government or the religious foundations, and most of this is mountains and valleys...Of the rest of Lebanon, which is around 2,000 square miles, almost half is already built. So what is left? What is left is 1,000 square miles that we are all fighting over. We are buying old buildings and demolishing them and making new buildings, but this is the normal cycle of all cities of the world – old buildings go away and new buildings come in their place. But this brings us to land, and land is dear. This is why nobody ever buys a plot of land in Lebanon and loses. This is why when people are sitting on land banks people consider themselves very rich...Because of the scarcity of land, because of the climate, the way of life, the diaspora that is almost like 15 to 20 million people around the world, of which at least 10 million are directly related to Lebanon, they have immediate family here, with such a small country each one of them wants to have a house of their own.

– M.P., a representative of a real estate development company interviewed by the author on July 15, 2015.

It's not by magic that the market is retaining stabilized prices. It's because of one factor, which is the law of scarcity that governs our country. Sometimes we nag that

we have a small country and a small market, but because it's a small market, a small country, it's our blessing. There's no magic. This is why you see the market respond to the increase in demand, but not respond accordingly to the decrease, because of the scarcity of land.

– M.F., a representative of a real estate development company and investment fund interviewed by the author on November 4, 2015.

This certainty in the law of scarcity, this inevitability that the upward sloping supply curve will intersect downward sloping demand inexorably towards the upper – and ever escalating – end of the price range, has taken on the status of a self-evident truth. Anyone with a basic understanding of economics would agree that the limited supply of land combined with the enduring demand means that Lebanese real estate will, so long as these constraints continue to hold, be expensive. These economic laws even prevail over the conventional wisdom of investment. Most investors, it is presumed, would evade investing in fixed assets in times of turbulence. Whereas bank deposits can be converted between currencies and transported across borders in only a keystroke, it can be complicated to cut one's money and run from a real estate market in which no one is buying, unless one sells at a steep discount. But the law of scarcity, “the simple law of scarcity that governs every single country,” in the words of M.F.,<sup>25</sup> determines that discounts are unlikely in Beirut, as they are against the rationales of the real estate market's resilience so-often repeated that they almost make sense. Amid the myriad uncertainties, one certainty is that real estate prices never decrease:

We are better than any surrounding country in terms of real estate. We are a small country, because unfortunately part of the south cannot be developed, and with the war in Syria a big part of the north and the eastern regions of Lebanon as well. So we are stuck within a very limited geographical area, which adds to Lebanon's to small size. In Beirut, we have the sea on one side and crazy mountains on the other, so we are stuck, in the middle, there's no way out. Why is Monaco the most expensive piece of real estate in the world? Definitely because in addition to scarcity they have security. Lebanon is far from being the most expensive, but I'm certain that if we had security we would be the Monaco of the Middle East. So we are living with what we have and we are doing quite well.

– M.F., a representative of a real estate development company and investment fund interviewed by the author on November 4, 2015.

It is not uncommon for simplifications such as these to take hold. There is of course some truth to the geographical facts that Lebanon is a small country, that Beirut's expansion is obstructed and that expatriates and foreign investors appreciate the mountain and seaside views. Such discursive truths seem almost too sensible to question, except when a square meter of housing is priced around 10 times the minimum wage, compared to Paris, where the ratio is 6 times the minimum wage.<sup>26</sup> The fact unrealistically high property prices make no social sense is irrelevant when the law of scarcity is repeated so often that its reality partly comes into being by the very discourse describing it. This discourse is complemented by the visual simplicity of another image – an ascending staircase – in a metaphor made popular by Bank Audi, Lebanon's largest:

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<sup>25</sup> Interview conducted by the author on November 4, 2016.

<sup>26</sup> Nahas 2014, *op. cit.*

The evolution of property prices in Lebanon has long been known to embrace the form of a staircase: prices go up after a period of stability in an upward adjustment period, and then stabilize again until the market digests new price dynamics, before going up again. The reasons behind this comparatively atypical evolution are the end-user non-speculative demand type, the quasi-absence of leverage and the relative scarcity of land plots.<sup>27</sup>

M.A., the research economist well known for this metaphor, described to me why even with the economic slowdown since the Syrian conflict, property prices have stayed stable:

As a matter of fact, in the past 20 years in Lebanon real estate prices have followed a staircase scenario, they go up in a period of a boom, and then they stabilize, to go up again in a boom and to stabilize again in a slowdown period, but they don't decrease. It goes up and stabilizes, it goes up and stabilizes, it doesn't decrease. We don't have a real estate bubble in Lebanon; there is no real estate bubble in Lebanon, and this is one of the reasons why prices don't decrease. We have strong fundamentals for the real estate market, and these are due to three major factors...<sup>28</sup>

The reasons he recounted were the same as those mentioned in the report: non-speculative demand, lack of leverage by both buyers and developers and the scarcity of land. Firstly, real estate demand is said to be “real” because it based on the need of those purchasing property to actually live in it. This is usually measured by the percentage of Lebanese demand relative to that of foreigners. Whereas their 2009 report estimated Lebanese residents to account for only half of the demand (with expatriates accounting for most of the other half and Gulf Arabs the remaining 5 to 10 percent); by 2015, according to Bank Audi's annual real estate report, the property market was “mostly operating on the flat side of the price staircase” as demand was driven almost entirely by local residents.<sup>29</sup> In recent years, the reports estimated that speculation comprises no more than 20 percent of the market. In an interview at Bank Audi, the economist M.A. underlined the importance of real demand to avoid a speculative bubble in property prices:

When we say a real demand, I will give you an example about resident demand. The Lebanese population is today around 1 million households, growing at an annual rate of 1.5 percent. So we have 15,000 households created every year, which means we have real needs for 15,000 households that are created in the country; notwithstanding external demand on behalf of the diaspora or Gulf investors – when we had Gulf investors in the country. The three components are real components; they are non-speculative components; they are real investment components. You have a minimum demand on behalf of the residents alone, so even if there's no demand on behalf of non-residents – the diaspora and the Gulf investors – if this

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<sup>27</sup> Bank Audi, “Lebanon Real Estate Sector: A Protracted Era of Market Consolidation and Flattening Conditions” (2012), 1.

<sup>28</sup> Interview conducted by the author on July 9, 2015.

<sup>29</sup> Bank Audi, “Lebanon Real Estate Sector: A Weakening Demand in a Buyer's Market” (2015), 11.

goes to nil, we still have a demand of 15,000 units on behalf of the Lebanese residents. They need apartments to live in...it's an organic growth we have.<sup>30</sup>

Secondly, the supply side is not significantly leveraged because most developers rely on self-financing or on pre-sales, rather than bank debt, to purchase the land and construct new real estate projects. This means that during slow periods they are not obligated to close a sales deal in order to repay the bank. Quite the contrary, because they believe that the property market is a staircase leading inevitably upwards, it is better to wait than to offer discounts. It is not difficult for developers to be patient, according to the Bank Audi economist M.A.:

Developers building properties in Lebanon are counting on their financial means much more than borrowing, whether it be borrowing from banks or the markets, so their leverage is limited. What does this mean? This means that they are not under pressure to decrease their prices in order to settle back their loans. They can wait; they are patient. This is what we are seeing nowadays, patience among developers. They wait for the transaction to take place, and the new buildings that are being built are less, so the supply is adjusting.<sup>31</sup>

The third part of the metaphor is the oft-cited scarcity of lands. It is the expensive price of ever-shrinking parcels of land that was most behind the rising prices during the boom years and is the main reason why the staircase stays flat, and does not lead downstairs during the more difficult years. A property's price is said to reflect the cost of the land purchased, the cost of construction and the developer's margin. According to Bank Audi, while the latter two have not exerted significant pressure on the end buyer, the scarcity of land in Beirut and its environs have made "land price movements...somehow disconnected from the evolution of residential prices."<sup>32</sup> Thus, the real estate market does not mirror the rest of the economy, which has been stagnating since 2011, since the law of scarcity keeps land prices specifically high. In the words of the economist M.A.:

In a small country like Lebanon the supply of land is limited, which is providing a support to apartment prices in general. Beirut does not have indefinite potential, as in it cannot keep expanding. The whole country is small in size, only 10,000 square kilometers, a small country where the supply of land is limited, providing support to apartment prices. For those reasons we don't have a real estate bubble in Lebanon, and prices are resilient in the real estate market. They are not collapsing or decreasing over the past few years, although the economy has slowed down to 2 percent growth today when it used to be 8 to 9 percent between 2007 and 2010...But this economic slowdown is not leading to a real estate crisis. This is the resilience I have been talking about, which is resting on sound fundamentals. It is not resting on fictitious factors; it is not a temporary resilience.<sup>33</sup>

The staircase is thus a spiral one, as it returns to the law of scarcity that is said to determine why the Lebanese real estate market seems to defy other economic laws, such as the risks of

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<sup>30</sup> Interview conducted by the author on July 9, 2015.

<sup>31</sup> *Ibid.*

<sup>32</sup> Bank Audi 2012, op. cit., 7.

<sup>33</sup> Interview conducted by the author on July 9, 2015.

investment in an economically insecure city where a majority of the population is priced out of the property market.

Yet when it comes to expensive apartments, the law of scarcity contradicts another axiom of economics, namely supply and demand. Although the law of scarcity restricts the supply, there is by all measures – but there are no official ones! – an abundance of empty apartments in Beirut. When there is an oversupply, necessarily the price of property should decrease until the number of units meets parsimonious demand. Only when their prices are reduced and these vacant apartments are purchased, will the law of supply and demand be fulfilled. The law of scarcity should not hold when there are so many unsold, uninhabited but constructed apartments across Beirut.

The exact number of empty apartments in Beirut is a mystery. The last survey of buildings, dwellings and establishments by the Central Administration of Statistics in 2004 found that more than 8 percent of units in Beirut were empty or unused.<sup>34</sup> Yet this was completed before the construction boom that took place between 2004 and 2010. Ten years later, the real estate advisory firm RAMCO surveyed 56 newly constructed buildings and found that 71 apartments valued at \$480 million remained unsold.<sup>35</sup> However, this only counted the buildings built that year. According to Massaad Fares, behind the tallest tower under construction in Beirut, there are around 1,000 unsold apartments valued at more than \$2 million each, totaling a cumulative value of over \$3 billion.<sup>36</sup> With the overall value of the sector between \$6 to \$7 billion, these unsold apartments are about half the market. Walking Beirut's dim streets in the evening is another indication of the extent of empty apartments. Whether the avant-garde towers along the seaside Corniche, the elegant apartments in Solidere, or the soaring, luxurious SkyGate building that I saw everyday from my veranda, there are darkened windows everywhere. The 40-storey SkyGate's apartments start selling above \$2 million. Momentarily the highest building in Beirut, until it will soon be overtaken by the 50-storey Sama Beirut (whose least expensive apartments start selling at \$1.5 million), the SkyGate appeared almost empty when I look up it from my veranda while writing my dissertation. Over the course of over one year of observation, there were never more than a few apartments with any lights on. While hardly a scientific method, seeing if they are lit in the evening is one way of sensing whether an apartment is occupied. There is no way to count all of the darkened apartments from the outside, nor any way to know whether the windows are unlit because their owners were away – possibly Lebanese expatriates who are working abroad or Gulf Arabs heading their country's security warnings to stay away from Lebanon – or whether they are in fact unsold. But everywhere one goes in Beirut and looks up at the apartments, the windows of so many are darkened and seemingly uninhabited.

The law of scarcity supersedes that of supply and demand, despite political paralysis, economic torpor and regional insecurity, not because of the real estate sector's resilience, but because of an apparatus put into place. There is a natural geography limiting Beirut's urban expansion, as well as social factors swaying the laws of supply and demand, but economic laws are brought into being by purposeful public policies. Instead, I argue the persistently high prices and the persistence of empty apartments are both the products of measures taken by the Banque du Liban to prevent a collapse of the real estate sector, which would signal something disastrous given property investment's longstanding and symbolic centrality to the Lebanese economy. Specifically, more than half of the multi-billion economic stimulus

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<sup>34</sup> Central Administration of Statistics, "Census of Buildings, Dwellings and Establishments" (2004).

<sup>35</sup> *Daily Star*, "\$480 million of new Beirut flats languish on market in 2014" (May 27, 2015).

<sup>36</sup> *The Executive* (June 2015).

package enacted by the Banque du Liban since 2013 has been directed towards real estate. In addition, low taxes direct capital investment into land as a store of value and permissive building laws ensure that Beirut is constructed to benefit the needs of capital, and not those who can scarcely afford to live amid an abundance of luxurious, although empty, apartments. The high prices of property and profusion of empty apartments are not contradictions, nor are they natural outcomes of immutable economic laws. Instead, they are instead deliberate interventions and comprise crucial components in an apparatus aimed at the attraction of transnational investment.

### **Safe Haven in a Dangerous Region**

Lebanese real estate is often described as a “safe haven” in an otherwise dangerous region, and not only by developers with an interest in such a description. At the peak of the previous property boom in 2010, Lebanon’s second largest bank wrote that despite domestic political uncertainty, “real estate investments in Lebanon have proven to be a safe haven for nationals and foreigners in the last decade.”<sup>37</sup> As aforementioned, Bank Audi portrays the property market in “the form of an ascending staircase...making it a sought-after safe haven for investors in Lebanon.”<sup>38</sup> The World Bank echoes such descriptions in a report recognizing real estate’s role as a “safe haven in a volatile environment.”<sup>39</sup> Regionally, the price of oil correlates with capital inflows, which are invested in Lebanon’s “real estate assets and banking sectors considered as safe heavens (sic) in times of crisis,” and whose strength is tied to support by the Lebanese diaspora.”<sup>40</sup> This is not a positive depiction, as the report also argues that the misallocation of oil and expatriate wealth into real estate assets distorted economic development in the non-tradable, non-productive, non-employment direction, wherein “real estate and construction became directly and indirectly the main determinant of economic activity...”<sup>41</sup>

The national accounts testify to the importance of the real estate and construction in the Lebanese economy. Between 2004 and 2013, agriculture and manufacturing accounted for about 3 percent and 7 percent of the economy, respectively. Financial services averaged 7 percent over the same period. Meanwhile, the contribution of real estate and construction to the economy averaged 15 percent and 5 percent.<sup>42</sup> These statistics underline what was often reiterated in my interviews, which was that unless one decided to deposit their money in the bank, there is little to invest in in Lebanon besides real estate. According to T.I., the highest-ranking representative of an international financial institution in Lebanon:

If you look at the Lebanese economy, it’s banking, tourism and construction primarily. It doesn’t have much of an industrial base; it’s a service based economy, and they aren’t really manufacturing things...So if you have money what do you do with it? There is a perception, and maybe it’s true, that land and real estate is always going to be a good investment.<sup>43</sup>

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<sup>37</sup> Blominvest, “A Decade of Real Estate Demand in Lebanon” (2010), 1.

<sup>38</sup> Bank Audi 2015, op. cit., 8.

<sup>39</sup> World Bank 2012, op. cit., 43.

<sup>40</sup> *Ibid*, 3.

<sup>41</sup> *Ibid*, 15 & 33.

<sup>42</sup> Central Administration of Statistics, “National Accounts 2004-2013 Tables in Excel” (2013).

<sup>43</sup> Interview conducted by the author July 10, 2015.

Similarly, W.W., an economist at another international financial institution, agreed that the Lebanese economy was driven by real estate, banking and tourism, as this was “a direct effect of policies undertaken by the authorities since the beginning of the 1990s, since the end of the civil war. The economy was designed to be primarily driven by these sectors.”<sup>44</sup> By his argument, real estate, beyond being a safe haven in a dangerous region, is also a pillar of the Lebanese economy, as postwar policies constructed it to be so.

There have traditionally been three drivers of growth for the Lebanese economy: real estate, banking and tourism. These pillars preceded the postwar period’s debt-financed reconstruction, designed to attract international, and specifically Gulf Arab, capital and to restore Beirut’s prewar financial prowess. Solidere, the private company responsible for rebuilding downtown Beirut, symbolizes the ways that real estate took precedence in overall economic reconstruction. This snapshot of Solidere is necessarily brief, but it symbolizes the ways in which public policies were devolved to private interests, and thus foreshadowing the importance of the property sector for the postwar economy.<sup>45</sup>

Throughout the conflict, the warring militias barricaded their neighborhoods into segregated sectarian zones, transforming Beirut into “the site of organized aggressions, its center rapidly converted into a battlefield for rival factions.”<sup>46</sup> Yet despite the destruction of civil war, more buildings were destroyed by reconstruction.<sup>47</sup> The billionaire owner of the Oger-Liban construction company, Rafiq Hariri pursued Beirut’s rebuilding several times before the cessation of hostilities. In 1991, upon the appointment of Oger-Liban’s director as the head of the Council for Development and Reconstruction, a \$3 billion master plan was developed that called for the creation of a private company to manage reconstruction. This became Solidere, or the Lebanese Company for the Development and Reconstruction of Beirut, which was mandated to transform all property in the city center into stocks, and convert all property owners into company shareholders, thus turning the government into a shareholder in the main private company in the building industry, which in turn was charged with taking over the official planning advisory body.<sup>48</sup> Fifty percent of Solidere’s \$1.6 billion shares were provided to former property owners downtown, while investors purchased the other 50 percent in a stock offering that was significantly oversubscribed. Hariri purchased around 6.5 percent of the total shares, worth around \$125 million, meaning that the Prime Minister purchased a powerful interest in the private company to which his cabinet awarded the largest and most lucrative reconstruction project.<sup>49</sup> For Solidere’s many critics, this was more than the confusion of public and private interests, but as Saree Makdisi writes, “the colonization of the former by the latter...”<sup>50</sup>

Indeed, if one can speak of a discourse called Harirism, it would center on but not be limited to Lebanon’s multibillionaire prime minister, who in the name of economic stability has brought a previously undreamt-of intensification of profit seeking to the Lebanese economy, in which the apparatuses of the state have not so much been

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<sup>44</sup> Interview conducted by the author June 1, 2015.

<sup>45</sup> Reinoud Leenders, “Nobody Having too Much to Answer For” (2004).

<sup>46</sup> Maha Yahya, “Reconstituting Space” (1993), 132.

<sup>47</sup> Saree Makdisi, “Laying Claim to Beirut” (1993), 662.

<sup>48</sup> Hisham Sarkis, “Territorial Claims” (1993), 114.

<sup>49</sup> Nicholas Blanford, *Killing Mr. Lebanon* (2006), 44.

<sup>50</sup> Makdisi 1993, op. cit., 693.

dismantled or circumvented as they have been put to use for private interests, including those of Hariri himself.<sup>51</sup>

Reconstruction was more than about rebuilding but also inducing investment back to Beirut. This started with Solidere, and consonant with Beirut's prewar position as a regional financial entrepôt, with the infusion of Gulf Arab capital. Of the billions invested during the 1990s, much materialized in real estate. An estimated 80 percent of property investments between 1990 and 1995 came from Lebanese expatriates and investors from Saudi Arabia and the United Arab Emirates.<sup>52</sup> According to a law set out in 1969, foreigners were required to make an application through the Ministry of Finance to purchase property, but exceptions were permitted for Arab nationals to own up to 5,000 square meters of property (only 3,000 square meters in Beirut). Non-Arab nationals required a decree from the Cabinet. In 1997, it was only by creating a company with majority Lebanese shareholders that Saudi investor and Prince Al-Waleed (whose mother was Lebanese, but women are not entitled to pass their nationality to their children) was permitted to purchase \$25 million of land from Solidere to build the Four Seasons Hotel.<sup>53</sup> In order to secure Lebanon's need for foreign investment, Parliament passed legislation easing the tight controls over foreign ownership. Law 296 of 2001 enabled foreigners (or those with identification papers from countries recognized by the Lebanese state, to prevent Palestinian refugees in Lebanon from owning property) to own up to 3,000 square meters of property without the consent of the Ministry of Finance or the Cabinet. Foreigners were also allowed to own up to 10 percent of the area of Beirut, and up to 3 percent of Lebanon overall.<sup>54</sup> The objective of the law was to attract significant investment, especially investment from the petroleum-rich economies of the Gulf Arab, and given that there was little else to invest in in Lebanon at this time, investment primarily went into the property market.

Arab tourists often visited the Lebanese mountains in the prewar years, but their return was imperative for the luxury real estate market, ever more constructed around their affluence. The repercussions of September 11<sup>th</sup> directed more regional investment into Lebanon, not only because of its banking secrecy law, but also because of the allure of its property market. With Gulf Arab ventures seen with suspicion in the United States and Europe, Lebanese bankers and developers welcomed their investment, and Gulf nationals increasingly invested in affluent apartments around Solidere's reconstructed downtown and along the seaside Corniche. From 2001 to 2002, investment from Saudi Arabia, the United Arab Emirates and Kuwait rose by 289 percent, 182 percent and 112 percent, respectively, to \$350 million, \$190.5 million and \$100 million, representing around half of the foreign direct investment in Lebanon that year.<sup>55</sup> Between September 2001 and May 2002, an estimated \$1 billion of seafront apartments were sold in Beirut, with the financing for these developments and their buyers coming from the Gulf.<sup>56</sup> Foreigners purchased 50 percent of the apartments sold in downtown Beirut in 2002. One of the earliest luxury buildings in Solidere, the Park View was almost empty until one year after September 2001 by when the majority was sold to Gulf Arabs.<sup>57</sup> According to Georges Abou Jaoude, general manager of FFA Bank, which

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<sup>51</sup> *Ibid*, 696.

<sup>52</sup> Fawwaz Trabloussi, "Social Classes and Political Power in Lebanon" (2014), 29.

<sup>53</sup> *Lebanon Opportunities* (September 1997).

<sup>54</sup> *Lebanon Opportunities* (June 2001).

<sup>55</sup> *Ibid*.

<sup>56</sup> *Lebanon Opportunities* (May 2002), 76.

<sup>57</sup> *Lebanon Opportunities* (August 2002), 61.



in the early 2000s was in the process of establishing a real estate investment fund to attract interest from overseas, “Following September 11<sup>th</sup> a lot of our clients, mainly Gulf investors, began searching for real assets in the region. We have found a niche – when you buy a plot of land, create a project and deliver, you are able to make a beautiful investment.”<sup>58</sup>

Lebanon was seen as a safe haven for real estate investment despite its being mired in geopolitical turmoil. Concurrent with their nationals’ investment, regional governments were committed to stabilizing the Lebanese economy. In 1997, Saudi Arabia deposited \$600 million and Kuwait \$100 million with the Banque du Liban to prevent a sovereign default.<sup>59</sup> As Lebanon was deeply indebted one decade into reconstruction, a donors conference was held in Paris in 2001 to secure financial support from its most foreign sponsors. As part of the Paris I agreement, Saudi Arabia deposited another \$1 billion to evade a default. Among the reforms the government promised were lowering of land registration fees and raising the ceiling for foreign property ownership, in addition to privatizations and other fiscal measures to reduce the budget deficit. The Paris II meeting the following year secured a further \$4 billion in financial support: \$700 million from Saudi Arabia, \$300 million each from Kuwait, the UAE and Malaysia, \$200 million from Qatar, as well as €500 million from France.<sup>60</sup> The Gulf Arab states were also financially committed to reconstructing southern Lebanon and Beirut’s southern suburbs following the July 2006 war between Hezbollah and Israel. The Paris III conference provided Lebanon with over \$2 billion in assistance, including \$570 million in reconstruction support and \$1 billion deposited into the Banque du Liban’s coffers from Saudi Arabia, as well as \$315 million from Kuwait and \$300 million from Qatar.<sup>61</sup> With the UAE, these four Gulf states “adopted” 136 southern Lebanese villages by rebuilding their housing and infrastructure.<sup>62</sup> Their donations were assumed to counter those of the Iranian government, which was said to have devoted \$1 billion to reconstruction, primarily in Beirut’s southern suburbs.<sup>63</sup> The Lebanese government encouraged the blending of reconstruction needs with investment prospects at their Rebuild Lebanon exhibition, held months after the July war, exhorting investors to “seize top-quality investment opportunities in a fast-paced, exciting new reconstruction market.”<sup>64</sup>

Since the founding of Solidere, successive postwar Lebanese governments prioritized real estate as a pillar of the postwar economic policy. The sector’s most prosperous era was between 2004 and 2010. Despite the assassination of Rafiq Hariri in February 2005; despite the July war in 2006; despite the anti-government protests between December 2006 and May 2008; and despite the armed clashes between Hezbollah and their political opponents in May 2008, property prices continued climbing. The signing of the Doha Accord in late May 2008 brought political stability, in turn bringing property prices to ever higher levels. The average price per square meter in Beirut rose by 300 percent between 2003 and 2010. Year-on-year, prices rose by 21 percent in 2004; 19 percent in 2005; 3 percent in 2006; 22 percent in 2007; 32 percent in 2008; 16 percent in 2009 and 7 percent in 2010.<sup>65</sup> As real estate is a long-term investment, and therefore premised on long-term expectations, the ever-escalating price of property during these years is somewhat puzzling. Part of the explanation is the rising price

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<sup>58</sup> *Lebanon Opportunities* (September 2004), 65.

<sup>59</sup> Ghassan Dibeh, “Foreign Aid and Economic Development in Postwar Lebanon” (2007), 6.

<sup>60</sup> *Ibid.*, 9.

<sup>61</sup> Howayda al-Harithy, “The Politics of Post-War Reconstruction in Lebanon: An Introduction” (2010), 4.

<sup>62</sup> Christine Hamieh and Roger MacGinty, “Lebanon Case Study” (2010a), 43.

<sup>63</sup> Christine Hamieh and Roger MacGinty, “A very political reconstruction” (2010b), 108.

<sup>64</sup> Roger MacGinty, “Reconstructing post-war Lebanon” (2007), 475.

<sup>65</sup> Author’s calculations based on InfoPro data, op. cit.

of oil. According to data from the Organization of Petroleum Exporting States, the average price for the barrel rose from \$28 in 2003 to \$94 in 2008, then declining to \$61 in 2009 and \$77 in 2010, but rising again to over \$100 from 2011 to 2013.<sup>66</sup> The World Bank found that foreign financial flows into Lebanon have been strongly and positively correlated with the price of oil. Between 1974 and 2010, a 1 percent increase in oil prices led to a 0.32 increase in bank deposits in Lebanon, and between 2002 and 2010 the correlation between oil prices and foreign financial inflows rose to 0.67.<sup>67</sup>

Gulf Arab investors and developers were behind many of the most expensive real estate projects during this period. They invested in 500,000 square meters of land in 2002, rising to 700,000 square meters in 2003, 1.7 million square meters in 2004 and 2 million square meters in 2005.<sup>68</sup> In 2005, Solidere sold \$1 billion of land in downtown Beirut to Gulf Arab investors, and another \$500 million in the first quarter of 2006, leading their chairman to argue, “the economic boom taking place in the Arab world is of far greater importance than of that which took place in the 1970s. If the situation in Lebanon were more stable, we would stand to gain much more than what we are gaining today.”<sup>69</sup> The July 2006 war was seen as a temporary setback to otherwise uninterrupted growth, for although the number of property transactions slowed, their selling prices did not decline. Before the hostilities, the Chief Executive Officer of Damac Properties, the United Arab Emirates’ largest private real estate development company, announced Beirut would be their first overseas venture with a \$190 million investment, “our motivation to invest in Lebanon stems from the fact that real estate has been the most profitable investment in Lebanon for a substantial number of years.”<sup>70</sup> Levant Holding, an investment group of Kuwaiti investors, was set to launch the \$2 billion Phoenician Village mixed use development in downtown Beirut,<sup>71</sup> alongside the Abu Dhabi Investment House, which announced their \$600 million Beirut Gate project before the hostilities.<sup>72</sup> When construction on these projects resumed several months after the July war, Solidere’s Chairman praised their decision as “major display of confidence in Beirut and a huge boost for the economy of Lebanon and the Beirut city center.”<sup>73</sup>

Another significant source of “foreign” investment in was the diaspora. In 2009, although he had no firm data, the General Director of Emigrants at the Ministry of Foreign Affairs estimated there were 500,000 Lebanese living in the Gulf.<sup>74</sup> As Saudi Arabia and the United Arab Emirates were close enough for weekend holidays, many expatriates purchased second homes or smaller apartments back in Beirut. Moreover, because as foreigners they were not entitled to citizenship in the Gulf, many expatriates planned to return to Lebanon upon retirement. After the July war, when interest among Gulf Arab investors was more elusive, the importance of the expatriates intensified. Between late 2006 and early 2008, there was a prolonged anti-government protest involving sit-ins and tents in downtown Beirut. As construction was postponed, foreigners were said to be pulling out, waiting to see about the unfolding of political developments; however, Lebanese expatriates kept investing, as they better understood the subtleties of the political situation. In the words of one developer,

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<sup>66</sup> [http://www.opec.org/opec\\_web/en/data\\_graphs/40.htm](http://www.opec.org/opec_web/en/data_graphs/40.htm) and

<sup>67</sup> World Bank 2012, op. cit., vii and 6.

<sup>68</sup> *Lebanon Opportunities* (April 2006), 6.

<sup>69</sup> *Lebanon Opportunities* (May 2006), 63.

<sup>70</sup> *Ibid*, 57.

<sup>71</sup> *Ibid*, 57 and *Lebanon Opportunities* (August 2008), 8.

<sup>72</sup> *Ibid*, 57 and *Lebanon Opportunities* (April 2006), 90.

<sup>73</sup> *Lebanon Opportunities* (November 2006), 86.

<sup>74</sup> *Lebanon Opportunities* (April 2009), 40.

“Lebanese nationals are a more stable clientele than volatile, capricious Arab capital.”<sup>75</sup> As another argued, “returnees from the diaspora, tend to be more tolerant of local conditions than foreigners.”<sup>76</sup> It was around May 2008, after armed clashes in Beirut between Hezbollah and their political adversaries, that expatriate investors became the center of the real estate narrative. That summer, the director of Ramco real estate advisers argued, “the continuous flow of a steady affluent demand from Lebanese expatriates...is the main driver behind real estate prices.” In fact, 85 percent of real estate demand was thought to come from expatriates.<sup>77</sup>

As the expatriate investor/purchaser came to prominence, so too did investment facilities focused on real estate. The traditional Lebanese developer was known for bringing his (or his friends and family’s) money to the project, not relying on bank loans and often pre-selling the majority of the project, sometimes even before buying the land. As they were usually unleveraged, they could go about construction without the pressure of having to pay back the bank. However, with property prices and profits rising, and many expatriates returning to Lebanon after working in investment banking in the United States and Europe, there arose a different type of developer, driven by the financials of property development, primarily the internal rate of return (IRR). The IRR is a tool to measure the profit potential of an investment. Because it is measured over a fixed time, the faster the money is returned (the more quickly apartments sell), the higher the IRR (the more profitable the project is). While some financially-focused developers were attached to banks, others were based on the private equity model, but both acted as investors: raising the funds for their projects among equity investors and focusing on the maximizing their IRR. MENA Capital was the first of these property-investment firms. Founded by Nabil Sawabini, once an investment banker with JP Morgan in New York City, he returned to Lebanon in 1994 to form a regional investment bank, but as there was little to invest in besides property, he founded MENA Capital in 2004 to focus on property development.<sup>78</sup> Another example is the co-founder of MENA Capital, Ziad Maalouf, who was once an expatriate with the International Finance Corporation, until he returned to Lebanon and opened Capstone Investment Group in 2010. Similar to MENA Capital, Capstone also invests in the Lebanese real estate. This exclusive focus was because, in the words of Z.C., a representative of one of Lebanon’s real estate investment fund:

We have tried all sorts of investments in Lebanon since 1998, and in the last 10 years or so we found there’s appetite from investors to invest in something real, in something that conserves value, in something that is perceived to be safe, a safe haven, as opposed to other investments, like stocks and bonds, which may lose value overnight, as happened in 2008 during the financial crisis, when banks hundreds of years old disappeared. We felt there was a need for that, and we were proven right by the fact that we were able to attract a lot of capital into our projects.<sup>79</sup>

Amid this prosperous property market, when prices were increasing on average 20 percent annually, several Lebanese banks also founded their own real estate companies. The first was CGI Saradar, which was founded in the late 1990s by the Saradar Group, which was

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<sup>75</sup> *Lebanon Opportunities* (December 2007), 88.

<sup>76</sup> *Lebanon Opportunities* (August 2011), 60.

<sup>77</sup> *Lebanon Opportunities* (August 2008), 55.

<sup>78</sup> *The Executive*, “Invested development: Banks bend BDL regulations to cash in on real estate” (June 2013).

<sup>79</sup> Interview conducted by the author on November 17, 2015.

purchased by Bank Audi (Lebanon's largest bank in terms of assets) in 2004. CGI was first a fully owned subsidiary of Bank Audi, but after CGI re-purchased 81 percent of their shares, Bank Audi only owned 19 percent of the property development company. The synergies of this connection, according to a company representative with whom I spoke, were that CGI could structure opportunities and attract capital from the clients of Bank Audi. These clients were primarily Lebanese expatriates, who purchased shares between \$500,000 and \$5 million in a project, which was managed like a fund on a discretionary fiduciary basis, meaning that CGI made the decisions and would return their investment upon exiting from the project:

They (the Lebanese expatriates) used to buy the apartments, but now they are investing in the deals, looking for the IRR and looking for the Lebanese market to absorb them... We are in the business of making the IRR to the investors, the internal rate of return. This is how our performance and their money's performance is calculated. The IRR is subject to making profits quickly, so the clock starts ticking when we call the money, whenever we have the money. Whether we invested it into purchasing the land or building the building, from the investors' perspective the money is with you so the clock starts ticking. And it stops ticking when you give them back the money. To give them back the money they have to exit, which means the building is built, the apartments are delivered, and the money is back to the company and the company can distribute it back to the investors. And to totally exit a residential project you have to sell the very last apartment of the project, and we have projects launched 20 years ago where we still have an apartment that has not sold. So we gave back the money, but the IRR clock is still ticking and time causes IRR erosion. So this is our main performance indicator, IRR. So then you have to be very creative in the way you announce it or package it to investors, whether you give them back apartments, or you sell the company to another investor who wants to hold the apartments or another agenda. So you don't have the pressure from the bank who gave you the money but you have the pressure from the investors who also are like the bank...he gave you money and he wants it back, with a profit.<sup>80</sup>

In this description, the lines between property development and financial profit are not only blurred but indistinguishable. Property development was simply about profit, based solely on the internal rate of return. As banks were saturated with deposits, especially during the global financial crisis when expatriates returned their savings to Lebanese banks, there was an incentive for banks to invest them, with real estate one of the more attractive options as prices were surging year after year. According to M.F. of FFA Real Estate, the property development company wholly owned by the FFA Private Bank, the demand to create a real estate entity came from the bank's clients in the mid-2000s. This was when the Lebanese expatriates were repatriating their money, and banks were looking to invest the deposits saturating their coffers. They created FFA Real Estate in 2008 with the objective of finding high returns for their investors. Moreover, the affiliation between banking and property investment was mutually beneficial. In her words, "real estate comes with high exposure, so definitely we give the bank bigger exposure... And how do we benefit? Definitely being part of a bank helps with the trust factor and with transparency. Trust and the transparency are relieving attributes that are getting more people to trust us than anyone else."<sup>81</sup>

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<sup>80</sup> Interview conducted by the author on November 9, 2015.

<sup>81</sup> Interview conducted by the author on November 4, 2015.

Between 2004 and 2010, real estate was seemingly a safe haven during a politically precarious period. Prices rose as transnational capital flowed into Lebanon from Gulf Arab countries and Lebanese expatriates. Yet Lebanon's allure and affluence was not the natural outcome of the law of scarcity. Instead, an apparatus was constructed to attract investment. Reconstruction was based around real estate, centered especially on the importance of Gulf Arab and expatriate investment into luxury developments. The profits in turn financialized the sector, such that the construction of homes was not the priority, much less equitable urban planning and affordable housing, rather the internal rate of return took precedence.

### **Flat Part of the Staircase**

The metaphor of the ascending staircase is supposed to explain why property prices never fall, at least not perceptively. Prices rise, as they did from about 2004 to 2010, and they stabilize, as they have afterwards. The flat part of the staircase coincides with the start of the Syrian conflict in 2011 and Lebanon's prolonged period of political paralysis. As narrated by the press and in interviews with developers, politics accounts for the current stagnation. While prices rose annually around 17 percent between 2004 and 2010, they have since been essentially flat, declining slightly by about 2 percent from 2011 to 2014.<sup>82</sup> Meanwhile, the value of sales transactions, which annually rose by almost 25 percent from 2004 to 2010, decreased by 1.5 percent after 2011, although initial data for 2015 indicate that the decline in sales is accelerating by more than 13 percent.<sup>83</sup> Bank Audi first introduced their metaphor of the ascending staircase in their 2012 real estate report, wherein prices remained stable despite adverse investment conditions because, in their words, "the evolution of property prices in Lebanon has been known to embrace the form of a staircase."<sup>84</sup> Their explanation for the current crisis is that "domestic realty has been caught in the midst of the regional turmoil,"<sup>85</sup> starting with the Arab revolutions and escalating with the Syrian conflict. This caused Gulf investors to step to the sidelines and Lebanese expatriates to withhold investment while they waited to see to what extent the regional turmoil would destabilize Lebanon. When once the real estate was portrayed as a safe haven in a dangerous region, it is now prey to contentious politics. As illustration, Bank Audi in 2009 argued that "the real estate sector in Lebanon has persistently shown resilience to adverse political and security conditions on the local scene as well as adverse external factors at the regional and global levels."<sup>86</sup> Yet their argument has since been quite the opposite, as illustrated in their 2014 report, "the outlook for property market activity and prices remains now more than ever tied to the evolution of the security and investment climate in the country, and there are quite a few uncertainties in this respect."<sup>87</sup>

Yet research reveals that the real estate sector started slowing before the Syrian conflict, before the strains on Lebanon's already dilapidated infrastructure by more than 1.5 million refugees, before the sectarian bombings targeting Beirut and the skirmishes between the Lebanese military fighting alongside Hezbollah against militants on the Syrian border, before even the presidential absence and the parliamentary impasse of recent years. In fact,

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<sup>82</sup> Authors calculations based on InfoPro data, op. cit.

<sup>83</sup> Bank Audi 2015, op. cit., 1.

<sup>84</sup> Bank Audi 2012, op. cit., 1.

<sup>85</sup> *Ibid*, 2.

<sup>86</sup> Bank Audi 2009, op. cit., 1.

<sup>87</sup> Bank Audi, "Lingering Slow Demand in a Market Searching for Tangible Confidence (2014), 15.

there was discussion of a necessary market correction after the excessive exuberance of the boom years between 2004 and 2010, especially as too many large, luxurious apartments were built beyond the means of local demand. In their first real estate quarterly from early 2011, Ramco real estate advisers denied the market was experiencing a crisis. After almost a decade, by their description, of “unflinching growth, of double digit increase in prices and of hyper-activity,” the market was moving towards “a phase of more reasonable growth that is both healthy and sustainable, as contrasted with the sometimes unjustifiably rapid growth of the past few years.”<sup>88</sup> Although later in the year they acknowledged it had “ended on a note of uncertainty, not helped by the regional situation,” they still argued “the current situation ... is not unhealthy. On the contrary, this stagnation is actually good for the market, as the sector needed a respite from the extreme price hikes of the past six years.”<sup>89</sup> It was not that the political and security situation were divorced from the market’s stagnation, but what was needed, according to their argument, was that the market “slow down in order to absorb the price hikes of the previous years.”<sup>90</sup> In other words, the inertia was as much of a correction as an adverse reaction to political and regional uncertainty. Yet as the Syrian war intensified and as Lebanese politics were more paralyzed, and meanwhile the real estate sector showed few signs of a revival, their analysis took a more critical stance, “It is no surprise that the very poor local security and political situation and the quagmire of the Syrian conflict affect demand across all real estate segments. A healthy stable market requires confidence in the economy, which for the moment is lacking.”<sup>91</sup> Prices were too expensive for most locals, at the same time as the dire geopolitical circumstances made an apartment in Beirut no longer an attractive investment for foreigners. The luxury real estate market was saturated, but as whole buildings of large, luxurious apartments stood empty, their prices did not decline.

Portrayed as protected from the political turmoil of Lebanon and the region, thought to thrive despite local assassinations, regional wars and global financial crises, once the real estate market started slowing in 2011, politics were suddenly at the forefront of everything. According to M.S., of Majid al Futtaim, the largest foreign investor in Lebanon, the politics of the Syrian conflict cannot be disentangled from Lebanon’s political impasse:

The crisis in Syria is connected to the politics of Lebanon and you cannot separate one from another... The problems in Lebanon are stemming from the insecurity in Syria and are political to the point where they are deadlocking the institutions. When you deadlock the institutions, developers are not working in a vacuum, we are getting permits, so we are connected at the limbs with all the state institutions. By osmosis if they are rotting away we are affected directly. Therefore, you cannot separate what’s happening in Syria from what’s happening in Lebanon.

Nevertheless, Majid al Futtaim are investing more than \$2 billion in Lebanon, notably in the massive Waterfront City gated community in the northern suburbs of Beirut.<sup>92</sup> The Syrian war was what most preoccupied the developers whom I interviewed. According to N.E., the president of an association of real estate developments, “the market is mostly affected by

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<sup>88</sup> Ramco, “The Quarterly: Information & Insights into the Lebanese Real Estate Market” (2011, 1<sup>st</sup> quarter).

<sup>89</sup> Ramco, “The Quarterly: Information & Insights into the Lebanese Real Estate Market” (2011, 4<sup>th</sup> quarter).

<sup>90</sup> Ramco, “The Quarterly: Information & Insights into the Lebanese Real Estate Market” (2012, 4<sup>th</sup> quarter).

<sup>91</sup> Ramco, “The Quarterly: Information & Insights into the Lebanese Real Estate Market” (2013, 3<sup>rd</sup> & 4<sup>th</sup> quarters).

<sup>92</sup> *Lebanon Opportunities* (March 2012), 44.

insecurity, not that there are not cyclical aspects, because property development takes time, but the big problem remains Syria...The problem for Lebanon is Syria.”<sup>93</sup> Starting in 2012, several Gulf countries enacted travel warnings against their citizens traveling to Lebanon, in turn reducing demand for large, luxurious apartments. Moreover, Syria’s war was mapping Lebanon’s internal political divisions onto the regional crisis. The hope, in the words of N.M., the chief executive officer of a real estate investment fund, was, “once a solution for Syria is found, Lebanon will be the first beneficiary...If there is a positive outcome of the peace agreement then we will see a more positive reaction on the ground, in Lebanon. We have already detected more interest, not only inquiries, as the parties move closer toward negotiations.”<sup>94</sup> Z.C., another investment fund manager, was once as sanguine, arguing that the most important factor influencing the sector was the Syrian conflict, “If there is regime change in Syria tomorrow, I think this will have very positive spillovers on the market here. I foresee a boom simply because the confidence in the Lebanese real estate sector is going to be regained.”<sup>95</sup> Yet in an interview three years later his outlook was more uncertain about a resolution and if this would be sufficient to revive the sector, “I don’t like to call it a crash, but I don’t see the end of it. I don’t see the light at the end of the tunnel.”<sup>96</sup> The hope he foresaw was in the reconstruction of Syria and the immense amount of money to be made:

If there is a political settlement in Syria, Syria is going to be rebuilt out of Lebanon and out of Lebanese banks, so naturally we are going to benefit a lot from that. We need to be prepared for that, for if and when it happens it’s going to bring a lot of prosperity to Lebanon...reconstruction, banking, technology, everything is going to go from Lebanon to Syria.<sup>97</sup>

Similarly, M.S., the representative of Majid al Futtaim, also expected financial windfalls from the reconstruction of Syria:

In terms of investment in Syria coming back there is definitely lots of opportunity that will have direct repercussions on Lebanon, whether it’s the import of materials transiting through Lebanon or the Lebanese having the added value and know-how for Syria. On the other angle, if multinationals are involved it only makes sense for them to be positioned here in Lebanon, given everything that Lebanon has to offer. Now when the Syria problem subsides, definitely the political problems in Lebanon should go away, and when this subsides the repercussions on Lebanon will be major as well.<sup>98</sup>

It is unsurprising that the prolonged conflict in Syria adversely affected the Lebanese economy, particularly the luxury real estate market. As the sector was constructed to be structurally dependent on foreign financial inflows, it suffered when tourists from the Gulf stopped visiting and expatriates wavered in making long-term investments. Yet the past political turmoil had little effect on the prosperity of property investment, thus perhaps it is

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<sup>93</sup> Interview conducted by the author on July 9, 2015.

<sup>94</sup> Interview conducted by the author on November 12, 2015.

<sup>95</sup> *The Executive*, “Building Regardless” (December 2012).

<sup>96</sup> Interview conducted by the author on November 17, 2015.

<sup>97</sup> *Ibid.*

<sup>98</sup> Interview conducted by the author on July 9, 2015.

not only political and security instabilities at the source of the slowdown but also problems internal to the sector. In the words of the World Bank, the economic downturn beginning in 2011 was not simply caused by Syria but also the result of consolidation following years of record growth. This translated to the real estate sector where a period of stabilization was to be expected:

This was particularly the case in the real estate sector where prices had surged to a level that priced out many Lebanese residents. With prices high and construction activity catering to a large extent to foreign demand (e.g., from the Gulf and Lebanese expatriates), the uncertain domestic and regional political climate led buyers to revisit their demand for Lebanese real estate.<sup>99</sup>

The increases of the boom years had pushed prices to levels out of reach of most Lebanese, and as the political and security situation shifted the market more towards internal demand a consolidation or correction was expected. This entailed price pressures in the opposite direction, as well as a movement of the market away from large, luxurious investments aimed primarily at foreigners or expatriates and towards smaller apartments for Lebanese residents. According to N.B., a research economist at one of Lebanon's largest banks, "the people who speak the most on the real estate market have vested interests."<sup>100</sup> He was referring to the bank that propagated the staircase analogy, as they also owned a substantial share in an aforementioned real estate investment fund. By his argument, the sector was "not stable or stagnating, this is marketing;" rather it was suffering from a demand crisis after too many years of favoring the affluent end of the market, "demand has dropped sharply and prices have declined; it's just that we don't yet have indicators to show that... There are entire buildings that have been built and remain empty because there is no demand for luxury apartments in Beirut and its suburbs."<sup>101</sup>

While during the boom years property was seen as a safe investment despite political instability, during the downturn politics is thought prevent its resurgence. In the words of N.E., the president of real estate developers association, "Lebanon has proven to be safe and profitable for investors in property, but the sector is challenged by political and security instability. If left unchecked these challenges will seriously damage the whole national economy."<sup>102</sup> It is by translating the political and security problems onto problems specific to the sector that developers succeed in stressing the importance of the property sector to the broader economy, pointing to the external factors hindering its constant growth, as well as – as will be shown below – exacting further benefits from the state through taxation, building and stimulus policies. The real crisis in the real estate sector is a crisis of its own making, related more to oversupply as negatively affects of the Syrian war. There is nothing natural to the law of scarcity, nor is the situation as simple as the image of the ascending staircase, to support the skyline of darkened windows and empty apartments across Beirut. Rather the apparatus, which has long constructed property as a pillar of the Lebanese economy, was adapted to the post-2011 situation, wherein policies were put into place to prop it up, to ensure that prices did not stumble as they would otherwise have been expected to given the over-construction of luxury apartments as well as the effects of the Syrian conflict.

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<sup>99</sup> World Bank 2013b, op. cit., 37.

<sup>100</sup> Interview conducted by the author on July 14, 2015.

<sup>101</sup> *Ibid.*

<sup>102</sup> Interview conducted by the author on July 9, 2015.



## Support of the Stimulus

The political economy of Beirut's built environment could be narrated through two lenses of *laissez-faire*, one testifying to its allure for transnational financial inflows, the other lamenting the destruction of urban heritage in the name of profit-making investment. Yet research reveals that rather than the weakness or absence of the state, the building boom has benefited from public interventions to serve private development interests, permitting more intensive uses of land and an intensification of the circuits of capital within which Beirut is inscribed.<sup>103</sup> The Lebanese state has intervened intensively to facilitate the development of luxury real estate, supporting the always ascending staircase of property prices with taxation and building laws that construct its supposed resiliency.

A law proposing to raise taxes on property transactions has been under government discussion since 2012. There is currently a 5 percent registration tax on newly purchased real estate, paid by buyers, but no capital gains on property transactions, meaning that when a property is sold for a profit there is no tax on that amount.<sup>104</sup> The unimplemented law would add a 4 percent charge to the sale of properties purchased before 2009 and a 15 percent one on sales of all property held since then, with exceptions for primary residences and inherited property, as well as a reduction in the tax by 8 percent every year until a full exemption for a holding period above 12 years.<sup>105</sup> The law is targeting speculators for taxation, and although developers argue that there is very little speculation (it is said to account for no more than 20 percent of the market) they also maintain that the law's enactment will undermine the entire economy in this difficult time. According to Namir Cortas of the Real Estate Developers Association of Lebanon:

Property development is central to the Lebanese ecosystem, we contributes heavily to the Treasury. Property developers are like orchestra conductors, coordinating players in different sectors, creating employment, economic activity, encouraging and supporting talent and know-how, and improving lives and social security.<sup>106</sup>

Yet unfortunately the real estate sector, by his estimation, “has been and continues to be an easy target for taxation.”<sup>107</sup> His argument is that punishing taxes inevitably reduce real estate activity, and ultimately the sector's contributions to the Treasury, with short-term gains to the state's coffers but at the greater cost of one of the pillars of the economy. Similarly, P.H., another developer, argued that raising taxes on property transactions would only slow sales, and given the slowdown, “it is better to have 10 percent of something than 30 percent of nothing.”<sup>108</sup> All the developers with whom I spoke emphasized the burden of administrative procedures, such as securing permits, amounting to “a frightening 25 to 33 percent of total

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<sup>103</sup> Marieke Krijnen and Mona Fawaz, “Exception as the Rule” (2010).

<sup>104</sup> Interviews with developers conducted by the author on July 9 and 14, 2015.

<sup>105</sup> Bank Audi 2012, op. cit., 11 and Bank Audi, “Between the Slowdown of Activity Gauges and the Relative Resilience of Prices” (2013), 8.

<sup>106</sup> Namir Cortas presentation at American University of Beirut “Housing Policies, Rent Control and Property Taxation in Lebanon” (November 2014).

<sup>107</sup> *Ibid.*

<sup>108</sup> Interview conducted by the author on September 3, 2015.

project costs,” warned one.<sup>109</sup> Yet according to Jad Chaaban, an economics professor at the American University of Beirut:

Taxes paid by the hugely profitable (but low job creating) real estate sector, for example, constitute just 2 percent of GDP, while real estate transactions constitute 25 percent of GDP. Even a small rebalancing of this would have a major effect on the deficit.<sup>110</sup>

So many transactions go untaxed not only because of the lack of a capital gains levy but also because property-owning individuals can register as a joint stock company (*société anonyme libanaise*, or SAL) and transfer shares from one person to another without paying any taxes. In the words of former Minister of Labor Charbel Nahas, “the clever guys in Lebanon do not sell land or real estate projects, they exchange the shares in companies who own the real estate, and since gains on stocks is exempted, nobody never pays.”<sup>111</sup> In sum, the “resilience” of the real estate sector, which developers so often celebrate, is not sufficiently resilient to withstand taxation.

Another support to the property staircase are the permissive building laws. The 2004 Building Law allowed more intensive land use by increasing allowable built-up areas. The original building law from 1940 restricted building heights in downtown Beirut to below 26 meters, or about eight stories, while the revised 1983 law authorized developers to deduct parts of the building from the total built-up area. The newest law heightened the number of stories to about 15 and increased the deductions in built-up area, by allowing developers to subtract staircases, double walls and the maid’s room from the calculated and taxed built-up area. These deductions allow developers to add an estimated 25 percent of built-up area in defiance of official regulations and in avoidance of appropriate taxes.<sup>112</sup> Research among real estate developers revealed their directing role in drafting the building law, the very law that was intended to regulate their activities.<sup>113</sup> It has been argued that by broadening exceptions to the building law, as well as delegating responsibilities to the private sector, the process of urban planning is being informalized, in the sense that exceptions had become the rule.<sup>114</sup> Thus, any building over 50 meters requires an exemption from the Higher Council on Urban Planning, and this exemption is supposedly possible when the plot size is greater than 4,000 square meters or if the project is said to present special architectural urban characteristics, as vaguely defined by the building law. Yet according to architects at the Nabil Gholam firm, which has designed of many of the luxury towers rewriting Beirut’s skyline, there is never a problem acquiring approval for their designs. Only when working with Solidere are they given very detailed instructions about what is permissible and what is not, but otherwise:

The urban design is a big mess because it’s driven strongly by money, and already existing laws are ignored. Whether formally or informally, the real estate sector – through policy – is very much encouraged without regard to any overview. Lebanon

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<sup>109</sup> Interview conducted by the author on July 9, 2015.

<sup>110</sup> Jad Chaaban, “Rewrite Lebanon’s Unfair Tax Laws” (2014).

<sup>111</sup> Charbel Nahas 2014, op. cit.

<sup>112</sup> *The Executive*, “Higher Regulation: Real estate law is complicated, but friendly to developers” (July 2014).

<sup>113</sup> Marieke Krijnen, *Facilitating Real Estate Development in Beirut* (2010).

<sup>114</sup> Krijnen and Fawaz 2012, op. cit.

is an experiment of what happens when you have completely unregulated real estate market.<sup>115</sup>

This desire for an urban design not solely based on profit is also disregarded in the ways that older buildings are destroyed in favor of the money-making towers. Originally, in 1996, more than 1,000 buildings were marked for preservation because of their architectural heritage, but one year later this was reduced by half, and another year afterwards only 200 buildings stayed on the list to be conserved.<sup>116</sup> While many of their modern replacements advertise their inter-weaving of contemporary design into Beirut's architectural history, their very construction is tattering the urban fabric. It is often said there is no other option, given that the scarcity of land necessitates more intensified land use. In the words of M.P., the developer behind the soon to be the largest tower in Beirut, land is so expensive that, "it is financially unviable only to build anything but the tallest projects."<sup>117</sup> Yet again this inevitability is constructed by the profit incentives to increase the built-up area, rather than inducements for preservation.

The Banque du Liban has also provided a floor to the stagnating property sector with its annual stimulus packages. Therefore, real estate and construction comprise between 15 to 20 percent of the economy, but account for 56 percent of stimulus resources, totaling \$2.5 billion over four years since the first implementation in 2013.<sup>118</sup> The funds are directed into mortgage subsidies. According to economists and property developers, the stimulus has steered the economy and the real estate market – as they are co-constitutive – away from the crises facing Lebanon. As argued by the World Bank, "these packages have been vital for buttressing the real estate sector by boosting domestic demand after demand from Lebanese expatriates and foreign buyers dropped sharply."<sup>119</sup> Although developers in unison affirmed the importance of the stimulus, M.P. underlined to me in an interview, "if it wasn't for the stimulus our sector would be in deep shit, as simple as that."<sup>120</sup>

By late 2015, there were 30 different commercial banks offering nearly identical housing loans subsidized by the Banque du Liban. The stimulus allows the banks to borrow from the Banque du Liban at 1 percent and on-lend to their borrowers at around 5 percent (several percentage points lower than the average interest rate).<sup>121</sup> The maximum loan amount is 800 million Lebanese pounds, or about \$530,000. Loans are available to both local Lebanese and expatriates, with a minimum down payment of 25 percent (sometimes slightly higher for expatriates), and the loans are payable over 20 to 30 years.<sup>122</sup> As the stimulus is designed to support primary home ownership, and to avoid speculators taking advantage of the subsidized loans, it is prohibited to sell the property for seven years after the issuance of the loan. Otherwise, the borrower has to pay a penalty of 2 percent of the outstanding loan amount.<sup>123</sup> Moreover, by the capping of the loan at \$530,000 directs the stimulus funds into smaller apartments, not the large, luxurious ones that previously drove the real estate sector.

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<sup>115</sup> Interview conducted by the author on July 9, 2015.

<sup>116</sup> *Lebanon Opportunities* (October 2012), 82.

<sup>117</sup> Interview conducted by the author on July 15, 2015.

<sup>118</sup> *The Executive*, "The Dangers of Stimulus" (June 2015).

<sup>119</sup> World Bank, "Lebanon Economic Monitor" (2015b), 19.

<sup>120</sup> Interview conducted by the author on July 15, 2015.

<sup>121</sup> *Lebanon Opportunities* "Property Guide" (Fall/Winter 2015), 41-43.

<sup>122</sup> *Ibid.*

<sup>123</sup> *Ibid.*

While implemented to counteract the economic downturn since 2011, the stimulus is in line with past measures intended to construct a mortgage market in Lebanon. According to M.L., a Lebanese economist, before twenty years ago, the long-term debt market was non-existent. Previously, banks were “obsessed,” in his words, with balancing the short-term liquidity of deposits with what was necessarily the short-term length of loans, “but this restriction has relaxed over the years, and people have become more adapted to carrying debt for many years. We were not used to carrying debt for many years. But they have become used to that, and that actually encouraged them to plunge into the real estate market.”<sup>124</sup> Delving into the archives, the International Finance Corporation (IFC) assisted Lebanese banks in structuring their first mortgage loans in early 1997:

Since the end of the civil war, Lebanon has become one major construction site... Under a long established practice, developers used to finance a major part of their projects with down-payments from buyers who were willing to advance both deposits and installment payments before and during the construction phase. With the slowdown of the real estate market, upfront money dried-up and developers resorted to short- and medium-term bank financing. Real estate projects have been estimated at \$6 billion, representing the largest sector of the economy.<sup>125</sup>

Until the IFC program, the only credit available to home-buyers was from developers. The buyers signed sales contracts for properties still in the works, deposited a sizable payment with developers and promised to pay the balance in timely installments before construction was completed. The process essentially financed the developers’ cost of construction, but it provided purchasers with little to no guarantee in return. The new program, of \$100 million of financing from the IFC, supported six banks in providing loans extending from seven to fifteen years, with interest rates ranging between 10 and 12 percent. The loan ceiling was 80 percent of the property’s value and borrowers had to have earned a stable income more than three times their monthly payment for the past two years.<sup>126</sup> Demand for the mortgages was so great that within several months the IFC had to issue a second tranche of \$100 million to ten Lebanese banks, and other banks also started their own housing loan programs.<sup>127</sup>

It is interesting to note that this first housing loan initiative began during a downturn in the property cycle in the late 1990s, when in echoes of the recessions to come – at least according to the archives – thousands of unsold apartments stood empty in Beirut and real estate developers were thought to be focusing on building smaller, affordable apartments.<sup>128</sup> Thereafter, the Banque du Liban implemented their first subsidized mortgages in late 2009, which coincided with the global financial crisis, amidst fears of negative repercussions on the Lebanese economy (although in fact bank deposits and property prices rose rapidly during this time). They were structured similarly to those financed by the current stimulus program, although there was no maximum ceiling on loan amounts, which has since been changed.<sup>129</sup> Y.B., an economist at the Banque du Liban, acknowledged that there were problems with focusing the stimulus so exclusively on the property sector, as so few Lebanese citizens were

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<sup>124</sup> Interview conducted by the author on September 1, 2015.

<sup>125</sup> *Lebanon Opportunities* (May 1997), 20.

<sup>126</sup> *Lebanon Opportunities* (April 1997), 20-21.

<sup>127</sup> *Lebanon Opportunities* (July 1997), 22-23.

<sup>128</sup> *Lebanon Opportunities* (March 2001), 11.

<sup>129</sup> *Lebanon Opportunities* (November 2009), 42.

actually employed in construction, but he affirmed that the central bank's other intention was to promote long-term lending and subsidized mortgages were the most viable means of doing so. Moreover, in his words construction was "the ultimate indicator" for the economy, especially in Lebanon, since "if you have confidence you have a lot of construction, if less confidence then less investment and construction."<sup>130</sup>

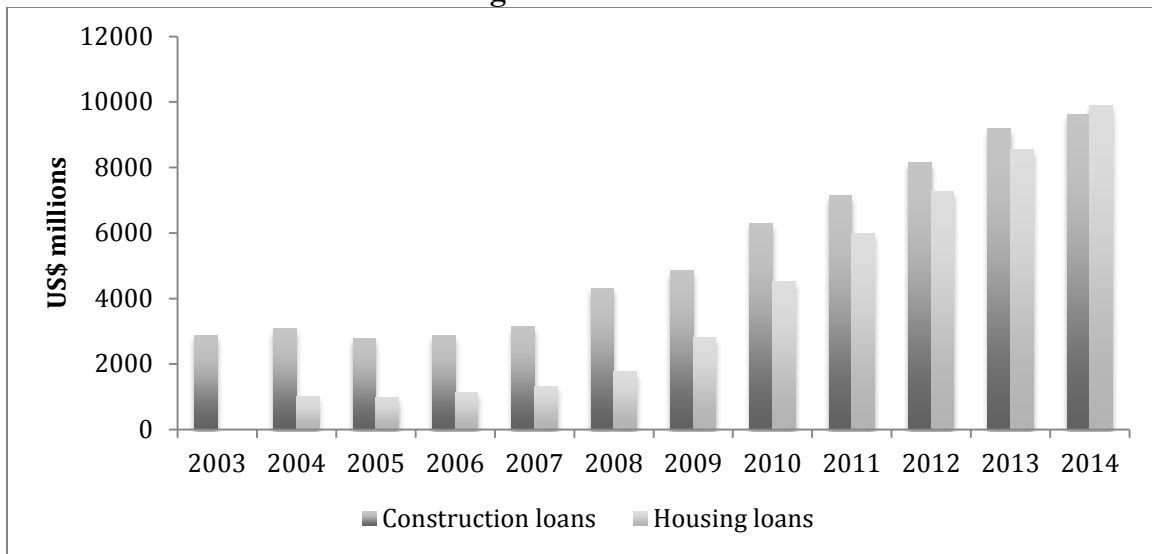
His words point to an uncomfortable position, that given the history by which property development was constructed into a cornerstone of the economy, supporting the sector is crucial to supporting the economy. The stimulus aims to stimulate the economy in general by stimulating property in particular, and thus the question to be asked is whether policymakers at the Banque du Liban – perhaps the only properly-functioning government institution in the minds of most economists that I interviewed – have another choice but to ensure that profits keep flowing into the pockets of property developers in order to sustain the broader economy? W.W., a Lebanese economist working at an international financial institution, affirmed that the stimulus had "provided a floor below which the real estate sector doesn't collapse," but wondered whether developers were becoming dependent on this floor.<sup>131</sup> The indicators point to a slowdown – slower demand, stagnant prices and shrinking profits – but construction cranes are still scattered across the skyline of Beirut in neighborhoods where apartments are priced beyond the means of the majority. It is one of the three pillars of the property staircase, in addition to the scarcity of land and absence of speculation, that real estate developers are thought to be (relatively) unleveraged. Yet all of those with whom I spoke acknowledged to depending increasingly on bank loans. Moreover, personal mortgages, which in recent memory have been non-existent, have been rising over the past decade such that in 2014 their value overtook construction loans. To summarize, as the Banque du Liban attempts to counteract the slowdown by stimulating property sales, they are not only reinforcing the economy's dependence on construction but also drawing an ever-increasing proportion of the population into this dependence through personal housing loans. As a pillar of the Lebanese economy, the property sector comprises an unsurprisingly important component of the stimulus program, but it is by way of policy that the ascending staircase of property prices is supported, not real estate's resiliency, as is the discourse often circulated.

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<sup>130</sup> Interview conducted by the author on September 2, 2015.

<sup>131</sup> Interview conducted by the author on June 1, 2015.

Chart 2.2: Construction and Housing Loans in Lebanon<sup>132</sup>



By pointing to the apparatus constructing the ever-ascending staircase of property prices, and thus sheltering the sector as a safe haven from a politically perilous region, I have traced the resilience of the real estate market back to deliberate policies that maintain prices high and property as a pillar of the Lebanese economy. The scarcity of land cannot explain the abundance of empty apartments across Beirut. And in the present, as property prices maintain their “resilience” in spite of infrastructural collapse, political paralysis and an ongoing war across the border, the question becomes at what cost? This resiliency comes at a price, one covered not only by the cost of a home beyond the reach of all but the most privileged, but also on a city of uninhabited buildings. Beirut is not empty, but fragmented into spaces of affluence and exclusion. As property has become a storage of value, divorced from its use as a space to live, entire swaths of the city are being denied to many in the many buildings upon streets upon neighborhoods of exclusive but uninhabited apartments. With an untold number of apartments unoccupied, construction cranes linger over unfinished building sites, awaiting political stability and more prosperous times. Their boarded walls advertise luxurious accommodations and amenities when water shortages and electricity blackouts for most of Beirut’s residents are often daily occurrences, alongside piles of putrid garbage that the government cannot agree on a proper means of disposal. It is not simply sectarianism or insecurity that is dividing Beirut into separate enclaves but an unaffordability propped up by policies that are keeping so many apartment windows darkened, their buildings uninhabited, creating a rather unnatural emptiness for any resident of Beirut when the property sector is so naturally taken as a pillar of the economy.

<sup>132</sup> Bank Audi annual real estate reports.

## CHAPTER THREE

### Financing Resilience

Resilient is a descriptor oft-applied to Lebanon. This description comes amid reflections on Lebanon's perpetual political and economic turbulence, from the violence of the civil war to the contemporary turmoil of the Syrian conflict. Yet remarkably Lebanon has remained resilient. It rebounded from the assassination of its former Prime Minister and architect of postwar reconstruction, Rafiq Hariri, in 2005 and revived again after the 33-day war with Israel in July 2006. Deposits saturated the Lebanese banks during the worldwide financial crisis, and even amid another non-election of a Lebanese president, the war in Syria and strains on already deteriorated infrastructure from the refugees, deposits flow into banks based in Beirut. The source of Lebanon's resilience is said to be its financial sector. Despite wars and assassinations, in spite of political instability and paralysis, banking deposits never cease to flow into Lebanese banks, which in turn finance the ever-rising Lebanese sovereign debt. Restated in the words of S.A., an economics professor at the American University of Beirut:

Traditionally, there is a reputation, something has been built in, there is a feeling that the system doesn't really break... And the only way that the banking system would break down is if there is massive outflow, which has never been experienced. So we have had this period since 1990, more than 25 years, where we have had wars, disruptions, instability, but nonetheless the rhythm of the outflow has not at any point imposed dangers that the system will break down.<sup>1</sup>

Despite myriad crises, Lebanon has thus far not suffered a financial crisis. It has never defaulted on its sovereign debt, not during the civil war when the state disintegrated into warring, self-governing militias, nor during the debt-financed reconstruction when Lebanon briefly became the world's most indebted economy. Despite all indications of insolvency, the Lebanese pound remains firmly pegged to the United States dollar. The confidence that one dollar can always and everywhere be exchanged for 1507.5 Lebanese pounds, or visa versa, ensures that deposits flow into the banks and onwards into the coffers of the state, and thus making Lebanon – or in the very least its finances – resilient when all else seems to be falling apart.

The reason often cited for Lebanon's resilience is its banks, specifically the sum of the deposits they attract. In the words of Standard & Poor's, "deposit flows into Lebanon's banking system remain resilient and continue to facilitate the government's debt servicing capacity,"<sup>2</sup> and in those of Moody's there is a "proven resilience of domestic banks, which continue to finance the government deficit."<sup>3</sup> Both concur that "deposits that have shown resilience through various crises"<sup>4</sup> and "bank deposits have displayed a notable resilience to political shock throughout the country's turbulent recent history."<sup>5</sup> Similarly, the World Bank writes, "these deposits, which are largely sourced from Lebanese expatriates, are

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<sup>1</sup> Interview conducted by the author on August 31, 2015.

<sup>2</sup> Standard & Poor's, "Rating on the Republic of Lebanon Affirmed at B-/B; Outlook Stable" (2014).

<sup>3</sup> Moody's Investors Service, "Moody's changes outlook on Lebanon's government bond rating to negative from stable" (2013).

<sup>4</sup> Standard & Poor's 2014, *op. cit.*

<sup>5</sup> Moody's Investors Service, "Moody's reports: stable outlook for Lebanese banking system" (2010).

resilient to shocks due to the diaspora’s familiarity with the country’s political and security volatilities.”<sup>6</sup> However, as the International Monetary Fund warns, “Lebanon’s unique macro-financial structure is a source of resilience, but also of key risks.”<sup>7</sup>

This chapter begins by tracing the resilience discourse through the financial system. But rather than question the accuracy of the adjective, I seek to uncover how this apparatus arose during the mandate and post-independence period, endured throughout the civil war and profited from reconstruction and into the present when, in spite of economic stagnation and political paralysis, deposits are amassed and the state sinks deeper into debt. Resilience is repeated as a response to the paradox of how a bankrupt state can continue to accrue unpaid obligations, but I point to the apparatus developed around attracting deposits into the banks, investing them in the sovereign debt and sustaining this circulatory system through ongoing emigration. While the banking system has long been celebrated as the crux of resilience, the sovereign debt that has come to characterize Lebanon’s postwar economy, centered around the commercial banks, who in turn are overseen by the central bank, the Banque du Liban.

The figure below traces the ever-increasing sovereign debt since 1997, when in December of that year the Lebanese pound was officially pegged to the dollar:

**Figure 3.1 Lebanon Sovereign Debt**<sup>8</sup>

Year	Sovereign debt denominated in dollars
1997	\$15.6 billion
1998	\$18.6 billion
1999	\$22.4 billion
2000	\$25.2 billion
2001	\$28.3 billion
2002	\$31.4 billion
2003	\$33.4 billion
2004	\$35.9 billion
2005	\$38.5 billion
2006	\$40.4 billion
2007	\$42.0 billion
2008	\$47.1 billion
2009	\$51.2 billion
2010	\$52.6 billion
2011	\$53.7 billion
2012	\$57.7 billion
2013	\$63.5 billion
2014	\$66.6 billion
2015	\$70.3 billion

Describing Lebanon as resilient recognizes its surprising ability to support what by most indicators is an unsustainable sovereign debt. The source of resiliency is said to be the nexus between the banks and the sovereign, with deposits flowing to the banks and onward into Treasury bills, backed by the Banque du Liban’s commitment to the currency peg. This

<sup>6</sup> World Bank, “Lebanon Economic Monitor” (2015b), 21.

<sup>7</sup> IMF, Staff Report for the Article IV Consultation (2015), 10.

<sup>8</sup> Banque du Liban Statistics & Research: <http://www.bdl.gov.lb/statistics-and-research.html>



chapter traces how this circular financial system was constructed, for really it is not simply that Lebanon has been and is inherently resilient but rather an apparatus has been established to finance the sovereign debt and profit the banks substantially. According to the International Monetary Fund, “Lebanon has defied pessimistic predictions, including those of the Fund, and a debt crisis has been avoided... (because) of a unique symbiosis between the public-sector and the banking-sector balance sheets.”<sup>9</sup> The circular system is centered around the permanent attraction of transnational capital, both from the region’s petroleum economies and from the migration of Lebanese to work there and elsewhere. In the words of the economist and former Labor Minister Charbel Nahas:

Lebanon has a history shaped by an early exposure to international flows, both of migration and financial resources... Large foreign financial inflows have become the main factor behind economic activity but failed to foster long term growth. We are exporting our nationals to bring capital used to import goods for consumption. This is the basic pattern.<sup>10</sup>

Lebanon’s resilience against the backdrop of regional insecurity and its own political turmoil is often portrayed as a paradox, what Nahas presents as a contrast between the attraction of capital and dramatic institutional failure, “Such a strong, widespread and persistent contrast cannot be considered as accidental... It requires a drastic reallocation of factors, energies, and resources towards specific ends. This reallocation is at the core of the economy and in its deeper meaning. It constitutes a system.”<sup>11</sup> The political-economic system he describes is characterized, in his own words, by “an exceptional resilience towards the accumulation of debt,” essentially financed by Lebanese expatriates whose “emigration flows (today) are higher than during the war and inflows of capital are added to banks’ liabilities and used to finance private and public consumption with no economic counterpart.”<sup>12</sup> The resilience of this circular system to finance the sovereign debt thus comes at an exceptionally high price, which is not simply the high interest rates paid to permanently attract capital inflows, but the cost of exporting, year after year, Lebanese emigrants to ensure the system’s functioning.

### **Tracing the Resilience Discourse**

The discourse of resilience pervades almost all economic analysis on Lebanon. The World Bank’s 1994 Country Assistance Strategy (CAS), the first since the civil war, did not discuss resilience but the challenges of postwar economic stabilization. The stated priority was to attract the “large private capital inflows” necessary for reconstruction through fiscal adjustment and financial sector reform, namely by controlling government spending and securing confidence in the currency.<sup>13</sup> Yet the CAS published in 1997 writes, “the relatively rapid recovery that is being made following 15 years of conflict... underlines the resilience of the Lebanese economy and bodes well for longer term prospects.”<sup>14</sup> By the subsequent CAS of 2005, resilience was mentioned in the first paragraph of the executive summary, and more

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<sup>9</sup> IMF, “Debt-Related Vulnerabilities and Financial Crises” (2004), 45.

<sup>10</sup> Charbel Nahas, “Towards Property Taxation Regime in Lebanon” (2014).

<sup>11</sup> Charbel Nahas, “The Lebanese Socio-Economic System: 1985-2005” (2009), 125.

<sup>12</sup> *Ibid*, 125-126.

<sup>13</sup> World Bank Country Assistance Strategy (1994), 3.

<sup>14</sup> World Bank Country Assistance Strategy (1997), 4.

specifically the text writes, “in the face of potentially high vulnerability related to public debt overhang, Lebanon’s financial system seems particularly resilient.”<sup>15</sup> Resilience retained its position in the opening lines of the 2010 CAS, writing “Lebanon’s economy has repeatedly proved its resilience to external shocks and its ability to rebound quickly from crisis if political stability exists.”<sup>16</sup> But by the time the Syrian conflict had taken root in 2013, the CAS mentions resilience only in reference to the fact that “Lebanese banks have proven resilient to regional turbulence.”<sup>17</sup> Their Lebanon Economic Monitor that spring is entitled “Growing Tensions in a Resilient Economy,”<sup>18</sup> with the 2014 update affirming that “the difficult political and security environment significantly complicated macroeconomic policy-making, but the financial sector remained resilient.”<sup>19</sup>

Similarly, the International Monetary Fund repeats this understanding of Lebanon as resilient. Based on standard economic models and experience of other countries, they write that Lebanon’s sovereign debt sustainability is a paradox:

Lebanon should have undergone a debt crisis a long time ago. Government debt is one of the highest in the world, and the country has been faced with two episodes of severe financial pressures in 2005 and 2006 that were both triggered by exogenous shocks. All things considered, each episode had the ingredients of a perfect storm, yet, Lebanon weathered them, seemingly without much lasting damage.<sup>20</sup>

The explanation for “Lebanon’s resilience to financial shocks” is multifold.<sup>21</sup> First, Lebanon has in the past benefited from a perceived but implicit guarantee from foreign donors, such as Saudi Arabia, which, by billion dollar deposits in the Banque du Liban, had never before let Lebanon fall into a financial crisis. Second, Lebanon’s debt benefits from the fact that its primary financiers, the local banks, are “captive,” as by 2015 more than 58 percent of their assets are invested in government paper.<sup>22</sup> Third, the banks’ assets are comprised primarily of deposits from the relatively wealthy Lebanese diaspora, whose dedication has been evinced when did not retract their deposits after Hariri’s killing or the war with Israel or seemingly – at least for the meanwhile – the prolonged conflict in Syria. In a piece entitled “Resilient Lebanon Defies Odds In Face of Global Crisis,” they clarified how a country with one of the world’s highest debt ratios, with a highly dollarized banking system significantly exposed to the sovereign debt, could withstand the worldwide financial crisis. Yet in 2009 deposits grew by more than 23 percent, their highest rate of growth in recent years.<sup>23</sup> “This resilience is remarkable,” writes the IMF report, “but it is not the first time in recent years that Lebanon has defied the odds in the face of a severe shock.”<sup>24</sup> Although acknowledging the Lebanese banks’ vulnerability to the sovereign debt, the IMF asserts it this has also been a source of stability since “their financial success is closely tied to that of the government.”<sup>25</sup>

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<sup>15</sup> World Bank Country Assistance Strategy (2005), 4.

<sup>16</sup> World Bank Country Partnership Strategy (2010), i.

<sup>17</sup> World Bank Progress Report on the Country Partnership Strategy (2013), 5.

<sup>18</sup> World Bank, “Lebanon Economic Monitor” (2013c).

<sup>19</sup> World Bank, “Lebanon Economic Monitor” (2014a), 4.

<sup>20</sup> Axel Schimmelpennig & Edward H. Gardner, “Lebanon - Weathering the Perfect Storms” (2008), 4.

<sup>21</sup> *Ibid.*, 28.

<sup>22</sup> *Ibid.*, 11 and World Bank 2015b, *op. cit.*, 20.

<sup>23</sup> IMF, Staff Report for the Article IV Consultation (2010), 5.

<sup>24</sup> Harald Finger and Carlo Sdravovich, “Resilient Lebanon Defies Odds in Face of Global Crisis” (2009).

<sup>25</sup> *Ibid.*

Thus, Lebanon is resilient to not only political but also economic turmoil, for despite banks worldwide collapsing during the financial crisis, banks in Lebanon instead benefited from the increased inflows of deposits.

Although Lebanese sovereign bonds have long been rated as high credit risks, placed in the speculative category in an investor's portfolio, credit rating analysis is also replete with assertions of their resilience. The credit rating agencies Moody's and Standard & Poor's most often describe the banking system as resilient, although they also apply this descriptor to deposits and the dollar peg. In the aftermath of the Hariri assassination, Moody's noted that "Lebanese banks have historically been resilient to severe shocks"<sup>26</sup> and after the Israeli war they affirmed "depositors have proven remarkably resilient during previous political crises."<sup>27</sup> While from 2008 to 2010 the world was afflicted by the financial crisis, Lebanon's sovereign ratings improved: "the banks' ability to finance the government continues to be bolstered by rising bank deposits, which have historically shown a high level of resilience to shocks;"<sup>28</sup> "the change of outlook is justified by the impressive resilience of Lebanon's public finances in the face of numerous political shocks;"<sup>29</sup> "the sovereign upgrade reflected the substantial improvement in the country's external liquidity, the proven resilience of the Lebanese public finances to shocks and the relative strength of the country's banking system,"<sup>30</sup> "indeed, bank deposits have displayed a notable resilience to political shock throughout the country's turbulent recent history."<sup>31</sup> Even as their ratings outlooks returned to negative in 2011 with the outbreak of the Syrian conflict, the Lebanese banks, their deposits and the stability of the currency peg to the dollar continue to be characterized by their resilience.<sup>32</sup>

Resilience is a trope reiterated again in journalistic accounts of Lebanon's sovereign debt. "Resilience underpins Lebanese debt" was the *Financial Times*' headline in 2012, "while violence has spread across neighbouring Syria, the perception of Lebanon's creditworthiness has held up, showing a familiar resilience in tough political times."<sup>33</sup> In early 2015, Lebanon launched its largest Eurobond offering in history (a Eurobond is a bond issued overseas and in a different currency than the country or company it finances). The Lebanese government originally hoped to raise \$1 billion, but due to investor interest this was raised to \$2.2 billion, an amount that was oversubscribed with \$5 billion worth of bids.<sup>34</sup> While *Euromoney* wrote that one may have expected reticence from investors with a (recently downgraded) sovereign unable to elect a president and whose armed forces were skirmishing against militants on its borders, "Lebanon managed this extraordinary trick because of the enduring strength of its banks, fuelled by a successful and loyal Lebanese diaspora... Investors were also attracted by the fact that they have seen Lebanon remain remarkably resilient in the face of even more

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<sup>26</sup> Moody's Investors Service, "Moody's downgrades Lebanese banks' deposit and debt ratings as well as financial strength ratings" (2005).

<sup>27</sup> Moody's Investors Service, "Moody's changes Lebanon's rating outlook to negative" (2006).

<sup>28</sup> Moody's Investors Service, "Moody's affirms Lebanon's sovereign ratings" (2008).

<sup>29</sup> Moody's Investors Services, "Moody's changes Lebanon's ratings outlook to stable" (2008).

<sup>30</sup> Moody's Investors Services, "Moody's upgrades four Lebanese banks following sovereign upgrade" (2009).

<sup>31</sup> Moody's Investors Services 2010, op. cit.

<sup>32</sup> For example, "Deposits at all the rated banks have historically exhibited a remarkable resilience during periods of heightened political tension," from Moody's Investors Services, "Moody's changes outlooks on four Lebanese banks to negative" (2011). Additionally, "Moody's decision to affirm Lebanon's B1 rating is supported by... the proven resilience of domestic banks, which continue to finance the government deficit, from Moody's Investors Services 2013, op. cit.

<sup>33</sup> Camilla Hall, "Resilience underpins Lebanese debt," *Financial Times* (2012).

<sup>34</sup> Chris Wright, "Lebanon sells \$2.2 billion of bonds," *Euromoney* (2015).

exacting circumstances than these: the civil war, for one.”<sup>35</sup> *Forbes* portrayed the paradox of an indebted and war-torn sovereign with their headline “How Lebanon Launched a Record Bond Despite ISIS on its Borders.”<sup>36</sup> Their explanation is “the extraordinary resilience of Lebanon’s banking sector, which serves a successful and loyal Lebanese diaspora with a greater population than the country itself.”<sup>37</sup> The enduring strength of the Lebanese financial system, despite the downgrade of the sovereign debt, the paralysis of a Parliament that barely convenes and being without president for years, as well as violence from Syria infringing on its borders, is based on the fact that “the Lebanese are,” in the words of the financial journalist, “quite used to adversity, and in the markets, the country just keeps on going.”<sup>38</sup>

The resilience discourse has also infiltrated the ways by which Lebanese economists describe the state of their economy, even if their views are significantly less sanguine than the aforementioned analyses. In official discourse, Riad Salameh, the Governor of Banque du Liban, stresses the resilience of the Lebanese financial system. As he wrote in an article entitled “Lebanon’s resilience will see it through instability,” the Syrian war was having an undeniably negative impact, but “the resilience of the economy has been demonstrated during stressful periods, which include wars, political assassination and street fighting.”<sup>39</sup> The debt ratio had risen from 130 to 143 percent of the gross domestic product in recent years, but capital continues to flow into the country because, as he writes, “despite external pressures, Lebanon’s economy has shown resilience.”<sup>40</sup> Similarly to domestic pressures, such as the persistent political stalemate, Salameh stressed that the banking sector was “immune to such difficult conditions.”<sup>41</sup> Yet in my interviews with several Lebanese economists their stance on Lebanon’s renowned resilience was more skeptical. N.B., a research economist at one of Lebanon’s largest commercial banks, scorned this characterization:

I have become allergic to this expression that the Lebanese economy is resilient. It’s stable but not resilient. Inflows (bank deposits) keep coming in, and this goes back to the resilience factor, but people mix resilience with stability. The economy is stable, but it’s not resilient. Why is it not resilient? Average annual growth was 9.1 percent between 2007 and 2010; it dropped to 1.4 percent between 2011 and 2014, and this year is no different. If you look at the average growth rate of the economy between 2000 and 2010 it was about 5 percent, so the output losses over the past four years have been around \$17 billion....The economy will not collapse, the public finances will not collapse, the economy will not disintegrate, but the economy is stable, not resilient.<sup>42</sup>

Similarly, N.I., an economist at an international financing institution, told me, “The Lebanese economy *used* to be resilient. Lebanon lost a lot of its resilience factors with the Syrian crisis; rather it could be described as muddling through.”<sup>43</sup> In her mind, resilience has become a “curse” on Lebanon because the country had become dependent on an economic

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<sup>35</sup> *Ibid.*

<sup>36</sup> Chris Wright, “How Lebanon Launched a Record Bond Despite ISIS on its Borders,” *Forbes* (2015).

<sup>37</sup> *Ibid.*

<sup>38</sup> *Ibid.*

<sup>39</sup> Riad Salameh, “Lebanon’s resilience will see it through instability,” *The Banker* (2015).

<sup>40</sup> *Ibid.*

<sup>41</sup> Duncan Kerr, “Lebanon’s Salamé stresses resilience and stability,” *Euromoney* (2013).

<sup>42</sup> Interview conducted by the author on July 14, 2015.

<sup>43</sup> Interview conducted by the author on June 23, 2015.

cycle of migration and remittances that allowed the government to elude the structural reforms that would keep educated Lebanese employed in their country. Likewise, S.A., an economics professor at the American University of Beirut, affirmed that the economy was undeniably resilient “but at a huge public price” because resiliency also permitted those in power to be “resilient to change.”<sup>44</sup>

These economic analyses do not overlook the structural problems overshadowed by depictions of Lebanon’s renowned resilience. In their 2006 consultation with the Lebanese government, the International Monetary Fund focused on the fact that the sovereign debt totaled more than 180 percent of the GDP, the highest in the world at the time.<sup>45</sup> In every reevaluation of their sovereign rating, Moody’s has emphasized the overwhelming burden of Lebanon’s debt, which they write was the driver of their decision to downgrade Lebanon in 2014, not the adverse spillover effects of the Syrian crisis.<sup>46</sup> While the World Bank cites the continuous capital inflows from the diaspora into the local banks (and the real estate market) as the foundation of this resilience, they acknowledge this comes one with substantial costs. In more detail, they writes of the Lebanese economy as driven by foreign financial inflows, with bank deposits (their proxy for capital flows) totaling more than three times the national economy. In sum:

These inflows are related to regional oil wealth, to the attractiveness of the country’s real estate assets and banking sector considered as safe heavens in times of crisis and to the existence of a large Lebanese Diaspora... The inflows have contributed to shaping the structure of the economy and have strongly influenced the economic policies of Lebanon.<sup>47</sup>

For this reason, the Banque du Liban’s primary policy was “constantly oriented towards securing permanent financial inflows to the country” by maintaining high interest rates and currency stability.<sup>48</sup> Yet high interest rates to attract ever-accumulating deposits into banks and reserves in the central bank’s vault diverted investment away from industry, agriculture, manufacturing, and other sectors that would employ more Lebanese. The most detrimental cost was that these inflows rarely flowed into the real economy – the sectors that produced tradable goods – but instead into the real estate and construction sectors, which had become “directly and indirectly the main determinant of economic activity in Lebanon.”<sup>49</sup> The other cost was the very resilience of the economy, as it forestalled structural reforms and instead induced further dependence on ongoing inflows. Again, in the words of the World Bank:

Observers often express their surprise to the resilience of the Lebanese economy towards these major distortions and other important shocks. It is possible that foreign inflows provided easy financing to the Lebanese economy which allowed a relaxation of the budget constraint of the Government, Households, and the private sector in general. This relaxation of constraints led to the expansion of public and private spending and demand. As a consequence, Lebanon managed to live through

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<sup>44</sup> Interview conducted by the author on August 31, 2015.

<sup>45</sup> IMF, Staff Report for the Article IV Consultation (2006), 4.

<sup>46</sup> Moody’s Investors Services, “Moody’s downgrades Lebanon’s rating to B2 from B1” (2014).

<sup>47</sup> World Bank, “Using Lebanon’s Large Capital Inflows to Foster Long Term Growth” (2012), v.

<sup>48</sup> *Ibid*, ix.

<sup>49</sup> *Ibid*, 15.

major distortions and deficits, which meanwhile continued to deepen, making the reliance on foreign financial inflows even more crucial.<sup>50</sup>

Yet even as criticism of this economic model takes more strident tones, resilience is the descriptor applied to the Lebanese economy. The World Bank's 2015 Systemic Country Diagnostic starkly criticized Lebanon's political-sectarian and economic system for endemic elite capture, estimating the cost of confessional governance at 9 percent of gross domestic product annually, or more costly than the conflict in Syria.<sup>51</sup> Connecting governance to social inequality, the report contends:

The confessional system of governance – in its current incarnation where it has been captured by elites – and national and regional conflict dynamics constitute overarching constraints that have engendered deep structural inequalities and deficiencies, inhibited economic growth and inclusive development, and are at the core of the country's current fragility and vulnerability to destabilizing national and regional shocks.<sup>52</sup>

Yet despite these forthright, even controversial, conclusions, the report describes the Lebanese economy as resilient. The first page acknowledges “growth has been uneven due to large, frequent and mostly ‘political’ shocks, to which the economy has shown remarkable resilience,”<sup>53</sup> and continues on the second page to characterize the economy as resilient:

As the country has weathered repeated and large shocks relatively well – at least compared to what many might have expected – Lebanon has developed an almost inherent resiliency. The country, for example, is proud to be one of few nations never to have defaulted on its sovereign debt, even after going through 15 years of civil war or having its debt-to-GDP ratio being the largest in the world in the mid-2000s.<sup>54</sup>

The World Bank does dwell on the difficulties of an economy dependent on financial inflows from the diaspora into Lebanese banks and onward investment in sovereign debt – “notwithstanding the economy's remarkable resiliency to shocks, based on current policies and projections, public debt dynamics are not sustainable”<sup>55</sup> – yet still resilient is the descriptor. The diaspora's remittances and banking sector are cited as “sources of resilience” such that:

Lebanon's resilience even in times of great stress has helped prevent a relapse of the violence witnessed during the civil war, and creates opportunities for both stabilizing the country and addressing fundamental structural problems.<sup>56</sup>

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<sup>50</sup> *Ibid*, 17.

<sup>51</sup> World Bank, “Lebanon: Promoting Poverty Reduction and Shared Prosperity” (2015c), vi.

<sup>52</sup> *Ibid*, 43.

<sup>53</sup> *Ibid*, 1.

<sup>54</sup> *Ibid*, 2.

<sup>55</sup> *Ibid*, 77.

<sup>56</sup> *Ibid*, 71.

There is a resilience by which the Lebanese state, bankrupt in ways beyond the financial, has thus far defied insolvency and avoided a sovereign debt crisis. In the sections that follow, I trace historically how resilience has been constructed by way of an apparatus with emigrant inflows and Banque du Liban management at its center.

## Financialization of the Lebanese Economy

Banking and the financial economy more broadly have long been the principal pillar upon which the belief in Lebanon's resilience resides. Moreover, financial services have long driven the growth of Lebanese economy. An analysis of Lebanon's economic development from 1958 determined that most of the increase in national income, which rose 50 percent between 1950 and 1956, derived from finance, because "since the Second World War Beirut has become the financial center of the Middle East."<sup>57</sup> The reason for this was that Lebanon, in 1948, liberalized its financial market, thus permitting capital to circulate between different currencies, in and out of the many banks based in Beirut. In this politically tumultuous, post-independence period, "Lebanon remained the only country to have consistently maintained flexible exchange throughout."<sup>58</sup> There were some twenty-eight major banks in Beirut in the 1950s, the majority of which were foreign, opened especially to receive oil profits from Saudi Arabia and other countries in the Persian Gulf, amidst the financial and political instability of the rest of the region. "Whenever confidence in the governments of Egypt, Syria, or Jordan has lessened, private flight capital has flowed into the safe haven of Beirut. Once it arrived, it usually stayed."<sup>59</sup> Lebanon's open economy was "a place of refuge" as other countries maintained exchange controls.<sup>60</sup> Bank deposits more than doubled between 1950 and 1956, rising from 20 percent to almost 33 percent of national income.<sup>61</sup> Financial services grew at an annual average compounded rate of 13.1 percent between 1948 and 1957, compared to 5.5 percent for industry.<sup>62</sup> Moreover, between those years, the financial sector doubled its share in the size of economic output from 3.8 to 7 percent.<sup>63</sup> Finance thus became the most important sector of the Lebanese economy.<sup>64</sup> Unlike other developing countries, which at the time closed their economies and turned towards import-substitution industrialization, Lebanon's economic objective was on becoming a financial entrepôt and intermediary. As a Harvard economics professor wrote in 1962:

Those who see economic development as a movement from primary (agricultural), to secondary (industrial), to tertiary (service) activity might be forced to conclude that Lebanon is already the most developed country in the world with very little, if any, place to go.<sup>65</sup>

Between 1950 and 1970, the share of the tertiary sector in the overall economy increased from 62 to 72 percent, "one of the highest in the world" according to Salim Nasr in his 1978

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<sup>57</sup> William Persen, "Lebanese Economic Development since 1950" (1958), 285.

<sup>58</sup> Nadim Shehadi, "The Idea of Lebanon: Economy and State in the Cénacle Libanais, 1946-54" (1987), 7.

<sup>59</sup> Persen 1958, op. cit., 285.

<sup>60</sup> Samir Makdisi *The Lessons of Lebanon: the economics of war and development* (2004), 21

<sup>61</sup> Author's calculations, based on data in Person, op. cit., 284-285.

<sup>62</sup> Carolyn Gates, "The Merchant Republic of Lebanon: Rise of an Open Economy" (1998), 111.

<sup>63</sup> Gates 1989, op. cit., 15.

<sup>64</sup> Yusif Sayigh, *Entrepreneurs of Lebanon* (1962), 80.

<sup>65</sup> Edward S. Mason, "Introduction" (1962), xi.

reflections on the economic causes of the civil war.<sup>66</sup> Lebanon was thus on the forefront of a financialization process that decades later enveloped most of the world's economies.

Financialization is a term applied to the ascendancy of finance in the contemporary era. There are myriad interpretations of the term. An overview of its history reveals that for some financialization represents the preeminence of increasing shareholder value as a mode of corporate governance; while for others it is found in the surge in financial trading with a plethora of new financial instruments; or for Greta Krippner, financialization is a “pattern of accumulation in which profit making occurs increasingly through financial channels rather than through trade and commodity production.”<sup>67</sup> Randy Martin understands financialization as more than an economic process but “a merger of business and life cycles,”<sup>68</sup> in other words a means of self-realization, “when personal finance becomes the way in which ordinary people are invited to participate in that larger abstraction called the economy, a new set of signals are introduced as to how life is to be lived and what it is for.”<sup>69</sup> Although as many authors would argue, there has been a structural shift in national economies since the 1970s that has led to the increased importance of financial motives, markets, actors and institutions,<sup>70</sup> financialization as an economic process is actually centuries old. At the turn of the 20<sup>th</sup> century, Hilferding styled financial capital as capital's unification, and Lenin argued that the transition to finance capital was behind the imperial partitioning of the world.<sup>71</sup> Moreover, several centuries earlier, Giovanni Arrighi traced the rise of the world's then most powerful capitalist states, Venice, the United Provinces, the United Kingdom and the United States, all of whom were at the time the financial centers of their era. Thus what David Harvey took as a novelty of post-1973 capitalism with the “extraordinary efflorescence and transformation in financial markets,”<sup>72</sup> was, according to Arrighi, actually another periodic financial expansion “announcing not just the maturity of a particular stage of development of the capitalist world-economy but also the beginning of a new stage.”<sup>73</sup>

David Harvey's *Condition of Postmodernity* portrays financialization as a spatio-temporal process, one which draws on Marx's depiction of modernity as when “all that is solid melts into air.”<sup>74</sup> Similarly, Harvey emphasizes financial capital's overcoming of the constraints of time and space as “the new, the fleeting, the ephemeral, the fugitive, and the contingent in modern life, rather than the more solid values implanted under Fordism.”<sup>75</sup> He contrasts the rigidity of the Fordist era with what he terms the flexible accumulation of the financialized present. Whereas Fordism was a system of mass production, in which the state assumed a variety of social obligations, under the hegemony of North American economic and military power, flexible accumulation was characterized by, among other attributes, the development of new and innovative financial services, what he describes as time-space compression. With the emergence of greatly enhanced powers of financial coordination, which afforded more

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<sup>66</sup> Nasr 1978, op. cit., 3.

<sup>67</sup> Greta Krippner, “What is Financialization” (2004), 14.

<sup>68</sup> Randy Martin, “Financialization of Daily Life” (2002), 3.

<sup>69</sup> *Ibid.*, 17.

<sup>70</sup> Greta Krippner, “The Financialization of the American Economy” (2005).

<sup>71</sup> Rudolf Hilferding, *Finance Capitalism: a study of the latest phase of capitalist development* (1910) and Vladimir Lenin, “Imperialism, the Highest Stage of Capitalism” (1917).

<sup>72</sup> David Harvey, *The Condition of Postmodernity: An Enquiry into the Origins of Cultural Change* (1989), 194.

<sup>73</sup> Giovanni Arrighi, *The Long Twentieth Century: Money, Power and the Origins of Our Times* (2010), 88.

<sup>74</sup> Cited in Marshall Berman, *All That Is Solid Melts Into Air: The Experience of Modernity* (1988), 15.

<sup>75</sup> Harvey 1989, op. cit., 171.



autonomy to the banking and financial sectors, “flexible accumulation evidently looks more to finance capital as its co-ordinating power than did Fordism.”<sup>76</sup> Flexible accumulation, for Harvey, arose after 1973, with the adoption of a flexible exchange rate system in the United States and the recession on the back of the oil crisis more globally. What is fascinating in the financial history of Lebanon – detailed below – is that finance capital has long directed their economic approach. While the breakdown of Fordism for Harvey entailed a “shift towards the empowerment of finance capital vis-à-vis the nation state,” for Lebanon the interests of capital have long been indistinguishable from those of the state. In fact, with the state so deeply indebted to the commercial banks, and the otherwise autonomous Banque du Liban often described as the only functioning state institution, financialization could be said to have permeated the state, and it did so decades before financial capital became as dominant elsewhere. Therefore, a brief history of Lebanon’s financialized economy is in order before concretizing the intertwining of deposits, dollarization and the diaspora that has made the financial system, and especially the Lebanese sovereign debt, so often described as resilient.

There is an interpretation, almost mythical as it was related in many of my interviews, of Lebanon’s economic history as directly descendent from the ancient Phoenicians whose commercial trade routes linked the eastern and western Mediterranean. This notion of their Phoenician heritage also influenced early Lebanese Christian nationalism, through thinkers such as Georges Corm, who argued that the modern Lebanese could not but be immersed in the trade and civilization of the Mediterranean, and Michel Chiha, the principal author of the 1926 constitution, whose ideas were later embodied in the unwritten 1943 National Pact.<sup>77</sup> In Chiha’s mind, “Economic liberalism was not adopted in Lebanon as a policy option. It was part and parcel of an overall ideology which permeated the Lebanese political system.”<sup>78</sup> As Lebanon was both geographically and culturally situated at a crossroads, and thus forever subject to outside interference, “Lebanon has a vocation inherited from its path as far back as Phoenician days” to intermediate between East and West, to manage the economic flows between them.<sup>79</sup> Similarly to the sectarian system, which was best maintained by a weak state limited in its interference into confessional affairs, Chiha supported a non-interventionist *laissez-faire* economy based on an intermediary role for Lebanon, which in turn necessitated the free flow of capital and people.<sup>80</sup> References to the Phoenicians are almost inevitable in historical overviews of Lebanon, or even conversations about its contemporary economy. In the 1940s and 1950s a group self-termed the New Phoenicians, born from a group of mostly Christian merchants and financiers, were dedicated to promoting the *laissez-faire* economic ideology in early independent Lebanon.<sup>81</sup> In 1962 the introduction of a book on Lebanese entrepreneurship writes, “From the days of the Phoenicians to the present, the denizens of the Levant have made their living by buying and selling, exchanging monies, exporting and importing, serving as middlemen at all stages from the first production to the final disposition of products.”<sup>82</sup> Moreover, in an interview with N.T., a member of Beirut’s Chamber of Commerce, I asked about Lebanon’s current economic predicament, and his answer referenced the resilience of the Phoenicians:

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<sup>76</sup> *Ibid*, 164.

<sup>77</sup> Albert Hourani, “Ideologies of the Mountain and the City” (1976), 38-39.

<sup>78</sup> Shehadi, 1987, op. cit., 8.

<sup>79</sup> *Ibid*, 8.

<sup>80</sup> Gates 1998, op. cit., 84.

<sup>81</sup> *Ibid*, 82.

<sup>82</sup> Mason 1962, op cit., xi.

We are Phoenicians, and you know the characteristics of the phoenix? It rises again from its ashes. So all Lebanese do have this very firm belief that whatever happens that Lebanon will always live again out of its ashes.<sup>83</sup>

Whether there really exists such a direct linkage between the ancient Phoenicians and modern Lebanese is not my point to prove. However, historical evidence establishes that Lebanon's outward economic orientation was fostered under French imperialism. Lebanon had begun to specialize in the cultivation of raw silk in the 18<sup>th</sup> century, but its economic effects were not realized until the next century when the value of silk exports to France rose rapidly. The silk industry was the engine of economic growth in what was Mount Lebanon from the mid-19<sup>th</sup> century until the First World War.<sup>84</sup> As 90 percent of all silk exports went to France, the French were also instrumental in planting the seeds of the Lebanese financial system. In 1924, the French mandatory authority granted the Banque de Syrie et du Liban, a private commercial bank with a large foreign capital base, monetary authority with the power to issue Syrian pounds which were pegged to the French franc.<sup>85</sup> In this period between 1923 and 1943, almost 85 percent of French investment was in the banking system, while 9.4 percent was invested in utilities, 2.5 percent in ports and 1.8 percent in railroads.<sup>86</sup> Upon independence, Lebanon's outward and financially-oriented economic inclinations were thus already well established.

The *laissez-faire* ideology is an analogous interpretation of Lebanese economic history. While most post-independence countries adopted inward-looking, protectionist policies, "a common thread running through much of Lebanon's modern political economy has been its outward orientation."<sup>87</sup> In fact, Carolyn Gates argues that economic openness, not *laissez-faire*, is a more accurate reading of post-independence economic policy, since the deepening competitive markets was never a priority when it threatened the powerful interests of the merchants and financiers. There was a moment of contention with industrialists battling for protectionism after the Second World War, during which Lebanese industry benefited from the protection afforded by a world at war, but when this was contrary to mercantile interests, the industrialists were soon defeated.<sup>88</sup> A weakly-regulated environment was more conducive to expanding a mercantile-financial economy, wherein "the driving force of creating an open environment was little more than an expression of the economic and political interest of the dominant elite."<sup>89</sup> Lebanon's *laissez-faire* thus focused on institutionalizing the rights of the elite to pursue their self interests and the institutionalization of a minimalist state. However, in a differing interpretation, Toufic Gaspard writes, "The Lebanese authorities chose *laissez-faire*, not only as a long-term policy for economic development but also as a national *raison d'être*."<sup>90</sup> He argues that at independence the form of economic organization to be adopted was the subject of intense debate, especially as Syria, with whom Lebanon was allied in a customs union, took the path of protectionism. Syria and Lebanon's divergence over protectionism was what led to the breakup of the union by 1950. Even the establishment of the Banque du Liban as the central bank was controversial, and for two decades after independence a

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<sup>83</sup> Interview conducted by the author on October 16, 2015.

<sup>84</sup> Gates 1998, op. cit., 13.

<sup>85</sup> Banque du Liban, "Historical Development of the Lebanese Pound."

<sup>86</sup> Gates 1998, op. cit., 19.

<sup>87</sup> Gates 1998, op. cit., 2.

<sup>88</sup> Gates 1989, op. cit., 30.

<sup>89</sup> Gates 1998, op. cit., 7.

<sup>90</sup> Toufic Gaspard, *A Political Economy of Lebanon, 1948-2002: The Limits of Laissez-Faire* (2004), 54.

private French bank, the Banque de Syrie et du Liban acted as the state's monetary authority. It was only in 1964 that the Association of Lebanese Banks relented to the founding of the Banque du Liban so long as it did not interfere with the fundamental principles of the *laissez-faire* financialized economy.<sup>91</sup>

The foundation of Lebanon's economic openness and *laissez-faire* attitude rested on the financial sector, whose cornerstone was the strength and stability of the currency. Gaspard argues that *laissez-faire* truly began in 1948 when Lebanon formally relaxed foreign exchange controls.<sup>92</sup> Between 1948 and 1952 the Lebanese government lifted restrictions on currency and financial transactions. The importation or exportation of any currency in any amount into or out of the country was legalized. Financial liberalization was reinforced when the Banking Secrecy Law was enacted in 1956, which in turn attracted large foreign capital inflows from the Arab world and beyond. Beirut became a regional financial center where an estimated one billion Lebanese pounds of foreign exchange transactions, about equal to the size of their overall economy, were executed annually for foreigners and profits from foreign exchange operations totaled more than 1 percent of national income.<sup>93</sup> As Lebanon had no restrictions on the movement of currency and capital in and out of their multiplying banks, monetary policy was targeted to sustaining a stable currency, "the principal indicator about the state of confidence in the Lebanese economy."<sup>94</sup> A strong currency was essential both to support the commercial sector and ensure the continual inflow of foreign capital. Between 1950 and 1958 the exchange rate varied from an average low of 3.8 Lebanese pounds to the United States dollar in 1951 to an average high of 3.16 pounds to the dollar in 1958.<sup>95</sup> The government was compelled to intervene only three times to stabilize the currency: in the 1953 post-Korean war recession, the 1956 Suez crisis and the 1958 civil war.<sup>96</sup> The stability of the pound was so essential that William Persen wrote that it was the reason for Lebanon's survival following their detachment from the customs union with Syria:

The daily quotation of the value of the Lebanese pound in dollars and other currencies on the Beirut free market is somewhat analogous to the daily quotation of the price of a company's stock on the Stock Exchange. Increased demands for pounds reflect increased numbers of tourists, increased payments for commercial transportation, or financial services and increased flow of capital. A rise in the free value of the pound represents a strong payments position and rising gold reserves, which in turn stimulates the inflow of service payments and capital. At the bottom, it represents increased confidence in the future of the country.<sup>97</sup>

Foreign capital inflows were essential to stabilizing and strengthening the value of the pound, and therefore another quotation which also served as a confidence indicator in Lebanon's economy was the size of bank deposits. Deposits trended annually upwards from 1950 until July 1956, when with the nationalization of the Suez Canal and then the Anglo-French-Israeli invasion, deposits dropped until the United Nations' brokered resolution in

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<sup>91</sup> Ghassan Dibeh, "The Political Economy of Inflation and Currency Depreciation in Lebanon, 1984-92," (2002): 35.

<sup>92</sup> Gaspard 2004, op. cit., 58.

<sup>93</sup> Gates 1998, op. cit., 115-116.

<sup>94</sup> Gaspard 2004, op. cit., 145.

<sup>95</sup> *Ibid*, 137.

<sup>96</sup> *Ibid*, 96.

<sup>97</sup> Person 1958, op. cit., 283.

December. Deposit volatility thus indicated the susceptibility of the Lebanese economy to regional political risks.<sup>98</sup> But for the most part Lebanon tended to profit from neighboring instability. With a succession of *coups d'état* and nationalizations in many Arab countries, including Syria, Egypt and Iraq, “the single most important economic consequence of these developments was the flight of private capital from these countries towards Lebanon.”<sup>99</sup> On the precipice of their civil war in 1974, the proportion of total deposits to national income was 122 percent, perhaps the highest in the world.<sup>100</sup> Historically, as Lebanon’s *laissez-faire* and open economy had long been unique among Arab countries, it proved a magnet for capital against a background of political unpredictability and economic protectionism in the rest of the region:

Lebanon has been, since the 1880s, one of the principal points for the economic penetration of the Arab East by the capitalist industrial countries... This role has acquired a new magnitude since the 1950s with the emergence of the Arab oil economy, its expanding markets and “surplus” money capital.<sup>101</sup>

In addition to being the bankers for Arab elites, Lebanon was also an intermediary between oil-producing countries and Western banks. Beirut had become their regional headquarters, where Western financial institutions made up nearly 75 percent of the foreign companies in Lebanon the decade prior to the civil war.<sup>102</sup> This role traced back to Lebanon’s traditionally important position as a regional *entrepôt*, and with its modern tradition of banking secrecy Lebanon evolved into an important financial intermediary.<sup>103</sup> Beirut was not only an *entrepôt* for the Middle East but also an international financial center,<sup>104</sup> and Lebanon, with its strong banking system, banking secrecy and stability, was thus labeled the Switzerland of the Middle East.<sup>105</sup>

Yet while Lebanon succeeded in establishing a financial system that attracted inflows from across the region, its financialized economy was internally imbalanced and precariously dependent on foreign capital. Most of the capital that flowed into Beirut was invested in a “continuous real estate boom,” mostly in Beirut and the nearby mountains.<sup>106</sup> Between 1964 and 1972, construction received 64 percent of total investment.<sup>107</sup> Gaspard contends that the benefits of *laissez-faire* were concentrated in “the financial rather than economic realm,” with the capital inflows rarely being invested in the productive sectors of the economy. Moreover, in the financial sector, short-term banking deposits dominated, with more than two-thirds of capital inflows between 1960 and 1969 short-term.<sup>108</sup> Although a Harvard economist praised Lebanon as a highly developed country, by Middle Eastern standards, in the early 1960s,<sup>109</sup> a survey from this same period found that half of the population lived in poverty.<sup>110</sup> Despite

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<sup>98</sup> *Ibid*, 286.

<sup>99</sup> Gaspard 2004, op. cit., 59.

<sup>100</sup> Nasr 1978, op. cit., 4.

<sup>101</sup> Nasr 1978, op. cit., 3.

<sup>102</sup> *Ibid*, 4.

<sup>103</sup> Gates 1998, op. cit., 87-88.

<sup>104</sup> *Ibid*, 112.

<sup>105</sup> Gaspard 2004, op. cit., 67.

<sup>106</sup> *Ibid*, 145.

<sup>107</sup> *Ibid*, 153.

<sup>108</sup> *Ibid*, 179.

<sup>109</sup> Mason 1962, op. cit., xi.

<sup>110</sup> Gaspard 2004, op. cit., 75.

the excess of deposits, the government lacked the resources to finance infrastructure works in the areas of agriculture, education and housing, for example.<sup>111</sup> In another line of critique, Gates argues that economic openness fostered peripheral capitalism by which Lebanon's fate was contingent on countries beyond its borders. Lebanon's need for foreign capital inflows, she writes, meant that "the variability of economic growth reflects to a large extent external shocks rather than domestic cyclical forces."<sup>112</sup> While peripheral capitalism was once closely tied to the needs of European imperialism, by independence Lebanon's economy was distinguished by "Beirut's reputation as a financial safe haven" within a tumultuous region.<sup>113</sup> While the financialized economy served as the region's bankers, peripheral capitalism failed to develop the rest of the economy, and perhaps more interesting for the present, the social and political repercussions of Lebanon's peripheral capitalism included:

long-term unemployment or underemployment of the growing labour force, increasing socio-economic, regional and sectarian inequalities, large-scale emigration, dependence on volatile foreign conditions, discord and upheaval, *inter alia*.<sup>114</sup>

The problems of unemployment, inequity and emigration, as well as the Lebanese economy's need for foreign capital and vulnerability to regional volatilities, typify the financialization of the Lebanese economy to this day.

### **Debt and Dollarization**

The Lebanese banking system can be said to have sustained its resilience throughout most of the civil war, until the collapse of the currency in the war's later years. What changed in the postwar era was that sovereign debt came to characterize the political economy. While the Lebanese state was indebted by less than 1 percent of gross domestic product in 1974,<sup>115</sup> it emerged from the civil war with a total debt almost equal (98.4 percent of gross domestic product to be precise) to the size of its overall economy.<sup>116</sup> Despite government spending that outpaced revenues, the size of the debt diminished in the early 1990s as hyperinflation destroyed the value of the Lebanese pound, and therefore the debt denominated in local currency. Reconstruction was mostly debt-financed, and by 1996 the debt ratio rose to 98.9 percent,<sup>117</sup> increasing to 183 percent in 2006,<sup>118</sup> which at the time meant that Lebanon held largest debt relative to its economy of all the countries in the world. Its debt dynamics have been labeled "deteriorating"<sup>119</sup> by the IMF and "unsustainable"<sup>120</sup> by the World Bank. Yet remarkably Lebanon has never defaulted on its debt payments, nor has it faced obstacles to refinancing its debt even in the midst of prolonged political and refugee crises, as well as an intermittent security crisis, which characterize the present political economy in which this dissertation was researched and written. As of December 2014, Lebanon was the world's

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<sup>111</sup> Nasr 1978, op. cit., 4.

<sup>112</sup> Gates 1998, op. cit., 146.

<sup>113</sup> Gates 1989, op. cit., 15.

<sup>114</sup> Gates 1989, op. cit., 5.

<sup>115</sup> Gaspard 2004, op. cit., 69.

<sup>116</sup> Thomas Helbing, "Postwar Reconstruction, Public Finances, and Fiscal Sustainability" (1999).

<sup>117</sup> *Ibid.*

<sup>118</sup> Ministry of Finance, General Debt Overview.

<sup>119</sup> IMF 2015, op. cit., 37.

<sup>120</sup> World Bank 2015a, op. cit., 16.

third most indebted sovereign.<sup>121</sup> But because the Banque du Liban and Lebanese banks hold nearly 85 percent of the debt,<sup>122</sup> and thus earn substantial profits from the interest rates paid by the government, they are in turn locked into financing their bankrupt sovereign. In this section, I historically trace how this debt accumulated and the ways by which it is bankrolled, as this arrangement is at the heart of why Lebanon is so often termed resilient.

The Lebanese financial system was influenced by but tended to benefit from regional turmoil, at least until its civil war. It was not despite the foundation of Israel and the flight of the Palestinians in 1948, nor the invasion of the Suez Canal in 1956, nor the nationalization of the economy and industries in Syria and Iraq in the late 1950s and early 1960s that foreign capital flowed into banks based in Beirut, but because of the Lebanese economy's openness and absence of foreign currency controls. Until the outbreak of its civil war, the most serious financial crisis was a domestic one with the collapse of the Beirut-based, then largest bank in the Middle East, Intra Bank. It held one-fifth of deposits, one-sixth of bank assets and one-tenth of commercial loans in Lebanon.<sup>123</sup> Without diverting into a discussion of the perhaps political reasons why the Maronite banking sector permitted the Palestinian-owned bank to fail, Intra Bank's crisis was essentially one of its long-term assets not matching its short-term liabilities. When the United States and European central banks raised their interest rates in the mid-1960s, thus reducing the interest deferential paid on deposits in Lebanese pounds, and in turn depositors withdrew their money from the Beirut institution, Intra Bank was arguably solvent. However, the Banque du Liban denied it the financial resources to weather the crisis, and soon a general bank run began, which compelled the government to declare a three-day bank holiday and the prime minister to resign.<sup>124</sup> This was the worst crisis to face the Lebanese financial system before the start of the civil war in 1975, after which downtown Beirut, where most banks were headquartered, was turned into a battleground.

What was fascinating about the initial years of the war was that civil strife coexisted with economic prosperity.<sup>125</sup> Between 1975 and the early 1980s there was an improvement in per capita income and relative stability for the Lebanese pound. Banking deposits continued to rise, albeit more cautiously than before the war. Although 44 of the 80 banks registered in Lebanon suffered material destruction from 1975 to 1976, when fighting was concentrated in downtown Beirut, the banking system not only survived but expanded, across the country to diversify their operations away from Beirut and also overseas in the footsteps of the many Lebanese fleeing the war.<sup>126</sup> However, after Israel's invasion of Beirut in 1982, the entire economy stumbled, and the financial system particularly so amid hyperinflation and the depreciation of the Lebanese pound. The government continued to pay the salaries of public employees and they invested in reequipping the military, but because the country had been fragmented by warring militias there was little in terms of revenue generation. For example, customs revenues, once a major source of state income, failed to materialize after the ports came under the militias' sway.<sup>127</sup> The state financed itself by issuing Treasury bills, which the commercial banks initially purchased because of their attractive interest rates, but the Banque du Liban later had to compel the banks to purchase government paper. The sovereign debt, insignificant before the civil war, thus started its upward trajectory, but more significantly the

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<sup>121</sup> Moody's 2014, op. cit.

<sup>122</sup> *Lebanon Opportunities*, October 2014, 43.

<sup>123</sup> Clement Henry Moore 1983, op. cit., 33.

<sup>124</sup> Jonathan Marshall, *The Lebanese Connection: Corruption, Civil War, and the International Drug Traffic* (2012), 56.

<sup>125</sup> Salim Nasr, "The Political Economy of the Lebanese Conflict" (1989), 43.

<sup>126</sup> Clement Henry Moore 1983, op. cit., 32 & 37.

<sup>127</sup> Salim Nasr, "Lebanon's War: Is the End in Sight?" (1990).

Lebanese pound began to deteriorate rapidly in value. When once the pound traded at 3.4 to the dollar in 1980, by 1987 the pound was 520 to the dollar.<sup>128</sup> Yet despite the collapse of the currency, the Banque du Liban never imposed any controls to support its value, as the near-unanimous fear among policymakers was these measures would further weaken confidence in the economy and dissuade capital inflows once the conflict was over and reconstruction began.<sup>129</sup>

As a confluence of factors initially supporting the economy vanished in the war's early years, financial volatility set in. The oil boom after 1973 in the Arab Gulf states had attracted many Lebanese emigrants, with the number of Lebanese working in the Gulf rising from 50,000 in 1970 to 210,000 in 1980, approximately one-third of Lebanon's labor force. In turn, their remittances during those years rose from \$250 million to \$2.25 billion, more than 35 percent of the national economy. Citing these statistics, Salim Nasr writes that "their contribution was certainly the major reason Lebanon could maintain a pre-war level of imports and consumption in an economy already heavily affected by seven years of strife."<sup>130</sup> Yet the reversal in oil prices reduced the number of Lebanese emigrants to the Gulf, to 150,000 in 1982 and 65,000 in 1987, with remittances declining during these years from \$1.9 billion to \$300 million.<sup>131</sup> Moreover, the recession in the Gulf states and beyond reduced the money pouring in to finance the various militias, which until the early 1980s was estimated at \$300 million annually, but was thought to have been halved afterwards.<sup>132</sup> The departure of the Palestinian Liberation Organization in 1982 also undermined the Lebanese economy, as approximately 15 percent was comprised of Palestinian activities, with the PLO's budget probably higher than that of the Lebanese state.<sup>133</sup> These foreign inflows – remittances and resources to the militias – supported the financial system as well as the value of the pound, which while depreciating softly in the war's early years was relatively stable.

The crisis of the civil war's later years stemmed from the collapse of the currency. By the time of the Israeli invasion in 1982, the pressure on the Lebanese pound accumulated as financial inflows slowed but the government kept spending. Samir Makdisi writes that while the role of other governmental institutions was diminished as they came under the influence of the various militias, "throughout the civil war the national monetary authorities remained effective, especially prior to 1984."<sup>134</sup> Yet the Banque du Liban struggled to exert a monetary authority over a national banking system fragmented into warring canons whose financial resources were being sapped. As foreign inflows almost ceased while the government deficit increased, the pound lost value, from 3.4 pounds to one dollar in 1980, 4.5 pounds in 1983, 6.6 pounds in 1984, 16 pounds in 1985, 35 pounds in 1986 and over 500 pounds in 1987.<sup>135</sup> This was compounded by inflation, for to finance the government's budgetary deficits the Banque du Liban induced the banking system to buy Treasury bills.<sup>136</sup> The central bank also liquidated some of its substantial reserves to finance the government. Although the Treasury bills paid handsome interest, they injected more and more liquidity into the financial system, which in turn the banks converted into dollars as the national currency was clearly bereft of

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<sup>128</sup> Theodor Hanf, *Coexistence in Wartime Lebanon: Decline of a State and Rise of a Nation* (1993), 354.

<sup>129</sup> Samir Makdisi, *The Lessons of Lebanon: the economics of war and development* (2004), 64.

<sup>130</sup> Nasr 1990, op. cit.

<sup>131</sup> *Ibid.*

<sup>132</sup> Nasr 1989, op. cit., 45 & 47.

<sup>133</sup> *Ibid.*, 44.

<sup>134</sup> Makdisi 2004, op. cit., 36.

<sup>135</sup> *Ibid.*, 49.

<sup>136</sup> *Ibid.*, 54

value. Imports came to be priced in dollars and depositors also switched their savings away from the Lebanese currency. Before the war and until 1979, total deposits denominated in foreign currency stood at 30 percent, rising to about 40 percent in 1981 and 1982 as the war persisted, then climbed to more than 50 percent in 1986 and above 80 percent in 1987 as all confidence in the currency disappeared.<sup>137</sup> As the stability of the currency was at the heart of the Lebanese financial system, which in turn was the economic foundation, the rapid depreciation of the pound could be said to be at once “a cause and a consequence of waning confidence.”<sup>138</sup>

It was a crisis of self-fulfilling expectations, as the banks converted their earnings from Treasury bills into foreign exchange, mostly dollars, and therefore further depreciating the pound. Gaspard contends that what was happening was that the banks were speculating against the pound. Whereas around 77 percent of the government’s deficit was financed by Treasury bills purchased by the banks in 1985, this ratio fell to only 16 percent in 1986 and 12 percent the following year.<sup>139</sup> When the voluntary subscription of Treasury bills slowed, the Banque du Liban resorted to obligatory measures, including raising reserve requirements for pound deposits and loans in pounds as well as limiting pound accounts for non-resident banks.<sup>140</sup> The Banque du Liban began intervening actively on the foreign exchange market to finance the foreign exchange requirements of the increasingly indebted government and decelerate the depreciation of the pound, but without imposing currency controls they could not counter a downward trend. As their 1984 economic review stated, “exchange controls cannot be a solution...because it would finally sweep away confidence in the Lebanese economy.”<sup>141</sup> In 1986 they issued a circular stipulating the minimum ratio of Treasury bills to bank deposits, set at 30 percent for banks with deposits of less than 1 billion pounds and at 45 percent for banks with deposits of more than 1 billion pounds. The next year new deposits were subject to a ratio of 60 percent.<sup>142</sup> The banks redirected their interest earnings towards speculating against the pound on the foreign exchange markets.<sup>143</sup> Another source of speculation was bank loans, with banks extending loans to preferred customers and using the proceeds to purchase dollars, thus intensifying the downward pressure on the pound. The loan recipients exchanged their pounds for dollars and with the profits repaid their pound-denominated loans.<sup>144</sup> This may have been speculation, but Clement Henry Moore viewed it more as a prisoner’s dilemma, with the banks rolling over their loans, both to the government and the private sector, even as they were entrapped in ever-growing mountains of debt in the form of non-performing loans, “The Lebanese bankers had become the prisoners of their clientele but had to keep pumping and priming them.”<sup>145</sup> It was during these last years of the civil war that the government started to accumulate a substantial sovereign debt. Whereas the public debt was 22 billion pounds at the end of 1983, at the war’s end in 1990 it had risen to 1.483 billion pounds.<sup>146</sup> The costs of reconstruction would raise it further.

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<sup>137</sup> Author’s calculations based on Banque du Liban Statistics & Research.

<sup>138</sup> Makdisi 2004, op. cit., 63.

<sup>139</sup> Gaspard 2004, op. cit., 202.

<sup>140</sup> Makdisi 2004, op. cit., 71.

<sup>141</sup> Cited in Moore 1987, op. cit., 210.

<sup>142</sup> *Ibid*, 72.

<sup>143</sup> Dibeh 2002, op. cit., 43.

<sup>144</sup> Gaspard 2004, op. cit., 203.

<sup>145</sup> Clement Henry Moore 1987, op. cit., 206.

<sup>146</sup> Makdisi 2004, op. cit., 56.



Little has changed for Lebanon's financialized economy in the postwar era – there is still significant dependence on foreign capital inflows and currency stability remains ever important – except that the contemporary financial system revolves around sovereign debt. Before the civil war, Lebanon's debt was negligible, never more than a few percentage points of its economy, but it ended the civil war with a sovereign debt of 98.4 percent of GDP,<sup>147</sup> and while decreasing slightly during reconstruction in the early 1990s, from 1997 onwards the size of the debt has always been larger than the overall economy. For the past decade, interest payments on the debt totaled more than 30 percent of annual government spending, and in the past decade even more.<sup>148</sup> Part of this debt reflected the costs of reconstruction. Another portion was a cost of unrealized economic growth amid Lebanon and the region's political turmoil. However, sovereign debt has become so interwoven in Lebanon's political economy that it could be said to be one of its primary pillars, along with the attraction of capital inflows and the stability of the currency peg. In fact, these two other pillars – deposits and dollarization – make possible the shouldering of such so much debt by an economic and political system otherwise bankrupt, the payment of these obligations despite all political and economic indicators to the contrary and more broadly the terming of the Lebanese political economy as resilient.

The post-war reconstruction plan, termed Horizon 2000, envisioned expenditures of approximately \$18 billion in physical infrastructure, such as electricity, telecommunications and roads (37 percent of the total); educational, health and social infrastructure (25 percent); public services, including water, solid waste and public transport (22 percent); productive sectors, namely agriculture, industry, ports, tourism, and other private sector incentives (8 percent); and equipment for the state, public administration and security forces (8 percent). The macroeconomic model underlying the reconstruction program implied more than twice this amount in private investment, and thus public spending was projected to be in surplus after the year 2000. Total debt was predicted to peak at 91 percent in 1999, with a downward trend thereafter.<sup>149</sup> However, the hoped-for private financing failed to materialize and the government struggled to collect taxes. Foreign aid was forthcoming, but primarily in the form of loans. Under these circumstances, the state went into debt, but principally domestic debt, as it was financed by Treasury bills purchased by Lebanese commercial banks and the Banque du Liban.<sup>150</sup> The following figure traces the transformation of Lebanon's sovereign debt quantitatively, a process further detailed below.

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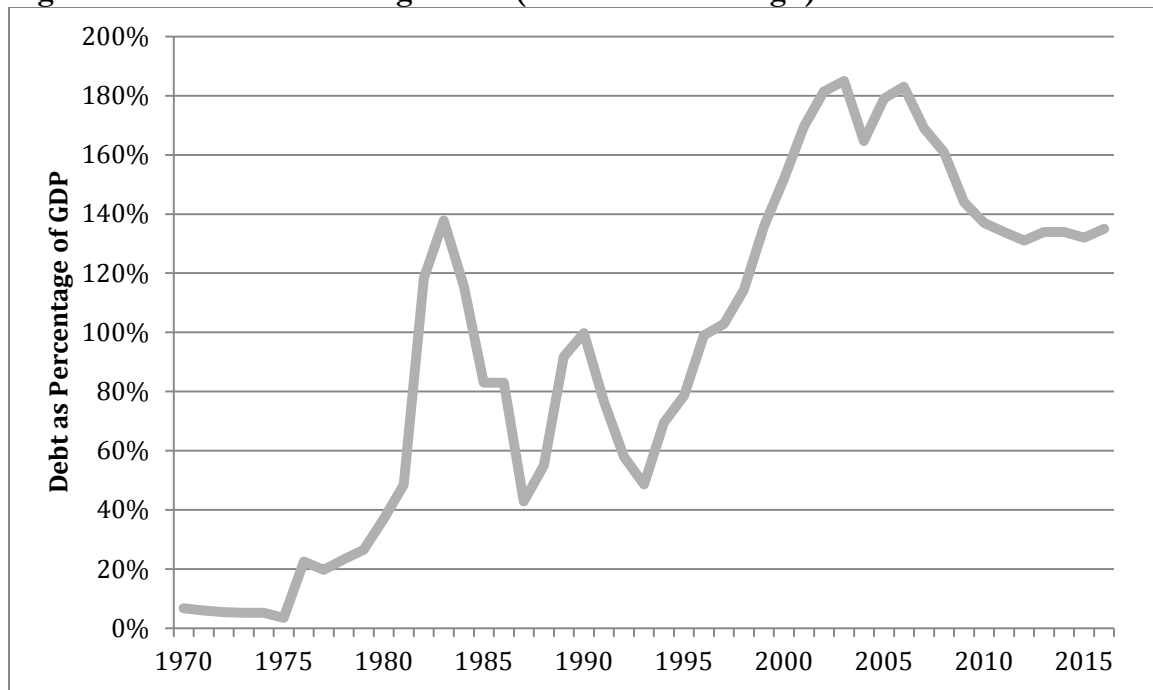
<sup>147</sup> Helbing 1999, op. cit.

<sup>148</sup> IMF 2015, op. cit., 31.

<sup>149</sup> John Wetter, "Public Investment Planning and Progress" (1999).

<sup>150</sup> Makdisi 2004, op. cit., 104.

**Figure 3.2: Lebanese Sovereign Debt (Domestic & Foreign)**<sup>151</sup>



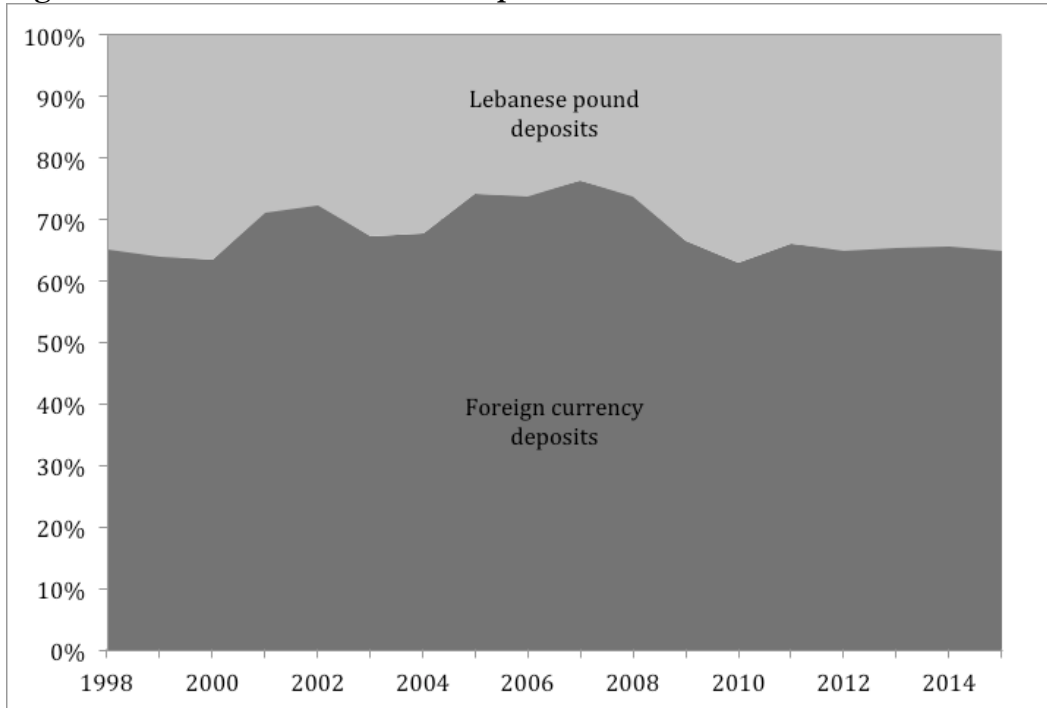
There were two incentivizing, and interrelated, motivations for the banks to invest in Lebanese Treasury bills. One was the high interest rates they paid; the second was the peg to the dollar. The interest rates attracted financial flows into the banks, which in turn provided the reserves required to maintain the currency peg; and confidence in the peg further enticed the deposits that allowed this circular financial system to function. In fact, the pound, which had sharply depreciated against the dollar late into the civil war, and again deteriorated early into reconstruction, gradually appreciated against the dollar from mid-1992 until December 1997, when it was pegged to the dollar. More specifically, it formally became a floating peg around a narrow band between 1500 and 1515 Lebanese pounds of the dollar, such that the currency officially trades at 1507.5, but is commonly exchanged at 1500 pounds to the dollar. Despite the stabilization of the exchange rate, dollarization has remained extensive since the later years of the civil war, when many Lebanese lost most of their savings with the inflation and rapid depreciation of the pound. Dollars are used not only in everyday transactions – at stores and supermarkets and in taxis, for example – but also as a savings mechanism, and the dollarization of banking deposits is often interpreted as a sign of confidence in the economy, or as an indication of domestic or regional turbulence. Nisreen Salti, professor of economics at the American University of Beirut, studied the response of bank deposits denominated in both foreign and local currency to political events, including the 2005 assassination of Prime Minister Rafiq Hariri, the 2006 war with Israel, the 2008 clashes in Beirut between Hezbollah and their opposition, and the post-2008 global financial crisis. The higher the deposit ratio of pounds to dollars is taken as a sign of confidence in economic and exchange stability:

The overall pattern... (indicates) the tendency of depositors to respond to changes in the economic and political environment by converting the currency of their deposits.

<sup>151</sup> Charles Harvie and Ali Salman Saleh, “Lebanon’s Reconstruction After the War: a bridge too far?” (2007) (from 1970 to 2004); Ministry of Finance, op. cit. (from 2005 to 2014); IMF 2015, op. cit. (2015 and 2016).

Deposits in Lebanese liras are generally believed to be more risky than deposits in foreign currencies, as their value hinges on expectations about the ability of the central bank to sustain the currency peg it has committed to. This currency risk is also reflected in the higher interest rates typically offered on Lebanese deposits.<sup>152</sup>

**Figure 3.3: Dollarization of Bank Deposits**<sup>153</sup>



Similarly, S.A., also a professor of economics at the American University of Beirut, said in an interview that political developments rarely affected the in- and outflow of capital; rather, “people who have their money in the Lebanese banking system tend to keep it there” both because of the banking system’s well-managed reputation and especially the high interest rates paid on deposits:

The impact was not whether there would be an outflow out of the country but whether there would be a shift in domestic deposits between pounds and dollars. When things got very bad, then the impact was a shift from Lebanese pounds to dollars, but this shift was generally done with a degree of reluctance because the pound earned much more significantly than the dollar did.<sup>154</sup>

It was by offering relatively high interest rates on both Lebanese pound and dollar deposits that the banks could attract financial inflows, which they lent onwards to the government by investing in Treasury bills. The interest rates on pound deposits had to be several percentage points higher than dollar ones to dissuade their conversion into dollars, thus compelling the Banque du Liban to counter the pressure on the pound by putting forth their reserves on the

<sup>152</sup> Nisreen Salti, “The Economic Cost of Political Instability” (2012), 11.

<sup>153</sup> Banque du Liban Statistics & Research.

<sup>154</sup> Interview conducted by the author on August 31, 2015.

foreign currency market. Moreover, the interest rates on Lebanese pound deposits mirrored the interest rates paid on Treasury bills, and high rates were expensive, thus putting Lebanon on the brink of sovereign default several times in recent history.

Currency stability, and therefore high interest rates, were considered essential for the attraction of capital inflows for reconstruction. However, this program was very costly. In 1992, 23 percent of government expenditures went towards paying the interest rates on the sovereign debt, which rose to 40 percent by 1998.<sup>155</sup> The development discourse had shifted from financing reconstruction towards propping up the financial system. An International Monetary Fund consultation in late 2001 urged the devaluation of the pound, to which the Lebanese authorities and banking professionals strongly objected. Instead, in 2002, with the debt totaling more than 180 percent of the economy, the Hariri government organized a donors meeting in Paris – known as the Paris II agreement<sup>156</sup> – which offered Lebanon upwards of \$4 billion in foreign aid to avert a financial crisis. Although the Lebanese government’s policy paper presented at the Paris II meeting was entitled *Beyond Reconstruction and Recovery Towards Sustainable Growth: A Request for International Support*, their immediate aim was preventing an imminent financial crisis.<sup>157</sup> They requested concessionary financing to assist in restructuring an unsustainable debt. Ghassan Dibeh argues that Paris II was indicative of a redirecting of foreign aid away from reconstruction towards supporting the financial system. The economics professor S.A. also argued that the Paris accord was about “simply saving the Lebanese pound... (French President) Chirac took it upon itself to help Hariri, because I think if the pound had gone under then Hariri would have gone under, and that was not part of the political plan.” One of the measures taken was direct deposits at the Banque du Liban, which came at crucial times when the pound was under pressure. In 1997, Saudi Arabia and Kuwait deposited \$600 million and \$100 million, respectively; in 2001 several Arab states led by Saudi Arabia deposited an additional \$1.5 billion;<sup>158</sup> and in 2006 Saudi Arabia provided another \$1 billion to the Banque du Liban in the aftermath of the July war.<sup>159</sup> As part of the Paris II accord, the Lebanese government promised to bring spending under control, primarily through privatization. Within six months of the accord, the debt servicing costs – the government’s largest expense – dropped 20 percent and interest rates on Treasury bills fell to their lowest level since the civil war, while the promised taxation increases and privatization of the electricity and telecommunications sectors were mired in political discord.<sup>160</sup> By 2006, following the July war with Israel, the sovereign debt returned to above 180 percent of GDP and the Paris III accord reached the following year raised an additional \$7.6 billion both for reconstruction and financial stabilization.<sup>161</sup>

Between 2006 and 2012 the size of the sovereign debt rose, but given that the economy grew even more quickly the share of debt relative to the economy decreased. This trend persisted until repercussions from the Syrian conflict began making themselves felt on Lebanon, and beginning in 2012 the debt ratio started to rise again, from 133.8 percent in

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<sup>155</sup> Daniela Gressani & John Page, “Reconstruction in Lebanon: Challenges for Macroeconomic Management” (1999), 6.

<sup>156</sup> A preliminary meeting had taken place the year before, the Paris I agreement, which provided around 500 million euros of financial support to the Lebanese economy.

<sup>157</sup> Ghassan Dibeh, *Foreign Aid and Economic Development in Postwar Lebanon* (2007), 9.

<sup>158</sup> *Ibid.*, 6.

<sup>159</sup> Christine Hamieh & Roger MacGinty, “A Very Political Reconstruction: governance and reconstruction in Lebanon after the 2006 war” (2010), 109.

<sup>160</sup> *Lebanon Opportunities* (June 2003), 76-77.

<sup>161</sup> Hamieh & MacGinty 2010, op. cit., 116.

2011 to 134.4 percent in 2012, according to World Bank calculations.<sup>162</sup> Although economic growth slowed even before the war's outbreak, the International Monetary Fund wrote that "Lebanon's renowned resilience is being severely tested."<sup>163</sup> Despite the political impasse and sizable external requirements, they argued, "foreign-exchange and financial markets have remained resilient."<sup>164</sup> Yet with the sovereign debt projected to rise above 150 percent of gross domestic product in 2016, the World Bank warns, "the trend...is unsustainable."<sup>165</sup>

The expanding sovereign debt was financed by also increasing bank deposits. This circular financial system thus bridges banking deposits and the sovereign debt, intermediated by the Banque du Liban. Although they differed as to whether the system was sustainable or susceptible to a breakdown, those I interviewed concurred on the importance of deposits and dollarization in sustaining the sovereign debt. According to N.B., a research economist at a Lebanese bank:

I believe that the public finances will not collapse, the economy will not disintegrate because of the banking sector's continuing ability to attract deposits. As long as deposits continue to increase, the banking sector is liquid enough to finance the private sector needs and at the same time finance the increasing borrowing needs of the government... The deposits are the reason why there is still a stable economy despite the high fiscal deficit, the high public debt, the economic stagnation, the low consumer confidence.<sup>166</sup>

According to R.R., an official formerly at the Ministry of Finance, economic growth and deposit inflows were concurrent, with the latter an important confidence indicator for the economy:

The only (economic) indicator we have is deposits. (Before 2011) Lebanon had a situation where there was a lot of growth and there was also a lot of inflows, because usually they come together. Inflows were coming in at rates that were unprecedented... and this was a very important factor of confidence, or it reflects confidence.<sup>167</sup>

Yet a crucial factor accounting for the continuous growth in deposits is confidence in the currency peg. The International Monetary Fund has termed the peg both the "key anchor for confidence"<sup>168</sup> and the "lynchpin of financial stability."<sup>169</sup> In the words of T.I., a representative of an international financial institution, "at the end of the day it comes down to the peg...if the peg stumbles then you are going to see inflows dry up, and then the government is going to struggle to pay its debt and the whole system starts to crumble."<sup>170</sup> The system to which he refers is what his colleagues at the International Monetary Fund

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<sup>162</sup> World Bank, "Lebanon Economic Monitor" (2013d), 18. It is important to note that because official figures for GDP are not published for several years after the fact that there are discrepancies in different estimates for the total debt to GDP ratio.

<sup>163</sup> IMF, Staff Report for the Article IV Consultation (2014), 26.

<sup>164</sup> IMF 2015, op. cit., 8.

<sup>165</sup> World Bank 2015b, op. cit., 16.

<sup>166</sup> Interview conducted by the author on July 14, 2015.

<sup>167</sup> Interview conducted by the author on September 10, 2015.

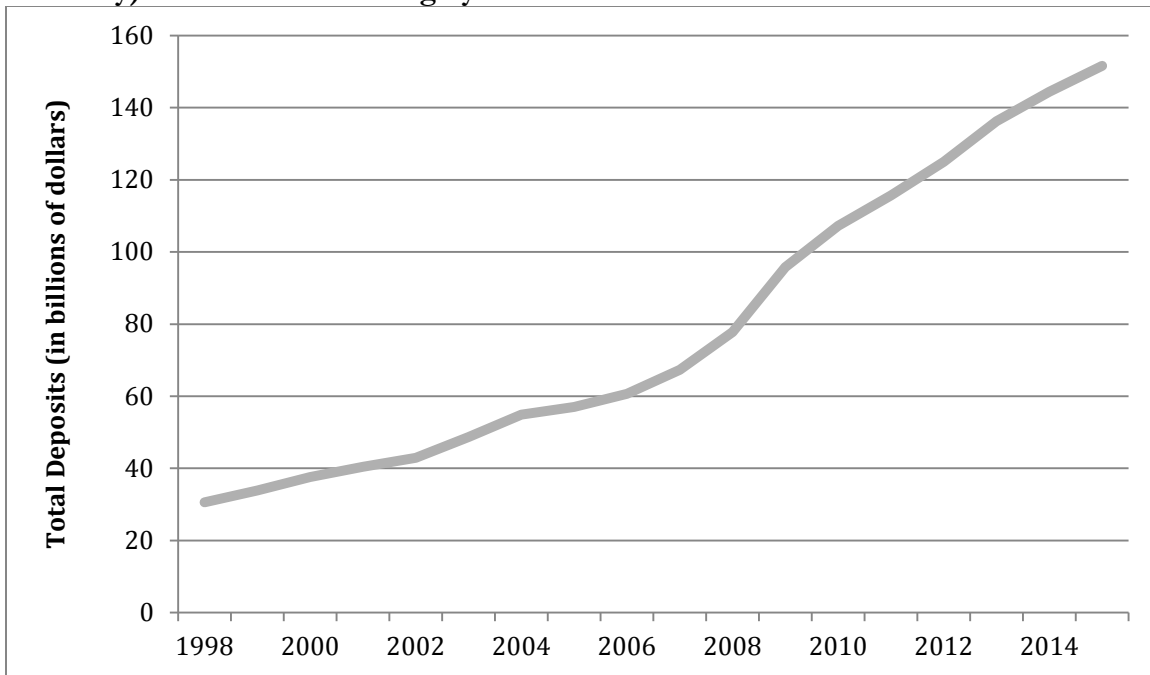
<sup>168</sup> IMF 2015, op. cit., 9.

<sup>169</sup> IMF 2014, op. cit., 19.

<sup>170</sup> Interview conducted by the author on July 10, 2015.

have termed “the bank-sovereign nexus,”<sup>171</sup> which “has been at the core of Lebanon’s resilience... (but) also means that broader macroeconomic stability depends in large part on the banks’ continued ability to attract foreign deposits.”<sup>172</sup> The deposit inflows on which the banking sector depends have remained resilient because of confidence in the currency peg, and in turn the exchange rate has remained stable under the supervision of the Banque du Liban.

**Figure 3.4: Total Deposits (Resident & Non-resident, Lebanese Pound & Foreign Currency) in Lebanese Banking System**<sup>173</sup>



Another source of stability is that Lebanese commercial banks have been the primary purchasers of Lebanon’s sovereign debt. This process began during the civil war, when the Banque du Liban compelled the banks to hold Treasury bills as part of their reserves, and it continued afterwards when the sovereign debt was one of the few secure investments which also paid profitable interest rates. The World Bank estimates that 75.5 percent of the total debt is held domestically by commercial banks and the Banque du Liban.<sup>174</sup> While financial crises in most of the world, such as the Argentinian default in 2001 and the Greek default in 2012, were caused by foreign creditors, in Lebanon most of the debt is held domestically and therefore the local banking system is essentially locked into financing the sovereign. In fact, a default would probably cause the collapse of the financial system, as 58 percent (and rising) of banking assets are invested in the sovereign.<sup>175</sup> What Clement Henry Moore argued during the civil war, when the banks were trapped in a prisoner’s dilemma of rolling over their non-performing loans otherwise they would fall into bankruptcy, is yet again true for Lebanese

<sup>171</sup> IMF 2015, op. cit., 28.

<sup>172</sup> *Ibid*, 10.

<sup>173</sup> Data in Lebanese pounds from Banque du Liban, converted into dollars at 1507.5 pounds to the dollar.

<sup>174</sup> World Bank 2015a, op. cit., 15.

<sup>175</sup> World Bank 2015b, op. cit., 20.

banks in their financing of the sovereign debt. There is both a stability and susceptibility of this nexus between the sovereign and the banks, with the government never needing to look farther than the local banking system to sink deeper into debt and the banks profiting from the interest paid on the Treasury bills, but if either were to pull away – with the sovereign unable to pay or the banks refusing to purchase – then the financial system would collapse. For M.A., a research economist one of the largest Lebanese banks, this risk is relatively low, given that the sovereign debt is not only domestically held but also denominated in local currency. “For the simple reason that the Lebanese government can print Lebanese pounds and redeem the banks,” there was no default risk in Lebanese pounds.<sup>176</sup> His assessment, however, overlooks the risk of inflation, which was behind the pound’s depreciation during the civil war, and thus hardly a solution for the sovereign debt crisis. Given the interconnectedness of their balance sheets and their deeply indebted sovereign, Lebanese banks are highly exposed to a default, if this were to ever happen – though historically Lebanon has never defaulted. I interviewed other bankers who believed that the banks would be better off by investing less in Treasury bills. A.T., for example, urged this approach at the Association of Banks in Lebanon, “what I tell them is two weeks, two weeks, when not a single bank should subscribe to Treasury bills, and we would have the government on its knees.”<sup>177</sup> He likened this approach to a lifeguard trying to save a drowning swimmer:

The minute you get to the guy who is drowning, when he or she sees you coming, they will try to reach out and try to grab you and try to drown you as well. What is the first thing they tell you to do? You put their head under water, so they naturally lift their hands up, and you twist them around and take them to shore.<sup>178</sup>

In other words, if the government was to be stopped from drowning in its own debts, only the banks would be able save them...but by refusing to purchase more debt. Similarly, N.B., another banker, also thought “the banks should close the faucet,” while recognizing that “if the banks completely close the faucet they will be directly affected, and they will lose their capital because they have been financing the sovereign for so long.”<sup>179</sup> He emphasized that if the banks were to stop financing the sovereign then the Finance Ministry would have to go to international markets where they would have to pay significantly higher interest rates. Thus, although interest payments in 2013 were 28 percent of the Lebanese government’s expenditures, and estimated to rise to 33 percent by 2015, this would inevitably be higher if the domestic banking system were not the primary source of financing.<sup>180</sup> By his argument, “it’s the commercial banks holding this system stable,”<sup>181</sup> because they were so saturated with deposits such that they could continue to finance the sovereign debt despite the many crises facing both the political and economic system.

One question I asked many interviewees in the humid summer months of 2015, when Lebanon’s longstanding political impasse prevented garbage from being collected off the streets of Beirut for several weeks, was this:

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<sup>176</sup> Interview conducted by the author on July 9, 2015.

<sup>177</sup> Interview conducted by the author on February 1, 2016.

<sup>178</sup> Interview conducted by the author on February 1, 2016.

<sup>179</sup> Interview conducted by the author on July 14, 2015.

<sup>180</sup> IMF 2015, op. cit., 31.

<sup>181</sup> Interview conducted by the author on July 14, 2015.

Lebanon has been without a president for one year; its armed forces are fighting insurgents on its border; it is inundated by 1.5 million Syrian refugees; and it has one of the highest debt to GDP ratios in the world. Yet recently Lebanon raised more than \$2 billion on the Eurobond market. Could you please explain this paradox?

This section on debt and dollarization is the solution to this puzzle. To finance its sovereign debt, “Lebanon is structurally and heavily dependent on capital inflows.”<sup>182</sup> The World Bank has traced these inflows to the regional oil wealth, the allure of Lebanon’s real estate and banking sectors, “considered as safe havens in times of crisis,” and the remittances of the wealthy Lebanese diaspora.<sup>183</sup> Yet instead of being invested in productive economic sectors, they tend to end up as banking deposits or real estate acquisitions. Moreover, in the context of political polarization, the inflows have delayed structural reforms away from measures to reduce the sovereign debt. Instead, the Banque du Liban’s monetary policies are inevitably oriented towards securing financial inflows. In the words of Charbel Nahas, former Labor Minister and longstanding critic of the Lebanese economy’s reliance on financial inflows, “The basic characteristic of this socio-economic system is permanently attracting, year after year, massive capital inflows and making all the due efforts to keep the old stock and to attract year after year equivalent or even increasing amounts.” By his argument, “the whole balance sheet (of all the banks) is only the cumulative effect of the financing of the external debt.”<sup>184</sup> The result, in Ghassan Dibeh’s criticism, is a “finance-based rentier economy” that is growth-impending.<sup>185</sup> Foreign capital inflows – from the Arab deposits in the Banque du Liban to the remittances of the Lebanese diaspora – thus formed a rentier economy based on financial rather than productive activity. The circularity of the financial system between the domestic banks and the sovereign debt has deprived investment from other sectors that could potentially employ more of the population, the classical crowding out effect evident in regional economies often described as rentier.

The rentier state is a descriptor often applied to the oil-rich countries of the region. Broadly, the rentier state is one that accrues significant revenue from foreign sources.<sup>186</sup> The term was applied to the Iberian countries with their accrual of gold from the Americas in the 16<sup>th</sup> century, as well as by Lenin to the imperialism of the early 20<sup>th</sup> century, when with the supremacy of finance capital came the predominance of the rentier state and of the financial oligarchy:

For that reason the term “rentier state” (*Rentnerstaat*) or usurer state is coming into common use in the economic literature that deals with imperialism. The world has become divided into a handful of usurer states and a vast majority of debtor states.<sup>187</sup>

Yet by Hossein Mahdavy’s definition of rentier states – “as those countries that receive on a regular basis substantial amounts of external rent” – the quintessential are the oil economies of the Middle East.<sup>188</sup> Yet while he cited oil revenues as an example external rents, what he

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<sup>182</sup> World Bank 2015b, op. cit., 17.

<sup>183</sup> World Bank 2012, op. cit., v.

<sup>184</sup> Commentary at World Bank presentation “The Great Capture” at the American University of Beirut (2015).

<sup>185</sup> Ghassan Dibeh, “The Political Economy of Postwar Reconstruction in Lebanon” (2005), 1.

<sup>186</sup> Melani Cammett, et. al. “A Political Economy of the Middle East, Fourth Edition” (2015): 322.

<sup>187</sup> Lenin 1917, op. cit., 277.

<sup>188</sup> Hossein Mahdavy, “The Patterns and Problems of Economic Development in Rentier States: the Case of Iran” (1970), 428.



wrote about these revenues having “very little to do with the production processes” in the domestic economies has relevance far beyond petroleum exporters.<sup>189</sup> Hazem Beblawi refined the rentier state definition around rents paid by foreign actors, accrued directly to the state and involving only a few in the generation of this wealth.<sup>190</sup> And although his examples were also the oil-economies of the region, little in this definition restricts its application to only the naturally resource-rich.

Distilling it down to the details, Beblawi writes that firstly “there is no such thing as a pure rentier economy,” as all economies are characterized by some elements of rent, but rentiers are those in which rents predominate, which he admits “is a matter for judgment.”<sup>191</sup> In Lebanon, the banking sector’s assets almost exceed 400 percent of the overall economy,<sup>192</sup> which the International Monetary Fund acknowledges as one of the largest in the world, and certainly the largest in the region as a share of its economy.<sup>193</sup> A second essential aspect of a rentier economy is “the externality of the rent origin.”<sup>194</sup> As detailed in this chapter’s final section and the following chapter, a significant share of banking deposits originate overseas with Lebanese expatriates. Therefore, although only 21 percent of the total bank deposits are categorized as “non-resident,” the International Monetary Fund has estimated that because many expatriates maintain an address in Lebanon that about 40 percent of deposits actually belong to non-residents, primarily Lebanese working in the Arab Gulf states,<sup>195</sup> making the financial system, namely the nexus between banks and the sovereign, “dependent on the confidence of non-resident depositors.”<sup>196</sup> The third trait of a rentier economy is one “where the creation of wealth is centered around a small fraction of the society,”<sup>197</sup> which pertains to Lebanon where economic growth has not translated into employment prospects for much of the population (between 1997 and 2009, when the economy expanded annually at an average rate of 4.4 percent, employment grew at only 1.1 percent),<sup>198</sup> thus pushing many, especially the educated youth, abroad.<sup>199</sup> Moreover, despite even the strains of the Syrian conflict and refugee crisis “poverty incidence has been elevated and broadly unchanged for the past 25 years in Lebanon,” with an approximately 27 percent of Lebanese living on less than \$4 per day, and 7 percent on less than \$2.40 a day.<sup>200</sup> The fourth corollary of the rentier state is that “the government is the principal recipient of the external rent in the economy,”<sup>201</sup> which again for Lebanon is the case when sovereign debt is at the center of the financial system, both the destination of foreign financial inflows, with the investment of banking deposits into Treasury bills and the source of its profits, with the interest payments made to the banks for financing the sovereign debt.

As a banking center, Lebanon has long been imbricated in the region’s petro-dollar infused rentier economies, not as an exporter of oil but an importer of its financial largesse, historically as a recipient of Arab capital and more currently of deposits of the vast number

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<sup>189</sup> *Ibid*, 429.

<sup>190</sup> Hazem Beblawi, “The Rentier State in the Arab World” (1990), 87-88.

<sup>191</sup> *Ibid*, 87.

<sup>192</sup> Author’s calculations based on Banque du Liban data on banking assets and World Bank data on GDP.

<sup>193</sup> IMF 2015, op. cit., 10.

<sup>194</sup> Beblawi 1990, op. cit., 87.

<sup>195</sup> IMF, Staff Report for the Article IV Consultation (2012), 10.

<sup>196</sup> IMF 2015, op. cit., 11.

<sup>197</sup> Beblawi 1990, op. cit., 87.

<sup>198</sup> World Bank 2015c, op. cit., 24.

<sup>199</sup> *Ibid*, 3.

<sup>200</sup> World Bank, “Lebanon Economic Monitor” (Fall 2014), 16.

<sup>201</sup> Beblawi 1990, op. cit., 88.

of Lebanese expatriates working in the oil economies. There were two dominant forms of capital in the Middle East, according Kiren Aziz Chaudhry, oil wealth and remittances from those based in the oil economies,<sup>202</sup> with Lebanon once profiting from financial circulations of the former but today benefiting primarily from the latter with some 350,000 Lebanese expatriates thought to be employed in the Gulf countries. These circulations have made Lebanon's financialized economy dependent on foreign inflows related to regional oil wealth and especially oil prices, with a robust and long-term relation between banking deposits and prosperity of the oil economies. In the words of the World Bank:

Oil price is a key direct and exogenous determinant of foreign inflows, a 1 percent increase in oil prices leading to 0.32 percent increase in deposits over the period 1974-2010.<sup>203</sup>

In their report on the impact of these capital inflows on the Lebanese economy, the World Bank argues that they have tended to bypass productive industries and innovative activities and instead ended as banking deposits or real estate acquisitions.<sup>204</sup> Similarly Ghassan Dibeh, writes that “the finance-based policy (has lead) to the rise of a rentier economy leading to deindustrialization,” with the rentier income derived from the interest payments on Treasury bills and the immense profits made by the banks.<sup>205</sup> Separately, the economist C.L. has also critiqued “the rentier economic model in Lebanon.”<sup>206</sup> In an interview he emphasized it was not a binary between being a rentier or a non-rentier state, as rents always figured into the economy, “it is a matter of degree, not of nature, and in this sense, Lebanon is a case where the share of rents is particularly high in the wealth accumulated and in the income.”<sup>207</sup> Thus, the rents of petroleum producing states, earned through natural resources and once invested in real estate and financial speculation in *entrepôts* such as Beirut, once linked Lebanon to a regional rentier economy that has since been structured around attracting financial inflows from its emigrants. In conclusion, Lebanon could also be characterized as a rentier economy, but one whose external rents derive from principally from the diaspora, which are onward invested in the sovereign debt. The following and final section of this chapter focuses on two of the consequences of this financial model, which may have proven resilient to the many political and economic risks that Lebanon has faced but arguably at a high cost.

### **Costs of Resilience**

The innumerable analyses of Lebanon's resilience aforementioned in this chapter rarely overlook its many problems. Rather, they cite resilience as the reason why Lebanon so often overcomes them, specifically the resiliency of its banks in attracting continuous capital inflow from overseas. In the words of Charbel Nahas, “As long as questioning the system is considered to lead possibly to chaos, the failure of the system to provide tranquility becomes the major source of its stability.”<sup>208</sup> But what is so resilient about a system that finances the sovereign debt of a state which is both politically and economically bankrupt? This is the

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<sup>202</sup> Kiren Aziz Chaudhry, *The Price of Wealth: Economics and Institutions in the Middle East* (1997), 4.

<sup>203</sup> World Bank 2012, op. cit., vii.

<sup>204</sup> *Ibid*, v.

<sup>205</sup> Dibeh 2005, op. cit., 1 & 18.

<sup>206</sup> Nahas 2014, op. cit.

<sup>207</sup> Interview conducted by the author on December 9, 2015.

<sup>208</sup> Nahas 2009, op. cit., 140.

question with which I want to conclude. It is not a question of whether or not the apparatus that has been constructed, whereby bank deposits are translated into sovereign debt, under the stability of the dollar peg and the supportive policies of the Banque du Liban, is resilient. The apparatus has withstood a financial crisis, meanwhile Lebanon has long been mired in myriad other crises from the paralysis of its political process to the deterioration of its public services, exacerbated by the pernicious effects of the Syrian conflict that have made politics more obstinate and the social pressures of poverty and unemployment more acute. Resilient the Lebanese financial system may be, but at what broader costs beyond the profits made by the banks?

It was often said in several of my interviews that the Banque du Liban was the only functioning institution in Lebanon. With the inability to pass an official government budget since 2005, the non-election of a president for over two years and the incapacity to cope with the garbage crisis, ongoing as this dissertation was being drafted, among other indications of dysfunction, “the central bank is the only quasi-government agency that actually seems to be working,” said T.I. of an international financing institution, “I think in the absence of a government the Central Bank has taken it upon itself in areas to help where it can.”<sup>209</sup> “The economy is suffering from a dichotomy,” argued N.I., a Lebanese economist working for an international financial institution, “where the banks and the central bank are covering up for the deteriorating fiscal situation. Lebanon would fall apart if every single sector operated as the fiscal sector. The Banque du Liban is keeping the country together.”<sup>210</sup>

Neither public nor private, the central bank was intended upon its establishment in 1964 to be politically autonomous and the governor, Riad Salameh, has been in place since 1993, his six-year term renewed three times and his name is mentioned often as a possible candidate for president.<sup>211</sup> In 2009, amid the global financial crisis, he was named Central Banker of the Year by *The Banker*, an international finance magazine, in an editorial praising his management of the Lebanese financial system:

While most of the world’s banks are suffering from the devastation caused by the global credit crunch, the 66 banks in Lebanon, a country heavily scarred by the 1975-90 civil war, high national debt, chronic budget deficits and wars with Israel, expect their aggregate balance sheet to grow by 12 percent in 2008 along with a 10 percent growth in profits.

This in a year when the government did not function for the first five months, as rival political parties argued over the appointment of a new president...How is it possible for such a banking sector to see such growth and maintain high liquidity in the system under such dire global and local conditions?

The answer is that Lebanon has a central bank and, in particular, a strong and respected central bank governor, Riad Salameh. Over many years and many crises, he has provided the structure and stability to provide confidence in the banking system for four million Lebanese, and millions more in the Lebanese diaspora.<sup>212</sup>

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<sup>209</sup> Interview conducted by the author on July 10, 2015.

<sup>210</sup> Interview conducted by the author on June 23, 2015.

<sup>211</sup> *Executive*, “The Right Choice for President: Riad Salameh should be Lebanon’s next leader” (2014).

<sup>212</sup> *The Banker*, “Banker of the Year/Middle East: Riad Salameh, Governor, Banque du Liban (2009).

The editorial concludes by noting his conservative financial management, “born out of the hard experience of countless crises...Mr. Salameh’s tight grip on the banking sector, and his expertise at communicating his control of the situation to investors, have provided the country with the confidence, stability and resilience to weather the worst financial storms.” Nisreen Salti also cites the role of the Banque du Liban in weathering the storm. With its dollarized, financialized, open economy, highly integrated into global markets and heavily dependent on remittances from countries, such as the United States and United Arab Emirates, where the crisis originated, “one would imagine that, of all the countries in the Middle East, Lebanon would be among the hardest hit by the global financial crisis...Yet World Bank and International Monetary Fund reports on the global recession show resilience in Lebanon’s economic indices.”<sup>213</sup> The most compelling reason for this resilience was the role of the Banque du Liban in regulating the financial sector. Despite possessing the world’s then-largest sovereign debt (relative to the size of its small economy), for the private sector the Banque du Liban had placed strict lending limits and cautious investment rules, including a ceiling on lending as a percentage of deposits and a floor for the share of deposits to be held as Treasury bills. It had also banned Lebanese banks from investing in structured products and derivatives, such as the mortgage securities that had (almost) brought down several banks in the United States.<sup>214</sup> Confidence in the Lebanese banking sector was confirmed by the accelerated increase in deposits, which grew over 23 percent in 2009 compared to an average annual growth of 10 percent over the past decade.<sup>215</sup>

The Banque du Liban again intervened extensively amid the economic downturn tied to the Syrian crisis. One of their measures has been a stimulus package, issued in tranches of around \$1 billion four times since 2013, with slightly more than half the funds directed into subsidized mortgages and the rest into renewable energy, environmental and technology projects.<sup>216</sup> More discretely, the Banque du Liban continues to concurrently maintain the peg to the dollar and finance the sovereign debt by attracting deposits into the Lebanese banking sector. In the International Monetary Fund’s annual consultations with the Lebanese authorities (known as Article IV consultations), they argue – in technical language – that the Banque du Liban is essentially intermediating the banks’ purchase of the public debt by managing the interest rates on the Treasury bills:

Staff noted that the BdL, at times, has helped finance the government by offering well-remunerated term deposits to banks in local currency, and channeling the proceeds to cover shortfalls in the T-bill market. As a result, the BdL has been effectively managing short- and medium-term T-Bill yields (unchanged since 2012) by using rates on its own CDs (certificates of deposit) as a key signal...It therefore recommended that, as fiscal adjustment takes hold, the BdL should scale back its role as intermediary between banks and the sovereign, paving the way for more market-based benchmark T-bill yields.<sup>217</sup>

In other words, in order to ensure continuity in the financing of the sovereign, the Banque du Liban was offering the banks certificates of deposit with interest rates and maturities

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<sup>213</sup> Nisreen Salti & Asli Bali, “How Lebanon Has Weathered the Storm” (2009).

<sup>214</sup> *Ibid.*

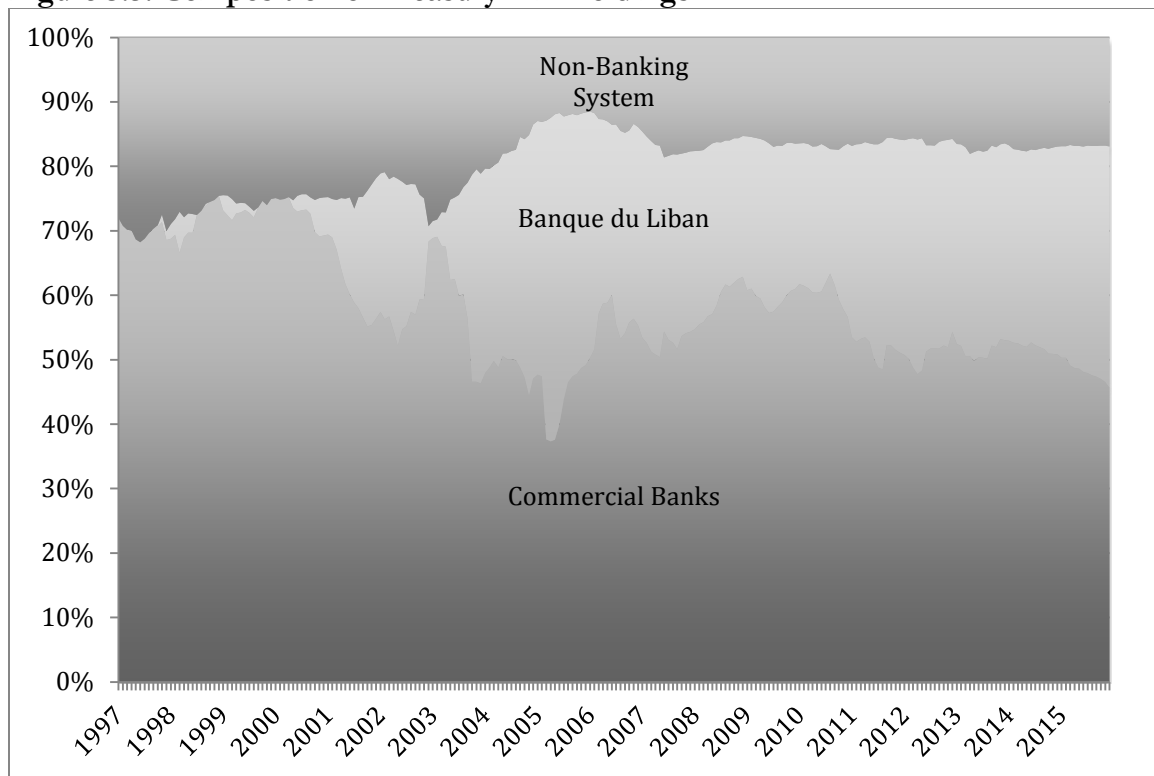
<sup>215</sup> Author’s calculations based on the Banque du Liban’s statistics on banking deposits.

<sup>216</sup> Banque du Liban, Overview of the recent monetary, banking and financial developments in Lebanon

<sup>217</sup> IMF 2015, op. cit., 19.

matching those of Treasury bills, and in turn translating these funds into covering demand shortfalls in the weekly auction of Treasury bills. As visualized in Figure 3.5 below, Lebanese banks have long been their government’s most important financier, although the Banque du Liban has been increasing the purchase of Treasury bills in recent years. Thus, in 2015 the commercial banks held 48 percent of Treasury bills and the Banque du Liban 35 percent, but in the past decade the banks held an average of 54 percent of the Treasury bills compared to the Banque du Liban’s 30 percent. Not since 2005, with Hariri’s assassination, have banks held less than 50 percent of Treasury bills in any given year.<sup>218</sup> In their response to this critique, the Lebanese authorities “disagreed with the claim that the BdL was actively intermediating the flow of funds between the banks and the government.”<sup>219</sup> However, in an interview with C.B., a Central Bank official, she described to me the relationship between the banks and the Banque du Liban as “consensual,” one in which “the central bank ensures there is abundant liquidity for commercial banks...it’s an accord with the banks.”<sup>220</sup>

**Figure 3.5: Composition of Treasury Bill Holdings**<sup>221</sup>



Yet according to R.R., an economist formerly of the Ministry of Finance, “there is an extremely monopolistic, oligopolistic, relationship between the government, the central bank and the commercial banks.”<sup>222</sup> What she was referring to the triangular arrangement among the three, where through intermediating the sovereign debt, “the Central Bank always wants to preserve the profitability of the banks...”

<sup>218</sup> Author’s calculations based on Banque du Liban statistics.

<sup>219</sup> IMF 2015, op. cit., 20.

<sup>220</sup> Interview conducted by the author on October 28, 2015.

<sup>221</sup> Banque du Liban Statistics & Research.

<sup>222</sup> Interview conducted by the author on September 10, 2015.

The commercial banks rely on the Central Bank for this margin of profit, and therefore if the government is not issuing Treasury bills – and I have seen this many times – the Central Bank will issue certificates of deposit to ensure a certain returns to the banks at its own balance sheet’s expense. It’s a complicated relationship that’s very tightly linked.<sup>223</sup>

For Charbel Nahas, the Banque du Liban has “monopolized the management of financial inflows into the country,” thus ensuring that all the commercial banks are “practically just *façades* for one bank,” as he stated at a presentation at the American University of Beirut.<sup>224</sup> Together their balance sheets have become “the cumulative effect of the financing of the external deficit.”<sup>225</sup> Underlining the symbiosis of the system, he stated:

The banking system in Lebanon is very integrated and functions as one entity, and this integration has been put in place progressively. I am convinced that it is not an excessive statement that there is one bank in Lebanon...No bank loses money. No bank, individually, goes bankrupt. All banks present exactly the same services. They have very close coordination in terms of management of interest rates and all that is clearly coordinated by the central bank. Even the structure of their balance sheets is extremely close to each other.<sup>226</sup>

This allegation of collusion between the sovereign, the Lebanese banks and the Banque du Liban has been leveled over the years. In 1997, the authors of a journal article entitled “The Lebanese Central Bank and the Treasury Bills Market,” wondered why the government still raised revenue over the internal Treasury bill market, denominated in Lebanese pounds and thus demanding higher interest rates, when it could reduce its financing costs by shifting to international borrowing, therefore paying lower interest rates on dollar-denominated debt. Their conclusion was that “this simple strategy has allowed many banks to survive without having a viable business base.”<sup>227</sup> The Banque to Liban was complicit in this business model wherein the banks reaped tremendous profits by taking deposits and investing them in high-yielding Treasury bills because, by the authors’ accusation, they inflated the interest rates on the Lebanese pound-denominated debt. Translated to the present, the Banque du Liban – according to its own statistics – is picking up its purchase of Treasury bills, as well as issuing certificates of deposit to induce the banks to continue financing the sovereign, but this time at the expense of its own balance sheet. “The resulting banking-sovereign feedback loop,” in the words of the World Bank, “is therefore adding a financial burden on the BdL.”<sup>228</sup>

The monopolistic relationship between the banks and the sovereign debt, under the supervision of the Banque du Liban, is an essential component of what makes the Lebanese financial system so resilient. Although the banks profit immensely from purchasing Treasury bills, the government would most certainly have to pay higher interest rates if they had to sell more of their securities to international investors. The domestic banks both understand their

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<sup>223</sup> *Ibid.*

<sup>224</sup> Charbel Nahas, “The Great Capture” (2015).

<sup>225</sup> *Ibid.*

<sup>226</sup> Interview conducted by the author on December 9, 2015.

<sup>227</sup> Sam R. Hakim & Saad Andary, “The Lebanese Central Bank and the Treasury Bills Market (1997), 234.

<sup>228</sup> World Bank 2015b, *op. cit.*, 19.

country's political risks and are unlikely to abandon their investment in the sovereign debt in times of turbulence. In a situation similar to the civil war, when the banks were trapped in a prisoner's dilemma of rolling over non-performing loans or else they themselves would face bankruptcy, the banks today are significantly exposed to the sovereign. Between public debt and certificates of deposit at the Banque du Liban, the consolidated exposure of the banks to the sovereign is about 56 percent, according to N.B., a research economist whom I interviewed<sup>229</sup> (or 58.4 according to the World Bank's calculations).<sup>230</sup> And although he calls upon his fellow bankers to put conditions on their continuing purchase of government debt, in placing so many of their assets in the sovereign they are thus extremely vulnerable to destabilizing its ability to repay them. Because the Lebanese banks and the Banque du Liban hold nearly 85 percent of the debt they could be considered "captive, having little interest in opting out and triggering a crisis... (because) a sovereign debt crisis would immediately turn into a banking crisis."<sup>231</sup> Although Lebanon has never defaulted on its debt obligations, a default would be very costly for the financial system, thus adding to the incentives for both the government and the banks as the main holders of their debt to avoid such an outcome. This was evidenced after the Paris II agreement in early 2003, when the banks purchased \$4 billion in Treasury bills without any interest payments.<sup>232</sup> They took such a step because the government had been on the brink of a financial crisis, over which – if the state had fallen – the banking sector would have followed in collapse. However, under the supervision of the Banque du Liban, banks are also said to understand that there would be an intervention to prevent such a banking crisis, because according to the economics professor S.A.:

The Banque du Liban fears that this would affect the foundations of the country, that it would have major political consequences. So the security of the banks is the knowledge that the central bank is their guarantee, not only their master but their protector as well. There is this very close club...it's a club...it's like going to one of those English Lord's clubs in London where you smoke a cigar...<sup>233</sup>

The members of this club are not only the bankers but the politicians as well. Jad Chaaban, an economics professor at the American University of Beirut, presented on the political ownership structure of the banks and the profits they make on payments from the sovereign debt.<sup>234</sup> Of the top twenty Lebanese banks, which control 99 percent of banking sector assets, eighteen have prominent shareholders linked directly or indirectly to political elites (those holding political office now or in the past or those who are family members of or have close ties with current or former politicians). The families of current or former politicians control approximately one-third of all banking assets. Therefore, when the banks are profiting from their investment in sovereign debt so too are the politicians and ministers who are sinking the government deeper and deeper into debt. Thus, according to Chaaban's calculations, the Hariri family, which controls all of the shares of BankMed, the sixth largest Lebanese bank in terms of the size of its assets, has earned \$108 million from public debt since Saad Hariri has held office since 2006. The owners of the fourth largest Lebanese

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<sup>229</sup> Interview conducted by the author on July 14, 2015.

<sup>230</sup> World Bank 2015b, op. cit., 20.

<sup>231</sup> Schimmelpfennig and Gardner 2008, op. cit., 11.

<sup>232</sup> *Lebanon Opportunities* (January 2003), 45.

<sup>233</sup> Interview conducted by the author on August 31, 2015.

<sup>234</sup> Jad Chaaban, "Mapping Control of Lebanese Politicians over the Banking Sector" (2015).

bank, Fransabank, are the Kassar family, headed by Adnan Kassar who was Minister of Economy (2004-2005) and Minister of State (2009-2011), and they earned \$24 million in interest payments on the public debt during those years. There are numerous other examples of prominent political families in Lebanon. This fusion of financial and political interests is what leads historian Fawwaz Traboulsi to describe the banking system as “the mainstay of the country’s economy, bankrolling the state, leading the reconstruction process, constituting the principle speculator on state debt and directing state policy.”<sup>235</sup> Therefore, when T.I., a representative of an international financing institution, acknowledges that “the central bank may have a tacit agreement to manage the financial system in a way that everybody makes money” this may not exactly be resilience but a form of crony capitalism.<sup>236</sup>

An additional outcome of the interest paid on the sovereign debt, an estimated 30 percent of government expenditure, into the pockets of politicians is that these resources are not invested in public infrastructure and services for the broader population.<sup>237</sup> Moreover, as the banks have invested more than 50 percent of their assets in the sovereign debt, this has crowded out other types of investment, namely in sectors outside of banking and real estate with more productive opportunities for the Lebanese population.<sup>238</sup> Instead, public services have deteriorated to such an extent that people must either passively accept their unreliability and inadequacy or pay extra for privatized alternatives, from electricity and water provision to health and educational services. Additionally, as economic growth has not translated into employment, the longstanding Lebanese tradition of emigration has accelerated.

Another reason for the financial system’s resilience are the Lebanese working abroad. Their remittances account for most of the increase in deposits, which are then translated into the sovereign debt. As discussed in more detail in the following chapter, annual inflows of remittances – more than \$7.5 billion in 2015 – account for around 15 percent of GDP.<sup>239</sup> Given Lebanon’s banking secrecy law and the informal channels by which some remittances are channeled it is impossible to know exactly how much is transferred beyond the banking system, although there are estimates. At year’s end 2015, the Banque du Liban had recorded \$119.7 billion in deposits by residents and \$31.9 billion in deposits by non-residents, totaling \$151.6 billion, divided between 79 percent for residents and 21 percent non-residents.<sup>240</sup> Yet the IMF estimated that almost 40 percent of deposits belong to non-residents, “a significant share of which comes from Lebanese living in MENA,” a possibility reiterated in interviews with research economists at two Lebanese banks, as many expatriates maintain an address in Lebanon, and thus their bank accounts are considered as belonging to residents.<sup>241</sup> “Non-resident deposit growth has been a vital factor in the stability of the banking sector, and in fact the whole economy,” wrote the World Bank about the otherwise stagnant Lebanese economy in 2015.<sup>242</sup> They calculated that non-resident deposits had expanded an average of 18 percent annually since 1993, as remittances were attracted to the high interest rates earned on deposits in Lebanese banks, their well-managed reputation and the confidence in the peg with the dollar.<sup>243</sup> Yet since the beginning of the Syrian conflict in 2011, non-resident deposit

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<sup>235</sup> Fawwaz Traboulsi, “Social Classes and Political Power in Lebanon” (2014), 35.

<sup>236</sup> Interview conducted by the author on July 10, 2015.

<sup>237</sup> Author’s calculations based on IMF 2015, op. cit., 31.

<sup>238</sup> Makdisi 2004, op. cit., 105.

<sup>239</sup> *Daily Star*, “Expat remittances to Lebanon hit \$7.5 billion” (2015).

<sup>240</sup> Banque du Liban Statistics and Research.

<sup>241</sup> IMF 2012, op. cit., 10. Interviews conducted by the author on July 9 and July 14, 2015.

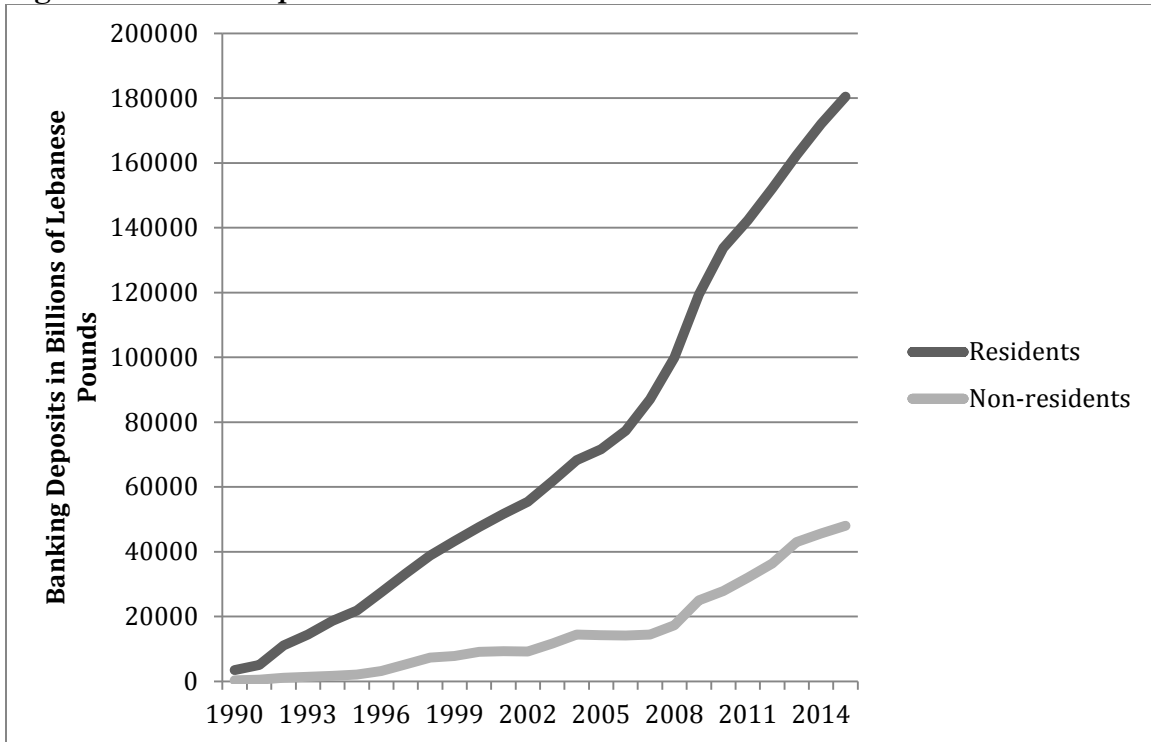
<sup>242</sup> World Bank 2015b, op. cit., 21.

<sup>243</sup> *Ibid*, 21.



growth has declined to an annual average of 11.6 percent, decelerating notably to 6.4 percent in 2014 and 5.1 percent the next year.<sup>244</sup> According to the International Monetary Fund’s 2015 Article IV Consultation, “The structure of Lebanon’s financial system, and the tight nexus between banks and the sovereign make the economy dependent on the confidence of non-resident depositors,” and recent slowdown in deposit growth indicates that this confidence may perhaps be shaking.<sup>245</sup>

**Figure 3.6: Total Deposits in Lebanese Banks<sup>246</sup>**



According to many aforementioned characterizations, deposits – both resident and non-resident – have remained “resilient” despite indications of political and economic risk to the contrary. Residents’ deposits have grown every year since 1990, and the only years when non-resident deposits did not were in 2002 (when they declined by 0.34 percent), 2005 and 2006 (when they declined 1.03 percent in both years). Thus, despite Hariri’s assassination in 2005 and the July war the next year, meaningful outflows from the banking sector failed to materialize. The Lebanese expatriates, whose remittances had fueled much of this deposit increase, were understood to be familiar with their countries’ myriad volatilities. There were fears that the global financial crisis beginning in 2008 would negatively impact deposit inflows into Lebanon, as the source of much of those remittances – Gulf countries such as the United Arab Emirates – were most threatened by the crisis. However, in 2009 resident and non-residents’ deposits surged 19.5 percent and 44 percent, respectively.<sup>247</sup> Remittances that year were equivalent to 21.7 percent of Lebanon’s GDP.<sup>248</sup> Between 1992 and 2007 the

<sup>244</sup> Author’s calculations based on data from Banque du Liban Statistics and Research.

<sup>245</sup> IMF 2015, op. cit., 11.

<sup>246</sup> Data from Banque du Liban Statistics and Research; figure by the author.

<sup>247</sup> Author’s calculations based on Banque du Liban Statistics and Research.

<sup>248</sup> Nassib Ghobril, “The Global Crisis and Expatriates’ Remittances to Lebanon” (2012), 366.

destination of about 35 percent of Lebanese emigrants was the Gulf countries, which attracted 20 percent of Lebanese emigrants between 1992 and 1996, 31 percent from 1997 to 2001, and 45.5 percent during the period between 2002 and 2007.<sup>249</sup> Former Finance Minister Mohammad Chatah estimated that there were around 350,000 Lebanese working in the Gulf countries in 2008.<sup>250</sup> The International Monetary Fund, among others, predicted the financial crisis would reduce remittance inflows into Lebanon, or even induce emigrants to return, but the opposite happened.<sup>251</sup> According to Nassib Ghobril of Bank Byblos:

A very important reason return migration did not materialize, and that was somewhat overlooked in Lebanon, is the fact that Lebanese migrants understand the lack of opportunities in the home country on the scale they have been accustomed to. In fact, it constituted the main reason they left the country and was still prevalent at the time of the crisis. Moreover, the still-fresh history of political instability in the country, and its potential recurrence, was a key factor that discouraged migrants from returning to Lebanon.<sup>252</sup>

He also performed a correlation analysis linking political and financial risk and remittances to learn that instability in Lebanon was positively correlated with inflows; in other words, when the level of risk increased, the level of remittances did too. By his reasoning, remittances were not deterred by Hariri's killing or the war with Israel because they were accustomed to these political risks, nor were they dissuaded from depositing their savings back in Lebanon during the financial crisis because they saw its banking sector as a "safe haven" of stability – the currency peg, the conservative management of the Banque du Liban – amidst financial turmoil overseas. According to his analysis, remittance inflows could thus be considered the source of the system's resilience:

Indeed, the continuous migration from the country since 1975 has arguably been the single most relevant factor for the continuous inflow of remittances to the country, regardless of domestic political or economic circumstances.<sup>253</sup>

The question on the minds of many is what – if anything – will cause these deposits to cease? This was almost an impossibility for several Lebanese economists to whom I posed the question. Speaking of the expatriates, professor S.A. believed their deposits were based on more than the soundness of the financial system:

It is not only the interest rate that attracts them; I think there is something emotional for why the Lebanese put their money here. Traditionally, there was the reputation, that the system doesn't really break. I think it's historical, because the system hasn't even under very adverse conditions broken down, the banking system; therefore why would we assume that it will break down? And the only time that the banking system would break down is if there is massive outflow, which has not been experienced.<sup>254</sup>

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<sup>249</sup> *Ibid*, 371.

<sup>250</sup> Guita Hourani, "Lebanese Migration to the Gulf 1950-2009" (2010).

<sup>251</sup> Yasser Abdih, et. al., "Fiscal Sustainability in Remittance-Dependent Economies" (2009), 5.

<sup>252</sup> Ghobril 2012, op. cit., 373.

<sup>253</sup> *Ibid*, 275.

<sup>254</sup> Interview conducted by the author on August 31, 2015.

Similarly, R.R., a former official with the Ministry of Finance, could not predict what would cause the system to collapse:

What will break the system? When deposits stop. But they will not stop; they cannot stop, because in every family there is somebody working abroad, and this person who is working abroad still, until today, has trust in the banking system in Lebanon, and has in most cases has no other possibilities to open accounts elsewhere.

In their most recent assessment, the International Monetary Fund underlines that although deposit inflows have thus far funded the economy and have been “resilient”<sup>255</sup> despite political and economic volatility, “Lebanon’s traditional lifelines should not be taken for granted... The country has faced difficulties before, but this time they have come together in a particularly detrimental combination, with a potentially lasting impact.”<sup>256</sup> They refer to the adverse amalgamation of the persistent sovereign debt with the more timely problems of political discord, regional security threats and increasing infrastructural and economic strains from the refugee crisis. T.I. of an international financing institution, wondered as to how much longer, under these difficult conditions, Lebanon’s sovereign debt was sustainable:

But the question that is asked from the outside is what is that shock? A big shock that hits, dries up the deposits, the whole thing comes crashing down, but no one can put their finger on what that shock is... And that’s when you get into discussions with people that this isn’t sustainable, and it probably isn’t sustainable, but nobody can put their finger on the timeframe.<sup>257</sup>

Rather than conjectures about what would cause this circulatory financial system to collapse, I conclude back where it began, with the concept of resilience. The resilience of the financial system is most often correlated to the deposits that continuously saturate the banks. These inflows in turn are often tied to the Lebanese expatriates that continue to deposit their earnings in banks based in Beirut because of its historically stable banking system. Therefore, it is the ongoing emigration of the Lebanese to work overseas that allows this system to still function smoothly despite all of the political and economic risk indicators that would imply otherwise. In other words, in those of Charbel Nahas, the survival of the system depends on “a radical change in the structure of society, meaning an acceleration of out-migration.”<sup>258</sup> Or in those of R.R. a former official at the Ministry of Finance:

So you have these people who are working abroad, who are sending in remittances and this is what makes the economy continue, and this is what makes it continue to refinance the debt of a government that in theory couldn’t be able to finance itself.<sup>259</sup>

Therefore, going back to the argument about Lebanon’s financialized economy resembling a rentier state, the inflow of capital is not linked to the export of natural resources, but to the

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<sup>255</sup> IMF 2015, op. cit., 11.

<sup>256</sup> *Ibid*, 28.

<sup>257</sup> Interview conducted by the author on July 10, 2015.

<sup>258</sup> Nahas 2015, op. cit.

<sup>259</sup> Interview conducted by the author on September 10, 2015.

persistent outflow of a workforce sufficient in size and sufficiently educated to accumulate enough capital to keep the financial system functioning.<sup>260</sup> However, if the resiliency of the financial system is contingent on the ongoing emigration of Lebanese overseas in order that their remittances roll over an ever-accumulating sovereign debt this requires a more critical look at the resiliency for which Lebanon is renowned. The reliance of the system on foreign financial inflows could thus be seen as entangled in both virtuous and a vicious circles. The deposits are what permit the banking sector to finance a bankrupt sovereign, thus virtuously preventing a financial collapse which would devastate the entire country, as hyperinflation and currency depreciation did in the latter years of the civil war. Yet much of these deposits are earned as remittances, which because they are invested in the sovereign debt or other unproductive sectors such as real estate, are viciously incentivizing more emigration because only overseas can the Lebanese make the money that is necessary for their family's survival. A broader examination of the political economy of Lebanese emigration is the topic of the following chapter.

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<sup>260</sup> Nahas 2009, *op. cit.*, 128.

## CHAPTER FOUR

### Affective Investment

Lebanon is a country of emigration, a tradition of leaving abroad for employment, an economy dependent on remittances not only to support struggling families through times of economic precarity but also to sustain the indebted Lebanese state in this precarious time. In addition, Lebanon is a country of immigration, as there are currently between 150,000 and 220,000 migrant domestic workers employed in Lebanese households<sup>1</sup> and in the early 2000s between 20 and 40 percent of the workforce in Lebanon was actually Syrian, who comprised an estimated 75 percent of all construction workers.<sup>2</sup> This chapter, however, focuses on the emigration of Lebanese overseas and especially the possibility of transforming their immense remittances in a national economic development policy. Unsurprisingly, with the dysfunction of the Lebanese state, this has thus far proven an impossibility, although the chapter outlines some of the efforts made to attract emigrant investment. Rather, the real estate and financial pillars of Lebanon's economy have tapped into their capital inflows to continue construction and saturate the banks' coffers with deposits, even amidst an otherwise stagnant economy – though there are signs that emigrant support may also be stagnating. Remittances were what kept the Lebanese economy going during the first half of the civil war; they financed postwar reconstruction and were not deterred by decades of political turmoil. Yet the persistence of the Syrian war, the domestic political paralysis and fears around the declining oil prices in the Gulf economies where an estimated 350,000 Lebanese emigrants are employed,<sup>3</sup> combined with geopolitical tensions between these countries' leadership and Lebanon's Hezbollah-affiliated political coalition, have together given way to speculation that remittances may in the future no longer be so forthcoming.

But before concluding this chapter, and later the dissertation, with these conjectures as to continued emigrant investment, some basics on the utmost importance of emigration to the Lebanese economy. There are no statistics on the number of Lebanese working overseas. Nor is there an exact total of the vast sums they send back to Lebanon, not only because of the informal channels used, but also because even those deposits recorded as residents are often earned by Lebanese overseas. Nevertheless, it has been estimated that 466,000 emigrated between 1992 and 2007 (out of a population of around 4 million at the end of the period), with 45 percent of households having at least one close member of their family living abroad during this time.<sup>4</sup> In an interview with a government official working on attracting emigrant investment, R.M. acknowledged there were around 1.2 million Lebanese abroad with financial ties to their country.<sup>5</sup> The World Bank's data for 2015 estimated \$7.5 billion in remittances, which translates into about 15 percent of GDP, although both again are estimates given the uncertainty on not only the amount transferred outside the banking system but also the very total of the gross domestic product as official statistics are several years behind.<sup>6</sup> In 2014, again according to the World Bank's estimates, Lebanon received \$7.2 billion in remittances, compared to \$820 million in overseas development aid and \$2.9

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<sup>1</sup> Marie-José Tayah, "Working with Migrant Domestic Workers in Lebanon" (2012), 9.

<sup>2</sup> John Chalcraft, *The Invisible Cage: Syrian Migrant Workers in Lebanon* (2009), 15 & 157.

<sup>3</sup> Guita Hourani, "The Global Financial Crisis: Impact of Lebanese Expatriates in the Gulf" (2009), 2.

<sup>4</sup> Choghig Kasparian, *L'émigration des jeunes libanais et leurs projets d'avenir* (2009), 7.

<sup>5</sup> Interview conducted by the author on January 22, 2016.

<sup>6</sup> <http://www.dailystar.com.lb/Business/Local/2015/Oct-26/320191-expats-remittances-to-lebanon-hit-75b.ashx>

billion in foreign direct investment.<sup>7</sup> Emigrants, in other words, are the largest overseas/foreign financial support for the Lebanese economy, which is constructed around attracting these inflows.<sup>8</sup> In the words of M.A., a research economist at a large Lebanese bank, “The diaspora is for Lebanon like a sovereign wealth fund, because like an oil fund, it is providing revenues on a regular basis.”<sup>9</sup> N.B., also a research economist at another large Lebanese bank, was more sanguine about remittances as a source of support for the economy, arguing “the only reason why expatriate inflows have not declined is because of the continuous emigration. It’s as simple as that.”<sup>10</sup> Otherwise stated, it is only by exporting their workforce that these billions are invested back in Lebanon. Similarly, H.L., a scholar of Lebanese emigration, argues “We don’t have foreign direct investment in the real sense. If you want foreign diasporic investment this is limited too.”<sup>11</sup> What she meant is that remittances are generally translated into immediate consumption for family members rather than being invested in long-term ventures that would benefit the overall Lebanese economy. Yet remittances have long been so essential to the Lebanese economy that economists at the International Monetary Fund have argued that their traditional debt-to-GDP ratio should be modified to more accurately represent the sustainability of the sovereign debt.<sup>12</sup>

Although emigration, as the source of financial inflows, is essential to sustaining the Lebanese economy, so too is Lebanon’s economic malaise also a motivation for emigration. Emigration accelerated after sectarian violence erupted in Mount Lebanon in the mid-19<sup>th</sup> century, but this was also when the local silk industry collapsed under foreign competition, a fact that accounted more for the movement of Lebanese overseas than religious persecution. The civil war, fought between 1975 and 1990, spurred more massive emigration of Lebanese (almost 1 million, or 40 percent of the population, according to Boutros Labaki<sup>13</sup>), but tens of thousands had departed in the prewar years to the petroleum economies of the Arab Gulf states. During the decade of the 1960s, more than 8,500 Lebanese emigrated annually, rising to 10,000 yearly between 1970 and 1974.<sup>14</sup> The number of Lebanese migrant workers in the Gulf economies rose from 50,000 in 1970 to almost 100,000 in 1975 and more than 200,000 in 1980, with their remittances rising those same years from \$250 million, to \$910 million, to \$2.254 billion, or 35.4 percent of the economy by 1980.<sup>15</sup> In fact, it was the decline in the oil price, with the concurrent reduction in remittances from the Gulf, that catalyzed the collapse of the Lebanese economy in the second part of the civil war.<sup>16</sup> Although emigration and the economy have long been tied, if not inexorably intertwined, for H.L., a scholar of Lebanese emigration, insecurity not economics motivates ongoing emigration:

I don’t agree with the statement that people are leaving from Lebanon because of economic reasons. For me, the majority of people who are leaving are not leaving because of economic reasons. Economic reasons are the end result of the insecurity

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<sup>7</sup> World Bank data <http://data.worldbank.org>

<sup>8</sup> World Bank, “Using Lebanon’s Large Capital Inflows to Foster Long Term Growth” (2012).

<sup>9</sup> Interview conducted by the author on July 9, 2015.

<sup>10</sup> Interview conducted by the author on July 14, 2015.

<sup>11</sup> Interview conducted by the author on October 2, 2015.

<sup>12</sup> Yasser Abdih, *et. al.*, “Fiscal Sustainability in Remittance-Dependent Economies” (2009).

<sup>13</sup> Boutros Labaki, “Lebanese Emigration during the War (1975-1989)” (1991), 609.

<sup>14</sup> Toufic Gaspard, *A Political Economy of Lebanon, 1948-2002: The Limits of Laissez-Faire* (2004), 97.

<sup>15</sup> Salim Nasr, “The Political Economy of the Lebanese Conflict” (1989), 44.

<sup>16</sup> Samir Makdisi, *The Lessons of Lebanon: the economics of war and development* (2004).

in the country, the lack of investment in the country. I think it's like two faces to the same coin.<sup>17</sup>

Yet she acknowledged that, “it is almost an exodus out of Lebanon, even after the end of the civil war.” Whereas the number of Lebanese leaving reflected the variation in the civil war’s devastation – more than 400,000 in 1975, but a return of almost 300,000 the following year when there was hope for a political settlement, with constantly rising emigration throughout the rest of the war’s years, including 240,000 departures in 1989<sup>18</sup> – the political instability in its aftermath has kept people leaving, according to Guita Hourani of Notre Dame University in Lebanon, “the postwar insecurity crisis may even have played a more significant role than the (civil) war itself in driving outward-migration and forcing Lebanese abroad to reconsider their aspirations to rebuild their lives in their homeland.”<sup>19</sup>

Whether it is insecurity, economic or otherwise, motivating Lebanese overseas, one of its indisputable and defining characteristics is that the young and the educated are leaving in increasing numbers. As writes Guita Hourani, “starting in the early 1990s, the most salient characteristics of Lebanese migrants have been their youth and high levels of education.”<sup>20</sup> Yet writing as far back as 1967, Fuad Khuri noted the tendency of the educated to emigrate, “since the market for professional skills in Lebanon is limited, it is not surprising that those with higher educational training tend to leave the country... They have apparently heeded the current maxim, ‘Get a college degree and you will be doomed to leave the country.’”<sup>21</sup> As writes Professor Choghig Kasparian of Saint Joseph University, whose quantitative surveys of Lebanese emigrants and their families provides the most complete treatment on the topic, the predominance of emigration among university-educated youth is remarkable, with more than 43 percent of 18 to 35 year old emigrants, the age bracket accounting for 77 percent of Lebanese emigrants, having a university diploma.<sup>22</sup> One-third of emigrants have a university education, compared to 17 percent of the Lebanese population.<sup>23</sup> Intentions to emigrate are also especially pronounced among the young. Among the more than 8,000 households she interviewed, 26.1 percent of respondents aged between 18 and 35 expressed intentions to emigrate or temporarily leave Lebanon, with another 17.7 percent wishing to emigrate but without having the immediate intention to do so.<sup>24</sup> Of those with the intention to emigrate, more than two-thirds wanted to do so in order to find employment, compared to one-third who stated another reason for their wanting to emigrate is Lebanon’s political situation.<sup>25</sup> Her conclusion is that economic reasons are the main motivations of emigration.<sup>26</sup> Similarly, the economist Jad Chaaban argues that, given their relatively high levels of education and the Lebanese economy’s low demand for skilled labor, that the majority of new entrants to the job market are forced to emigrate or become inactive. He finds that emigration accounts for the export of about 20,000 Lebanese annually and that “under current emigration patterns, approximately half of a given generation will have eventually left the country by the age of

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<sup>17</sup> Interview with the author conducted on October 2, 2015.

<sup>18</sup> Labaki 1991, op. cit., 610.

<sup>19</sup> Guita Hourani, “Insecurity, Migration and Return” (2007), 11.

<sup>20</sup> *Ibid*, 12.

<sup>21</sup> Fuad Khuri, “A Comparative Study of Migration Patterns in Two Lebanese Villages” (1967), 208.

<sup>22</sup> Choghig Kasparian, *L’émigration des jeunes libanais et leurs projets d’avenir* (2009), 17 & 28.

<sup>23</sup> Choghig Kasparian *L’apport financier des émigrés et son impact sur les conditions de vie des Libanais* (2014), 59.

<sup>24</sup> Kasparian 2009, 46.

<sup>25</sup> *Ibid*, 53.

<sup>26</sup> *Ibid*, 16.

59.”<sup>27</sup> According to another study from 2006, 57 percent of Lebanese between 20 and 24 saw their professional career outside Lebanon,<sup>28</sup> a percentage that has probably increased in the decade since as economic and other insecurities have increased. While the World Bank has estimated that around 18 percent of the Lebanese population are emigrants,<sup>29</sup> in actuality half of the younger generations are expected to emigrate and even more regard emigration as the only path towards a future.<sup>30</sup> In sum, emigration is the source of the transnational capital inflows into the Lebanese economy, and thus the source of what analysts aforementioned in the past chapter term its resilience, but a resilience that comes from exporting an estimated half of its young and educated.

The focus of this chapter is the impact of emigration on the Lebanese economy, and more specifically the possibility of translating remittances into emigrant investment as part of a national development policy. It builds on bookshelves of previous research into the Lebanese diaspora, including the microeconomic impact of emigration on the families and villages left behind. What makes my emphasis distinct is its encompassing of emigration into a broader development narrative, or – because this has mostly failed to materialize – the business policies of two pillars of the Lebanese economy: real estate and banking. From my review of the literature, most of the published material (and I focused on that published in English) on the Lebanese diaspora deals with emigrant/immigrant identity and their relations with communities in the countries they migrated to. Many of these studies are cited below, in my brief historical overview of Lebanese emigration. Those including the economic impact of emigration, historically and in the present, dwell on housing as a significant component of emigrant investment back in their homeland, thus affirming an advertising slogan promoted today by property developers and bankers to “own a home in your homeland.” Moreover, in the chapter following this one, I note on the ways in which Washington DC’s policymakers, notable the Treasury Department view the Lebanese diaspora, especially those based in West Africa, with suspicion owing to their suspected sympathies and financial ties with Hezbollah.

At the heart of this chapter is the puzzle inspiring my dissertation: why is so much money invested in Lebanon despite the myriad risks of doing so? The solution to this puzzle, the one I propose, is the ongoing emigration as the source of much of these financial inflows supporting the Lebanese economy, and specifically its real estate and banking sectors. In past chapters, I traced the importance of investment by Lebanese emigrants in both, supported by the policies making them persist as economic pillars, specifically those of the Banque du Liban, which my interviewees almost universally regarded as the country’s only functioning institution. In my dissertation’s conclusion I analyze the costs of thus putting emigration at the center of Lebanon’s national development policy, perhaps not a policy intentionally put in place, but one which I conclude is the source of Lebanon’s resilience but a resilience with an unquantifiable high cost.

## **Economics of Emigration**

Robin Cohen writes that the word ‘diaspora’ is derived from the Greek verb *speiro*, to sow or to scatter, and the preposition *dia*, over and across, and therefore the ancient Greeks

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<sup>27</sup> Jad Chaaban, “Higher Education & Labor Market Outcomes in Lebanon” (2009), 17.

<sup>28</sup> *Le Commerce du Levant*, “La moitié des Libanais veulent émigrer pour des raisons professionnelles” (2009).

<sup>29</sup> World Bank, “Migration and Remittance Factbook” (2016), 109.

<sup>30</sup> Chaaban 2009, op. cit., 17.



thought of diaspora as migration and colonization.<sup>31</sup> Under both the Oxford English and the Merriam Webster dictionaries, the first definition of diaspora refers to the dispersion of the Jews beyond Israel. Similarly, in his seminal article on diasporas, William Safran writes of the Jewish exile from their historic homeland as the “ideal type”<sup>32</sup> of diaspora, although he also acknowledges that in modern uses diaspora has metaphoric designations for myriad peoples, from expatriates, immigrants and refugees, as well as Armenians, Greek, Maghrebi, Turkish, Cuban, Chinese and even the Palestinians exiled by the creation and settler-colonization of Israel. Diaspora also connotes sorrow, what Edward Said describes as the anguish of exile, “it is the unhealable rift forced between a human being and a native place, between the self and its true home: its essential sadness can never be surmounted.”<sup>33</sup> While Said’s emphasis is exile, defined by banishment, and differentiating exiles from refugees, expatriates and *émigrés*, according to Safran’s oft-cited classification the boundary between diaspora and emigration is blurred. Diasporas are said to share the commonalities of a history of dispersal, alienation from their host society, mythical memories of their homeland, the desire to return to their ancestral home, commitment to its maintenance or restoration and ongoing identity around this relationship.<sup>34</sup> Although for both Safran and Said there is the sense of forcible exile and an unrealized homeland, James Clifford’s interpretation is ambivalent, as those not adhering to the aforementioned six characteristics of diaspora may still possess “diasporic dimensions to their practices and cultures of displacement,”<sup>35</sup> and no diaspora can qualify on all counts throughout its history.

The Lebanese are often alluded to in these writings on diaspora. The duress of their dispersal is disputed, as was/is the status of their homeland both under Ottoman and French domination and in the contemporary era. However, according to Robin Cohen’s typology of different diasporas, the Lebanese typify the traders.<sup>36</sup> One of the more contested facts of the Lebanese diaspora are their very numbers. At the government conferences to incentivize the diaspora’s investment back in Lebanon and in many of my interviews on the subject, I often heard or was told that the Lebanese diaspora was upwards of 15 million. Brazil, for example, is said to have more Lebanese among its population than the number living within Lebanon. However, if defined by those actively engaged with Lebanon, namely by sending remittances back to the country, then the number of Lebanese expatriates is 1.2 million, according to a representative from the Investment Development Authority of Lebanon, the entity charged with attracting foreign direct investment to the country.<sup>37</sup>

In an edited compilation on the diversity of the Lebanese diaspora – drawing on chapters from the Americas, north and south; Europe; Saudi Arabia; and across West Africa – Albert Hourani writes of four phases of emigration. The first, lasting from the 17<sup>th</sup> to the mid-19<sup>th</sup> centuries, drew limited numbers of Syrian and Lebanese to Mediterranean cities as traders between Europe and the Middle East. Emigrants in this era were mainly Christian or Jewish merchants. The second, covering the late-19<sup>th</sup> century to the First World War, was more of an unlimited emigration to the Americas, only regulated by Ottoman conscription. It comprised mainly Christian villagers from the Lebanese mountains. Between 1860 and 1914, 135,000 persons, or more than one-fourth of the population, was believed to have

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<sup>31</sup> Robin Cohen, *Global Diasporas: An Introduction* (1997), ix.

<sup>32</sup> William Safran, “Diasporas in Modern Societies: Myths of Homeland and Return” (1991), 84.

<sup>33</sup> Edward Said, “Reflections on Exile” (2001), 137.

<sup>34</sup> Safran 1991, op. cit., 83-84.

<sup>35</sup> James Clifford, “Diasporas” (1994), 303.

<sup>36</sup> Cohen 1997, op. cit., x.

<sup>37</sup> Interview conducted by the author on January 22, 2016.

emigrated from what was then Mount Lebanon, and while emigration was halted during the First World War, it resumed to another 80,000 migration from 1921 to 1938.<sup>38</sup> The third and fourth periods were defined less by time than by destination, with many Lebanese Shia who left for West Africa to be intermediaries between the British and French colonists and Africans during the colonial period, and with the growth of the oil economies in the Gulf in the years before the Lebanese civil war there was emigration of the educated population.<sup>39</sup> Migration subtly slowed after Lebanon's independence, with an average of 3,000 emigrants annually between 1945 and 1960; however, their numbers increased to 8,500 annually in the 1960s and 10,000 annually in the early 1970s.<sup>40</sup> Due to the devastation of the war, an estimated 990,000 (40 percent of the population) Lebanese left between 1975 and 1989,<sup>41</sup> and post-war emigration has continued essentially unabated with lower estimates of 466,000 departures in the 1992 to 2007 period<sup>42</sup> (the United Nations calculated that 690,000 left between 1992 and 2000),<sup>43</sup> with all indications that this exodus is ongoing, even accelerating.

Choghig Kasparian conducted the most complete assessment of emigration from Lebanon in recent years. According to her quantitative study of more than 8,000 households, 45 percent had at least one family member living abroad in the years between 1992 and 2007. Extrapolated to the entire population of Lebanon, the trend is towards increasing emigration with an estimated 214,000 leaving between 2002 and 2007; 135,000 between 1997 and 2001; and 117,000 between 1992 and 1996.<sup>44</sup> While Arab countries attracted more than 50 percent of Lebanese emigrants during the civil war years (almost 60 percent of all emigrants in 1982, a high point after which the number of Lebanese emigrants contracted with the slowdown in the petroleum economies),<sup>45</sup> more recently 35 percent of departures were to Arab countries, though this has increased from 20 percent between 1992 and 1996 and 31 percent between 1997 and 2001.<sup>46</sup> Otherwise, 25 percent of departures have been to the Americas, 22 percent to Europe, 8 percent to Africa and the rest to Asia or unknown.<sup>47</sup> Emigration tends to attract the most educated, primarily those in search of better employment outside Lebanon. Almost 40 percent of emigrants have a university degree, compared to about 25 percent of emigrants from 1975 to 2001, and 55 percent stated that their primary motive for emigration is looking for better employment or better work conditions (though this number is significantly higher for men, more than 73 percent of whom leave for work, whereas 69 percent of women leave for family reasons).<sup>48</sup> Moreover, most emigrants are young, with 77 percent between the ages of 18 and 35, and 32 percent between 24 and 29 years.<sup>49</sup> More than half of emigrants say that their intention is to leave Lebanon permanently,<sup>50</sup> with 82 percent of those in Australia either planning on not returning to Lebanon or are undecided about returning, 78 percent of those in both Europe and North America thinking similarly, and

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<sup>38</sup> Wendy Perlman, "Emigration and Power: A Study of Sects in Lebanon, 1860-2010" (2012), 109.

<sup>39</sup> Albert Hourani, *The Lebanese in the World: A Century of Emigration* (1991), 5-6.

<sup>40</sup> Perlman 2012, op. cit., 115.

<sup>41</sup> Labaki 1991, op. cit., 609.

<sup>42</sup> Kasparian 2009, op. cit., 7.

<sup>43</sup> Marianne Holm Pedersen, "Between Homes" (2003), 20.

<sup>44</sup> Kasparian 2009, op. cit., 7 and author's calculations based on figures on page 15.

<sup>45</sup> Labaki 1991, op. cit., 610.

<sup>46</sup> Kasparian 2009, op. cit., 14-15.

<sup>47</sup> *Ibid*, 14-15.

<sup>48</sup> *Ibid*, 12, 15 & 16. According to the Central Administration of Statistics, 18.2 percent of Lebanese have been university educated: [http://www.cas.gov.lb/images/PDFs/SIF/CAS\\_Education\\_In\\_Lebanon\\_SIF3.pdf](http://www.cas.gov.lb/images/PDFs/SIF/CAS_Education_In_Lebanon_SIF3.pdf)

<sup>49</sup> *Ibid*, 17.

<sup>50</sup> *Ibid*, 40.

perhaps surprisingly, as it is often assumed that emigrants to Arab and African countries will return to Lebanon (and purchase homes there), 74 and 72 percent, respectively, are also planning on not returning or are still undecided about their return.<sup>51</sup>

Beyond demographics, the effects of emigration – both political and economic – are essential to understanding Lebanon today. Although the importance of emigrant investment is my focus in this chapter, Wendy Perlman’s research on the politics of emigration provides important context. Her thesis, persuasively argued, is that migration’s historical redistribution of resources among the different sects created the demographic and material foundations of the present-day competition for power.<sup>52</sup> Essentially, emigration was not the foundation of the sectarian political system but altered its balance of power. Thus, as early emigration was mostly Christian, it concentrated the benefits of remittances among that community. After the collapse of the silk industry in Mount Lebanon in the late 19<sup>th</sup> century, emigration meant that by the early 20<sup>th</sup> century remittances, mostly from the Americas, were equal to the size of the regional economy. Many families put this money towards educating their children, in turn furthering their economic ascendance, for “many whose educations were made possible by migrants’ investments grew aspirations large than their villages.”<sup>53</sup> But while emigration benefited the Christian community economically, it depleted their numbers. Legislation was thereafter advanced to count emigrants in the census, and it was only by doing so that the Christians were assured a demographic majority. Emigrants were 25 percent of the citizenry according to Lebanon’s last census conducted in 1932; however, 85 percent of *émigré* citizens were Christian. In total, 35 percent of Christian citizens were emigrants, compared to only 9 percent of other citizens.<sup>54</sup>

Later migrations trends encompassed Lebanese of different sects, and in turn raised their economic and political profile in Lebanon. Although the first emigrants to Africa were Christian, by the mid-20<sup>th</sup> century they were predominantly Shia from southern Lebanon. Given their common French colonial connections, many settled in West Africa. There are a plethora of stories of Lebanese arriving in Africa “as the result of a colonial fluke.”<sup>55</sup> Some boarded a ship they thought was sailing for the Americas but when it docked in Conakry, Dakar or Abidjan, for example, the French colonial power convinced them to stay. Others arrived there even less intentionally, by failing the medical exams for the Americas or being led to believe they were sailing to the Americas but ending up on the shores of West Africa. As A.T., the owner of a Lebanese bank prominent among the Shia community, which has in turn opened representative offices in Ivory Coast and Nigeria to serve Lebanese expatriates there, recounted of his father’s emigration:

I’m African, from Guinea. We’ve been in Africa as an immediate family since 1943, or 1942, I cannot remember. My dad was on his way to South America. He went from Beirut to Marseilles, and in Marseilles he was waiting for a ship to take him to South America...My dad was trying to go see his uncle, who went to Chile in 1909, and so he went to Marseille to wait for a ship to take him to Chile. Got on a ship, and they told him they go to Chile, and in those days they didn’t have ramps, so he actually disembarked from the ship in a basket. They took him to shore, and him

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<sup>51</sup> *Ibid*, 42.

<sup>52</sup> Wendy Perlman, “Emigration and Power: A Study of Sects in Lebanon, 1860-2010” (2012), 103.

<sup>53</sup> *Ibid*, 112.

<sup>54</sup> Rana Maktabi, “The Lebanese Census of 1932 Revisited: Who are the Lebanese?” (1999), 233.

<sup>55</sup> Mara Leichtman, “The Legacy of Transnational Lives” (2005), 667.

never going anywhere, he wondered if he was in Chile, because he's never been there. And a few months down the line he realized he wasn't in South America, and he stayed there. We have quite a bit of ties to Africa.<sup>56</sup>

The Lebanese of West Africa operated as traders and entrepreneurs between European interests and African society. They brought with them family and friends from their villages in Lebanon to join them, often catalyzing circular migration from a single village back in Lebanon to specific African countries. Thus, Fuad Khuri writes in the 1960s of “emigrants coming to Africa from the same community in Lebanon appear to cluster in one community or a number of small neighbouring communities,” with those Lebanese living in Senegal coming from Tyre in southern Lebanon, in Mali from Bayt Shabab in Mount Lebanon, in Ghana from Tripoli in northern Lebanon, in Burkina Faso and the Ivory Coast from Akkar in northern Lebanon and in Nigeria from Mizyara also in the north.<sup>57</sup> Whereas assimilation was expected for emigrants to the Americas, those in West Africa stood apart for a variety of reasons, writes Chris Bierwirth of the Lebanese in the Ivory Coast, “Historically, they were noticeable because they were the ‘hyphen’ in colonial society, neither African nor European. Unwilling to assimilate to African society, but unable to gain acceptance in European colonial society, Lebanese immigrants remained a group apart.”<sup>58</sup> The Lebanese were “the eternal hypens between European and African,” recounts Andrew Arsan, “the interlopers of empire” whose mercantile proclivities were put to use “as perennial intermediaries” in the colonial, and later post-colonial setting.<sup>59</sup>

Although Christians were the first to emigrate in mass, soon followed by other sects, the primary motive of migration was not religious discrimination nor political oppression but economic aspirations.<sup>60</sup> Akram Khater argues that the Lebanese middle class arose from the emigration of the late 19<sup>th</sup> and early 20<sup>th</sup> centuries, which he estimates as one-third of Mount Lebanon's population. But belying the myth of Ottoman oppression, many Christians were compelled to emigrate overseas to maintain their standard of living following the stagnation of the once prosperous silk economy, “Real or imagined persecution does not explain the emigration of Lebanese peasants... People seem to have left for the Americas because they could and because they wanted a better life.”<sup>61</sup> Moreover, the poorest did not emigrate, as it was an expensive undertaking; instead those who did were “not seeking financial salvation, but rather financial amelioration”<sup>62</sup> with the deterioration of their living conditions with the collapse of the silk industry. Emigration developed into a national narrative, with this desire, if not necessity, spreading to other sects. Although Christian emigration to the Americas was assumed to be permanent and Shia migration to West Africa to be circular, or temporary, remittances from family members enhanced consumption as well as education and sectarian institutions for both. The Christians compensated for their declining demographics with measures such as the national census, but Perlman writes of remittances as also financially strengthening Shiite institutions, expanding opportunities for this traditionally impoverished and politically marginalized sect and empowering community identity:

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<sup>56</sup> Interview conducted by the author on February 1, 2016.

<sup>57</sup> Fuad Khuri, “Kinship, Emigration and Trade Partnership Among the Lebanese of West Africa” (1965), 385.

<sup>58</sup> Chris Bierwirth, “The Lebanese Communities of Côte D'Ivoire” (1999), 85.

<sup>59</sup> Andrew Arsan, *Interlopers of Empire: The Lebanese Diaspora in Colonial French West Africa* (2014), 7 & 3.

<sup>60</sup> Dalia Abdelhady, . “Representing the Homeland” (2008), 57.

<sup>61</sup> Akram Fouad Khater, *Inventing Home: Emigration, Gender and the Middle Class in Lebanon* (2001), 52-53.

<sup>62</sup> *Ibid*, 56.

Migration did not launch Shia to top echelons of the economy to the same degree, or with the same structural power, as did members of other sects. Rather, emigration's impact lay in the community's continued transformation from a peripheral peasantry into the ranks of the urban middle class.<sup>63</sup>

For as Arsan argues that though they were physically absent from their villages the emigrants to West Africa maintained a material presence there, "in the wives, sons and daughters who stayed behind or came back, in the remittances they sent to their families, in the ostentatious houses they built and the land they purchased."<sup>64</sup> Khatar also writes that as Lebanese villages prospered with the influx of remittances, changing the construction of homes, the clothes they wore, the food they ate, the way they raised their children and how men and women behaved, that "emigrants brought the debates and tensions surrounding the definition and articulation of 'modernity' into the hinterlands."<sup>65</sup> The returned emigrants were what made the middle class, distinct from peasant society and the upper echelons of Beirut, "a middling class of sorts," immersing themselves in material wealth and cosmopolitan airs, "These elements made the boundaries of the coalescing social class sharper than had ever been before. In these ways the returning emigrants left their indelible mark on the middle class."<sup>66</sup>

Perlman traces these developments further forward, to emigration patterns around the civil war with migration of many Sunnis to the Gulf states. It was not only Muslims, or even Sunnis, who went to work in Saudi Arabia and other wealthy petroleum economies, but as emigrants to the Gulf were commonly barred from attaining citizenship, and until recently were prohibited from purchasing property there, they sent much of their salaries home to Lebanon, and therefore continued the economic effects from emigration of earlier eras. Their high paying employment was translated into better education for their children, in turn stimulating more emigration, "Schooling gave rise to a generation with expectations for white-collar work that, when unfulfilled in Lebanon, encouraged the search beyond its borders. Education was a tested path to social mobility, but education plus emigration opened grander possibilities."<sup>67</sup> The most famous emigrant was former Prime Minister Rafiq Hariri, who earned exceptional wealth in Saudi Arabia and exceptionally was granted Saudi citizenship. Another example was former Prime Minister Najib Mikati who made his fortune in Abu Dhabi. They both typified what Perlman termed tycoons "who came to exercise far-reaching power over economic sectors and governmental decision making,"<sup>68</sup> or as Hannes Baumann described as "the new contractor bourgeoisie in Lebanese politics."<sup>69</sup> The Shia also became very wealthy, with perhaps the most famous *émigré* being Nabih Berri, born in Sierra Leone, and who has been Speaker of Parliament since virtually the end of the civil war. Yet Perlman argues that the impact of emigration on the Shia community was on broader-based social mobility that supported their collective organization, rather than the financial tycoons of the Sunni variety. In contrast, in the contemporary era, Christians have experienced emigration as a liability in terms of their declining demographics. As most emigration to the Arab and African countries during the civil war was Muslim, and those departing for the Americas and Australia were Christian, Perlman argues "migration appears to sap the power

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<sup>63</sup> Perlman 2012, op. cit., 122.

<sup>64</sup> Arsan 2014, op. cit., 12.

<sup>65</sup> Khatar 2001, op. cit., 109

<sup>66</sup> *Ibid*, 118.

<sup>67</sup> Perlman 2012, op. cit., 116.

<sup>68</sup> *Ibid*, 119.

<sup>69</sup> Hannes Baumann, "The New Contractor Bourgeoisie in Lebanese Politics: Hariri, Mikati and Fares" (2013).

of Maronite Lebanese vis-à-vis other religions communities,”<sup>70</sup> as departures to the Americas and Australia are often permanent, while emigration to the Arab and African countries is assumed to be temporary. It is for this reason that Christian leaders have long made granting Lebanese nationality to *émigrés* and their descendants, as well as voting rights overseas, one of their primary political platforms.

When once Christian leaders ensured that the 1926 constitution allowed emigrants to be naturalized abroad, as well as be counted as citizens in the last natural census in 1932, the citizenship status of Lebanese emigrants remains one of their political objectives, given the persistence of the sectarian system. It is typically Christian politicians who propose legislative measures, such as adding parliamentary seats for expatriates, facilitating their recuperation of lost citizenship and creating an identification card to extend new rights their descendants.<sup>71</sup> The Maronite church has striven to assist emigrants in acquiring their citizenship. Thus, the Maronite Foundation has a website dedicated to assisting “Maronites dispersed around the world” to “regain their Lebanese identity and citizenship.”<sup>72</sup> Strengthening ties between the emigrants and their motherland is essential, the website argues in both Arabic and English, because while, “the traditional emigration wave that represented in the past a source of assistance and sustenance to the Lebanese in Lebanon has now transformed into aggravating bleeding with serious repercussions on the Lebanese society in general and the Maronites in particular...”. With the aim “of safeguarding and consolidating intercommunicative bonds between the Lebanese, especially the Maronites, and Lebanon,” the website offers emigrants assistance with acquiring their citizenship. Applicants need to fill out a short form with their name, father’s name (as Lebanese law does not allow those who actually give birth to pass on their nationality to their children), their current address and the region where their ancestors are from in Lebanon, and the Maronite Foundation will do the necessary research and documentation. The Maronite Foundation registered around 20,000 overseas Lebanese in 2009 and 2010.<sup>73</sup> Another project of the Maronite Foundation is the Register Lebani, a broader-based “non-profit initiative to assist Lebanese expatriates and descendants around the world in (re)claiming Lebanese citizenship for themselves and/or their family members over generations.”<sup>74</sup> In addition to providing the necessary downloadable forms to submit to the Lebanese embassy in their country, they also helps applicants navigating the complicated bureaucracy of personal records, such as birth and marriage registrations. All emigrants are eligible so long as their father, grandfather, or great-grandfather (and beyond) were originally from Lebanon, or they are the wife of a Lebanese man. In early 2016, a new nationality law amending the 1925 one that eases the acquisition of citizenship for emigrants of Lebanese descent came into force, although only after revisions to ensure that only the father can pass his citizenship onto his children.<sup>75</sup>

Political parties representing all Lebanese sects have also competed actively for their constituents votes overseas. Although in 2013 emigrants with Lebanese nationality were granted the right to vote overseas, before then the parties would both travel to countries where the diaspora was located and pay for their travel back to Lebanon in order to vote. Paul Taber has researched the role of “political remittances” among the Lebanese diaspora

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<sup>70</sup> Perlman 2012, op. cit., 120.

<sup>71</sup> Wendy Perlman, “Competing for Lebanon’s Diaspora” (2014), 49.

<sup>72</sup> <http://www.maronitefoundation.org>

<sup>73</sup> Perlman 2014, op. cit., 51.

<sup>74</sup> <http://www.registerlebani.com>

<sup>75</sup> Dalia Lteif, “Lost in Translation” (2013), 172.

based in Australia around the 2009 elections. Most prominent political parties (Hezbollah being an exception, as it is designated a terrorist organization under Australian law) had established offices in Australia to transfer these so-called political remittances into actual votes back in Lebanon. The Free Patriotic Movement and the Marada Movement, both Christian political parties, undertook surveys of their supporters to assess their willingness to vote back in Lebanon. Officials of the Sunni Future Movement also traveled to Australia to facilitate the process of obtaining Lebanese identification cards for those eligible to vote, during which they also campaigned extensively for their party. The Free Patriotic and the Future Movements flew their followers in mass back to Lebanon, with estimates of between 48,000 and 121,000 emigrants voting in the 2009 elections.<sup>76</sup>

Yet the clearest effect of emigration on Lebanon continues to be the remittances. Estimated to be equivalent to Mount Lebanon's entire economy around the turn of the 20<sup>th</sup> century, by the early 1950s remittances were estimated to comprise 6 percent of Lebanon's economy and upwards of 16 percent in the early 1970s.<sup>77</sup> There are no remittance figures for the civil war, but until the mid-1980s they were thought to have disguised the ballooning deficit and essentially keep the economy afloat, even accounting for an increase in income per head from \$1,869 at the outbreak of the war to \$2,917 in 1982<sup>78</sup> (after which income declined in tandem with the reduction of emigrants employed in the Gulf, from 210,000, or 35 percent of the labor force, in 1980 when their remittances also provided one-third of Lebanon's economy resources, to only 65,000 in 1987 when their remittances were only one-seventh of their previous peak). By the civil war's conclusion, Lebanon's per capita gross domestic product had decline to around \$250.<sup>79</sup>

Even today there are no accurate figures for remittances, and not only because a significant sum is transferred informally, often by emigrants themselves, sometimes with the intention of avoiding scrutiny but also because of a dearth of banking services in countries such as those of West Africa. According to Kasparian's survey of 2,000 households, half of which receive remittances and have of whom do not, 35 percent of these transfers are made by banks, 26 percent by specialized companies such as Western Union, 26 percent hand-to-hand during visits or through couriers, with the rest by different or undetermined ways.<sup>80</sup> I met with R.C., a high-ranking official at the Banque du Liban, on the day the World Bank projected \$7.5 billion of remittances in 2015, which was about 15 percent of gross domestic product, but he affirmed that this was only a rough estimate.<sup>81</sup> The World Bank's Migration and Remittance Factbook has long ranked Lebanon among the most remittance-dependent economies. Their first edition found that 17.4 percent of the population were emigrants in 2005, making Lebanon the country with the 15<sup>th</sup> highest rate of emigration in the world. Lebanon also had the 8<sup>th</sup> highest remittance inflows as a percentage of its economy in 2006.<sup>82</sup> In 2011, an estimated 15.6 percent of the population were emigrants and their remittances accounted for 22 percent of the economy, meaning that Lebanon ranked behind only five countries in terms of remittance inflows as a percentage of the economy.<sup>83</sup> In 2016, 18 percent of the Lebanese population were estimated to be emigrants and remittances were

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<sup>76</sup> Paul Taber, "Political Remittances" (2014), 454.

<sup>77</sup> Gaspard 2004, op. cit., 96.

<sup>78</sup> Theodor Hanf, *Coexistence in Wartime Lebanon: Decline of a State and Rise of a Nation* (1993), 355.

<sup>79</sup> Nasr 1989, op. cit., 47.

<sup>80</sup> Kasparian 2014, op. cit., 69.

<sup>81</sup> Interview with the author on October 20, 2015.

<sup>82</sup> World Bank, "Migration and Remittance Factbook" (2008), 144, 4 & 13.

<sup>83</sup> World Bank, "Migration and Remittance Factbook" (2011a), 159 & 14.

thought to comprise 16 percent of the economy, making Lebanon the 18<sup>th</sup> most remittance-dependent economy worldwide.<sup>84</sup> Between 2002 and 2014, the annual inflow of estimated remittances averaged 20.4 percent of the economy, though the trend since 2010 has been downwards so that even as the sum of remittances has increased their size relative to the economy has declined.<sup>85</sup>

The most comprehensive portrayal of the microeconomic impact of remittances on Lebanese families is again provided by Choghig Kasparian of Beirut's St. Joseph's University. What she found was the following: households that receive remittances have a slightly lower monthly income (\$930) than households without them (\$1,095), perhaps indicating that these transfers are an important anti-poverty mechanism, or possibly not, because she also find that only 53 percent of heads of household with remittances are employed, compared to 71 percent of those without them.<sup>86</sup> Yet almost 57 percent of household heads receiving transfers are over 60 years of age, compared to 39 percent of those without remittances, and thus indicating that these inflows may be important in supporting parents or elderly relatives. By another measure, among all those receiving remittances 33 percent are employed and 42 percent are economically inactive, compared to 39 percent who are employed and 31 percent who are not among those not receiving transfers.<sup>87</sup> Moreover, even among households that do not receive remittances, more than 44 percent have a close relative who has emigrated.<sup>88</sup>

Among emigrants, 55 percent send remittances (of which 24 percent send regularly to their families, 22 percent send irregularly, 9 percent send to a different household) and 43 percent have stopped or have never sent remittances.<sup>89</sup> Seventy-one percent of emigrants with parents back in Lebanon send remittances.<sup>90</sup> Twenty-five percent of emigrants are in Arab countries, and of these 66 percent send remittances; 20 percent emigrated to Western Europe, of which 53 percent send remittances; 1.2 percent are in Eastern Europe, of which 72 percent send remittances; 24 percent are in North America, of which 48 percent send remittances; 6 percent are in South America, of which 48 percent also send remittances; 16 percent are in Australia, of which 46 percent send remittances; and 7 percent are in Africa, of which 67 percent send remittances.<sup>91</sup> The average annual sum of remittances per emigrant is \$5,721. Emigrants to Eastern Europe send the highest amount (\$12,053), but as only 1.2 percent of Lebanese emigrated there they comprise a small amount of the total remittances. The most important contributors are by far and away emigrants to the Arab countries, as their annual average sum of \$8,105 comprises more than 43 percent of remittances received by Lebanon. Emigrants to Africa send slightly more annually (\$9,038), but given their fewer numbers their contributions comprise 14 percent of total remittances received. Emigrants to Western Europe and North America send about the same (\$4,274 and \$4,285), contributing about 15 percent each of total remittances. The geographic breakdown of remittance inflows is summarized below:<sup>92</sup>

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<sup>84</sup> World Bank 2016, op. cit., 109 & 30.

<sup>85</sup> Author's calculations based on World Bank migration and remittances data:

<http://www.worldbank.org/en/topic/migrationremittancesdiasporaissues/brief/migration-remittances-data>

<sup>86</sup> Kasparian, 2014, op. cit., 17.

<sup>87</sup> *Ibid*, 31-32.

<sup>88</sup> *Ibid*, 45.

<sup>89</sup> *Ibid*, 46-47.

<sup>90</sup> *Ibid*, 49.

<sup>91</sup> *Ibid*, 56.

<sup>92</sup> *Ibid*, 68.



**Figure 4.1: Lebanese Emigration and Remittances by Destination Country**<sup>93</sup>

Destination Country	Percentage of Emigrants	Percentage who send remittances	Average annual remittance sum per emigrant	Percentage of total remittances received
Arab countries	24.9	66.3	\$8,105	43.3
Western Europe	20.4	52.8	\$4,274	14.7
Eastern Europe	1.2	71.8	\$12,053	2.4
North America	24.0	48.4	\$4,285	15.2
South America	6.0	48.3	\$4,380	3.7
Australia	15.9	46.0	\$2,111	5.1
Africa	7.1	67.0	\$9,038	14.2
Average/Total	100	55.0	\$5,721	100

Two trends from the past to the present day are the emigration of the educated and the importance of remittances for sustaining consumption patterns back in Lebanon. Thirty-three percent of Lebanese emigrants have a university education and 27 percent have a high school baccalaureate, compared to 17 percent who are university educated and 20 percent who completed high school among Lebanese residents.<sup>94</sup> Their remittances are especially important in financing education back in Lebanon. Forty-one percent of households that receive remittances use them to pay for schooling. Among those without remittances, almost 75 percent rely on their family in Lebanon for education expenses; whereas for those with remittances only 43 percent rely on family funds, with most the remaining shortfall made up by remittances.<sup>95</sup> Although heads of households receiving remittances have a lower monthly income than those that do not, when remittances are accounted for this relation reverses and the monthly income of remittance-receiving homes becomes \$1,920 compared to \$1,835 for non-receiving households. Looking at those living below Lebanon’s poverty line, almost 22 percent of households without remittances have a monthly revenue of below \$800, while 16 percent of those with remittances live below this level.<sup>96</sup> Again, this leads to the conclusion that one of the most important aspects of remittances, besides contributing to consumption, is reducing poverty.

According to the literature on emigration and development, the former has long constituted a central position in discussions on the latter, although its benefits or detriments have been much debated. Remittances have important influences on the microeconomics of household poverty as well as the macroeconomics of national development, but again these impacts are analyzed in both the positive and negative directions. While some have regarded remittances as a paradigmatic “bottom-up” policy of poverty reduction, one flowing directly to the poor and away from the pockets of corrupt government officials,<sup>97</sup> others wonder whether policies promoting migration and remittances instead “perpetuate status-quo underdevelopment.”<sup>98</sup> It is estimated that remittances total more than foreign aid flows and while not as high, remittances are generally more reliable than foreign direct investment; however, the quality of data is uncertain given the different conventions by which countries define these transfers, as well as the diverse, often informal, means by which migrants remit their

<sup>93</sup> *Ibid*, 56 & 68.

<sup>94</sup> *Ibid*, 59.

<sup>95</sup> *Ibid*, 85.

<sup>96</sup> *Ibid*, 93

<sup>97</sup> Hein de Hass, “International Migration, Remittances and Development: myths and facts,” (2005), 10.

<sup>98</sup> Michael Kearney, “From the Invisible Hand to Visible Feet” (1986), 347.

earnings.<sup>99</sup> The World Bank's *Migration and Remittances Factbook* for 2016 reveals that while official development assistance essentially remained flat in recent years, remittances have steeply risen, along with foreign direct investment. Worldwide remittances totaled \$431 billion in 2014, compared with \$662 billion in foreign direct investment and only \$135 billion in official development aid.<sup>100</sup> Their size, as well as their anti-cyclical nature – remittances, unlike foreign direct investment, are known to increase in times of economic turmoil<sup>101</sup> – means that migration has assumed a centrality economic development discussions. In early post-colonial years, migration was thought to transfer labor and financial resources to the places they were most scarce, but by the 1970s and 1980s this relationship was considered one of dependence, with migration thought to intensify underdevelopment by inducing the most educated to leave. More recently, migration has been characterized as a “celebration of circulation,” not only of human and financial capital but also of knowledge generally, with debates centered on the formalization of the migration-development nexus through financial services and knowledge transfer.<sup>102</sup>

With the literature revealing that remittances often finance consumption needs, such as housing and healthcare,<sup>103</sup> one of the questions raised is whether remittances reduce poverty. Drawing on data from seventy one countries, one much-referenced study finds that “international migration and remittances significantly reduce the level, depth, and severity of poverty in the developing world.” After accounting for the possible endogeneity of variables, as migration and remittances may reduce poverty, but poverty may also affect the number of migrants and amount they remit, the authors found that a 10 percent increase in migration led to a 3.5 percent decline in those living on less than \$1 per person per day.<sup>104</sup> For even if spent on consumption items, the beneficial impact of remittances is that their expenditure generates a multiplier effect well in excess of the value of remittances flows.<sup>105</sup> Another means by which migration is thought to influence poverty is through the brain drain, or the loss of educated workers, as the literature reveals that it is rarely the poorest who migrate.<sup>106</sup> While often thought of as a loss for migrant-sending countries,<sup>107</sup> others argue the diaspora is also a resource “of research and innovation, technology transfer, and skills development...an important reservoir of knowledge and information on trade and investment opportunities.”<sup>108</sup> Human and financial capital may not be substitutable, but the loss of educated migrants and the gain in remittances does not clearly reduce or perpetuate poverty.

Similarly, migration may have myriad effects on macroeconomic development. While remittances bring sought-after foreign currency to countries seeking to balance their trade deficits, they also appreciate the local currency, thus making domestically-produced goods less competitive and inducing an increase in imports, inevitably turning the trade ledger into

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<sup>99</sup> Devesh Kapur, “Remittances: the new development mantra?” (2003), 3.

<sup>100</sup> World Bank, *Migration and Remittances Factbook* (2016), 18.

<sup>101</sup> Thomas Straubhaar & Florin P. Vadean “International Migrant Remittances and their Role in Development” (2005), 28.

<sup>102</sup> Thomas Faist, “Migrants as Transnational Development Agents” (2008), 25-26.

<sup>103</sup> John Page and Sonia Plaza, “Migration Remittances and Development” (2006), 281.

<sup>104</sup> Richard Adams & John Page, “Do International Migration and Remittances Reduce Poverty in Developing Countries?” (2005), 1645.

<sup>105</sup> Reginald T. Appleyard, “Migration and Development: Myths and Reality” (1989), 493.

<sup>106</sup> De Has 2005, op. cit., 1271.

<sup>107</sup> Edward Taylor, “International Migration and National Development” (1996), 193.

<sup>108</sup> John Page & Sonia Plaza, “Migration Remittances and Development: A Review of Global Evidence” (2006), 295 & 298.

debit.<sup>109</sup> Therefore, while remittances may be the only means by which an import-dependent country balances its books, by perpetuating deficits they attenuate pressures to reform.<sup>110</sup> Yet unlike other financial inflows, remittances are not tied to designated investment projects, nor must they be repaid, and as they are anti-cyclical in nature, they tend to increase in times of turbulence when private capital flees in the opposite direction.<sup>111</sup> Policy discussions are thus about “managing migration,” rather than regarding it solely as a problem or a panacea.<sup>112</sup> For while remittances reduce poverty on a household level, at the national economic scale they are less promising when not translated towards investment, a reality compounded by the fact that the very conditions promoting emigration, such as poverty and low productivity, limit the profitability of potential investment.<sup>113</sup> However, to enhance the flow of remittances, one policy put forward is to lower the costs of their sending, namely by developing financial services for migrants.<sup>114</sup> According to the author of a prominently-cited piece on remittances as the new development mantra, it was not simply the increase in migration that led to the rise in remittances in recent years but the burgeoning of financial infrastructure to facilitate their flow.<sup>115</sup>

Applying these findings to Lebanon, remittances probably reduce poverty, they certainly enhance consumption, but their broader effects on national economic development are more debatable. This is the debate this chapter seeks to address, first by concentrating on the government’s efforts to attract financial resources from the Lebanese diaspora, then by focusing on private sector initiatives, specifically by the property and financial industries, to translate remittances into investment. The previous chapter dwelt on the nexus of banks and the sovereign debt, a financial arrangement I argued was sustained principally by remittances. The high interest rates paid on deposits, and especially the stability of the dollar peg, have attracted financial inflows from the 1.2 million expatriates who still remit substantial sums to their families through the banking system. The subsequent section traces these diaspora dollars, produced primarily in the Gulf and West Africa, first their channeling into Lebanese banks which have both expanded overseas and enhanced financial services for Lebanese abroad, and second their onwards investment through mortgage loans. It is by way of real estate investment that most of these diaspora dollars – those not directed to consumption or dwelling in deposit accounts (and essentially financing the sovereign debt) – are utilized. Property developers do their part by marketing their real estate to the Lebanese emigrants, through road shows to the Gulf and West African countries and other advertising meant to persuade them to purchase a home in their homeland. Much like the banks, developers are also moving overseas, with the attraction for their clients of earning residency or citizenship in return for buying in the Caribbean, Cyprus or elsewhere in Europe. The government has organized myriad conferences around attracting emigrant investment in the economy more broadly, but most of their remittances does not go further than the real estate and banking sectors. In this way, the two pillars of the economy are sustained, and a landscape of empty apartments and an indebted sovereign do not succumb to the crises otherwise expected, as the foundation of this apparatus is the exporting of educated Lebanese overseas.

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<sup>109</sup> *Ibid*, 281.

<sup>110</sup> Kapur 2003, op. cit., 20.

<sup>111</sup> Straubhaar & Vadean 2005, op. cit., 283.

<sup>112</sup> Adams & Page 2005, op. cit., 1660.

<sup>113</sup> Taylor 1996, op. cit., 202.

<sup>114</sup> Adams & Page 2005, op. cit., 1660.

<sup>115</sup> Kapur 2003, op. cit., 11.

## Emigration as a Policy of National Development

The government can potentially mediate emigration towards national development. Remittances, in other words, can be transformed into investment. Rather than remittances being confined to the household, their consumption can translate into economic investment that perhaps attenuates the necessity of ongoing emigration to support the economy into the future. In the previous chapter I argued that Lebanese emigration was part of both a vicious and virtuous cycle, virtuous because in producing a circular financial system between banks and non-resident depositors, emigration evaded a sovereign debt crisis, but vicious because the system's continuity is contingent on exporting generation upon generation of educated Lebanese workers. This is primarily because the government has not employed remittances towards broadening the economic base, nor in the service of restructuring public finances away from its debt-dependency. Instead remittances have been mediated through the banking and real estate sectors. Yet this inability to translate remittances into investment is not inevitable. Natasha Iskander has traced emigration policies in Morocco and Mexico to uncover how both governments applied their emigrants' remittances to local and national development.<sup>116</sup> She argues that what began with governmental neglect, even encouragement of emigrant departure, discreetly in the case of Mexico, directly in that of Morocco, was then transformed into policies directing remittances to broader development purposes. Following a period of political protests in the early 1960s, Morocco formalized treaties with several European states to export its workers. Yet to prosper from their remittances, the Moroccan government formalized the banking system, thus establishing the Banque Centrale Populaire, from which the state funneled financial resources to basic services in emigrant villages, such as roads and electricity, and monumental development projects. Emigration from Mexico increased after the United States ended its guest worker program in the early 1960s, when both governments looked the other way while hundreds of thousands continued crossing the border. The government's initial efforts to transform remittances into economic investment began at the regional level, in the state of Zacatecas, where officials engaged with emigrants' hometown associations to match public funds with development projects. The program was then adopted by the national government, whereby it matched – sometimes at multiple levels – remittances with public funds to develop emigrants' villages of origin. Additionally, the Mexican state strengthened its consular services in the United States to enhance emigrants' political influence back home. As Iskander notes in her introduction, her book sidesteps the debate about whether migration in fact produces development, by instead concentrating on the processes by which it sometimes does. Yet, she also writes that when other governments attempted to mimic the policies of Morocco and Mexico their results were decidedly disappointing.

When I asked my interviewees about the Lebanese government's efforts to translate remittances into national development their responses were typically critical. Several denied there was any strategy whatsoever, and when I pointed to initiatives such as conferences to encourage expatriate investment they dismissed their futility, wondering, in the words T.W., the president of a large diaspora association, "what about Monday?"<sup>117</sup> meaning nothing had ever come from them. J.A., a former expatriate who returned to Lebanon to work directly on applying the diaspora's human and financial capital towards developing the technology sector, argued that the problem was that the government was corrupt to its core:

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<sup>116</sup> Natasha Iskander, *Creative State: Forty Years of Migration and Development in Morocco and Mexico* (2010).

<sup>117</sup> Interview conducted by the author on October 29, 2015.

Lebanon cares about the diaspora because they have money. Period. And because they distribute great stories to put in newspapers. They always trace the ancestry of someone back, back, back to Lebanon. It's a way to shift the blame and to shift responsibility – look at all these Lebanese people outside doing wonderful things, because if you look inward you see that the country is completely rotten...It's so corrupt I can't tell you. I've been dealing with every ministry in Lebanon and every political official for the past three years. They wouldn't give a shit about the diaspora if they didn't have money. They only care about their money.<sup>118</sup>

In her history of the Lebanese government's outreach to their citizens abroad, Laurie Brand writes towards a similar conclusion, "the most common image evoked in discussions of state policy toward the Lebanese emigrants is that of the milk cow, the Lebanese expatriate who is valued by the state only for the remittances s/he sends home."<sup>119</sup> Yet upon examining the government's record on emigrants she found that "the degree of milk-cow exploitation is shockingly small."<sup>120</sup> Despite ongoing remittance inflows, there was neither a successful state strategy to marshal these resources, nor sustained policies to attract expatriate investment:

Expatriate contributions continue and are substantial, but they are directed to more parochial, or personal, rather than national, goals. This is no doubt in part due to a continuing lack of confidence in the political situation in Lebanon, but the problem runs deeper than this.<sup>121</sup>

Her history centers on the World Lebanese Cultural Union and the Ministry of Foreign Affairs (and Emigrants). The latter's name is parenthesized because it keeps changing. In its initial incarnation in the early 1940s, the ministry responsible for diplomatic relations was termed the Ministry of Foreign Affairs and Interests of the Lebanese Abroad, but in 1943 independent Lebanon created a foreign ministry without formal concern about emigration. This was the concern of the (Christian) Kataeb party, which in 1945 called for a conference on the country's relations "*avec ses absents*."<sup>122</sup> The main Maronite party sought the creation of a separate *émigré* ministry not only to invest emigrant wealth in the newly independent country but also to strengthen Christian representation. Yet initially there was only an Emigrant Directorate as part of the Ministry of Foreign Affairs. The Kataeb pushed for the creation of a worldwide *Agence Libanaise*, modeled after the Zionist Jewish Agency, which was successfully drawing on the Jewish diaspora's human and financial resources for the creation of the state of Israel. The World Lebanese Union (renamed the World Lebanese Cultural Union) was born in 1960, with many public officials and some public funds, but nominally a non-governmental, non-confessional, apolitical institution. The World Lebanese Cultural Union was divided during the civil war, mirroring Lebanon's sectarian divisions. The divide was not reconciled with the establishment of a separate Ministry of Emigration following the civil war, when the financial resources of the emigrants during the war became so necessary for reconstruction. The separate ministry lasted less than a decade before being

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<sup>118</sup> Interview conducted by the author on February 1, 2016.

<sup>119</sup> Laurie Brand, *Citizens Abroad: Emigration and the State in the Middle East and North Africa* (2006), 145.

<sup>120</sup> *Ibid*, 172.

<sup>121</sup> *Ibid*, 172.

<sup>122</sup> *Ibid*, 140.

subsumed into the Ministry of Foreign Affairs yet again, where the Directorate of Emigrants sits to this day.

The Ministry of Foreign Affairs and Emigrants has prioritized reconnecting with the diaspora in its political platform. They have organized an annual Lebanese Diaspora Energy Conference, with the purpose of celebrating Lebanon’s cultural heritage, showcasing success stories among Lebanese residents and expatriates and enabling the two to connect in order to share investment ideas. The second conference in 2015 focused on opportunities in sectors such as healthcare, agriculture and cuisine, media and the arts, education, industry, oil and gas, information technology, tourism, and of course construction and financial services. I attended the real estate panel where several developers called upon expatriate investors to support the struggling sector through the Syrian crisis. Massaad Fares, representing the Real Estate Syndicate of Lebanon, emphasized that real estate had long been a secure investment, as no one who purchased in property in Lebanon ever lost. Georges Chehwan, a member of the Real Estate Developers Association of Lebanon, made the case with a graph of always rising property prices, but concluded not with an economic argument but an image intended to speak to expatriates’ hearts with its traditional cedar tree, the one found on the Lebanese flag, and the call to “Preserve your roots; Buy your home in Lebanon”:<sup>123</sup>



Other initiatives of the Ministry of Foreign Affairs and Emigrants include “Lebanon Connect,” described by Lebanese Diaspora Energy Conference materials as “an innovative online and mobile platform aiming to connect Lebanese and foster economic and business opportunities between Lebanese communities around the world”, but no matter how many times I tried to register using my iPhone the application would never work. Another was the Diaspora Museum, first announced at the Lebanese Diaspora Energy Conference in 2014 and under planning in the city of Batroun, where traditional houses are under renovation to celebrate the Lebanese who moved to countries such as Russia, Australia, Brazil, Mexico and the United Arab Emirates (and possibly Canada). Although sponsored by the Ministry, both

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<sup>123</sup> Image taken by the author from Georges Chehwan presentation, as provided by Plus Properties.

projects are to be privately funded by the diaspora.<sup>124</sup> Another project making an emotional appeal for expatriate investment is the Diaspora Cedar campaign, wherein those who adopt, in the words of the conference materials from 2016, “Lebanon’s most sacred symbol” have a cedar planted in their name. Beyond these networking and cultural initiatives, only the Invest to Stay program, sponsored by the Ministry of Foreign Affairs, directly seeks expatriate investment in search of economic profits, but this involves investing overseas, using to the extent possible Lebanese goods and remitting 20 percent of the profits back to Lebanon. In their promotional video online, Invest to Stay speaks to Lebanese expatriates in the United States:

Let’s face it, no matter how far you are, there’s always a piece of you in the homeland, and for most Lebanese Americans there’s always a lingering feeling of not connecting enough.

But what if you could take a stance in the empowerment of the Lebanese people and economy by making money from smart, well-timed investments? Does it sound too good to be true? Don’t worry it’s 100 percent legitimate!

This unique concept program for an investment program offers excellent return on investment; is secured by a real asset; has a clear exist strategy; helps stimulate the Lebanese economy; and empowers young Lebanese; all at the same time!<sup>125</sup>

Although they call upon “inspiring entrepreneurs seeking investments”, the video specifically focuses on property investors as their intention is to “help investors find and make the best investment in real estate or other industries.” Moreover, Invest to Stay’s founder is Philippe Ziade, an emigrant and the chief executive officer of Growth Holdings, a luxury real estate and construction conglomerate based in Las Vegas.<sup>126</sup> The only investment project Invest to Stay has made available online is for 30 Pebble Dunes in Las Vegas, a multi-million dollar home recently-constructed by Growth Holdings. Thus, despite the patronage of the Ministry of Foreign Affairs, the profits of the Invest to Stay program appear to be more directed into the pockets of its founder than to economic development in Lebanon more broadly.

Another public institution seeking expatriate support is the Investment Development Authority of Lebanon (IDAL). Founded by the Rafiq Hariri administration in 1994, IDAL’s objective is to attract foreign direct investment into the industrial, agricultural, agro-industry, tourism, information, communications, technology and media sectors. I spoke with R.M., a communications officer, who affirmed that in the context of the present-day political and regional security crises, Lebanese expatriates were their most active audience. In her words, IDAL’s challenge was to channel remittances into investment:

We noticed that the closest to investment that the diaspora makes goes into development projects back in their village. So they open a soccer field, they renovate the church or the mosque, they work on a library...that gives back to their villages.

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<sup>124</sup> Interview conducted by the author on July 22, 2015.

<sup>125</sup> <http://investtostay.com>

<sup>126</sup> <http://investtostay.com/philippe-ziade-ceo-and-founder/>

Our role is to try to convince them to channel some of this money into productive investment.<sup>127</sup>

It was unrealistic to think that emigrants would move their businesses to Lebanon at this difficult time, and thus she proposed small steps such as undertaking some manufacturing tasks in Lebanon or bringing human resources or accounting offices to Lebanon, given the country's lower wages and educated workforce. Yet knowing the expatriates, where they are concentrated as well as their concerns about investing in Lebanon, is another of IDAL's challenges according to R.M., and therefore rather than soliciting investment their initial focus has been mapping expatriates worldwide, the 1.2 million who still send remittances back to Lebanon. One of their strategies is to locate the villages where expatriates originate to propose projects there. In collaboration with the United Nations Development Program (UNDP), they seek to match emigrants with investment opportunities in their villages:

They (emigrants) want to give back, but they don't know what to do. So they want us to guide them as to what type of projects they can do, and if it's in their villages it's even better, because there's a sense of pride...they love it. They love it because, and this is something we should learn to do as a government, they are recognized. The diaspora need to be recognized for their efforts, to glorify them, because they are being glorified in their host country. Many of them are successful business people, and the host governments are giving them so much credit.<sup>128</sup>

The UNDP has started something similar with the Live Lebanon crowd funding initiative. Through goodwill ambassadors in the countries where Lebanese emigrants are located they appeal for funds to undertake small development projects (between \$50,000 and \$100,000) in their villages of origin. These have included irrigation, sewage and water systems, football fields, education and health infrastructure, solar energy, and more. "These are donations and contributions, not investment exactly," said R.U., a representative for the UNDP, but what was more interesting for the expatriates with whom he solicited funds was the importance of giving back to their villages, "it's partly pride for them, their family is known, so giving back to their village of their origin it's very, very important for the diaspora."<sup>129</sup>

At the Lebanese Emigrants Economic Conference, held in December 2015 under the patronage of Parliamentary Speaker Nabih Berri and his political ally Haitham Jomaa at the Directorate of Emigrants, the diaspora received much praise as the Lebanese economy's only hope. In the words of conference organizer, Raouf Abou Zaki of the Al-Iktissad Wal-Aamal Group, a pan-Arab business and economic magazine, "without emigrants Lebanon would be unable to be resilient throughout times of war and difficulties." Yet what Lebanon needed was "a national policy of putting emigrant wealth to use," especially in the present as "Lebanon is in dire need of emigrant wealth," with other important private sector investors and public officials echoing his call to "bring with you the spirit of unity; the remittances and capital you bring with you help the entire economy." Mohamed Choucair, the President of the Chamber of Commerce, celebrated Lebanese emigrants, "who are a source of pride for Lebanon," yet decried the dearth of national policy on the topic, "what is needed is effective communication with the Lebanese abroad, but more than the exchange of beautiful words

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<sup>127</sup> Interview conducted by the author January 22, 2016.

<sup>128</sup> *Ibid.*

<sup>129</sup> Interview conducted by the author July 22, 2016.



there is a need to identify opportunities where we can work together effectively.” Finance Minister Ali Hassan Khalil introduced himself as an emigrant born in Sierra Leone, “I am one of you who set sail hundreds of years ago, who set sail running away from hunger and persecution... You are the myth that made Lebanon what it is. You are our nostalgia. May peace be upon you at this conference.” The importance of a conference, such as this, was to incentivize their participation in the economy, translating their remittances into investment projects, for in the words of the Minister of Finance “Lebanese emigrants are the beating heart of the economy. And this support hasn’t stopped despite many political crises.”

So given these enticing words by public officials, the many programs established by the government and the myriad conferences they hold to attract investment from Lebanese emigrants, why have their financial resources failed to materialize? Although the insecurity stemming from the neighboring Syrian war was often alluded to, the main concern voiced by emigrants with whom I spoke and listened to at various conferences was corruption. Several spoke of their reluctance to invest back in their home country at the Lebanese Emigrants Economic Conference because the government did not protect investments. Speaking at the inaugural Euromoney Lebanon Conference, E.R., an emigrant and investment banker, articulated the problem as poor governance, not stemming simply from the Syrian crisis, but the persistent political paralysis that prevented the passing of the a budget since 2005.<sup>130</sup> Her sentiments were echoed again and again at every economic conference that I attended, and is also reflected in the research of Reinoud Leenders, who documented the rampant corruption of postwar Lebanon in sectors as diverse as healthcare, aviation, oil an gas exploration and reconstruction.<sup>131</sup> Perhaps the most lucrative emigrant investment opportunity forgone because of corruption was that of Lebanon’s wealthiest descendent of Lebanese emigrants, the world’s richest man, Carlos Slim. As recounted by A.W., another Mexican-Lebanese emigrant and president of a diaspora organization:

Carlos Slim came in a very cautious way, to travel around, to know his hometown, to know a few people, and everybody invited him to invest in different areas. Instead, he came back to Mexico and he said, “I am not investing one cent in Lebanon,” and he’s doing a lot of things for Lebanon, but not investing. Why? Because of the high corruption. In his words, in every country he invests in he has to make some kind of deal with the government, or with some people in the government. But in Lebanon you are partners – half and half – with the government. You cannot make business without the government. That is not acceptable. And for Carlos Slim, he said that the money is mine, I am risking my money and my name and my prestige, and these guys, the government, are taking half of the profits, so this is not acceptable. If the Lebanese political situation does not change I will never invest in Lebanon.<sup>132</sup>

Unlike the past two conferences, which were organized around investing in specific sectors in Lebanon, the Lebanese Diaspora Energy Conference of 2016, was focused on Lebanese investment in different parts of the world, with panels entitled, “Lebanese-Russian Cooperation: Windows of Opportunities;” “Embracing Potentials in Australia;” “Exploring Iran from a Lebanese Perspective;” “Latin America: Land of Opportunities;” “Promising Horizons in Africa;” and “Lebanese Initiatives and Successes in the Gulf.” Although the

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<sup>130</sup> Author’s notes from Euromoney Lebanon conference held on June 9, 2015.

<sup>131</sup> Reinoud Leenders, *Spoils of Truce: Corruption and State-Building in Postwar Lebanon* (2012).

<sup>132</sup> Interview conducted by the author on October 19, 2015.

emigrants were also celebrated as the beating heart of Lebanon's economy, perhaps the conference sponsors at the Ministry of Foreign Affairs were well aware of their reluctance to reinvest in Lebanon in these difficult times.

Instead there are assorted attempts by non-profit organizations to attract emigrant investment while eluding the government's corrupt coffers. One of these is the Lebanese International Financial Executives (LIFE) Lebanon, an organization of diaspora financiers who have come together to *connect* financial professionals, *nurture* the next generation in the field of finance and *promote* economic development in Lebanon more broadly, or according to their website:

We believe Lebanon to be a country best defined by a global community of more than 16 million people (sic) spread over 6 continents. Beginning with Finance, a discipline anchored in our history, our vision is to create a shared platform that transcends borders and affiliations, encouraging all Lebanese around the world to support each other, nurture the upcoming generations, drive positive change and promote cross border equity for our nation.<sup>133</sup>

Founded in 2009 by two expatriates in London, LIFE was based on the success of the Jewish diaspora, according to Z.L., one of their members and once a financial professional in London. She recounted how LIFE started by mobilizing friends to raise money for scholarships for Lebanese students to study abroad and now their organization comprises 850 members. They are funded by member fees and corporate donations, and in addition to making funds available for students to study finance or business administration and making introductions between job applicants and professionals, they are also engaged in funding entrepreneurship with the Lebanon for Entrepreneurs initiative. According to Z.L. this has been their most important success, as it has helped them reach out to the diaspora beyond their traditional investments in real estate and banking.<sup>134</sup> I spoke with J.A. of Lebanon for Entrepreneurs, also a returned emigrant, who explained their objective of accelerating the development of the information technology sector in Lebanon. Although they do not invest in technology start-ups, they provide mentorship to promising companies. They have a joint program with another diaspora organization known as Lebnet, a network of Lebanese expatriates based in Silicon Valley which – similar to LIFE Lebanon but with a technology focus – connects Lebanese technology professionals abroad and supports the sector's development back in Lebanon.<sup>135</sup> They have sent the founders of two promising companies to California for training and assisted five other start ups to raise \$6.2 million.<sup>136</sup> According to J.A., project funding is no longer one of their concerns, after the issuance in 2014 of the Banque du Liban Circular 331, which made available 3 percent of the total capital in Lebanese banks, around \$400 million, for investment in the information technology sector. Lebanese banks are able to purchase seven-year Treasury bonds from the Banque du Liban, which in turn guarantees the banks 75 percent of their investment and owns only 50 percent of the profits made from investing these funds in Lebanese technology start-ups. The objective of injecting so much money into the technology sector, according to the Banque du Liban's own materials, is “to reverse the trend of Lebanon's university graduates leaving

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<sup>133</sup> <http://www.lifelebanon.com/about-us.html> (Viewed on March 5, 2017).

<sup>134</sup> Interview conducted by the author on February 4, 2016.

<sup>135</sup> <http://lebnet.us> (Viewed on March 5, 2017).

<sup>136</sup> Interview conducted by the author on February 1, 2016.

the country to look for jobs elsewhere.”<sup>137</sup> According to J.A., the banks have already allocated around \$250 million to investment in technology-oriented venture capital funds, but only 10 percent of that has been invested, “what’s the rest of the money doing we don’t know? Where did the \$25 million go we also don’t know? Who’s tracking the performance, we don’t know?”<sup>138</sup> Corruption was not a word that he alluded to in our interview, but rather a “Ponzi scheme” in which all investors were making money, but similar to the questionable sustainability of Lebanon’s sovereign debt, the question was until when.

What has not been doubtful, however, is that the pillars of the Lebanese economy, banking and real estate, have attracted significant sums from Lebanese emigrants. Beyond the non-resident deposits, which according to the Banque du Liban’s statistics comprise 21 percent of total deposits, totaling almost \$32 billion,<sup>139</sup> or 70 percent of Lebanon’s gross domestic product,<sup>140</sup> but the International Monetary Fund has found that a truer measure of the non-resident component of deposits, in other words those earned by Lebanese overseas, is estimated to encompass 40 percent of the deposit base,<sup>141</sup> which translates to more than \$60 billion or 133 percent of the economy. In addition to earning interest in Lebanese banks, deposits are also invested in the real estate sector, with until recently expatriates comprising 40 percent of purchasers in the property market,<sup>142</sup> although their purchases have declined since 2011 as they await, in the words of a Bank Audi annual real estate report, “more clarity on the security front before pouring money in Lebanese realty.”<sup>143</sup> In the paragraphs that follow, I sketch the ways by which banks and property developers reach out to Lebanese expatriates worldwide, opening bank branches and embarking on real estate roadshows in countries where expatriates are most present, as well as by advertising mortgage loans which argue that purchasing a home their homeland is not only a profitable but also an affective investment.

Like their expatriate clients, Lebanese banks have expanded worldwide. Among the largest and most profitable banks this overseas expansion began during the civil war. Thus, Bank Audi, Lebanon’s largest by asset size, established their Swiss subsidiary in 1976<sup>144</sup> and their French one in 1979.<sup>145</sup> Blom Bank, Lebanon’s second largest by assets, moved abroad earlier, opening their first international branch in 1952 in Saudi Arabia and their second one in Dubai in 1975, but during the war they also established subsidiaries in Paris in 1976 and in Switzerland in 1979, as well as branch in Sharjah in 1978 and Oman in 1982.<sup>146</sup> Among other “alpha” banks (those with customer deposits greater than \$2 billion), Byblos Bank opened subsidiaries in Belgium in 1976,<sup>147</sup> France in 1980<sup>148</sup> and the United Kingdom in 1981<sup>149</sup> and

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<sup>137</sup> <http://2015.bdlaccelerate.com/everything-you-need-to-know-about-bdl-circular-331/> (Viewed on March 5, 2017).

<sup>138</sup> Interview conducted by the author on February 1, 2016.

<sup>139</sup> <http://www.bdl.gov.lb/statistics-and-research.html> (Viewed on March 5, 2017).

<sup>140</sup> <http://data.worldbank.org/indicator/NY.GDP.MKTP.CD> (Viewed on March 5, 2017).

<sup>141</sup> IMF, Staff Report for the Article IV Consultation (2012), 10.

<sup>142</sup> Bank Audi, “Lebanon Real Estate Sector: Slowdown in Market Momentum Along With Resilient Prices (2011), 3.

<sup>143</sup> Bank Audi, “Lebanon Real Estate Sector: Lingering Slow Demand in a Market Searching for Tangible Confidence” (2014), 3.

<sup>144</sup> <http://www.bankaudi.com/private/switzerland> (Viewed on March 5, 2017).

<sup>145</sup> <http://www.bankaudi.fr/france/about-us/history-milestones> (Viewed on March 5, 2017).

<sup>146</sup> <http://www.blombank.com/english/Milestones> (Viewed on March 5, 2017).

<sup>147</sup> <http://www.byblosbank.com/Belgium> (Viewed on March 5, 2017).

<sup>148</sup> <http://www.byblosbank.com/France> (Viewed on March 5, 2017).

<sup>149</sup> <http://www.byblosbank.com/United-Kingdom> (Viewed on March 5, 2017).

a branch in Cyprus in 1984;<sup>150</sup> Fransabank opened their French subsidiary in 1984;<sup>151</sup> Bank Med opened a subsidiary in Switzerland in 1985 and a branch in Cyprus in 1987;<sup>152</sup> Bank of Beirut opened a branch in the United Kingdom in 1981;<sup>153</sup> Credit Libanaise opened their Cypriot branch in 1983;<sup>154</sup> Bank of Beirut and the Arab Countries opened a Cyprus branch in 1986<sup>155</sup>; and Lebanon and the Gulf bank opened in Cyprus in 1987.<sup>156</sup> The only large Lebanese bank that did not formally open offices overseas during the civil war was Banque Libano-Française. According to N.B., a research economist at an aforementioned alpha bank, the reason for this overseas expansion was that so many Lebanese were leaving during the civil war, “because there were so many Lebanese leaving the country, whether temporarily or permanently, and you needed to cater to their banking needs.”<sup>157</sup>

Lebanese banks have since continued their international expansion in the footsteps of their expatriate clients. It was only after the civil war that Lebanese banks recognized the importance of their expatriate clients, remarked A.L., a professor of finance at the Lebanese University.<sup>158</sup> Among the 23 alpha and beta (those with customer deposits between \$500,000 and \$2 billion) Lebanese banks (not including large international banks based in Lebanon), all but five (Al Marawid Bank, Banque de Syrie et du Liban, Banque de l'Industrie et du Travail, Fenecia Bank and Lebanese Swiss Bank) have an international presence. In 2015, Lebanese banks were present in 30 countries outside Lebanon, with 13 Lebanese banks operating in Cyprus; nine banks across Europe (not including Cyprus); 11 banks in Iraq; 11 banks in the United Arab Emirates; seven banks in Syria; four banks in Nigeria; three banks in the Sudan; three banks in Jordan; three banks in Qatar; two banks in Saudi Arabia; two banks in Turkey; two banks in Egypt; two banks in the Ivory Coast; two banks in Armenia; and one Lebanese bank operating in the following countries: Algeria, Australia, Bahrain, Belarus, Canada, Cuba, D.R. Congo, Ghana, Libya; Oman, Russia and Senegal. Moreover, Lebanese banks are especially prominent in the region, with 109 Lebanese-owned branches in Syria, 81 in Turkey, 65 in Egypt, 43 in Jordan and 23 in Iraq.<sup>159</sup> This foray into the region started around the mid-2000s, especially with the opening of the Syrian banking sector to foreigners,<sup>160</sup> which coincided with the time when Lebanese banks began to diversify their assets away from their overexposure to Treasury bills. According to the research economist N.B., there are two reasons why his bank, like other Lebanese banks, have opened offices overseas in recent years, “originally the bank had a presence abroad, and that was to follow the expatriates, but we aren’t only in countries with a large Lebanese community. We’re also following opportunities in foreign markets.”<sup>161</sup> Thus, in Gulf countries where it is difficult to obtain a banking license, Lebanese banks have established representative offices to advertise the services they offer for expatriates. There have also been recent reports that Bank Audi is contemplating transferring their corporate headquarters to the United Arab Emirates. Their

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<sup>150</sup> <http://www.byblosbank.com/Cyprus> (Viewed on March 5, 2017).

<sup>151</sup> <https://fransabank.com/English/GroupProfile/Pages/Historical-Milestones.aspx> (Viewed on March 5, 2017).

<sup>152</sup> <http://www.bankmed.com.lb/content/about/timeline.aspx> (Viewed on March 5, 2017).

<sup>153</sup> [http://www.bankofbeirut.co.uk/BOBUK/en/Bank-of-Beirut-\(UK\)-Ltd](http://www.bankofbeirut.co.uk/BOBUK/en/Bank-of-Beirut-(UK)-Ltd) (Viewed on March 5, 2017).

<sup>154</sup> Association of Banks in Lebanon, *Almanac of Banks in Lebanon* (2015), 203.

<sup>155</sup> <https://www.bbcbank.com/about-us/our-story> (Viewed on March 5, 2017).

<sup>156</sup> <http://www.lgbbank.com/en/pages/about/36> (Viewed on March 5, 2017).

<sup>157</sup> Interview conducted by the author on December 8, 2015.

<sup>158</sup> Interview conducted by the author on October 12, 2015.

<sup>159</sup> Association of Banks in Lebanon, *Almanac of Banks in Lebanon* (2015).

<sup>160</sup> *Executive Magazine*, “Bank Diversification Moving Ahead” (2006).

<sup>161</sup> Interview conducted by the author on December 8, 2015.

reason is the Lebanese sovereign debt, whose immensity lowers the country's credit rating, in turn reduces Bank Audi's access to finance capital.<sup>162</sup>

Lebanese banks have also opened representative offices in West African countries, where political risks are elevated, also to attract deposits of the expatriates there. However, in countries such as Syria, Turkey and Egypt, where Lebanese banks have a broad presence, their motivation was not following the expatriates but catering towards the local population. Even in West Africa, A.T., the owner of a bank with representative offices in two countries there, said that his objective was not to serve the Lebanese, "I already have them in Lebanon," but the locals, "I'm a firm believer that if I'm going to open up in West Africa, it needs to be a bank that is geared for West Africa and not specifically geared for the diaspora. The minute you do something specifically for the diaspora you are limiting your scope, and we don't want to do that."<sup>163</sup> Moreover, by opening branches in countries such as the Sudan and Iraq, Lebanese banks were venturing to relatively under- or unbanked regions where few foreign banks were willing to go. For banks which once wanted to diversify their risk away from Lebanon, they have encountered different risks with the insecurity engulfing the region. However, when I asked about the impact on Lebanese banks operating in Syria and Iraq, research economist N.B. urged me to take a longer view. Moreover, the day after our interview his bank was inaugurating an office in Sulaymaniyah, in the Kurdish region of northern Iraq. In his words:

The idea behind expanding abroad is first of all because of the lack of opportunities here. The market had become saturated and very competitive when the new wave of expansion started in 2004. This was when some new markets opened up, in Syria and Iraq for example. Another reason was to diversify away from the sovereign risks. All these factors are behind the expansion of Lebanese banks. One was to follow the expatriates, because already the banks have been following the expatriates for many years before. Another was the wave, from 2004, of overseas expansion because of new opportunities and to diversify away from sovereign risks here and to leverage our experience in conflict zones and to leverage also the reputation of the Lebanese banking sector.<sup>164</sup>

Moreover, these are only the countries where Lebanese banks have expanded to officially, for A.L., a professor of finance at the Lebanese University, knows of several Lebanese banks which send personal representative to Africa and the South America because of the difficulty of opening branches or subsidiaries there, "So they send someone there, and this person stays for a few weeks or one month or so, and the person contacts Lebanese emigrants there and convinces them to send their money or to buy products from the bank. And actually it's working very well."<sup>165</sup> Yet whether opening a representative office to advertise products to their expatriate clients in the Gulf or West Africa, expanding branches to collect deposits or serve under-banked regions such as Syria and Iraq, or establishing fully-fledged subsidiaries in Europe or Turkey to cater to local markets there, "we still drive the main rationale behind

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<sup>162</sup> *Business News*, "Bank Audi considering to locate HQ abroad" (2016).

<sup>163</sup> Interview conducted by the author on February 1, 2016.

<sup>164</sup> *Ibid.*

<sup>165</sup> Interview conducted by the author on October 12, 2015.

the expansion,” said F.M., the international banking manager at a large Lebanese bank, “on the links between the Lebanese people and those countries.”<sup>166</sup>

Otherwise, many Lebanese banks offer special services for their expatriate clients. Following up on a similar investigation financed by the United Nations Economic and Social Commission for Western Asia,<sup>167</sup> I searched the websites of Lebanon’s largest banks to study the services they specifically offered for expatriates. Of the 23 banks alpha and beta banks, only six did not offer some type of expatriate services, at least on their websites, although all banks could of course receive non-resident deposits, and their Lebanese citizens clients could take advantage of the Banque du Liban’s subsidized mortgages. However, most banks have an array of financial services catering for expatriates. These include deposit accounts, with Bank of Beirut, for example, offering their clients in the United Arab Emirates<sup>168</sup> and in Qatar<sup>169</sup> the advantage of having two bank accounts with free funds transfers between them. Another service is credit cards in multiple currencies, with Lebanon and the Gulf Bank, for example, offering cards in Sterling Pounds, Saudi Riyals, Turkish Liras, UAE Dirhams and Euros.<sup>170</sup> There is also overseas insurance, with Byblos Bank celebrating their contribution, “For generations, Lebanese expatriates have been a lifeline for their families and even their whole country. Byblos Bank has long recognized and saluted these contributions, and the sacrifices they entail, so let us give you a reward.”<sup>171</sup> The most prominent expatriates service, however, are housing loans; the only difference between the mortgages offered to locals and to expatriates is that the latter may pay a slightly higher down payment. Fifteen banks had, at the time of my research, advertisements for home loans specifically directed to expatriates. They made an emotional appeal to the Lebanese abroad to consider owning a home in their homeland. For example, the Bank of Beirut and the Arab Countries calls upon expatriates to see themselves in Lebanon, because through the assistance of an expatriate housing loan, “Lebanon is waiting to welcome you home.”<sup>172</sup> Similarly, the Bank of Beirut claims, “even though you are residing beyond the Lebanese territories, the keys to the door of your homeland home have never been so easy to get!”<sup>173</sup> Specifically for their clients in Australia, who may be second generation emigrants and thus more distant from their heritage, they ask, “Do you hold Lebanon in your heart and wish to own a home of your own at the heart of your home country?” and advertise, “Bank of Beirut brings you closer to your homeland and gives you now the opportunity to own the home you always longed for in your native country.”<sup>174</sup> And while not a Lebanese bank, the Arab Bank (based in Jordan) also offers mortgages for expatriates, “You always aspired to own your dream house in your country, Lebanon. Now is the time to realize your dream.”

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<sup>166</sup> Interview conducted by the author on December 11, 2015.

<sup>167</sup> Ali Awdeh, “Remittances to Lebanon: Economic Impact and the Role of the Banks” (2012).

<sup>168</sup> <https://www.bankofbeirut.com/Corporate/en/NRL-Financial-Package---Dubai> (Viewed on March 5, 2017).

<sup>169</sup> <https://www.bankofbeirut.com/Corporate/en/BayRoot---Qatar> (Viewed on March 5, 2017).

<sup>170</sup> <http://www.lgbbank.com/en/page/56/> (Viewed on March 5, 2017).

<sup>171</sup> <http://www.byblosbank.com/Lebanon-Bancassurance-Expat-Offer> (Viewed on March 5, 2017).

<sup>172</sup> <https://www.bbacbank.com/banking/personal/loan/expatriate-housing-loan-lebanon> (Viewed on March 5, 2017).

<sup>173</sup> <https://www.bankofbeirut.com/Corporate/en/Housing-Loan-for-Lebanese-Expatriates> (Viewed on March 5, 2017).

<sup>174</sup> <https://www.bankofbeirut.com/Corporate/en/Housing-Loan-for-Lebanese-Expatriates-in-Australia> (Viewed on March 5, 2017).

There has long been a tradition of returning emigrants, or even emigrants still based abroad, constructing homes back in Lebanon to advertise their achievements. Writing of the returned emigrants in the early 20<sup>th</sup> century, Akram Fouad Khater observes:

One of the first and most common elements that came to distinguish those Lebanese emigrants who came back from their kinsfolk and fellow villagers was the house they built for themselves. Invariably, the returnees chose to build for themselves a house that was bigger and more ornate than any other in the village – save, perhaps, for that of another, wealthier emigrant.<sup>175</sup>

For early emigrants, their sumptuous constructions were not only to display their financial success but also to imitate the better housing they had observed overseas. Emigrant money funded a dramatic transformation of houses across Mount Lebanon, which came to emulate the mansions of the Beirut bourgeoisie. In the words of a 19<sup>th</sup> century observer, “the houses turned into veritable villas...majestically dominating their surroundings.”<sup>176</sup> They expanded to “palatial” dimensions, whose “ornate windows”, “ornamental designs,” and distinctive red-tiled roofs strikingly stood out against the plane *façades* of their poorer surroundings.<sup>177</sup> The emigrant tradition of constructing impressive homes as testaments to their owners’ success and status earned abroad continues to this day. Their modern-day reincarnations still make an impression, signifying in the words of H.L., a researcher focused on the diaspora, “I have arrived; I have been successful.”<sup>178</sup> As Beirut’s nighttime skyline of empty, unlit apartments stands out against the urban landscape, so too did the enormous stone mansions I encountered often on the outskirts of villages across rural Lebanon. Even as far back as the 1960s, those villas remained empty while their owners were overseas, and therefore they were described as a “graveyard of houses.”<sup>179</sup> These ostentatious manors also impressed Anja Peleikis, who researched more contemporary emigration from a southern Lebanese village to the Ivory Coast:

Many rich migrants have invested in the building of huge, individually-styled villas, which form a sharp contrast to the rest of the South Lebanese countryside as well as to the social and economic landscape. These buildings caught my eye as I traveled throughout the country and make me curious about the nature of Lebanese migrant connections to West Africa.<sup>180</sup>

She recounted the story of a once impoverished taxi-driver-turned successful emigrant, who was supervising the construction of the three “palaces” for his similarly successful emigrant sons. Their villas obtruded onto the entrance of the village near the main road, “meaning that everyone who passes through the village will be obliged to take note of them,” and as there were no building regulations their “architectural fantasies knew no bounds.”<sup>181</sup> One I encountered that stands out in my memory is a mansion with two towers resembling a royal castle, perhaps imitating the crumbling Beaufort crusader castle up the road, but otherwise it

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<sup>175</sup> Khater 2001, op. cit., 118.

<sup>176</sup> *Ibid*, 122.

<sup>177</sup> *Ibid*, 122.

<sup>178</sup> Interview conducted by the author on October 2, 2015.

<sup>179</sup> Khuri 1967, op. cit., 211.

<sup>180</sup> Anja Peleikis, *Lebanese in Motion: Gender in the Making of a Translocal Village* (2003), 31.

<sup>181</sup> *Ibid*, 66.

stands starkly apart from the humbler homes of southern Lebanon. Recounting my visual impressions to A.D., once an emigrant to the Ivory Coast and today a diplomat based in Beirut, he lamented how the building of these homes was undermining the local economy, because land and construction materials had become so expensive that it was impossible to start a business because people simply wanted to invest in real estate.<sup>182</sup> These architectural testaments to emigrant prosperity are evident across Lebanon, including Beirut where their apartments are not self-built, but their affluent construction testifies to their owners' success, despite the darkened windows during most of the year.

Today, both banks and developers portray returning to Lebanon as an expatriates' dream, one in which they can purchase their dream home in their homeland. Overlooked are the reasons why they initially emigrated – the unemployment, the inability to earn a sufficient salary, the economic and political insecurities in a country where instability and violence are anticipated – and instead Lebanon is depicted as an idyllic homeland, where surrounded by their family and equipped with their overseas earnings, returned emigrants can at last afford the luxurious lifestyles that many real estate developments offer. The developers with whom I spoke acknowledged that Lebanese earning their money abroad were their most important clients. Sometimes these were returning emigrants, other times they were families purchasing property with the financial support of relatives working overseas. Often it was emphasized that there were two types of emigrants, those whose departure for the Americas, Europe or Australia tended to be permanent, and those who intended to work temporarily in the Gulf or West Africa and planned to return to Lebanon, if not visit frequently on the weekends for those based in Arab countries. As explained by A.W., the president of a prominent diaspora organization who was trying to reconnect second- and third-generation Lebanese with their homeland, first through vacations and later by purchasing property there:

We have to understand the diaspora in two ways, or catalogue the diaspora in two big groups: the real and permanent diaspora and the temporary diaspora that is called a diaspora. They want to call themselves a diaspora but they are really not. They live and interact with Lebanon; they have business in Lebanon; they are very involved in Lebanese politics and religious matters; they call themselves a diaspora but they are not. This is the emigration to the Gulf and the emigration to some African countries, but talking about the African countries, it is becoming a more permanent emigration because now you have settlements or groups that are being born there. But although this is happening they are still involved in Lebanese politics and with the Lebanese economy.<sup>183</sup>

Or in the words of M.C., a property developer, when I asked to what extent his company depended on diaspora investment:

On a larger scale, the whole Lebanese economy depends on the diaspora, and real estate, which is one of the main economic sectors, also depends on the diaspora. But there are several layers of the diaspora. You have the people who live abroad, but are still coming to Lebanon, some of them every weekend or every month. Then there are people who live abroad, but they spend maybe the Christmas season and the summer season back in Lebanon. And there are people who come less than that. It

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<sup>182</sup> Interview conducted by the author on December 11, 2015.

<sup>183</sup> Interview conducted by the author on October 19, 2015.



depends on the country where they are established. People in Africa or the Gulf come very often, because of the countries where they are, it's not fun to live in Saudi Arabia or Nigeria. People who live in Brazil or Los Angeles or Geneva or London, they can imagine themselves living there forever, but they are still emotionally, and some of them economically, tied to Lebanon. When they are very rich, however, they want to diversify, and Lebanon is a way of doing business outside their home. In our recent deals, most of the money has come from Lebanese making money outside, outside Lebanon.<sup>184</sup>

Or according to M.S., also a developer, there were myriad reasons why expatriates continued to be connected to Lebanon:

There's so many different reasons. The reality is that there is an inflow of money, which is one of the major supports of the Lebanese economy today. I think that the majority, or one of the most important reasons for that inflow, is that the majority are working in Arab countries which will never give them citizenship. So eventually they are going to have to come back here, and hence real estate developers build for the expectations of those people that will come back and want a dwelling, and one of the actions we are taking as developers is going after those people in the expectation of them wanting to come back to Lebanon.<sup>185</sup>

The developers' objective is to lure these emigrants based in the Gulf and West Africa back to Lebanon. They do this not only through advertisements, which I will analyze in detail towards the end of the chapter, but also by taking the message of Lebanon's alluring real estate opportunities directly to expatriates in places such as Abu Dhabi and Lagos. They organized presentations across Gulf and West African countries to counteract the negative impressions that expatriates often have of moving back to Lebanon and increase interest in their properties. "In January we have a roadshow in Nigeria and somewhere else in Africa," said A.P., a marketing manager, "We get in touch with the Lebanese diaspora there, with the ambassador and the head of the Lebanese community... We visit them, we prepare a small cocktail, and we propose to them investment opportunities in Lebanese real estate. And we give them added value, special treatment, for example."<sup>186</sup> When asked about the success of these roadshows, she said they were important in changing their adverse perceptions about returning to Lebanon, "The diaspora are really affected by the media and propaganda done here. They always imagine that the situation is ten times worse, more dramatic than it really is, than the current situation is."<sup>187</sup> Lebanese based in the Gulf are more wary about moving back to Lebanon, argued the developer M.S., than those living in Africa, "because where the hardships are existing in Africa, then Lebanon is an easier message to sell, but when you go to Dubai...", as he drifted into discussing all the desert emirate had done to become "the melting pot of the Middle East" where "unlike Lebanon there is some certainty and clear expectations of what is to come."<sup>188</sup> His company recently traveled to Abu Dhabi, together

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<sup>184</sup> Interview conducted by the author on November 9, 2015.

<sup>185</sup> Interview conducted by the author on July 16, 2015.

<sup>186</sup> Interview conducted by the author on November 13, 2015.

<sup>187</sup> *Ibid.*

<sup>188</sup> Interview conducted by the author on July 16, 2015.

with a Lebanese bank, to sell a development they are building outside of Beirut and tailored payment facilities, and he found it difficult to sell the prospect of moving back to Lebanon:

So I found myself in Abu Dhabi where I'm standing in front of people and we had a lunch, and we were launching the business park at that stage, and we are touching on all the nerves that resonate, with them being who they are, especially the fact they are going to go back. I found them much more skeptical. So I informed them about the construction and where we are in the project, and our banking partner resonated the same message in his own speech. But when it came time to answer questions I felt a lot of skepticism, so instead of going and having lunch I started moving from table to table to address those negative points. I found it slightly challenging to start with. You have people who have succeeded abroad; they have made money in a country other than their own, which has offered them opportunities where they moved up in life. These are the same people with the same qualifications that should have succeeded in their home country, but unfortunately Lebanon being in the state that it is in does not offer those opportunities, and so you have people who have lost faith and moved on to places where there are other opportunities. As much as they love Lebanon they look at it with a pinch of salt because of the reality of it, the politics, the corruption. This is the reality, unless you live within your own bubble... Because the country is in the state that it is hard to maintain a state of productivity that is normal.<sup>189</sup>

Additionally, developers also advertise for expatriates in Lebanon. Plus Properties, is part of a conglomerate with exclusive advertising in Beirut's airport, and thus wherever one turns, from the lounge or the duty free in departures to waiting at passport control or for your bags in arrivals, their properties are ubiquitous. There is also an annual real estate convention in Beirut known as DREAM. Always scheduled around a holiday, when expatriates, especially those based in the Gulf countries, are expected to return for the long weekend (although the 2015 convention had to be rescheduled because of the protests against the garbage crisis and government corruption), the DREAM exhibition brings together some 30 to 40 developers under one roof to advertise their dream homes to expatriates dreaming of returning to their homeland, or Lebanese dreaming of being affording an apartment in a real estate market that is essentially out of reach for those earning local salaries. Several banks are also present in order to advertise their home loan programs.

Yet as Lebanese banks expand overseas, both in the footsteps of the expatriates and in search of other lucrative opportunities, so too are Lebanese real estate developers looking at investments abroad. Solidere, for example, established Solidere International in 2007, with its first international foray in Al Zorah, a \$60 billion planned community, on the coastline of Ajman in the United Arab Emirates.<sup>190</sup> Solidere International is currently constructing luxury developments in the Saudi Arabian cities of Jeddah and Riyadh.<sup>191</sup> The Chagoury Group, an investment conglomerate founded by the Lebanese-Nigerian expatriate Gilbert Chagoury, is constructing what the *Wall Street Journal* calls "the most colossal real-estate project in West Africa."<sup>192</sup> With planned housing for 450,000 residents, Eko Atlantic will be the largest and

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<sup>189</sup> *Ibid.*

<sup>190</sup> *Lebanon Opportunities* (June 2008), 8.

<sup>191</sup> <http://www.solidere.com/international/projects>

<sup>192</sup> Drew Hinshaw, "Nigerian Developer Set to Build Africa's Next Giant City" (2013).

most luxurious development in Lagos, promised P.E., a Chagoury Group representative at the Lebanese Emigrants Economic Conference.<sup>193</sup> MENA Capital, the builders behind the tallest, soon to be second tallest, development in Beirut and one of the real estate funds with whom I spoke, are expanding into Iraq, having purchased land outside Baghdad and recently submitting a master plan to the Higher Investment Authority.<sup>194</sup> Although this project is targeting Iraqi nationals, MENA Capital is also looking at Spain given the option for those who purchase property there to acquire nationality. This is what several developers termed “the Golden Visa.” FFA Real Estate, the real estate development company attached to FFA Private Bank, advertises their Global Citizenship Program for investors seeking “permanent residency, citizenship or the freedom of visa travel.”<sup>195</sup> They have properties in development in Europe and the Caribbean, namely Bulgaria, Cyprus, Hungary, Malta, Portugal, Antigua & Barbuda, Dominica, Grenada and St. Kitts & Nevis. According to a representative of FFA Real Estate, the Caribbean is a better option for those seeking mobility with the best value for money; however, “If you need more, if you are there for the actual real estate and for the actual value of real estate and you want to feel relaxed you are European, then go to European countries, and feel relaxed to be a part of European countries like Portugal, and Greece, and Spain.”<sup>196</sup> Citizenship in certain Caribbean countries affords investors visa-free travel to the European Union and the United Kingdom, often without residency obligations. All that is required, according to their Citizenship by Investment materials, are as follows:<sup>197</sup>

In order to obtain citizenship in...

St. Kitts and Nevis:

donate \$250,000 to the Sugar Industry Diversification Foundation, or  
invest \$400,000 in an approved real estate project

Antigua and Barbuda:

donate \$250,000 to the National Development Fund, or  
invest \$400,000 in an approved real estate project

Dominica:

invest \$220,000 in an approved real estate project

Cyprus:

purchase a residence of €500,000, and  
invest €5,000,000 in one of the following:  
Cypriot property, shares, bonds  
Cypriot bank deposits  
Active business in Cyprus  
or, invest €2,500,000 in a collective investment scheme

Bulgaria:

invest €512,000 in 5-year government bonds, and after obtaining  
permanent residency,  
invest an additional €512,000 in 2.5-year government bonds

Portugal:

deposit €1,000,000 in bank account in Portugal, or the equivalent by

<sup>193</sup> Interview conducted by the author on December 15, 2015.

<sup>194</sup> Interview conducted by the author on a date undisclosed to protect the anonymity of my interviewee.

<sup>195</sup> <http://www.ffarealestate.com/services-platform/global-citizenship>

<sup>196</sup> Interview conducted by the author on an undisclosed date to protect the anonymity of my interviewee.

<sup>197</sup> [http://www.ffarealestate.com/sites/default/files/Programs%20Overview%20v3\\_0.pdf](http://www.ffarealestate.com/sites/default/files/Programs%20Overview%20v3_0.pdf)

acquiring a property of €500,000 or creating a company of 10 workers for five years, to obtain Portuguese nationality however, to obtain citizenship knowledge of the Portuguese language and culture, as well as residency of at least 6 years, is required

Malta:

contribute €650,000, and  
purchase a property of €350,000 and hold for 5 years, and  
invest €150,000 for 5 years, and  
hold global health insurance policy of at least €50,000

Hungary:

invest €300,000 in government bonds to obtain 5-year residency, with citizenship eligible after 8-years residency by passing a test in the Hungarian language.

I have no idea how many wealthy Lebanese, most of whom would have made their wealth as expatriates, are investing overseas for the citizenship. I know from conversations with many Lebanese friends – none of whom could afford these investments – that leaving their country is a foremost concerns. From those with second passports because of a foreign parent or being born abroad during the civil war, or those with Armenian heritage seeking to acquire their second nationality, or those who applied for permanent residency in Canada, or those who were raised in West Africa and were seeking to return because, in the paraphrased recollection of a friend’s words, *There is no more hope in Lebanon. This is no longer a country. We Lebanese used to barely tolerate Africa, but now we have more opportunities there*, leaving Lebanon came up in everyday conversation, all the time. There are even stories of Lebanese tearing up their passports and following the Syrian refugees into Turkey and onwards to Europe, “fleeing from a country,” which in the words of a *Guardian* reporter, “has achieved almost tragicomic levels of dysfunction.”<sup>198</sup> The Lebanese passport, which was ranked by Henley & Partners as the world’s 96<sup>th</sup> (out of 104) worst because as it permits visa-free access to only 39 countries, is a liability for many Lebanese whose dearth of opportunities in Lebanon demands that they emigrate overseas, even if they intend to return.<sup>199</sup>

Where once the contours of citizenship were represented by the passport, the transnationalization of capital has trans-nationalized citizenship into a flexible notion in the era of flexible accumulation, writes Aihwa Ong of “the strategies and effects of mobile managers, technocrats, and professionals seeking to both circumvent and benefit from different nation-state regimes by selecting different sites for investments, work, and family relocation.”<sup>200</sup> Her subjects are diaspora Chinese businessmen who have acquired second passports not simply as “a matter of convenience” but also as “a matter of confidence”<sup>201</sup> by purchasing property in the United Kingdom and the United States, where by way of an investor category in their finance-based immigration, “citizenship has become an instrument of flexible accumulation for the nation-state; it is a way for the nation-state to subvert its own regulatory mechanisms in order to compete more effectively in the global economy.”<sup>202</sup> Yet the flexibility obtainable for international financiers is denied to many: the migrant workers who must relinquish their

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<sup>198</sup> Kareem Shaheen, “Nobody wants to stay in Lebanon. It’s a miserable life” *Guardian* (2016).

<sup>199</sup> <https://www.henleyglobal.com/visa-index-form/>

<sup>200</sup> Aihwa Ong *Flexible Citizenship: The Cultural Logics of Transnationality* (1999), 112.

<sup>201</sup> *Ibid*, 1.

<sup>202</sup> *Ibid*, 130.

passports to work as maids or manicurists in Lebanon, the Syrian refugees struggling to pay the \$200 annual registration fee to remain in Lebanon, or simply the ordinary Lebanese who cannot afford FFA Real Estate's Global Citizenship Program. They are what James Clifford has termed the "discrepant cosmopolitanisms" of travelers disadvantaged by socio-economic or passport status.<sup>203</sup> Atossa Abrahamian contrasts these discordant cosmopolitanisms of the wealthy who are burdened by their passport status with those who have been made stateless, through the story of a Syrian (who acquired a French passport) businessman who negotiates a deal with the government of the United Arab Emirates to purchase Comorian citizenship for their tens of thousands of stateless residents. She documents how companies such as the aforementioned Henley & Partners have developed a lucrative business of acquiring second nationalities for their Russian, Chinese and Middle Eastern clients by convincing Caribbean and European countries in need of foreign investment to make their citizenship for sale.<sup>204</sup>

Yet Lebanon may be among the most interesting places where to territorialize these discrepant cosmopolitanisms, and not only among the privileged who can purchase second nationality through a property in the Caribbean or on the periphery of Europe, nor even among the 50 percent of the Lebanese population estimated to emigrate at one point in their lives,<sup>205</sup> but the other side of the remittances balance sheet, the emigrants from countries such as Syria, Egypt, the Philippines, Sri Lanka, Bangladesh, Ethiopia, Palestine and others, where the migrant labors and refugees originate. There is not the story I tell here, but those of the 250,000 migrant workers, as well as the more than 1.5 million Syrian and Palestinian refugees,<sup>206</sup> is essential to bring into debates about emigration and national development.<sup>207</sup> Lebanon is both one of the world's top remittance-receiving countries and a top remittance-sending country, as more than 35 percent of those living in Lebanon are immigrants, at least temporarily. These migrant workers sent \$5.6 billion in remittances from Lebanon in 2014.<sup>208</sup> Their precarity is a decidedly unflexible citizenship, but one that is rigid in ways distinct from the educated Lebanese who emigrate in search of economic opportunity abroad.

In sum, the Lebanese political economy is defined by circulations, of financial flows between non-resident deposits and the sovereign debt and of flows of people, the Lebanese who emigrate and those Lebanon imports as migrant laborers. The consensus is that there is no national development policy to employ the immense amount of remittances – 15 percent of gross domestic product in 2015, according to an official from the Banque du Liban<sup>209</sup> – beyond their importance in saturating the commercial banks, and thus the sovereign coffers through their investment in Treasury bills. Thus, the private sector has taken the initiative, with the expatriate services offered by the banks and the real estate opportunities advertised by developers. Even the myriad conferences organized by the Ministry of Foreign Affairs emphasize property as Lebanon's preeminent investment opportunity, with banks offering their expatriate housing loans the most prominent sponsors of these events. Yet the question remaining is how the banks and property developers convince their expatriate clients to send their money back to Lebanon despite its political corruption, economic stagnation and even occasional outbreaks of violence, especially as these risks were one of the reasons why many

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<sup>203</sup> James Clifford, "Traveling Cultures" (1992), 108.

<sup>204</sup> Atossa Araxia Abrahamian, *The Cosmopolites: The Coming of the Global Citizen* (2015).

<sup>205</sup> Charbel Nahas "Towards a Property Taxation Regime in Lebanon" (2014).

<sup>206</sup> United Nations High Commissioner for Human Rights: <http://www.unhcr.org/pages/49e486676.html> and the United Nations Relief and Works Agency: <http://www.unrwa.org/where-we-work/lebanon>

<sup>207</sup> International Labor Organization: <http://www.ilo.org/beirut/countries/lebanon/lang-en/index.htm>

<sup>208</sup> World Bank 2016, op. cit., 109.

<sup>209</sup> Interview with the author on October 20, 2015.

emigrated in the first place. Most often an investment is conceived in terms of profit, and there are profits to be made from Lebanese banks' high interest rates offered on deposits, as well as real estate market that is said to be a safe haven in a dangerous region, whose prices are thought never to decline, at least substantially. Yet in conversations with expatriates and the real estate developers convincing them to return to their homeland, as well as analyses of advertisements for expatriate financial services, I encountered a different persuasion, one tending less towards profit than to affective attachments to Lebanon. In this chapter's final section I want to analyze the extent to which the private sector's inducement to invest back in Lebanon is accomplished not by profit-making but by emotional appeals to expatriates celebrated as the very source of their homeland's much-mythologized resilience.

### **Affective Investment**

“They (the Lebanese diaspora) will not invest if they feel that it’s a losing business, no matter how much they love their country,” said R.I., a representative of IDAL, “so it is very important for us to find a proposition to sell the country...”<sup>210</sup> The Lebanese expatriate is at the center of Lebanon’s “foreign” direct investment policy because, again in her words, “it’s very difficult to convince foreigners to invest in Lebanon, as they don’t know the local context.” It was thus a more profitable proposition to convince investors from nearby Arab countries as well as tap into the diaspora, “but given the regional turmoil and tensions with some neighboring countries, we haven’t actively targeted Arabs and foreigners. Our greatest asset has been our expatriates, for obvious reasons, but we still need to put forth profitable investments.” Similarly, A.P., the marketing representative of a real estate company whose publicity monopolizes advertising space at Beirut’s Rafiq Hariri International Airport, said, “they always have this sense of belonging to Lebanon, but you know what, the Lebanese diaspora just wants to get a good deal. That’s what they want and that’s what we are trying to sell them.”<sup>211</sup> Yet there are reasons beyond the lucrative why expatriates return to Lebanon. These include proximity to family and friends, appreciation of Lebanon’s natural beauty and enjoyment of its culture, among others. Many of these reasons are encompassed by IDAL’s own advertising campaign, which rather than highlighting the “profitable investments” their representative emphasized to me in our interview, tended towards the expatriates’ affective attachments to Lebanon. Their campaign consisted of three advertisements. One depicted a father and daughter at home sharing a meal, entitled “invest in the home you love; invest in Lebanon.” Another portrayed grandfather and granddaughter sitting beneath a tree on the mountains overlooking Beirut, with the title “invest in the land you love; invest in Lebanon.” The third showed friends out for a night downtown with the call, “invest in the life you love; invest in Lebanon.” It was their aforementioned affective attachments to Lebanon – family, land, culture – that IDAL drew upon in these advertisements to draw the expatriates’ wealth back to Lebanon, not the profit-making possibilities of doing so. Instead of the internal rate of return of property investment, they illustrate a family at home; in the place of a balance sheet, is the country’s beautiful geography; and rather than a business plan, they display the immeasurable, and thus non-monetizable, value of the local life and culture. Moreover, the fine print for all three advertisements is the same, and it underlines the affective instead of the profitable reasons for investment:

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<sup>210</sup> Interview with the author on January 22, 2016.

<sup>211</sup> Interview with the author on November 13, 2015.

Investment is not just about figures and assets. It also means implicating ourselves in a vision for a better future, and what better way than investing in something we deeply care about? At the Investment Development Authority of Lebanon (IDAL), we provide you with all the support and guidance that you need for the success of your investment venture in Lebanon.



INVEST  
IN THE HOME  
YOU LOVE  
INVEST  
IN LEBANON

Investment is not just about figures and assets. It also means implicating ourselves in a vision for a better future, and what better way than investing in something we deeply care about? At the Investment Development Authority of Lebanon (IDAL), we provide you with all the support and guidance that you need for the success of your investment venture in Lebanon.

Investment Development Authority of Lebanon  
For your investments, call 0091 1 881198 - 04302016



Your Key to Investment Opportunities

INVEST  
IN THE LAND  
YOU LOVE  
INVEST  
IN LEBANON

Investment is not just about figures and assets. It also means implicating ourselves in a vision for a better future, and what better way than investing in something we deeply care about? At the Investment Development Authority of Lebanon (IDAL), we provide you with all the support and guidance that you need for the success of your investment venture in Lebanon.

Investment Development Authority of Lebanon  
For your investments, call 0091 1 881198 - 04302016



Your Key to Investment Opportunities



INVEST  
IN THE LIFE  
YOU LOVE  
INVEST  
IN LEBANON

Investment is not just about figures and assets. It also means implicating ourselves in a vision for a better future, and what better way than investing in something we deeply care about? At the Investment Development Authority of Lebanon (IDAL), we provide you with all the support and guidance that you need for the success of your investment venture in Lebanon.

Investment Development Authority of Lebanon  
For your investments, call 0091 1 881198 - 04302016



Your Key to Investment Opportunities

Although I am opposing the profitable and the affective, I do not mean to imply that investment must be one or the other. While remittances may be mainly about supporting the family back home, emigrant investment has much broader intentions. As A.W, president of a prominent diaspora association argued, if an emigrant were to have analogous investment opportunities in Lebanon and, for example, Singapore, “then obviously they would invest in Lebanon given their attachments here.”<sup>212</sup> The problem, emphasized in his interview and by many others, is corruption, or in the words of R.I. of IDAL, “the major impediment, after speaking with many of them, is the trust issue with the government. There’s a reason why they left, or why their ancestors left. If they were doing well then they wouldn’t have left. So there’s this trust issue we need to overcome.”<sup>213</sup> It was based on these suspicions that IDAL’s advertising made emotional appeals for expatriate investment to also benefit their homeland:

They want to give back to their country, to their homeland, to their villages. We realize that they want to give back to their villages, but let us give them something profitable. Because if they lose it will scar them. They will never come back again. There is an emotional link back, that’s why we often use emotional connotations, but it isn’t enough. They will not invest in a losing country, no matter how much they love the country.<sup>214</sup>

Similarly, when persuading emigrants to make investments in their villages of origin, R.U. of the UNDP affirmed, “when doing an infrastructure project it’s not a personal investment for you; you’re investing in the development of our village. Therefore, you rely more on emotion in this project.”<sup>215</sup> He mentioned another aspect of these infrastructure investments, which is recognition of their success earned as emigrants overseas, similar to the eye-catching mansions that many build in their villages. Both are investments that earn them recognition, as is purchasing real estate both about making a profitable investment and having a home to which they return often, and thus maintain their affective attachments to their homeland.

In pointing to the ways in which expatriate remittances, property assets and banking deposits in Lebanon are simultaneously inside and outside the logics of investment, both the profit-making and the affective, I am drawing on the work of economic anthropologists such as Bill Maurer. In *Mutual Life, Limited*, his study of Islamic finance and an alternative currency in upstate New York, at first he approached both as “contemporary alternatives to modern money and finance.”<sup>216</sup> Yet he finds in the different arrangements by which Islamic financial institutions avoid interest payments and the barter currency based on the value of labor time that these supposed alternatives are instead densely intertwined in dominant understandings of the economy. In other words, the financialized world economy and its alters were not separate and separable entities.<sup>217</sup> Another perspective on the ways in which alternatives are also intertwined in what they seek to unseat is offered in Julia Elyachar’s study of structural adjustment policies and their effects on the workshops and their masters in Cairo. She does not pose their informal practices as an alternative to the small enterprises that international

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<sup>212</sup> Interview with the author on October 19, 2015.

<sup>213</sup> Interview with the author on January 22, 2016.

<sup>214</sup> *Ibid.*

<sup>215</sup> Interview with the author on July 21, 2015.

<sup>216</sup> Bill Maurer, *Mutual Life, Limited: Islamic Banking, Alternative Currencies, Lateral Reason* (2005), 3.

<sup>217</sup> *Ibid.*, 9.



development organizations seek to impose, but instead weaves together the ways in which they imbricate. Value, in the trade workshops of Cairo, did not arise from market exchange, nor individualized self-discipline, but the knowledge of the master and his relations with his workers, family members, customers and government officials, in sum the social networks and cultural practices that she denotes as relational value. Thus although workshops produce commodities with economic value, it has nothing to do with the production of surplus value so valued by capitalism, “I call this value produced in workshop exchanges ‘relational value’ since it expresses the positive value attached to the creation, reproduction and extension of relationships in workshop life.”<sup>218</sup> The structural adjustment policies of entrepreneurship, promoted by a plethora of international development and non-governmental organizations, sought to convert this relational value into purely economic value, “incorporating the social practices of the poor into the free market” by designations of informality, microenterprise and social capital.<sup>219</sup> Yet with few exceptions these experiments to turn workshop masters into entrepreneurs, their workshops into microenterprises, resulted in failures, as the primacy of profit-maximizing over relational values portended the evil eye, as materialized in car accidents, lost customers and workshops that would mysteriously go up in fire. Whereas the conversion of relational values into the values of the market resulted in crises of the evil eye, and thus the unraveling of both, Pierre Bourdieu, traces more successful conversions of social and cultural capital into economic capital. He thus expands an understanding of capital beyond the purely economic to include immaterial forms, or those not necessarily oriented towards profit maximization, specifically social and cultural capital. Whereas economic theory reduced conceptions of capital to mercantile exchange, implicitly defining non-profit motivated exchange as non-economic, in fact cultural and social capital – qualifications and connections – are convertible into economic capital, for example by attending a good school and knowing powerful people, and therefore connected to profit-making. Economic capital, in other words, could not exist without the immaterial, non-marketable forms of social and cultural capital, or as he wrote, “the world of bourgeois man, with his double-entry cannot be invented without producing the pure, perfect universe of the artist and the intellectual and the gratuitous activities of art-for-art’s sake and pure theory.”<sup>220</sup>

What these examples thus underline is that economic alternatives are not outside the economy, nor is economic capital isolated from non-profit-maximizing values, as social and cultural capital, as well as alternative financial practices and currencies, can be converted in the promotion of profit-making. Similarly, I found in interviews with Lebanese emigrants, as well as those trying to attract their investment, that their motivations were both affective and profitable. It was not only developers who spoke about the importance of land ownership to Lebanese traditions. When I asked W.W., the country economist at an international financial institution, about the place of real estate in the Lebanese economy, his answer was in several layers, starting with the law of scarcity, moving to circular financial flows and the significance of expatriate investment, but the last layer he mentioned was culture:

Land for Lebanese has always been a principle asset, albeit much less so commercial than before. If you look at our areas, the Levant, even the poorest person had land. My grandfather was extremely poor but he had land. It was not that he could make a conglomerate, but he just had land that he inherited through families. He didn’t want

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<sup>218</sup> Julia Elyachar, *Markets of Dispossession* (2005), 143.

<sup>219</sup> *Ibid*, 8.

<sup>220</sup> Pierre Bourdieu, “Forms of Capital” (1986), 242.

to sell that land; he wanted to grow trees, that was the mentality. He wanted to build a house for his son on the land when he got married, and so forth. So the question of identity and culture has traditionally been attached to land. Now in the modern world, land became an asset as well, and so the Lebanese have a certain attachment to real estate and the economics of real estate.<sup>221</sup>

When I posed the same question, about real estate's importance to the Lebanese economy, to T.E., an editor of a business and finance magazine, his answer was similarly outside the economic realm:

This one is for me the most difficult question because it is not related primarily just to the economy. The importance of real estate goes back to the connection between identity and space, or person and territory, which in this region may be much stronger, less disrupted historically, when compared with European and American experience. Your property is part of your identity, and people connected their own identity to their property. You could say that the role of real estate and property in the economy pre-dates economic considerations.<sup>222</sup>

This non-economic, or better stated beyond-economic, attachment to land ownership was restated in other interviews. One was architect T.N.'s story of how his parents, wary of bank deposits after losing everything during the hyperinflationary years of the civil war, saved for his education by owning land, "land is still seen as a better and safer way to store money."<sup>223</sup> Another was N.I., an economist with an international financing institution, who argued that the importance of owning property had grown in recent decades, as "during the war people lived through period of displacement, and so today there continues to be a fear of being displaced and homeownership is seen as a certain security."<sup>224</sup> Moreover, amidst the many discussions among friends about wanting to leave, there are many who emigrated and had since returned to purchase an apartment. For reasons not purely economic, buying a home as well as maintaining a bank account in Lebanon could be prudent investments.

In addition to interviews, another way of discerning the intermingling of profitable and affective investment appeals was advertisements. To ascertain those specifically aimed at expatriates, I reviewed every issue of *Cedar Wings*, the inflight magazine of Lebanon's Middle East Airlines from February 2005 to November 2015 (given that many expatriates based in the Gulf and West Africa may travel quite often), looking for advertisements for real estate and housing loans. The number of real estate advertisements rose from only a handful in 2005, to around one-third of all advertisements a few years later, a trend that has continued to this day. However, the banks more specifically targeted the expatriates in their campaigns. It is not surprising that most make affective appeals for expatriates to return to Lebanon, as advertisements are designed to persuade, and persuasion is often effective through emotion, not only profit. The advertisements emphasized the longing expatriates must feel for their country, the families they left behind or the desire to raise their families in Lebanon and their importance as expatriates in investing in Lebanon's natural beauty and cultural traditions.

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<sup>221</sup> Interview with the author on May 19, 2015.

<sup>222</sup> Interview with the author on June 1, 2015.

<sup>223</sup> Interview with the author on July 9, 2015.

<sup>224</sup> Interview with the author on June 23, 2015.

Many advertisements were for expatriate banking services. HSBC, for example, advertised their financial services by portraying four pictures of Lebanon's most renowned sites, the Martyr's Statue and Pigeon's Rocks in Beirut, the temple of Baalbek and a mountain cedar tree, calling on their clients to "stay in touch with Lebanon, as if you never left."<sup>225</sup> The Banque Libano-Française promoted their expatriates package by picturing a businessman sitting on the floor (probably of an airport) next to his carry-on suitcase, underneath the caption, "Fulfill your ambitions wherever you are. Ambitions have no boundaries. For those of you living abroad, Banque Libano-Française introduces its Expat Package, a full range of banking services tailored to make you feel at home..."<sup>226</sup> Banque Libano-Française also advertised to their expatriates clients by using pictures and names of the places where they may be living intermingled with the names of Lebanese villages. One advertisement depicts a Parisian street, titled Kfar Paris, a Canadian landscape, titled Zouk Montreal, and a Nigerian lake, titled Lagos el Faw'a,<sup>227</sup> and another one shows pictures of the Emirates, Sugarloaf Mountain and the Brooklyn Bridge, with the three titles Jdeidet Abu Dhabi, Kornet Janeiro and Dhour New York.<sup>228</sup> Both are captioned with the following, "Living between Lebanon and abroad? Let's face it, many Lebanese do. So it was about time there was a package that catered to their unique needs." In other words, there was no need for expatriates to make a choice between their diverse locations and the homeland they may have (temporarily) left behind, as they carry Lebanon with them around the world, and with Banque Libano-Française they can maintain these connections to Lebanon. BankMed's non-resident banking services were advertised with a cedar tree growing out of and encompassing a globe, thus emphasizing that Lebanon's worldwide connections which nourished the nation's primary symbol of national pride, the cedar.<sup>229</sup> What was interesting about many expatriate banking advertisements was that they did not mention the relatively high interest rates earned on accounts, nor other financial incentives to deposit their savings in Lebanese banks. Instead, their message was the personal, the historical, the cultural, the emotional, the affective connections that they as Lebanese expatriates inevitably maintained with their homeland.

Byblos Bank, which in 2015 was Lebanon's third largest bank by the size of its assets, with subsidiaries in Belgium, France, the United Kingdom, Sudan, Syria, Armenia and the Democratic Republic of the Congo, branches in Cyprus and Iraq and representative offices in Abu Dhabi and Nigeria, had the earliest expatriate housing loan program, according to my archival work in *Cedar Wings* (and confirmed by A.L., a professor of finance at the Lebanese University).<sup>230</sup> An early advertisement shows a man's hands cupping soil in his hands, out of which stands the Lebanese passport buried in the soil until just below the cedar tree on the cover page, thus seeming as if the passport's cedar is growing out of the dirt in his hands. The caption (in Arabic) reads, "reserve a cedar in your name, preserve your roots."<sup>231</sup> This was an advertisement for their expatriates account. Another advertises Byblos Bank's expatriate home loans by showing a Lebanese passport opened in the shape of a roof, with the caption (in Arabic) "own in your country."<sup>232</sup> This image is repeated exactly, except in English, with the caption reading "own a home in your homeland" in a later issue of *Cedar*

<sup>225</sup> *Cedar Wings* (December 2009/January 2010).

<sup>226</sup> *Cedar Wings* (August/September 2011).

<sup>227</sup> *Cedar Wings* (August/September 2012).

<sup>228</sup> *Cedar Wings* (April/May 2013).

<sup>229</sup> *Cedar Wings* (June/July 2015).

<sup>230</sup> Interview conducted by the author on October 12, 2015.

<sup>231</sup> *Cedar Wings* (February/March 2005).

<sup>232</sup> *Cedar Wings* (April/May 2005).

*Wings*, with the smaller print saying, “If you live abroad, you know that there’s no place like home. The good news is that you can now afford to come back.”<sup>233</sup> Another example shows the same opened passport in the shape of a roof, under the same caption “own in your country,” but against the backdrop of Lebanon’s snow-covered mountains, with the snow partially dusting the rooftop passport.<sup>234</sup> The picture is evocative of the unique beauty of their target audiences’ homeland, as Lebanon is the region’s only country with mountain-top skiing, Dubai’s indoor experience notwithstanding. Byblos Bank designed another series of advertisements for their expatriates housing loan, whose picture shows a Lebanese coastal town beneath the clouds, which have opened to reveal the homeland below in the shape of a heart, underneath the caption: “Lebanon is in your heart. Live in its heart.” The small print reminds their expatriate clients:

Living abroad, you certainly recognize that nothing is more precious than your homeland. Being Lebanese you are also dear to your country and the reason of its being. With Byblos Bank’s Expatriates Housing Loan, you can now return home and stay close of your family...Do not forget your Lebanese roots. Lebanon is your home and you belong to it!<sup>235</sup>

Byblos Bank’s were not the only expatriates housing loan advertisements but certainly they were the most prolific and emotionally provocative in terms of portraying Lebanon’s scenic beauty and promoting pride in the Lebanese passport.

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<sup>233</sup> *Cedar Wings* (June/July 2008).

<sup>234</sup> *Cedar Wings* (December 2007/January 2008).

<sup>235</sup> *Cedar Wings* (April/May 2010).

الإمارة اللبنانية  
بنك بيلوس

أرزة باسمك بالمحمية،  
تتضّل جذورك محمية.

**حساب المقربين**

إذا كنت لبنانياً، تقم أو تعمل في الخارج، افتح حساباً لدينا خلال فترة الأعياد فنقدم لك أعز هدية إلى قلبك: أرزة باسمك بالمحمية، تتضّل جذورك محمية.

**بنك بيلوس**  
مصرفك مدى الحياة

www.byblosbank.com • (٠١) ٢٠ ٥٠ ٥٠

الإمارة اللبنانية  
بنك بيلوس

تملك بلدك.

**القرض السكني للمقربين**

إذا كنت تعيش في الخارج، فأنت تعلم أنّ لا شيء أغلى من أرض الوطن. الآن، أصبح بمشورك العودة إلى وطنك لأن بنك بيلوس يقدم لك القرض السكني للمقربين. قيمة القرض القصوى غير محدودة وفترة التسديد تصل لعلاية 1٥ سنة. تقدم بطلب القرض مباشرة من البلد الذي تعيش فيه، واستند من حصولك على موافقة مباشرة مسبقة. استناداً إلى المعلومات الشخصية عن وضمك.

**بنك بيلوس**

www.byblosbank.com • (٠١١) ٢٠ ٥٠ ٥٠

الإمارة اللبنانية  
بنك بيلوس

Own a home in your homeland.

**EXPATRIATES HOUSING LOAN**

If you live abroad, you know that there's no place like home. The good news is you can now afford to come back. Byblos Bank's Housing Loan for Lebanese expatriates offers you an unlimited loan amount and a repayment period of up to 15 years. Apply today from your country of residence and benefit from a fast pre-approval on your loan.

**BYBLOS BANK GROUP**



Diaspora organizations, such as the World Lebanese Cultural Union, organize trips for emigrants and their descendants to reconnect with Lebanon. Speaking with one of their leaders, he recounted that their principal purposes was simply to put Lebanon on the tourist map of many whose ancestors had left Lebanon generations ago, “In America, specifically in Latin America, we have a third or fourth generation emigration that only see Lebanon as an origin, as a romantic place to belong, not as a place to invest, not as a place to live even temporarily. People in America see Lebanon as a very remote thing... Our challenge, since 25 years ago till now, is changing this view and making them think of Lebanon as a touristic destination.”<sup>236</sup> Only by encouraging this permanent diaspora to vacation in Lebanon, whose touristic visits constituted a meaningful economic contribution, could they persuade them to put Lebanon on their investment agenda, and the place to start, he argued, was buying an apartment. For his fellow Latin American emigrants, Lebanon was also a good investment, “as in most cases it offers better yields and the same security, the same economic security, war risks, political risks, corruption, government. If you make a balance it can be almost the same qualification of risk as the Latin American countries.”<sup>237</sup> Yet investing in his homeland, was more than about purchasing a home, or earning a high return with the relatively high risks; rather investing in Lebanon was essential, in his words, “to ensure its existence.”<sup>238</sup> The diaspora was thus essential to Lebanon’s very survival:

The less we do, the higher the risk for Lebanon. If we interact more with Lebanon as a diaspora, if we trade more with Lebanon and have more interests inside Lebanon, economical interests, I always prefer to stay aside politically, if we interact more with

<sup>236</sup> Interview conducted by the author on October 19, 2015.

<sup>237</sup> *Ibid.*

<sup>238</sup> *Ibid.*

Lebanon, then we are guaranteeing that Lebanon will exist in the future. If we don't do this we make Lebanon vulnerable and expendable.<sup>239</sup>

Yet among emigrants and those seeking their investment there is also a pessimism about their country's prospects, shared more widely than only among the expatriates, but potentially affecting their affective attachments to Lebanon. Banking and real estate are two of the reasons why the diaspora remains monetarily tied to Lebanon, in the mind of Z.L., a returned emigrant and former investment banker, as in the interest rates on deposits remain high and real prices have tended to increase. Moreover, both are considered relatively safe investments, for the same reasons alluded to in chapters two and three, respectively. "But the link between the diaspora and Lebanon is not static," she warned of the decelerated non-resident deposit growth and the hesitation about purchasing property, "This love-hate relationship is stronger than ever...It's an unseen desperation. When there's a war there's an end, but no one knows the end of what's happening now."<sup>240</sup> There are also developers who returned from abroad to remake their career in Lebanon but since expressed pessimism as to its prospects, not a topic I was planning on addressing in my interviews as I expected them to feign optimism in the real estate market. Although "the emotional connection is still very strong," said P.H., a real estate professional and former emigrant in France, he would no longer invest his money to Lebanon, "Today, if I were once again an emigrant, I would try to invest somewhere else...If we don't have a clear direction for the region, for the country, who wants to invest here?"<sup>241</sup> He and other emigrants of his generation, which left during the civil war, had been through harder times, but echoing others there was an indeterminate uncertainty as to a resolution for the political impasse preventing the Lebanese state from even basically functioning and a turnaround to the economic disintegration, hastened by the Syrian civil war, which throughout my research had no end in sight. As spoken by Z.C., a former emigrant-financier, turned-manager for a real estate investment fund:

I've been through harder times than this; a lot of people actually have. I don't want to say I've lost hope, but a lot of people have been very disappointed recently. It's like you're in a marriage, and your spouse cheats on you; the first time you forgive her, and the second time you forgive her, but the third time you throw her out of the house. This is what has been happening. We've been forgiving this country for so long. A lot of people have lost faith recently and said I'm leaving and taking my kids and going back to the US, to Brazil.<sup>242</sup>

When asked if he regretted returning to Lebanon, his response was that he did not regret it before, "but now I am regretting it, only this year I started regretting as I started losing hope in this country."<sup>243</sup>

The resilience of the Lebanese political economy has long been typified by its stability, or at least not stumbling, despite the political paralysis and volatility, as well as and regional insecurity and violence, that it has faced. This chapter has traced the source of this so-called resilience, which is the ongoing emigration of Lebanon's young and educated, who

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<sup>239</sup> *Ibid.*

<sup>240</sup> Interview conducted by the author on February 4, 2016.

<sup>241</sup> Interview conducted by the author on September 3, 2015.

<sup>242</sup> Interview conducted by the author on November 17, 2015.

<sup>243</sup> *Ibid.*

in turn, as the previous chapters have also traced, sustain their struggling Lebanese families in times of precarity and infused an otherwise precarious political economy with the financial flows that prevent it from collapsing. Expatriate remittances are translated into deposits and invested onward in the sovereign debt, and expatriate investment is a substantial part of why Beirut's skyline is dominated by construction cranes and the soundscape by their drilling. Yet the question returns once again to the cost of resilience if it depends, not only on the export of around half of every Lebanese generation at this point in time, but also on solidifying an economic system, based on the pillars of real estate, banking (and tourism when the regional security situation improves), whose very strength demands the ongoing emigration of these people. This is the question – the cost of resilience – to be addressed in the conclusion, after the following chapter's brief digression into the geopolitics of the present political economy.



## CHAPTER FIVE

### Hezbollah, the United States Treasury and a War by Other Means

This dissertation is driven by a puzzle. Why is so much money flowing into Lebanon despite the myriad risks thought to deter investment? Why do bank deposits in this deeply indebted, politically paralyzed, infrastructurally fragile, sectarian and socially divided country, in which memories or anticipations of violence are often on one's mind, still total more than three times its economy's size and rise year after year? Why are construction cranes scattered everywhere across Beirut's skyline when the darkened windows of many affluent apartments appear to indicate their emptiness? Previous chapters traced this investment into real estate and banking, two pillars of the Lebanese economy, two sectors supported by the Banque du Liban and both lures for expatriates investing in their homeland. Moreover, this dissertation is also driven by the discourse describing and seeking to explain this puzzle, the resilience of Lebanon in times of turbulence. The Lebanese political economy is often termed resilient in the face of the many crises it confronts. Thus as this dissertation was being researched and written, Lebanon is facing political, security and refugee crises, even the crisis of a stagnant economy; yet nevertheless the pillars of its political economy have persisted in spite of these shocks, absorbed and adjusted to them, even evolved with the support provided by Banque du Liban as well as by the ongoing investment of Lebanese expatriates. Beyond tracing the history and circulation of these resilience discourses, I present an apparatus that ensures this seeming resiliency, staving Lebanon from crises but at the cost of perpetuating its underlying instability. Following on the argument of Charbel Nahas, is only by exporting its people to more promising opportunities abroad that Lebanon can continue to attract the investment imperative to prop up its otherwise precarious economy and preserve its insolvent political system. The lucrative and affective bonds expatriates maintain, materialized in the massive homes they build in their villages and the billions they remit annually to their families, are the source of this seeming resiliency and the reason why so many Lebanese – an estimated half of current generations – continue to emigrate.

But the question is what, if anything, will cause this circular financial system to cease? What would sway emigrants against sending their remittances back to Lebanon? Beyond the return of civil conflict, a fear put forward by several interviewees, the commercial bankers and Central Bank officials with whom I spoke could only speculate that state collapse would come about with the cessation of deposits. The continuous inflow of deposits, stabilized the currency peg that in turn has assured depositors of the stable value of their savings, is what has long permitted this circular financial system to function. After the hyperinflation of the civil war, they are wary of a free-floating, downward spiraling Lebanese pound, and thus so long as deposits keep rising, the peg remains secure, and so long as this financial system can support the increasingly indebted state, the Lebanese political economy evades failure.

When I posed this question – what could cause deposits to cease? – in one of my interviews with a Lebanese economist at an international financial institution he pointed to my tape recorder and signaled with his hand that he wanted it turned off. He proceeded to tell me that it was not simply a collapse of the state or a return of civil war in Lebanon, but a politically targeted move by the United States Treasury against another large Lebanese bank that could heavily compromise the confidence of depositors in the financial system. He was referring to the Lebanese Canadian Bank, once Lebanon's eighth largest bank, which the US Treasury designated a "primary money laundering concern" in February 2011. Another such designation of terrorism financing reminded the Lebanese financial system of its geostrategic

vulnerability. The Treasury had accused the Lebanese Canadian Bank of laundering money on behalf of Hezbollah in a transnational intrigue involving drug trafficking, used car sales and the Lebanese diaspora based in West Africa. Whether or not they are guilty as charged was less relevant for this economist, especially as the Treasury themselves designated what was money laundering and defined who was a terrorist. Instead, these labels were inherently political, as the enemies of the United States were the ones determined to be terrorists, and thus charges of money laundering against them were infused with political intentions. In my notes taken after the interview I attempt to reconstruct his argument:

*Whether or not the Lebanese Canadian Bank was money laundering or not, the fact they were labeled terrorist financiers is a political label. It's not a United Nations label. It's a United States political label. We all know the background for this; they can label Hezbollah as terrorists, and then they can target banks that do business with Hezbollah. Therefore whether or not those bankers are terrorist financiers becomes a matter of perspective. What is clear is the power of that tool. The next day (post-designation) Riad Salameh (the governor of the Banque du Liban, Lebanon's Central Bank) had to pack up and travel to Washington DC to figure out what pleased the Americans the most. Iran can withstand that type of pressure, as they have a sufficiently solid domestic economy and a commodity that others need – oil. Lebanon, which depends on the flow of deposits and has no real domestic economy independent of this flow, whose political disintegration and fragmentation are obvious to everyone, how is it going to withstand that? How is it going to withstand more bank shocks? And it's not going to be one bank run; it's going to be a system collapse.*

What he was underlining was the power of the tool the Treasury used against the Lebanese Canadian Bank: their power to define and designate what constituted money laundering and terrorism financing, and in turn bar the so-designated from the international financial system through their control over the world's dominant currency, the dollar.

Whether or not the Treasury's designations are political, what matters is their power to determine who has access to the international financial system. What imparts this power to them is the dollar. By designating an individual, institution or entire jurisdiction a primary money laundering concern or complicit in terrorism financing, the Treasury can call upon all financial institutions in the United States to stop facilitating financial transactions with the so-designated. The Treasury's power is thus confined within the United States' borders but it has borderless repercussions. This interpretation was backed by two officials I spoke with at the Banque du Liban, as well as a specialist in international law well acquainted with the Treasury's influence of the Treasury on the Lebanese financial system through his defense of a West African émigré. In the words of A.S., an official with the Banque du Liban's Special Investigation Commission (SIC), which investigates cases of money laundering and terrorism financing, the Lebanese Canadian Bank scandal was a “wake-up call” for the banking system:

It wasn't something new, but it was a wake-up call to the far-reaching impact of US laws, and it was a call to Lebanese banks that the economy is substantially dollarized. If you are dealing with US currency then that means you are exposed to US actions in a substantial way. That's why it was a wake-up call to be careful, because if you are designated by the Treasury, and since the banks are substantially dollarized, then you are highly exposed.<sup>1</sup>

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<sup>1</sup> Interview conducted by the author on January 14, 2016.

According to K.C., a lawyer who has worked to provide redress for those designated by the Treasury, “We cannot afford another bank like the Lebanese Canadian. The next bank to be targeted will almost certainly cause the financial system in Lebanon to collapse.”<sup>2</sup> M.M., also an official at the Banque du Liban who worked with the Middle East and North Africa Financial Action Task Force (MENAFATF) on money laundering and terrorism financing investigations, echoed the perils of dollarization:

Banks have every interest in complying with US laws. I have a very simple reason. Look in the wallet of any Lebanese and I’ll bet you they have more dollars in their pockets than Lebanese pounds. This is a highly dollarized economy. Two-thirds of Lebanese bank deposits are in US dollars. Fully 70 percent of bank loans are in US dollars. The Central Bank clears foreign checks, mostly US dollar checks.<sup>3</sup>

This reliance on the dollar is true not only of Lebanon. The majority of financial transactions worldwide are made in dollars because imports and exports, commodities and currencies, are priced in dollars; and therefore, they are settled by correspondent banks based in the United States.<sup>4</sup> Barring one from transacting with their banks thus imparts the Treasury with tremendous power because in essence it bans them from the international financial system. Even banks based abroad do not want to do business with those designated by the Treasury because they, in turn, could be designated for money laundering or terrorism financing. The asymmetry of the international financial system, distorted by the dollar’s dominant position, is what in 1965 Charles de Gaulle’s finance minister referred to as exorbitant privilege.<sup>5</sup> This exorbitant privilege has attained ever-powerful heights in the era of the war on terror.

Financial power has long been used to serve other ends, particularly imperialism. Giovanni Arrighi presented this as an interplay between the territorial and capitalist logics of power, the former concerned with territorial control, the latter the accumulation of capital.<sup>6</sup> Whereas finance capital once drove imperial expansions for more profitable markets, financialization has also become detached violence from sovereignty such that “violence is no longer linked in any simple way to the desire of states to monopolize it as one means of controlling the space of the nation and, correlatively, developing a narrative of mastery over that space.”<sup>7</sup> By David Harvey’s definition, finance capital is what defines “imperialism of the capitalist sort,” one in which the capitalist logic usually dominates, though occasionally the territorial logic comes to the fore.<sup>8</sup> Could the Treasury’s power to make designations therefore be an imperialism of the capitalist sort, one less about territorial domination than control exerted through the power of capital? If the Treasury’s designations are a capitalist imperialism, they are a complicated sort. The United States derives little to no profit from scrutinizing the Lebanese financial system. Moreover, the Treasury dictates only to banks based on its soil with whom they can transact. Lastly, the Treasury implements the laws of the United States, which in multiple instances have defined Hezbollah as terrorists. These are arguments for why the designations are not imperialism, or why in the words of M.M. of the Banque du Liban, Lebanon cannot have sovereignty over another country’s currency:

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<sup>2</sup> Interview conducted by the author on June 16, 2015.

<sup>3</sup> Interview conducted by the author on January 19, 2016.

<sup>4</sup> Barry Eichengreen, *Exorbitant Privilege* (2011), 2.

<sup>5</sup> *Ibid.*, 4.

<sup>6</sup> Giovanni Arrighi, *The Long Twentieth Century* (2010).

<sup>7</sup> Edward LiPuma and Benjamin Lee, *Financial Derivatives and the Globalization of Risk* (2004), 27.

<sup>8</sup> David Harvey, *The New Imperialism* (2005), 33.

We don't print dollars, we import dollars, and therefore we have no sovereign power over US dollars. Only the US government has sovereign power over US currency... It's very simple. We transact in someone else's currency, and therefore we have no sovereign power over it, and thus we need to respect the laws of the issuing currency country.

Yet a contradiction arises when the laws governing the dollar contravene Lebanon's laws. One example is the salary payments for Hezbollah parliamentary deputies. Although these are paid by the Ministry of Finance in Lebanese pounds, and thus in a currency beyond the sovereign power of the dollar, Lebanese banks have refused to receive them after Congress passed, and President Obama signed into law, the Hezbollah International Financing Act of December 2015. Their reason is they fear being labeled complicit in terrorism. A coalition of bankers and officials from the Banque du Liban traveled to Washington DC early the next year for further clarity regarding the Treasury's stance on paying the parliamentary deputies salaries. In other words, the Lebanese government was compelled to seek the consent of a foreign government to pay – and the banks to receive – the salaries of its public officials. There therefore seems to be some shade of imperialism in the Treasury's designations, even though, in principal, they are only enforcing their laws on their sovereign jurisdiction.

Lebanon is vulnerable to designations of illicit financial activity not simply because it is highly dollarized, nor even because of its reputation for banking secrecy. It is particularly Hezbollah's presence that the Treasury is targeting. The Treasury first designated Hezbollah a Foreign Terrorist Organization (in 1995), a Specially Designated Terrorist (in 1997) and a Specially Designated Global Terrorist (in 2001). Although Hezbollah's founding is often pinpointed to the 1982 Israeli invasion, it only formed into a coherent militia organization over the mid-1980s.<sup>9</sup> Hezbollah merged into the political process following the civil war, although they maintained the mantle of resistance against the Israeli occupation of southern Lebanon. Yet because of the bombing of the embassy and marine barracks, as well as the kidnapping of Western civilians during the civil war, for Washington DC-based policymakers Hezbollah are undeniably terrorists. It matters little that Hezbollah also performs services distinct from the intentional use of political violence against civilians, such as providing charity services to impoverished constituents,<sup>10</sup> reconstructing Beirut's southern suburbs after the 2006 July war with Israel as urban planners,<sup>11</sup> or running hospitals serving across sectarian lines.<sup>12</sup> Although their status as armed actors (often said to be more powerful than the military) is deeply contentious within Lebanon, Hezbollah are also a prominent political party. In the words of Chibli Mallat, a lawyer who has worked to disprove Treasury regulations against a prominent Lebanese Shiite businessman with financial interests across West Africa, Kassim Tajideen:

With three ministers and one territory where it is the law, its grip on many key sectors, its pride in its arsenal of missiles, not to mention the construction and reconstruction of a quarter of the country, a dense suburb south as a city; how to

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<sup>9</sup> Augustus Richard Norton, *Hezbollah* (2007).

<sup>10</sup> Mona Fawaz, "Agency and Ideology in the Service Provision of Islamic Organizations in the Southern Suburbs of Beirut" (2000).

<sup>11</sup> Mona Fawaz, "Hezbollah as Urban Planner" (2009).

<sup>12</sup> Melani Cammett, *Compassionate Communalism* (2014).

convince a child, otherwise known as the US Treasury Department, that we have turned our backs economically on our compatriots and do not deign to work with them? In a word, we have all become subject to US sanctions.<sup>13</sup>

However, the much debated definition of Hezbollah as terrorists or not is not my purpose this chapter. Instead, I my intent is to examine the labeling of them as such, as this permits the Treasury's exorbitant privilege to obstruct Hezbollah's access to the international financial system. This then is a different type of discourse analysis, one less concerned with the discourse defining Hezbollah as terrorists than the power exerted by those designations.

My argument is that these designations permit the Treasury to carry out financial warfare against Hezbollah, their power an unconventional weapon in a war by other means, the Treasury's designations. In designating Hezbollah-affiliated individuals or institutions as terrorism financiers, the Treasury is not simply protecting the financial system's integrity, as it claims, but taking the fight to Hezbollah without actually fighting them. The designations can thus be conceived as a non-conventional weapon in the war on terror, as defined by the United States government. If contemporary imperialism fuses territorial and capitalist power, then the Treasury's war draws on both its territorial jurisdiction and the tools of capitalism to go to war against Hezbollah. The designations go far beyond attacking Hezbollah's means of financing, as the debate over the payment of their parliamentary deputy salaries reveals. In their consideration of anyone supporting Hezbollah as supporting terrorism, the Treasury undermines Hezbollah as a political party, as well as affiliate Hezbollah's construction arm, microfinance institutions and charities with terrorism financing. In the words of Juan Zarate, a former Treasury official whose book is cited extensively in this chapter, the power of these designations is more subtle than conventional weapons, but their destruction is analogous to war:

We have entered a new era of financial influence where financial and economic tools have taken pride of place as instruments of national security. The conflicts of this age are likely to be fought with markets, not just militaries, and in boardrooms, not just battlefields. Geopolitics is now a game best played with financial and commercial weapons.<sup>14</sup>

In this chapter I analyze the impact of the Treasury's money laundering and terrorism financing designations on Lebanon. Through the case of the Lebanese Canadian Bank, I demonstrate that determining the "truth" of the designations is impossible when the Treasury has already defined terrorism. In other words, whether or not those so-designated are truly terrorism financiers is less important than the power to make this very designation. Given the consequence of even being affiliated with Hezbollah, this was not a topic I could address directly in interviews with bankers. Although I benefited immensely from speaking with several bankers and two officials from the Banque du Liban, my research methodology was driven more by textual analysis of the Treasury's own documents. Much of my critique centers on their self-referential logic for authorizing their power and providing evidence for their designations. For a different perspective on this "evidence," I benefited from extensive conversations, over many months, with a Lebanese diplomat formerly based in West Africa, given his connections with several of the expatriates the Treasury designated for supporting

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<sup>13</sup> Translation by the author. Chibli Mallat, "Ofac, péril en la demeure" (2016).

<sup>14</sup> Juan Zarate, *Treasury's War* (2013), 384.

Hezbollah. What I concluded was that these designations are intended not only to dismantle Hezbollah's financing network but also to discipline the Lebanese financial system. The cost of compliance – complying with intensive oversight of banking operations, especially the Treasury's requirements – is a weighing burden on Lebanese banks. They have taken it upon themselves to make it difficult for Syrian refugees legally residing in Lebanon to open bank accounts, as it is sometimes complicated to verify where their funds originate. They have enacted increased scrutiny over Shiite investors and businessmen, especially those based in West Africa, as some share the profile of those designated by the Treasury. They have made it problematic to pay the salaries of Hezbollah's parliamentary deputies because the Lebanese banks are wary of falling afoul of the financial laws of a foreign country. In sum, rather than investigate the "truth" of the designations, I explore their disciplinary power, one that in Foucault's words can be said to constitute "a modest, suspicious power, which functions as a calculated but permanent economy."<sup>15</sup>

### **Imperialism of the Capitalist Sort**

Marxist theory has long linked capitalism to imperialism. Nineteenth century financiers, with the saturation of their domestic markets, invested their surplus capital in imperial ventures overseas. Imperialism then was a means of salvaging capitalism from crises of over-accumulation. Little has changed more than one century onward, though capitalist imperialism – in a contemporary Marxian interpretation – may be more about salvaging the state from crises of diminishing hegemony. This is illustrated in David Harvey and Giovanni Arrighi's ruminations on the debate over and the devastating reverberations from the United States' second invasion of Iraq in 2003.

The Iraq incursion incorporated two types of imperialism: the territorial and the capitalist. "Imperialism of the capitalist sort," according to David Harvey, "arises out of a dialectical relation between territorial and capitalistic logics of power."<sup>16</sup> What sets capitalist imperialism apart from past conceptions of empire was that the capitalist logic dominated, though the need to temporarily occupy Iraq showed it was not divorced from the territorial logic.<sup>17</sup> Harvey draws this distinction between capitalist and territorial logics from Giovanni Arrighi's narration a history of capitalism over its *longue durée*, from 16<sup>th</sup> century Venice as the prototypical capitalist state with few territorial acquisitions, up to the leading capitalist states of later centuries, the United Provinces, the United Kingdom and the United States. While territorial power was based on a state's control over territory, capitalist power encompassed command over economic flows across more abstract spaces. Wealth, for territorial powers, was a means to acquire more territory or a byproduct of such acquisitions, while territory, for capitalist powers, was the means and/or the byproduct of the accumulation of wealth. It was "the constant opposition of the capitalist and territorialist logics of power" that Arrighi argued defined the modern state system,<sup>18</sup> with their contradictions only resolved upon the reorganization of space, politically and economically, by the epoch's leading capitalist state. With the advent of North American hegemony, however, "capitalism and territorialism were indistinguishable from one another."<sup>19</sup>

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<sup>15</sup> Michel Foucault, *Discipline & Punish* (2012), 170.

<sup>16</sup> Harvey 2005, op. cit., 183.

<sup>17</sup> *Ibid*, 33.

<sup>18</sup> Arrighi 2010, op. cit., 37.

<sup>19</sup> *Ibid*, 60.

This was evidenced with the United States' invasion and occupation of Iraq, wherein the capitalist and territorial logics of power were intertwined. David Harvey's provocation is that the Iraq incursion was intended not only to stabilize the international financial system but also to strengthen the United States' capitalist imperialism. This was accomplished by securing Iraq's oil supplies:

Whoever controls the Middle East controls the global oil spigot and whoever controls the global oil spigot can control the global economy, at least for the near future. We should not, therefore, think solely of Iraq, but consider the geopolitical condition and significance of the Middle East as a whole in relation to global capitalism.<sup>20</sup>

The Iraq war, then, was fundamentally about oil. But more than simply control over scarce natural resources to fuel the economy, this imperial undertaking was to secure the financial system upon which North American hegemony rested. Harvey traces a historical geography, from industrial capitalism to its financialization, especially after 1973. Finance had displaced production as the economic foundation. Given the denomination of most international trade in dollars, the United States already exerted a certain hegemony over the financial markets. Upon its decision to arm Israel in their 1973 war against Egypt and Syria, the Organization of Oil Exporting Countries enacted an embargo. The spike in oil prices inundated the New York-based financial system with petrodollars, further consolidating a financialized form of capitalism under the dominance of a Wall Street/Treasury financial regime. The effect was to further project the United States' financial power outward.

Yet financialization, as past incarnations of capitalism, was inherently unstable. It required, as Harvey writes, "something outside of itself in order to stabilize itself."<sup>21</sup> He terms this stabilization a spatio-temporal fix to the crisis-prone contradictions of capital accumulation wherein with the production of capital and labor surpluses, profits tend to fall unless channeled into other spaces. It is capitalism's geographical expansion that delays devaluation, "the production and reconfiguration of space relations provides one potent way to stave off, if not resolve, the tendency towards crisis formation under capitalism."<sup>22</sup> The Iraq invasion was thus a spatio-temporal fix intended to bolster a financial system dependent on controlling the supply of oil and secure broader American hegemony in the Middle East.

Harvey situates spatio-temporal fixes, such as the Iraq incursion, not as distractions in the history of capitalism but at the very heart of capitalist imperialism. Marx termed the violent origins of capitalism as primitive accumulation, "in actual history, it is a notorious fact that conquest, enslavement, robbery, murder, in short, force play the greatest part."<sup>23</sup> Primitive accumulation was capitalism's original sin; yet when these violent processes were ongoing it made no sense to Harvey to describe them as primitive or original, and thus he substituted the term "accumulation by dispossession."<sup>24</sup> The historical features of primitive accumulation that Marx mentioned – the enclosure of land and expulsion of peasants, the conversion of common rights into private property, the commodification of labor – remain powerfully present in contemporary capitalism.

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<sup>20</sup> Harvey 2005, op. cit., 19.

<sup>21</sup> *Ibid*, 140.

<sup>22</sup> *Ibid*, 88.

<sup>23</sup> Karl Marx, *Capital: A Critique of Political Economy* (1992), 874.

<sup>24</sup> Harvey 2005, op. cit., 144.

The financial system is central to accumulation by dispossession. Capital circulates in abstract spaces, in electronic messages between bankers or traders arbitraging differentials of one one-hundredth of one percent, seemingly detaching profits from any territorial basis. An abstract violence has taken hold of the financial system as “electronically amplified flows of capital have become instrumental in compromising the sovereignty of national economies.”<sup>25</sup> Edward LiPuma and Benjamin Lee argue that this abstract violence is not necessarily linked with the desire of states to dominate territory but is instead systemic to the financialized economy. Nineteen seventy three marked the year when “a new creature of political violence came into being” with the recirculation of petrodollars through the financial system, from the Gulf Arab states to regional and international financial centers such as Beirut and New York, respectively.<sup>26</sup> Economic devastation was wrought in the wake of speculative capital, structural adjustment and volatile exchange rate movements. What abstracted the violence of financial circulations compared to past colonialism was that the former did “not involve the inscription of new spatial relations...space is no longer the raw material of international violence.”<sup>27</sup> LiPuma and Lee’s argument was that financial capital came to function as a kind of “auto-imperialism” wherein control over territory had become less important.<sup>28</sup> While the violence of financialization may be abstracted compared to the colonial relations of the past, financial capital and imperial control have long been mutually constitutive, as evidenced by those writing on the “growing cosmopolitanism of capital” in the early twentieth century,<sup>29</sup> or more recently described as “cultures of circulation.”<sup>30</sup>

Financialization was/is seen as displacing industrial production as the leading edge of capitalism. Both then and now finance capital looked abroad for profitable expansion, often supported by the state. The origin of imperialism, according to Hilferding, was finance capitalism, whose principal features were monopolies of industrialists and bankers, the export of capital and the territorial division of the world. “Finance capital,” in his words, “signifies the unification of capital. The previously separate spheres of industrial, commercial and bank capital are now brought under the common direction of high finance, in which the masters of industry and the banks are united in a close personal association.”<sup>31</sup> Similarly, Lenin understood the fusion of banking and industry into powerful financial cartels as marking a transition in the development of capitalism. The foreign policy of high finance was the economic and political division of the world, “if it were necessary to give the briefest possible definition of imperialism we should have to say that imperialism is the monopoly stage of capitalism.”<sup>32</sup> In turn, according to Hobson, it was inherent for finance capitalism to seek overseas investments, which in turn necessitated the annexation of colonies, and thus the protection of the state, “imperialism,” in his words, “implies the use of the machinery of government by private interests, mainly capitalist, to secure for them economic gains outside their country.”<sup>33</sup> In the minds of these three early twentieth century thinkers, imperialism was an expensive foreign policy, hardly a rational business decision from the nation’s point of view, but nevertheless a lucrative one for the practitioners of high finance. Imperialism

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<sup>25</sup> LiPuma and Lee 2004, op. cit., 4.

<sup>26</sup> *Ibid*, 76.

<sup>27</sup> *Ibid*, 27-28.

<sup>28</sup> *Ibid*, 48.

<sup>29</sup> John Hobson, *Imperialism* (1902), 56.

<sup>30</sup> LiPuma and Lee 2004, op. cit., 6.

<sup>31</sup> Rudolf Hilferding, *Finance Capitalism* (1910), 301.

<sup>32</sup> Vladimir Lenin, “Imperialism, the Highest Stage of Capitalism” (1917), 266.

<sup>33</sup> Hobson 1902, op. cit., 100.



was therefore only possible when the nation's interests were subordinated to those of the financiers.

It was through imperialism that finance capital not only profited but also initiated the crises necessary for its expansion. Every important political act, argued Hobson, involved the flow of capital, "To create new public debts, to float new companies, and to cause constant considerable fluctuations of values are three conditions of their profitable business. Each condition carries them into politics, and throws them on the side of Imperialism."<sup>34</sup> The financiers profited from accumulating debts, both domestic and international, from the armament of nations worldwide and from hostilities among them, because in his words, "there is not a war, a revolution, an anarchist assassination, or any other public shock, which is not gainful to these men."<sup>35</sup> This intertwining of financialization, imperialism and profit was also a theme of Rosa Luxemburg's, who Harvey cites in his discussion of accumulation by dispossession:

Its predominant methods are colonial policy, an international loan system – a policy of spheres of interest – and war. Force, fraud, oppression, looting are openly displayed without any attempt at concealment, and it requires an effort to discover within this tangle of political violence and contests of power the stern laws of the economic process.<sup>36</sup>

One of the stern laws of capitalism, according to Luxemburg, was crisis; crisis was inherent to capitalism. According to her argument, due to ongoing economic disparities there was eventually insufficient demand to absorb the surpluses generated by capitalism, especially when confined within national borders. As crisis was the only way to stabilize the system, this was accomplished through imperialism. Additionally, Hannah Arendt tied capitalism's need for permanent expansion to imperialism. Under the political sway of the bourgeoisie, what began benignly as the export of excess capital production, after periods of economic depression, initiated an imperial era when foreign investments could only be rationalized by expanding the national instruments of violence. Capitalism's original sin, what Marx termed primitive accumulation and Harvey argued was enduring under the guise of accumulation by dispossession, "had eventually to be repeated lest the motor of accumulation suddenly die down." (Arendt 1994, 148).

Translating these theoretical reflections to present day debates, it is not difficult to trace the connections between capitalism and imperial incursions, such as the invasion and occupation of Iraq or even the Treasury's designations. For Harvey, the Iraq incursion was intended not only to secure the supply of oil but also to provide a spatial fix for the crisis-prone tendencies capitalism. It was a military attempt to sustain the struggling financial hegemony of the United States, and thus under the rubric of capitalist imperialism, it tended towards territorial control. Yet imperialism does not necessitate this direct territorial control, according to Arrighi:

The fact that imperialistic practices were a more critical source of profit in the early than in the later stages of capitalist expansion does not mean that the policies and actions of the later agencies have been less imperialistic than those of the earlier

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<sup>34</sup> *Ibid*, 64.

<sup>35</sup> *Ibid*, 65.

<sup>36</sup> Rosa Luxemburg's *The Accumulation of Capital* as cited in Harvey 2005, op. cit., 137.

ones. On the contrary, they have become more rather than less so, because of an increasing interpenetration of the capitalist and territorialist strategies of power.<sup>37</sup>

The question is to what extent the rules and regulations of the Treasury also can be termed a type of capitalist imperialism. Premised on protecting the integrity of the financial system, according to the self-referencing discourses of the Treasury, they cannot be compared with the territorial incursions of the colonial past or present when the only boots on the ground are those of the Treasury bureaucrat. The Treasury's designations therefore tend towards the capitalist logic of power, but they are sweeping in their territorial reach, and thus represent a contradictory fusion of territorial and capitalist logics of power, as the case of the Lebanese banking system demonstrates.

### **The Laws on the Books**

The myriad acronyms that comprise the Treasury's AML (anti-money laundering) and CTF (counter-terrorism financing) legislation and enforcement actions are difficult to decipher. Yet their consequences are direct and devastatingly clear. Once the Secretary of the Treasury, through FinCEN (the Financial Crimes Enforcement Network), finds a financial institution a "primary money laundering concern" its relationships with correspondent banks in the United States, usually New York City, are suspended, and thus all of its transactions in dollars are denied. This is a "death sentence" for any bank, according to A.S. of Lebanon's Special Investigation Commission (SIC), the Financial Intelligence Unit (FIU) investigating cases of AML/CTF in the country. Given the dominance of the dollar, both as the currency of global reserves and base of international trading, being banned from the world's financial center inevitably shuts down any financial institution.

Combating money laundering and terrorism financing took on a renewed urgency after September 11, 2001. Two weeks afterwards, President Bush announced Executive Order 13224 to disrupt financial support for terrorism, "We're putting banks and financial institutions around the world on notice – we will work with their governments, ask them to freeze or block terrorists' ability to access funds in foreign accounts...If you do business with terrorists, if you support or sponsor them, you will not do business with the United States of America."<sup>38</sup> The act empowered the Treasury's Office of Foreign Assets Control (OFAC) to block the assets of individuals or entities who assist, sponsor, provide services, or are otherwise associated with those behind acts of terrorism. Much like the 2002 National Security Strategy, which empowered the armed forces "to act alone, if necessary, to exercise our right of self-defense by acting preemptively,"<sup>39</sup> the financial weapon in the Treasury's arsenal was preemptive, because in the words of Juan Zarate, a former official, "It did not require prior notice or due process before someone was designated – nor did it provide for the usual rules attached to criminal processes, such as the right to confront witnesses. To do so would defeat the purpose of preventively freezing assets."<sup>40</sup>

The Uniting and Strengthening America by Providing Tools Required to Intercept and Obstruct Terrorism Act of 2001, or the PATRIOT Act, underlined the financial sector as a cornerstone of national security. Specifically, Title III extended the Treasury's authority

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<sup>37</sup> Giovanni Arrighi, *Adam Smith in Beijing* (2007), 236.

<sup>38</sup> Zarate 2013, op. cit., 28.

<sup>39</sup> US National Security Strategy (2002): <http://georgewbush-whitehouse.archives.gov/nsc/nss/2002/>

<sup>40</sup> Zarate 2013, op. cit., 27.

to combat money laundering and terrorism financing worldwide. Section 311 of Title III of the PATRIOT Act amended the 1970 Banking Secrecy Act (BSA), specifically the provision 31 USC 5318A, which calls for “special measures for jurisdictions, financial institutions, or international transactions of primary money laundering concern.” Upon finding a foreign jurisdiction, financial institution or individual bank account of “primary money laundering concern,” Section 311 authorizes the Treasury to impose “special measures” to restrict their access to correspondent accounts based in the United States. Moreover, the PATRIOT Act charges FinCEN with initiating such Section 311 investigations. A FinCEN designation is sufficient to preemptively prohibit banks under the Treasury’s jurisdiction from engaging in financial transactions with the suspected individual, institution or jurisdiction.

A FinCEN designation is designed to appear impartial. It authorizes the Treasury’s jurisdiction, but as will be detailed with reference to Lebanon, there is no interrogation of their authority to determine the money launderers, terrorists and those who finance them. Simply, if an individual or institution is connected to Hezbollah, or said to be so, then by the Treasury’s determination they are also complicit. This chapter troubles the definition of terrorism as impartial; instead it underlines what Mona Atia argues is “the dissemination of sovereign powers amongst the everyday bureaucrat.”<sup>41</sup>

### **Cost of Compliance in Lebanon**

FinCEN has designated four banks operating in Lebanon or Lebanese owned as “primary money laundering concerns.” The first, the Syrian Lebanese Commercial Bank, a subsidiary of the Commercial Bank of Syria, was so-designated in May 2004.<sup>42</sup> In addition to “special measures” under Section 311 of the PATRIOT Act barring it from the United States’ financial system, in August 2011 OFAC added the government-owned, largest Syrian bank and its Lebanese subsidiary to the list of Specially Designated Nationals (SDN) that United States citizens and permanent residents are banned from doing business with.<sup>43</sup> The second is Bank Saderat, Iran’s largest bank, which has five branches in Lebanon and was barred from the United States’ financial system in September 2006.<sup>44</sup> Additionally, in November 2011, the all financial institutions under the jurisdiction of Islamic Republic of Iran were so-designated by Section 311.<sup>45</sup> The third is the Federal Bank of the Middle East, the Lebanese-owned, Cyprus-based subsidiary of the Federal Bank of Lebanon, which was designated in July 2014.<sup>46</sup> Before discussing the fourth and most consequential designation, it is important to mention that the Chairman of the Lebanon-owned Middle East and Africa Bank was also added to the SDN list in June 2015 (but the bank was not designated).<sup>47</sup> The fourth case is the one that continues to cause fear throughout the Lebanese financial system. In February 2011, the Treasury designated the Lebanese Canadian Bank, then the Lebanon’s eighth largest bank, as a “primary money laundering concern.”<sup>48</sup> Within days the Governor

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<sup>41</sup> Mona Atia, “In Whose Interest?” (2007), 448.

<sup>42</sup> Federal Register Vol. 69, No. 96 (2004): 28099.

<sup>43</sup> Department of the Treasury, “Treasury Sanctions State-Owned Syrian Financial Institutions and Syria’s Largest Mobile Phone Operator” (2011).

<sup>44</sup> Federal Register Vol. 71, No. 176 (2006b): 53569.

<sup>45</sup> Federal Register Vol. 76, No. 227 (2011b): 72757.

<sup>46</sup> Federal Register Vol. 79, No. 140 (2014): 42639.

<sup>47</sup> Department of the Treasury, “Treasury Sanctions Hizballah Front Companies and Facilitators in Lebanon And Iraq” (2015b).

<sup>48</sup> Federal Register Vol. 76, No. 33 (2011a): 9404.

of the Banque du Liban flew to Washington DC to confer with Treasury officials. Within weeks it was agreed that the Société Générale de Banque au Liban, the Lebanese partner of the French bank Société Générale, would take over the Lebanese Canadian Bank by purchasing \$5 billion in lawful assets and closing approximately 200 suspicious accounts. The transaction was approved by the Treasury, under the assistance of Ashcroft Associates, headed former attorney general John Ashcroft, whose Justice Department drafted the PATRIOT Act.<sup>49</sup>

All five aforementioned designations were based on their suspected financial support to Hezbollah, the Lebanese political party, charitable association, resistance movement and designated terrorist organization. The contentious politics of this designation are discussed in more detail the following section, but first a presentation of the cases as presented by the Treasury.

The first, the Syrian Lebanese Commercial Bank was cited as a subsidiary of the Syrian Commercial Bank, which in turn was owned by the already-designated state sponsor of terrorism, Syria.<sup>50</sup> According to the FinCEN finding, the bank was used by terrorists and/or their associates and was also a conduit for laundering the proceeds generated from the illicit sale of Iraqi oil (when Iraq was under United Nations sanctions). The Treasury estimated there was almost half a billion dollars of illegal assets earned from selling Iraqi oil flowing through Lebanese banks.<sup>51</sup> The FinCEN finding details the deficiencies in Syria's anti-money laundering legislation, but dwells on its support for terrorism. The United States government designated Syria a state sponsor of terrorism in 1979. The Syrian government was said to provide material support to Hezbollah, as well as several Palestinian groups, such as Hamas, Palestinian Islamic Jihad and the Popular Front for the Liberation of Palestine.<sup>52</sup> Although this determination was "based on information through classified sources," because the Commercial Bank of Syria and its Lebanese subsidiary were owned by a state accused of sponsoring terrorism, the Treasury thus defended its designation as a financial institution of "primary money laundering concern."

The second case involved an amendment to the Iranian Transactions Regulations to completely bar the Bank Saderat of Iran, including its branches in Lebanon, from transacting with correspondent banks in the United States. The Iran sanctions were implemented by a series of executive orders since 1987 dealing with Iran's alleged, according to the Treasury, support for international terrorism, efforts to undermine the Middle East peace process and attempts to acquire weapons of mass destruction.<sup>53</sup> In 2006, Bank Saderat was accused of complicity in Hezbollah's financial activities and facilitating its connections with the Iranian government.<sup>54</sup> According to a Treasury official, "Bank Saderat – and its branch in Beirut – was the central conduit for Iranian financing to Hezbollah in Lebanon."<sup>55</sup> Then in 2011, the Treasury moved to designate the Islamic Republic of Iran as a jurisdiction of "primary money laundering concern," for the first time identifying the entire Iranian financial sector, including its Central Bank, private Iranian banks and branches and their subsidiaries outside of Iran, as threats to the integrity of the global financial system. According to the FinCEN finding, "from 2001 and 2006 Bank Saderat transferred \$50 million from the Central Bank of

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<sup>49</sup> Jo Becker, "Beirut Bank Seen as a Hub of Hezbollah's Financing" *New York Times* (December 13, 2011).

<sup>50</sup> Federal Register 2004, op. cit., 28100.

<sup>51</sup> Zarate 2013, op. cit., 189.

<sup>52</sup> Federal Register Vol. 71, No. 50 (2006a): 13262.

<sup>53</sup> Federal Register 2006b, op. cit., 53569.

<sup>54</sup> *Ibid.*

<sup>55</sup> Zarate 2013, op. cit., 289.

Iran through its subsidiary in London to its branch in Beirut for the benefit of Hizballah fronts in Lebanon that support acts of violence.”<sup>56</sup>

The third, the Federal Bank of the Middle East, is a Cyprus-based, formerly Cayman Island-registered, later reestablished in Tanzania subsidiary of the private Lebanese bank, the Federal Bank of Lebanon. Both the Federal Bank of the Middle East and the Federal Bank of Lebanon are owned by the Lebanese Saab brothers. The Treasury accuses the former financial institution of banking with shell companies engaged in laundering money for terrorism, transnational organized crime, fraud, sanctions evasion, weapons proliferation and corruption by politically connected persons.<sup>57</sup> In 2008, a customer of theirs was said to have received a deposit of hundreds of thousands of dollars from a Hezbollah financier,<sup>58</sup> and as of 2015, an alleged associate of Hezbollah and the Tanzanian company he managed were argued to have owned accounts at the bank. Another customer was supposed to have been a front company for the Syrian Scientific Studies and Research Center, which was designated as a proliferator of weapons of mass destruction.<sup>59</sup>

The fourth bank, the Middle East and Africa Bank, is based in Lebanon and has not been designated for money laundering, but its Chairman, Kassem Hejeij, stepped down after being tied to terrorism, allegedly by opening bank accounts for Hezbollah, providing credit to and investing in Hezbollah-linked companies.<sup>60</sup> Although his bank was not cited in the finding against Hejeij as a Specially Designated National, or SDN, news reports at the time suspected that the bank would have trouble conducting business in dollars.<sup>61</sup> The bank had been under suspicion since 2006, when during the July war Hezbollah’s al-Manar television station directed donors to specific bank accounts, including one of their branches.<sup>62</sup>

The fifth, the Lebanese Canadian Bank (LCB), had the most repercussions on the Lebanese financial system, not only because LCB was at the time the country’s eighth largest bank but also because the finding against them mapped out Lebanon’s diasporic connections where the limits between the illicit and the legal are often subject to differing interpretations. In February 2011, under Section 311 authority of the PATRIOT Act, FinCEN determined:

LCB is a financial institution of primary money laundering concern. FinCEN has reason to believe that LCB has been routinely used by drug traffickers and money launderers operating in various countries in Central and South America, Europe, Africa, and the Middle East; that Hizballah derived financial support from the criminal activities of this network; and that LCB managers are complicit in the network’s money laundering activities.<sup>63</sup>

This cyclical path of (perhaps criminal) profit began with Lebanese-Colombian national, Ayman Joumaa. He was accused of moving as much as \$200 million monthly in South American cocaine proceeds through West African currency smugglers onwards to Lebanese banks and laundered in the United States by purchasing used cars that were then sold back in

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<sup>56</sup> Federal Register 2011b, op. cit., 72758.

<sup>57</sup> Federal Register Vol. 81, No. 62 (2016), 18481.

<sup>58</sup> Federal Register 2016, op. cit., 18488.

<sup>59</sup> Federal Register 2014, op. cit., 42640.

<sup>60</sup> Department of the Treasury 2015b.

<sup>61</sup> Osama Habib, “Businessman denies Hezbollah links” *Daily Star* (2015).

<sup>62</sup> Andrew Higgins, “Branded a Terrorist by U.S., Israel, Microcredit Czar Keeps Lending” *Wall Street Journal* (2006).

<sup>63</sup> Federal Register 2011a, op. cit., 9404.

West Africa. According to the FinCEN finding, the paths between the illicit and the legal transfer of funds crisscrossed many times over. Joumaa would deposit his drug earnings into different foreign exchange houses in Beirut, which would then deposit dollar currency into their accounts at LCB. One of these exchange houses was LCB's primary source for foreign currency. Joumaa, or the exchange houses, would instruct LCB to wire transfer the money via their correspondent accounts in the United States to used car dealerships. The recipients would use the funds to purchase vehicles back in the United States, which were then shipped mainly to West Africa and the proceeds repatriated back to Lebanon. The accusation alleges that Joumaa's arrangement relied on informal mechanisms to carry the money back to Lebanon, namely a Hezbollah-controlled money laundering network constructed around the Lebanese diaspora in West Africa.

While the FinCEN finding simply states, "Hizballah derived financial support from the criminal activities of Joumaa's network,"<sup>64</sup> a civil suit filed in the Southern District of New York on behalf of LCB's correspondent banks detailed what the Treasury took to be indisputable ties between LCB and Hezbollah.<sup>65</sup> LCB is said to have knowingly conducted business with Hezbollah-affiliated entities and individuals. Two of them were the Yousser Company for Finance and Investment and Bayt al-Mal, both established by Hussein al-Shami, who the Treasury declared a "Specially Designated Global Terrorist" (SDGT) in September 2006 under Executive Order 13224.<sup>66</sup> While a 1990 United Nations report on microcredit and poverty reduction described them as founded to "serve entrepreneurs with microenterprises or investment ideas," the Treasury disagreed, "Bayt al-Mal and the Yousser Company function as Hizballah's unofficial treasury, holding and investing its assets and serving as intermediaries between the terrorist group and mainstream banks."<sup>67</sup> Moreover, LCB was alleged to have banking relationships with several private sector companies that the Treasury found suspicious given their ties with those said to be members or supporters of Hezbollah. One was Tajco, an international real estate company owned by Ali and Husayn Tajideen, both named SDGT's pursuant to Executive Order 13224 as "Hizballah fundraisers." Tajco, a property developer across Lebanon and the Gambia, was designated as "the primary entity to purchase and develop properties in Lebanon on behalf of Hizballah" whose proceeds provided millions of dollars in financial support to Hezbollah.<sup>68</sup> Moreover, LCB was said to have poor money laundering controls, with one associate general manager granting exceptions for Hezbollah-affiliated individuals and entities for cash transaction slips for transactions over \$10,000.<sup>69</sup>

Joumaa's organization was also said to have used Hezbollah couriers to transport the profits of their drug trafficking and used car operations from West Africa to Lebanon. This involved paying Hezbollah-affiliated individuals to carry the currency on their person across African borders, onto airplanes and through Beirut's Airport, where Hezbollah is known to exercise control over security services. Between 2008 and 2010, used cars valued collectively at more than \$1 billion were shipped from the United States to Benin, involving around \$330 million from Lebanese banks, \$230 million through LCB.<sup>70</sup> A Michigan-headquartered shipping company with affiliates in Switzerland and throughout West Africa would facilitate

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<sup>64</sup> *Ibid.*

<sup>65</sup> United States, Plaintiff v. Lebanese Canadian Bank Sal et al., Defendants, 11 Civ. 9186. 2011.

<sup>66</sup> Higgens 2006, op. cit.

<sup>67</sup> Department of the Treasury, "Treasury Designation Targets Hizballah's Bank" (2006).

<sup>68</sup> Department of the Treasury, "Treasury Targets Hizballah Financial Network" (2010).

<sup>69</sup> United States, Plaintiff v. Lebanese Canadian Bank Sal et al., Defendants, 11 Civ. 9186. 2011, 30.

<sup>70</sup> *Ibid.*, 37.

the cars' transfer to West Africa. The company was owned by the Salhab family, a Lebanese family living in Togo. Oussama Salhab, one of the owners, was said to be deeply involved in the used car business in Benin and Togo and to control a network of money couriers who transported millions of dollars in cash from West Africa to Lebanon. He also traveled to the United States to transport cash and purchase used cars for shipment to West Africa. When questioned by Customs and Border Protection in 2009, they found on his computer pictures of Hezbollah leader Hassan Nasrallah, audio of the Hezbollah anthem, images of Hezbollah militants stomping on an Israeli flag, among other pieces of evidence that in the Treasury's estimation made him an Hezbollah affiliate.<sup>71</sup> The Treasury also alleged that money couriers, comprised of networks controlled by Hezbollah, annually transported hundreds of millions of dollars from different West African countries to Lebanon. The proceeds of the used car sales helped disguise the fact that much of the money was profits from narcotics trafficking. In one instance, three individuals were arrested at Charles De Gaulle Airport in Paris while connecting on a flight from Benin to Beirut. They were carrying over \$6.5 million in cash, and one of them carried a business card for a used car lot in Benin that was owned by one of LCB's preferred currency exchange houses in Beirut.<sup>72</sup> Cash was also transported out of Benin through the airport in Accra, Ghana via the land border with Togo. Between 2007 and 2008, Ghanaian officials recorded \$1.2 billion in currency imported across the Togolese border, with \$845 million declared by Lebanese nationals.<sup>73</sup> Members of the Salhab family declared over \$97 million and €22 million couried over the Togo-Ghana border during those same years.<sup>74</sup> Numerous other alleged connections between LCB and Hezbollah are provided in the civil suit.

Though the evidence presented is at times mediocre (a picture of Nasrallah does not indicate Hezbollah membership, nor does a business card point to a company's complicity), the purpose of this analysis is not to dispute or affirm FinCEN's allegations. Less important than whether or not the Lebanese Canadian Bank was laundering money for drug traffickers and financing Hezbollah is the very power of the Treasury to make these designations. The Treasury decides not only that Hezbollah is a terrorist organization and determines who are affiliated with them, but also – by this designation, without raising a finger of force – blocks the individuals or institutions it deems illicit from the financial system. The imposed “special measures” bar correspondent banks based in the United States from engaging in business with LCB, thus denying them dollars, the currency of international financial transactions. Moreover, the Banque du Liban – in the hope of containing the damage to the Lebanese financial sector – revoked LCB's banking license within days of the designation. As a Treasury official warned, “We've been very clear with the Lebanese authorities about this – we will do what we need to do to protect the U.S. financial system from that sort of illicit activity.”<sup>75</sup> As confirmed by A.S. of the Special Investigation Commission, “in the case of the Lebanese Canadian Bank, the bank was designated in the US as a primary money laundering concern and the bank owners and management realized they could not longer make business because they lost all their banking relationships so they opted out of the business.” The ability to designate those of primary money laundering concern and complicit in terrorism financing, combined with the application of “special measures” to obstruct their

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<sup>71</sup> *Ibid*, 39.

<sup>72</sup> *Ibid*, 42.

<sup>73</sup> *Ibid*, 42.

<sup>74</sup> *Ibid*, 42-43.

<sup>75</sup> Zarate 2013, op. cit., 360-361.

access to the dollar, provides the Treasury with immense power. More than a tool to protect the integrity of the international financial system, it is also an instrument of foreign policy, or could be given the contentious politics between the United States and Lebanon.

### **Politics of Terrorism Financing**

To what extent is terrorism financing a politically contentious designation? Why have the only banks in Lebanon cited as primary money laundering concerns been connected with Hezbollah? Are the Treasury's special measures an instance of capitalist imperialism whereby the United States utilizes the tools of finance to extend its imperial reach? Where along the continuum of the capitalist and territorial logics of power do the Treasury's designations lie? The question of whether or not the Treasury's actions against LCB were more about politics than safeguarding the financial system lingers, not because there is plethora of evidence that proves LCB's innocence (quite the contrary) but rather the Treasury's persistent pursuit of Hezbollah. While a former Treasury official insists on "the apolitical and technical nature" of their investigations,<sup>76</sup> the FinCEN finding LCB as a primary money laundering concern was published weeks after Hezbollah's parliamentary deputies and their political allies engineered the collapse of United States-allied, Prime Minister Saad Hariri's government. Meanwhile, a United Nations tribunal was preparing to accuse Hezbollah members of the assassination of Hariri's father in 2005. Thus, the question is not whether designations of money laundering and terrorism financing can be political, because they inevitably have political implications in a country where the amount of banking assets surpass size of the economy almost four times over and one of the governing parties is barred, by another country's laws, from participating in the financial system because they have been designated terrorists. The more interesting question than LCB's complicity is whether the Treasury employs its exorbitant privilege – its control over the international financial system – to extend an imperialism of the capitalist sort?

FinCEN's finding against the LCB weaves a transnational narrative of illicit finance. The civil suit in the case of the United States v. the Lebanese Canadian Bank in the Southern District of New York lists myriad individuals and entities said to be complicit in the scheme to launder the proceeds of South American drug sales through West African used car lots and onward to the Lebanese financial system. Perhaps they undertook what was alleged; perhaps the case is only a small part of a broader system intended to evade the Treasury's regulations on money laundering and supporting organizations, such as Hezbollah, which it equates with financing terrorism. But beyond these uncertainties as to culpability there is the indisputable certainty by which the Treasury makes these allegations. There is certainly evidence in the Treasury's favor, but most of the conclusions are drawn from confidential sources named only as "USG (United States government) information," "information available to the U.S. government," or "information through law enforcement and other sources."<sup>77</sup> There is also language within the designation – "may have", "believed to be" or "probably" – indicating ambiguity.<sup>78</sup> Otherwise it is simply stated, for example, that those sympathetic to Hezbollah are supportive of terrorism, because it is taken for granted, from the Treasury's perspective, that Hezbollah are terrorists and therefore those financing them are financiers of terrorism. Yet when the United States government empowers itself to define what is terrorism and to

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<sup>76</sup> *Ibid*, 159.

<sup>77</sup> Federal Register 2011a, op. cit., 9405-9406.

<sup>78</sup> *Ibid*.



determine what is money laundering, and thus assumes the authority to investigate financial criminality, then its findings become self-fulfilling. There is no need for the Treasury to go beyond citing its past rulings, as its own government has already written the laws authorizing its ability to make these evaluations, nor is it necessary to present incontrovertible evidence because it has been pre-determined that those connected to Hezbollah are supporters of terrorism. Therefore, rather than validating the extent of money laundering and terrorism financing in the Lebanese financial system, my interest instead is in tracing the discourses by which the Treasury defines its self-referential power to so designate.

The PATRIOT Act empowered the Treasury to employ “special measures” barring foreign individuals or entities from the United States’ financial system. It also outlined the authority by which the Treasury may designate these individuals or entities a “primary money laundering concern.” The Act lists potentially relevant factors to making such a designation in a foreign jurisdiction, including: the evidence of organized crime; the extent of banking secrecy; the quality of banking supervision and counter money-laundering laws; the volume of financial transactions relative to the size of the economy; the existence of a mutual legal assistance treaty; and the level of corruption. Considered against these criteria, Lebanon is a country that “faces money laundering and terrorist financing vulnerabilities,” according to the finding against LCB.<sup>79</sup> Given its sizable banking sector as well as its well known banking secrecy law, Lebanon is “a financial hub for banking activities in the Middle East and eastern Mediterranean.”<sup>80</sup> Moreover, as argued by the Treasury, the Lebanese diaspora also poses a danger, principally “the possibility that a portion of the substantial flow of remittances from the Lebanese diaspora, estimated at \$7 billion – 21 percent of GDP – in 2009, according to the World Bank, could be associated with underground finance and Trade-Based Money Laundering activities.”<sup>81</sup> Moreover, “the high levels of corruption” the Treasury finds within Lebanon’s Customs Authority arguably extends more broadly.<sup>82</sup> For the Treasury, Lebanon also maintained two weaknesses on money laundering and terrorism financing laws. One was that (at the time) Lebanon had no cross-border currency declaration requirements to hinder cash-smuggling. The second was that (also at the time) Lebanon had thus far not acceded to the United Nation’s Convention for the Suppression of the Financing of Terrorism. The Treasury’s designation of LCB as an institution of “primary money laundering concern” and its imposition of “special measures” to bar their access to the United States’ financial system was based on these aforementioned risks and vulnerabilities.

FinCEN’s finding against LCB, like those against the other Lebanese banks and foreign banks operating in Lebanon as money laundering concerns, begins by outlining its authority to make such a designation. They read exactly the same, “pursuant to the authority contained in 31 USC 5318A...”<sup>83</sup> In other words, pursuant to the PATRIOT Act’s authority, the Treasury is thus permitted to designate LCB as “a financial institution of primary money laundering concern”<sup>84</sup> and likewise the consequences of such a designation, essentially the special measures imposed that bar them from the international financial system, are lawful. The FinCEN finding continues to reference the reasons why the Treasury is authorized “to promote the prevention, detection, and prosecution of international money laundering and

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<sup>79</sup> *Ibid*, 9404.

<sup>80</sup> *Ibid*, 9404.

<sup>81</sup> *Ibid*, 9404.

<sup>82</sup> *Ibid*, 9404.

<sup>83</sup> *Ibid*, 9403.

<sup>84</sup> *Ibid*, 9403.

the financing of terrorism”:

Section 311 provides the Secretary (of the Treasury) with a range of options that can be adapted to target specific money laundering and terrorist financing concerns most effectively. These options give the Secretary the authority to bring additional pressure on those jurisdictions and institutions that pose money laundering threats.<sup>85</sup>

In essence, the Treasury is empowered to investigate cases of money laundering and designate money laundering concerns because its own government permits it such a power. There is nothing extraordinary about granting the Treasury this authority over financial institutions within its jurisdiction, except that its influence is hardly limited to the United States. The Treasury only has the power to compel United States based banks to stop dealing with those deemed money laundering concerns, but because of their control over the dollar, the currency of the international financial system, this power is far from territorially confined.

The Treasury holds the power not only to bar those said to be financing terrorism from the United States financial system but also to designate what constitutes terrorism financing. The Treasury began to use financial measures against designated terrorists in 1995, and from the beginning Hezbollah was one of their primary targets. The Treasury identified Hezbollah as a Specially Designated Terrorist (SDT) entity in 1995, under the authority of Executive Order 12947 “prohibiting transactions with terrorists who threaten to disrupt the Middle East Peace Process.”<sup>86</sup> Two years later, the Department of State similarly designated Hezbollah a Foreign Terrorist Organization. In September 2001, pursuant to Executive Order 13224, empowering the Treasury to disrupt terrorism financing networks, particularly al-Qaeda’s, Hezbollah was designated a Specially Designated Global Terrorist (SDGT).<sup>87</sup> It is interesting to note that Hezbollah was not added to the list of SDGT’s until October 2001, after lobbying by Israel and its supporters in Washington DC, as Hezbollah had no known connections with al-Qaeda targets in the post-September 11<sup>th</sup> era.<sup>88</sup> It was footnoted in FinCEN’s finding against LCB, that “until September 11, 2001, Hezbollah was responsible for more American deaths than any other terrorist organization.”<sup>89</sup> Subsequent Treasury designations have identified Hezbollah as “among the most dangerous terrorist groups in the world”<sup>90</sup> and “responsible for perpetrating terrorism and fomenting instability worldwide.”<sup>91</sup> The Treasury alleges that Hezbollah receives \$200 million annually from Iran;<sup>92</sup> that they use “so-called legitimate businesses to fund, equip, and organize these subversive activities”<sup>93</sup> and that they rely on “accomplices in the business community to place, manage, and launder its terrorist funds.”<sup>94</sup> These allegations are echoed in Congressional Testimony in a circular manner that confirms Hezbollah’s complicity. In the words of Matthew Levitt, a Hezbollah scholar speaking before the House of Representatives’ Foreign Affairs Subcommittee on the

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<sup>85</sup> *Ibid*, 9403.

<sup>86</sup> Department of the Treasury, Executive Order 12947.

<sup>87</sup> Department of the Treasury, Executive Order 13224.

<sup>88</sup> Norton 2007, *op. cit.*, 76.

<sup>89</sup> Federal Register 2011a, *op. cit.*, 9404.

<sup>90</sup> Department of the Treasury 2010, *op. cit.*

<sup>91</sup> Department of the Treasury, “Treasury Targets Africa-Based Hizballah Support Network” (2015a).

<sup>92</sup> Department of the Treasury, “Treasury Designation Targets Hizballah’s Bank” (2006).

<sup>93</sup> Department of the Treasury 2015a, *op. cit.*

<sup>94</sup> Department of the Treasury, “Treasury Sanctions Hizballah Financier and His Company” (2016).

Middle East and North Africa, “Iran is Hezbollah’s primary benefactor, giving the Lebanese political party and militant group some \$200 million a year in addition to weapons, training, intelligence, and logistical assistance,”<sup>95</sup> or in those of Frank Urbancic, a counterterrorism official at the Department of State speaking before the House Committee on International Relations, “Iran is the central banker of terrorism and a primary funding source for Hizballah.”<sup>96</sup> Moreover, on Hezbollah’s reliance on criminal activities, Matthew Levitt writes in *Foreign Affairs*, “Hezbollah has not relied entirely on Iran to finance its operations. Instead, it has raised funds through criminal activities, including counterfeiting currencies and goods, credit-card fraud, and money laundering,”<sup>97</sup> and on the blurred boundaries between criminal and legitimate businesses, Hezbollah is said to raise money from taxes or other contributions from the businesses controlled by the West African Lebanese community, which in the words of the journalist Douglas Farah, “is not to say that these businesses are controlled by Hezbollah or form an organic part of the Hezbollah structure although the organization does run numerous front companies for its laundering and financial needs.”<sup>98</sup> Within the Washington D.C. policy-making circles – where definitions of terrorism are decided – the debate over Hezbollah’s classification and more broadly discourses about Hezbollah have long since closed.

There is a self-referential quality to the ways the Treasury presents its evidence and extends its enforcement. This is exemplified in their presentation of the Lebanese diaspora through the discourses of terrorism. The diaspora of which the Treasury is particularly wary is predominantly Shiite, and their focus is especially on those who emigrated to West Africa. They form the core of the case against LCB and they are similarly cited as threats in official discussions of Hezbollah in United States government circles. In its finding against LCB, the Treasury cites an older edition of the International Narcotics Control Strategy Report on the dangers of the diaspora, and the 2015 version (updated for remittance totals) duplicates its language to describe Lebanon’s vulnerability to money laundering:

Lebanon faces significant money laundering and terrorism financing challenges; for example, Lebanon has a substantial influx of remittances from expatriate workers and family members, estimated by the World Bank at approximately \$7.3 billion annually over the last four years. Media reports suggest that a number of Lebanese abroad are involved in underground finance and trade-based money laundering (TBML) activities.<sup>99</sup>

The logical connection between money laundering, terrorism financing and the influx of remittances is unstated but assumed. For its State Department drafters, the simple fact that the Lebanese financial system is saturated with remittances constitutes a substantial risk. Yet the only attempt to prove this assertion is the sentence that “Lebanese expatriates in Africa and South America have established financial systems outside the formal financial sector, and some are reportedly involved in TBML schemes.”<sup>100</sup> It is difficult to deny that the dearth of formal banking services in West Africa, as well as possibly people’s distrust in them and in

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<sup>95</sup> Matthew Levitt, “Major Beneficiaries of the Iran Deal: IRGC and Hezbollah” (2015).

<sup>96</sup> Frank C. Urbancic, “Hizballah’s Global Reach” (2006).

<sup>97</sup> Matthew Levitt, “Hezbollah: Party of Fraud” (2011).

<sup>98</sup> Douglas Farah, “Hezbollah’s External Support Network in West Africa and Latin America” (2006).

<sup>99</sup> Department of State, “International Narcotics Control Strategy Report, Volume II (2015), 158.

<sup>100</sup> *Ibid*, 158.

the scrutiny they receive from the Treasury, means that Lebanese expatriates remit an untold amount via informal channels. The Lebanese living in West Africa are known to carry substantial sums of cash with them on the airplane back to Lebanon. The case of Cotonou is often cited as evidence of the illicit nature of these informal channels. On December 25, 2003, a chartered plane from Conakry, Guinea via Freetown, Sierra Leone via Cotonou, Benin back to Beirut crashed directly after takeoff. Most of the passengers who died were Lebanese working in West Africa. Several million dollars in cash was found floating in the shallow surf just off the Atlantic Coast. For Hezbollah scholars such as Matthew Levitt this is evidence of something illicit, “Hezbollah officials (on board) were carrying \$2 million in contributions, raised from wealthy Lebanese nationals living in Africa, to the organization’s headquarters in Beirut.”<sup>101</sup> Yet according to a Lebanese diplomat formerly posted to West Africa, there are myriad different shades of this so-called black money.<sup>102</sup> He argued, based on his experience, that the difficulties of doing business in West Africa entailed a certain corruption. If they follow the rule of law then businesses would pay most of their profits in taxes, not to mention the necessity of bribes. Thus, corruption is a necessity, but this does not mean that most of the money channeled informally to Lebanon is meant for Hezbollah. Some funds are from legitimate business; others are derived from illicit activities such as drug trafficking but not necessarily on behalf of Hezbollah. Some of these different shades of grey to black money are supportive of Hezbollah, but much also supports their relatives back in Lebanon. Whatever their purpose, these remittances tend to travel to Lebanon as cash, but this informality is not only intended to obscure the funds destined for Hezbollah. Rather, in the opinion of this diplomat, informality is also a means to avoid the scrutiny of the banking system because Lebanese expatriates based in West Africa, especially as Shiites have come under increased suspicion. And given the frequent charter flights from West African capitals to Beirut means flying cash by courier is not complicated. Nevertheless, what is otherwise obscured by the informal ways by which these funds trespass international borders is for the Treasury unquestionably clear. The Treasury employs self-referential logic to connect the Lebanese diaspora and their informal, perhaps illicit, financing activity with financing Hezbollah.

This suspicion of the Lebanese diaspora in West Africa is deeply rooted and dates back decades. There is a heavily-redacted Central Intelligence Agency assessment from 1988 on “The Lebanese in Sub-Saharan Africa” that argues that the increasing presence of Shiite emigrants is strengthening Hezbollah’s support in West Africa:

Paralleling developments inside Lebanon, Hizballah probably will expand its influence with the Lebanese African communities... Many Lebanese are likely to rally to Hizballah’s side and provide the movement with financial and material support.<sup>103</sup>

Their analysis argued that the Lebanese living in West Africa were traditionally Christian, but an increasing number of Shiites had emigrated since the start of Lebanon’s civil war and “the Muslims – unlike their Christian counterparts, who have generally attempted to maintain a low political profile – appear increasingly willing to transplant their sectarian divisions and political struggles to African soil.”<sup>104</sup> The report writes that half of the 30,000 Lebanese

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<sup>101</sup> Matthew Levitt, *Hezbollah* (2013), 255.

<sup>102</sup> Interview conducted by the author on October 21, 2015.

<sup>103</sup> Central Intelligence Agency, “The Lebanese in Sub-Saharan Africa” (1988), iii.

<sup>104</sup> *Ibid*, 4.

emigrants in Sierra Leone arrived in the last decade, “and the majority are impoverished former street-fighters from Beirut.”<sup>105</sup> Given their sectarian affiliation most are assumed to sympathize with Hezbollah. Their arrival is said to have politicized the Lebanese already in Africa, notably the “members of Shia sects that are, in practice, or at least potentially, influenced by Iran.”<sup>106</sup> Given the context of the analysis in the midst of the Lebanese civil war, five years after the 1983 bombings of the United States’ embassy and marine barracks in Beirut, this intensive focus on the Hezbollah-Iranian nexus is not altogether surprising. However, the report also emphasizes the longstanding commercial connections of many Lebanese in West Africa, as “the Lebanese in Africa have historically focused on economic pursuits, playing a significant role as merchants and businessmen,” it is unexplained why their business pursuits are then thought to have evolved towards financing Hezbollah.<sup>107</sup> Almost one million people left Lebanon during the civil war, including Shiites fleeing from Israel’s invasion and occupation of southern Lebanon beginning in 1978.<sup>108</sup> Yet as detailed in the previous chapter, emigration from Shiite villages to West Africa has been traced to the late 19<sup>th</sup> century economic crisis of the silk-worm industry<sup>109</sup> and accelerated into the early-20<sup>th</sup> century as British and French rule in the West African colonies linked them to the world market and provided an administrative basis for profit-making.<sup>110</sup> By the time of the CIA’s writing, as their analysis acknowledges, the Lebanese communities in West Africa had come to wield considerable economic influence, their businessmen had become multimillionaires and they dominated several countries’ economic sectors, from real estate, gas stations and supermarkets in the Ivory Coast to retail, restaurants and hotels in Liberia.<sup>111</sup>

In recent years the Treasury has focused especially on those financing Hezbollah from their businesses in West Africa. These individuals are identified as Specially Designated Nationals (SDN) who are thereafter barred from the United States’ financial system. Although the Treasury’s list of SDNs runs almost 1,000 pages long (as of June 2016), their press releases are not more than 600 words. These cite past governmental designations of Hezbollah as a terrorist organization, identify individuals and their businesses as affiliated with Hezbollah and by default designate them as terrorism financiers. As in the case of LCB, there is no basis to know the veracity of the Treasury’s designations. Yet, the culpability of those so-designated is less important than the discourses doing so. One aspect is the self-referential manner by which the Treasury so-designates and the power that this designation this entails. Another is their intensive focus on Lebanese expatriates in West Africa. Thus, in May 2009, the Treasury designated Kassim Tajideen “an important financial contributor to Hizballah.”<sup>112</sup> According to their finding, Tajideen was born in Sierra Leone and holds dual citizenship with Lebanon; yet in an interview he recalls arriving in Africa as a young man of 21 during the civil war.<sup>113</sup> This discrepancy thus leaves much to doubt when the Treasury’s designation argues that with his brother, who is said to be a Hezbollah commander, Tajideen “run(s) cover companies for Hizballah in Africa.”<sup>114</sup> These companies are only named in

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<sup>105</sup> *Ibid*, 2.

<sup>106</sup> *Ibid*, 2.

<sup>107</sup> *Ibid*, 2.

<sup>108</sup> Boutros Labaki, “Lebanese Emigration During the War (1975-1989)” (1992), 609.

<sup>109</sup> Dieder Bigo, “The Lebanese Community in the Ivory Coast” (1992).

<sup>110</sup> Andrew Arsan, *Interlopers of Empire* (2014).

<sup>111</sup> Central Intelligence Agency 1988, op. cit., 2.

<sup>112</sup> Department of The Treasury, “Treasury Targets Hizballah Network in Africa” (2009).

<sup>113</sup> Gareth Smyth “A Kind of Death” *The Guardian* (2016).

<sup>114</sup> Department of The Treasury 2009, op. cit.

December 2010, when his brothers Ali and Husayn Tajideen were also identified as SDNs for raising funds for Hezbollah from their business network in Lebanon and across Africa, including the Gambia, Sierra Leone, Democratic Republic of Congo, Angola. According to the designation, “Ali and Husayn Tajideen’s multinational network generates millions of dollars in funding and secures strategic geographical strongholds for Hezbollah.”<sup>115</sup> The feared geographical stronghold is West Africa, where the Treasury has intensively targeted the prosperous Lebanese diaspora for fundraising for Hezbollah. In June 2013, the Treasury identified four Lebanese expatriates in West Africa as “ambassadors of Hezbollah’s Foreign Relations Department.”<sup>116</sup> Without any evidence beyond their affirmations, Ali Ibrahim al-Watfa was “formally appointed as the permanent Hezbollah liaison to Sierra Leone;” Abbas Loutfe Fawaz “a Hezbollah Foreign Relations Department official who serves as Hezbollah’s leader in Senegal;” Ali Chehade “the Hezbollah Foreign Relations Department official for Cote d’Ivoire;” and Hicham Khanafer “an active and influential Hezbollah member in The Gambia.”<sup>117</sup> In February 2015, Mustapha Fawaz, Fouzi Fawaz, and Abdallah Tahini were designated for financing Hezbollah via their business empire in Nigeria. While the former was said to communicate with Hezbollah by email, update and distribute their newsletters in Abuja and report to Hezbollah on his visit to the United States embassy, the latter two were identified as members of Hezbollah’s Foreign Relations Department (FRD), “The FRD claims to be in charge of ‘community relations;’ but the primary goal of the FRD in Nigeria is to scout recruits for Hezbollah’s military units, as well as to create and support Hezbollah’s terrorist infrastructure for its operational units in Africa and globally.”<sup>118</sup> In June 2015, the former chairman of the Middle East and African Bank, Kassem Hejeij, who was born in Nigeria, was designated for “maintaining direct ties to Hezbollah organizational elements,” specifically by helping Hezbollah open bank accounts, providing credit to Hezbollah procurement companies and investing in infrastructure used by Hezbollah in both Lebanon and Iraq.<sup>119</sup> In January 2016, Ali Youssef Charara, a telecommunications executive with business interests in West Africa, was similarly designated for financing Hezbollah.<sup>120</sup>

This wariness of the Lebanese diaspora is reiterated in policy analysis, self-referenced and repeated so many times that it takes on an almost self-evident truth. According to the Congressional Research Service’s assessment of Hezbollah, “Hezbollah receives financial support from Lebanese Shiite expatriates around the world and profits from legal and illegal businesses, including some illegal drug activity.”<sup>121</sup> Their evidence is the 2006 congressional testimony on “Hezbollah’s Global Reach” by a counterterrorism official for the Department of State before the House Committee on International Relations:

Hezbollah also receives a significant amount of financing from the Shiite Muslim diaspora of West and Central Africa... It is important to note that the Lebanese community in West Africa is not monolithically Muslim nor completely supportive of Hezbollah, but mirrors the same religious and political divisions present in Lebanon. It is clear, however, that Hezbollah receives significant support from this community. Contributions, which often take the form of religious donations, are

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<sup>115</sup> Department of The Treasury 2010, op. cit.

<sup>116</sup> Department of the Treasury, “Treasury Sanctions Hizballah Operatives in West” (2013).

<sup>117</sup> *Ibid.*

<sup>118</sup> Department of the Treasury, “Treasury Targets Africa-Based Hizballah Support Network” (2015a).

<sup>119</sup> Department of the Treasury 2015b, op. cit.

<sup>120</sup> Department of the Treasury, “Treasury Sanctions Hizballah Financier and His Company” (2016a).

<sup>121</sup> Casey Addis and Christopher Blanchard, “Hezbollah” (2011), 7.

often paid in cash, and are collected by Hizballah couriers transiting the region. These groups provide safe haven and R&R sites for Hizballah fighters. Countering this network of terrorist financing will be a challenge and will take significant resources and time.<sup>122</sup>

Matthew Levitt, a former Treasury official, also testified to the financial support Hezbollah derives from the Lebanese diaspora, “Hezbollah receives significant financial support from the contributions of Hezbollah supporters living abroad, particularly from Lebanese nationals living in Africa, South America and other places with large Lebanese Shia expatriate communities.”<sup>123</sup> His evidence is the airplane crash in Cotonou in which he states a “foreign relations official of the African branch of Hezbollah” was killed.<sup>124</sup> The cash found floating in the ocean is said to have been diaspora contributions being transported back to Hezbollah. The flight had been delayed at takeoff because of extra weight, which investigators later determined had been the cause of the accident. This extra weight may have included as much as \$6 to \$10 million in cash. His manuscript delves into more detail about the financial linkages between the diaspora and Hezbollah:

The large Lebanese diaspora in Africa has long made the continent a particularly rich source of financial and logistical support for Hezbollah. Whether their supporters in any given community are many or few, Hezbollah operatives can hide in plain sight within these communities. And they can operate with near impunity because crime and corruption are endemic to Africa.<sup>125</sup>

While many Lebanese political parties solicit funds from the diaspora, what sets Hezbollah apart, writes Levitt are its forcible illicit financing dealings, “Organized gangs sometimes attacked businesses in a Mafia-style racketeering scheme to pressure businessmen to ‘donate’ to the cause.”<sup>126</sup> He and others accuse Hezbollah of raising millions of dollars a year from the Lebanese diaspora in Africa by appealing to their national and religious identities, though sometimes resorting to violence by threatening to destroy the commercial properties of those who resist their solicitations for donations. In a manner similar to levying taxes, on a regular basis Hezbollah notifies businesses in of the contribution each is expected to make, based on a precise knowledge of their expected revenues.<sup>127</sup> Citing the US deputy chief of mission to Sierra Leone, Levitt writes, “One thing that’s incontrovertible is the financing of Hezbollah...It’s not even an open secret; there is no secret. There’s a lot of social pressure and extortionate pressure brought to bear: ‘You had better support our cause, or we’ll visit your people back home.’”<sup>128</sup>

The Lebanese diplomat once based in West Africa, with whom I spoke extensively, disagrees that Hezbollah forcibly extracts financial contributions from the diaspora, but does not deny that some of their remittances support Hezbollah. However, not all, not even most, by his estimations.<sup>129</sup> Rather, most of the evidence linking the Lebanese diaspora in West

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<sup>122</sup> Urbancic 2006, op. cit.

<sup>123</sup> Levitt 2005, op. cit.

<sup>124</sup> *Ibid.*

<sup>125</sup> Levitt 2013, op. cit., 248.

<sup>126</sup> *Ibid.*, 250.

<sup>127</sup> Farah 2006, op. cit.

<sup>128</sup> Levitt 2013, op. cit., 261.

<sup>129</sup> Interview conducted by the author on December 2, 2015.

Africa to financing terrorism is anecdotal and circumstantial, not to mention political. Only those said to be affiliated with Hezbollah are ever cited by the Treasury. Thus, in addition to the Joumaa drug trafficking network, the civil suit against LCB alleges that Maroun Saade was similarly involved in the transportation and distribution of cocaine in West Africa, with the profits channeled back to Hezbollah. He was a member of the Free Patriotic Movement, a Lebanese Christian political organization allied with Hezbollah. He was also associated with the Salhab family's network of money couriers from West Africa to Lebanon.<sup>130</sup> Yet the Lebanese diplomat recalled another case of drug trafficking that involved hiding cocaine in pineapples shipped from West Africa to Lebanon. Those involved were connected to the Lebanese Forces, another Lebanese Christian political party but one affiliated with the United States-allied political faction. Twenty-four members of this drug-trafficking group were arrested in Lebanon, but none were named Specially Designated Nationals since they were not working on the financial behalf of Hezbollah.<sup>131</sup> Hezbollah is said to be intimately involved in the West African drug trade, according to the Treasury's designations. However, the West Africa-based Lebanese diplomat argued that was not uncommon for businessmen, whether based in the drug trade or not, to claim a connection with Hezbollah, even when no association existed, because this provided them with some standing and legitimacy within the community.<sup>132</sup> For example, Imad Zbib, described as "a prominent Hizballah representative in Togo," is said by the Treasury to have trafficked two to three metric tons of cocaine from South America to Togo where it was concealed in used cars that had been purchased from the several used car lots he owned in Togo and then transported to Europe.<sup>133</sup> Yet according to the diplomat I interviewed, there was no connection between him and Hezbollah. Instead, Zbib exaggerated his affiliation for the purpose of helping his businesses in Togo. He was never a member of nor fundraiser for Hezbollah; he was simply a drug trafficker, but as being tied to Hezbollah provided standing in the community he claimed such association.<sup>134</sup> The diplomat recalled his counterpart in a United States embassy in West Africa recounting how they received most of their intelligence from Lebanese expatriates, with all the hearsay and unproven accusations involved, as here were too many unknowns for the North American officials to shift through when making these designations.<sup>135</sup> Again, this evidence is also anecdotal and circumstantial, but not more so than the Treasury's designation of Lebanese expatriates in West Africa for financing terrorism through their support – factual, embellished, repudiated – of Hezbollah.

The Treasury's allegations against the Lebanese diaspora, especially those based in West Africa, may be contingent but they are circumspect. United Against a Nuclear Iran (UANI), an advocacy organization dedicated to preventing Iran from acquiring nuclear weapons, has published broader, more damning, but basically implausible allegations against Lebanon's banking sector. UANI's accusations could be ignored as extremist and irrelevant, if the group were not founded by prominent Washington DC insiders, namely Mark Wallace, former ambassador to the United Nations; Dennis Ross, former Department of State Middle East envoy; Richard Holbrooke, another former diplomat who served as ambassador to the UN and Germany as well as Special Envoy for Afghanistan and Pakistan; and Jim Woolsey,

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<sup>130</sup> United States, Plaintiff v. Lebanese Canadian Bank Sal et al., Defendants, 11 Civ. 9186. 2011.

<sup>131</sup> Interview conducted by the author on January 11, 2016.

<sup>132</sup> *Ibid.*

<sup>133</sup> United States, Plaintiff v. Lebanese Canadian Bank Sal et al., Defendants, 11 Civ. 9186. 2011, 24.

<sup>134</sup> Interview conducted by the author on January 11, 2016.

<sup>135</sup> *Ibid.*



former director of the Central Intelligence Agency. UANI's "Lebanon Banking Campaign" is dedicated to proving that Hezbollah, Lebanon and Iran are partners in a sovereign money laundering scheme. Their webpage features a pictures of Banque du Liban Governor Riad Salameh, Hezbollah's yellow flag, and handcuffed hands between them, thus illustrating their central contention, "Lebanon, controlled by Hizballah, a terror proxy of Iran, is engaged in a massive money laundering scheme, and is helping to facilitate Iran's evasion of sanctions."<sup>136</sup> They accuse Lebanon of being "a sovereign money laundering jurisdiction" based on the massive inflow of "illicit deposits" generated from Hezbollah terrorism and the symbiotic relationships with Iran and Syria.<sup>137</sup> UANI connects the supposed \$200 million annually that Hezbollah is often said – in a self-referential style by the Treasury – to receive from Iran with the deposits flowing through the Lebanese financial system:

Given the large scale nature of Iran's backing, the transacting of that support has had to be facilitated by financial institutions – Lebanese banks. But what was once a mechanism for providing financial support for Hizballah has also become a symbiotic financial relationship that allows Iran to evade the growing crush of international sanctions. Now, the Lebanese banking system provides the means by which Iran transacts funds transfers to evade the effects of sanctions and the growing international banking blockade against Iran, and allows the money transfers that support illicit weapons and other transactions, including with Syria.<sup>138</sup>

UANI points to the paradox of "Lebanon's devastated economy" and its "suspiciously supported stable banking system."<sup>139</sup> By its determination there is no way for the highly indebted Lebanese state to finance its immense debt without illicit Iranian support. As evidence, UANI notes that the interest rate Lebanon paid on its debt was much higher in 2006 and 2007 than it was in 2012 – "conveniently corresponding with increased sanctions pressure against Iran"<sup>140</sup> (but not acknowledging that in 2006 Lebanon was the world's most indebted country, and thus it is unsurprisingly that their interest payments were higher than in later years). In sum, according to UANI, "Lebanon has created a false image of economic legitimacy and stability to global markets," and thus they call upon all holders of Lebanese sovereign debt to divest of their ownership of "such fraudulent securities," for credit rating agencies to issue a "no rating" on Lebanese debt, and for the Treasury to employ the special measures pursuant to the PATRIOT Act and designate Lebanon as a jurisdiction of primary money laundering concern.<sup>141</sup>

In February 2012, UANI Chairman, Ambassador Mark Wallace, addressed a letter to Riad Salameh. UANI requested that the governor of the Banque du Liban close the Allied Engineering Group (AEG), which serves as the SWIFT regional partner for the Middle East and Africa. The Society for Worldwide Interbank Financial Telecommunication (SWIFT) operates a network allowing financial institutions worldwide to communicate information on financial transactions in a secure manner. Pursuant to United States and European sanctions, all designated Iranian banks, including Iran's Central Bank, were removed from the SWIFT

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<sup>136</sup> United Against Nuclear Iran, "Lebanon Banking Campaign."

<sup>137</sup> *Ibid.*

<sup>138</sup> *Ibid.*

<sup>139</sup> *Ibid.*

<sup>140</sup> *Ibid.*

<sup>141</sup> *Ibid.*

system in March 2012.<sup>142</sup> Yet UANI was concerned that as SWIFT ended services to Iranian banks that its AEG subsidiary would provide a communications “work-around.”<sup>143</sup> Their letter also noted that one Iranian sanctioned institution operated in Lebanon, Bank Saderat, and that the Lebanese banking sector was “used by Iran and its terror proxies to facilitate the finance of Iran’s nuclear weapons program, finance terrorist activities and to provide the financial support necessary to brutally repress the Iranian people,” as evidenced by the case of LCB.<sup>144</sup> Extensively quoting an article from *The New York Times*, UANI’s letter underlined the complicity of the Central Bank Governor in this “insidious activity.”<sup>145</sup> They requested a response from Mr. Salameh in one week regarding the Banque du Liban’s intentions.

In Riad Salameh’s response four days later, he noted that AEG was not subject to the supervision of the Banque du Liban, nor did it have a financial relationship with the Iranian Central Bank. The only Iranian bank in Lebanon was Bank Saderat, which had been operating in Lebanon since the 1960s but had no interbank operations since the Treasury’s money laundering designation.<sup>146</sup> UANI followed up three months later on the Governor’s “ill-informed or demonstrably false and misleading” statements. Their response is an amateur analysis of the Lebanese banking system in which they point all the signs towards it being designated a jurisdiction of primary money laundering concern. Thus, in their words, there was no plausible explanation for “the irrational strength of Lebanese sovereign bonds” than the “increased sanctions pressure against Iran.”<sup>147</sup> Given the sanctions against Iran, the millions Hezbollah received from Iran were therefore inevitably laundered and deposited in the Lebanese banking system, with these illicit funds used to support Lebanon’s otherwise unsustainable sovereign debt, “As a result, with all economic indicators pointing to a serious risk of sovereign default, Lebanon’s currency and banking system act like the currency and banking system of a far more successful sovereign.”<sup>148</sup> The Lebanese banking system was “a state-sponsored money laundering enterprise that enables the hidden large scale infusion of criminal and Iranian funds into Lebanon.”<sup>149</sup>

The unfounded, misguided, if not absurd, nature of UANI’s allegations illustrate the extremes of this self-referencing rationality. Although comprised of prominent policymakers, UANI is not the Treasury. Only the latter are empowered to make money laundering designations, and according to an official at the Banque de Liban with whom I spoke they have been supportive of the Lebanese banking sector.<sup>150</sup> Whereas UANI understands the strength of the Lebanese banking system only through the lens of Hezbollah financing, the Treasury takes a similarly narrow perspective on the illicit activities of the Lebanese diaspora in West Africa. The Treasury’s designations are more difficult to disprove, and unlike those of UANI may have a more factual basis, but in their technical language they employ a self-referential logic that disguises the politically-biased nature of their power. The PATRIOT

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<sup>142</sup> [https://www.swift.com/insights/press-releases/update\\_iran-sanctions-agreement](https://www.swift.com/insights/press-releases/update_iran-sanctions-agreement) (Viewed March 6, 2017).

<sup>143</sup> [http://www.unitedagainstnucleariran.com/sites/default/files/IBR%20Correspondence/UANI\\_Ltr\\_Banque%20du%20Liban\\_022012.pdf](http://www.unitedagainstnucleariran.com/sites/default/files/IBR%20Correspondence/UANI_Ltr_Banque%20du%20Liban_022012.pdf) (Viewed March 6, 2017).

<sup>144</sup> *Ibid.*

<sup>145</sup> *Ibid.*

<sup>146</sup> <http://www2.unitedagainstnucleariran.com/sites/default/files/bdl-response-2-24.pdf> (Viewed March 6, 2017).

<sup>147</sup> <http://www2.unitedagainstnucleariran.com/sites/default/files/uani-letter-to-governor-salame-5-28.pdf> (Viewed March 6, 2017).

<sup>148</sup> *Ibid.*

<sup>149</sup> *Ibid.*

<sup>150</sup> Interview conducted by the author on January 19, 2016.

Act authorizes the Treasury to employ special measures against those designated as primary money laundering or terrorism financing concerns. They are not required to prove criminal culpability to bar an individual or entity from the United States' financial system, and therefore while an institution such as LCB may have engaged in some or all of the illicit activities detailed in the FinCEN finding, the mere designation by the Treasury is sufficient to shut them down. In the words of Chibli Mallat, a lawyer attempting to disprove the Treasury's designations of his (West Africa-based) client:

The people at OFAC say, 'Sorry we can't give you the evidence'. In any court of law that would be laughed at as surreal, because you can't convict someone without presenting evidence his lawyer can rebut. The great advance of the rule of law in history is precisely to establish the basic premise that someone is innocent until proven guilty.<sup>151</sup>

There is a paradox about money, especially that alleged to finance terrorism, writes Ibrahim Warde, as "claims and accusations on money matters are not easily verifiable. Indeed, they are often, literally, irrefutable."<sup>152</sup> In the war on terror, so many axioms go unquestioned, not only the self-evident accusations that those the Treasury designates are financiers but also the indisputable definitions of who constitutes a terrorist. In their single-minded focus on Hezbollah, the Treasury refers to past definitions of terrorism to designate anyone affiliated with Hezbollah as also terrorists and those financially supportive of Hezbollah as financiers of terrorism. These designations are suspiciously disproportionate against the Shiite diaspora in West Africa. This critique is not intended to argue that those designated by the Treasury are not complicit. Yet, through self-referencing logic, without requiring evidence beyond being named, by unnamed sources, as connected to Hezbollah, the Treasury merely needs to make a designation to bar a Lebanese businessman or bank from the banking system, dismantle a financial institution in the case of the Lebanese Canadian Bank, or ban an entire country from the international financial system, as was the case of Iran before the lifting of the sanctions in January 2016.

## Financial Warfare

The Hezbollah International Financing Prevention Act of 2015, unanimously passed by the House of Representatives and the Senate and signed into law by President Obama on December 18, 2015, authorized the Treasury to enact sanctions on any financial institution that engages with a broad array of entities associated with Hezbollah. In essence, the Act bans banks under the Treasury's jurisdiction from opening or maintaining correspondent account for a foreign financial institution that 1) knowingly facilitates significant transactions for Hezbollah; 2) knowingly facilitates transactions of a person on behalf of or controlled by Hezbollah; or 3) knowingly engages in money laundering to carry out an activity for Hezbollah.<sup>153</sup> Additionally, it calls for reporting on the countries that support Hezbollah, or where Hezbollah maintains its global logistics network, as well as an assessment of whether the government of such countries are taking adequate measures to disrupt the Hezbollah networks in their territory. This report will list those countries in which Hezbollah conducts

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<sup>151</sup> Smyth 2016, op. cit.

<sup>152</sup> Ibrahim Warde, *The Price of Fear* (2008), xii.

<sup>153</sup> Hezbollah International Financing Prevent Act (2015).

significant fundraising, financing or money laundering and an assessment of the measures their governments are taking to disrupt such activities. In both cases of countries not taking the measures the United States government deems adequate, the report will require “a description of measures being taken by the United States to encourage such a government to improve measures to disrupt such networks/activities.” Finally, the Act imposed sanctions on all satellite, broadcast, internet or other providers that carry the Hezbollah-affiliated al-Manar television channel.

More than simply sanctions against Hezbollah as a terrorist organization, the Act is another attempt to define the boundaries of Lebanese sovereignty. The Act calls for taking “adequate measures” against Hezbollah’s global logistics network and financing activities, and when these are not taken, or deemed inadequate, the Act calls upon the United States to “encourage” foreign governments to enhance them.<sup>154</sup> The means of encouragement are left indeterminate. But encouragement need not entail force or even intervention. Rather, the Treasury already has the tools to encourage such compliance with existing financial laws that empower it to investigate terrorist financing under adherence to its own definition of terrorism. The only encouragement needed is that they designate such an individual, entity or even entire jurisdiction a primary money laundering concern or complicit in terrorism financing, and thus bar them from the United States, and thus international, financial system by barring their transactions in dollars. This in turn will isolate the so-designated, as in the case of the Syrian Commercial Bank or Iranian banks before the lifting of sanctions, or lead to their dismantlement, as illustrated by the collapse of the Lebanese Canadian Bank. Thus, without imposing anything directly on Lebanon, much less setting any boots on the ground (besides perhaps those of a visit by a Treasury bureaucrat), the United States can persuade the Lebanese government and monetary authorities to comply with their laws and financial regulations.

The passing of the Act pressured the Lebanese Parliament, which had not met in more than one year due to a political disagreements over the non-election of a President, to convene in November 2015 to pass four laws on money laundering and terrorism financing. Law 42 required the declaration of the cross-border transportation of cash (Lebanon had not previously made those carrying more than \$15,000 declare this when entering the country).<sup>155</sup> Law 43 required the exchange of tax information on non-resident depositors,<sup>156</sup> especially, although without citing them directly, citizens of the United States in compliance with the Foreign Account Tax Compliance Act (FATCA) requiring foreign financial institutions to report the assets of their North American account holders to the Internal Revenue Service. Law 44 on Fighting Money Laundering and Terrorist Financing enhanced Lebanon’s past money laundering law of 2001, the law that created the Special Investigation Commission to investigate cases of money laundering and terrorism financing within the Lebanese financial system.<sup>157</sup> Lastly, Lebanon adhered to the United Nation’s Convention on the Suppression of Terrorism Financing of 1999. Previously, Lebanon had not acceded to the Convention because of the complicated fact that one of its most important governing parties was also designated a terrorist organization by the United States.

According to A.S., an official with the Special Investigation Committee, before the passing of Law 44, Lebanon was in imminent danger of being blacklisted by the Financial

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<sup>154</sup> *Ibid.*

<sup>155</sup> Banque du Liban Law 42 (2015).

<sup>156</sup> Banque du Liban Law 43 (2015).

<sup>157</sup> Banque du Liban Law 44 (2015).

Action Task Force (FATF), an inter-governmental body on money laundering, terrorism financing and protecting the integrity of the international financial system. In October 2015, FATF was meeting to discuss a countries with certain deficiencies in their money laundering and terrorism financing legislation. These deficiencies had been lingering in Lebanon since 2009, when the last FATF evaluation found that although Lebanon had criminalized money laundering and terrorism financing, the definition of terrorism was ambiguous, as was what exactly constituted financing.<sup>158</sup> “We were technically not compliant but effectively were fully compliant,” he argued, as Lebanon was following international standards and prosecuting terrorist financing, “They said we don’t have laws that cover individual terrorists, but look at the (number of) convictions!”<sup>159</sup> But FATF warned that Lebanon was on the brink of being blacklisted again for non-compliance. Lebanon had once before been listed among the non-cooperative countries and territories from 2000 to 2003. This is what compelled the Banque du Liban to issue Law 318 of 2001 on Fighting Money Laundering, establishing the Special Investigation Commission empowered to remove banking secrecy on accounts suspected of money laundering or terrorism financing. According to M.M., once an official at the Special Investigation Commission and still with the Banque du Liban, being blacklisted was a blow to Lebanon’s financial system as it slowed capital inflows, made scrutinizing transfers more expensive and undermined its reputation as a regional financial center.<sup>160</sup> With Lebanon imperiled by yet another designation, the Banque du Liban and the Association of Lebanese Banks pressured the government to act by passing the aforementioned laws, which had been on the books for years but paralyzed by parliamentary inaction. M.A. described how he went around convening politicians from across the political spectrum and appearing on television to their supporters of the urgency of avoiding another blacklist. Similarly, his colleague A.S. emphasized,

Lebanon is part of a turbulent environment and we are trying to survive. We cannot afford a hiccup like this, giving another reason to the international community to attach more risk to Lebanon, which would maybe lead to a situation in which no one would want to correspond with the country, and that would be like a death sentence for the financial sector.<sup>161</sup>

It is telling that after not meeting for over one year that what finally forced Parliament back into session in November 2015 was the passing of these four laws on money laundering and terrorism financing, thus maintaining the Lebanese financial system in good standing among the international financial community.

Even more tellingly, the Hezbollah deputies in Parliament did not vote against these laws, despite the fact they were undeniably their targets. They protested, but assented. While puzzling, there are several interpretations. A.S., of the Special Investigation Commission, argued that Hezbollah was mindful of the laws’ importance for not destabilizing the country. In his words, “They have a constituency, and they do not want to drag all the country into their situation.”<sup>162</sup> His words were echoed in an article citing a source said to be close to

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<sup>158</sup> Middle East and North Africa Financial Action Task Force, “Mutual Evaluation Report: Anti-Money Laundering and Combating the Financing of Terrorism” (2009).

<sup>159</sup> Interview conducted by the author on January 14, 2016.

<sup>160</sup> Interview conducted by the author on January 19, 2016.

<sup>161</sup> Interview conducted by the author on January 14, 2016.

<sup>162</sup> *Ibid.*

Hezbollah, “The party acknowledges that the cost of not fully complying with Washington’s decisions will cause havoc on the banking sector and economy, a price no one is willing to pay.”<sup>163</sup> Another explanation, according to N.B., a research economist at a Lebanese bank, was the regulations would not directly affect Hezbollah, as they did not use commercial banks. After all, in his words, there is no bank account for Hassan Nasrallah, the leader of Hezbollah.<sup>164</sup> Nevertheless, a senior Treasury official traveled to Beirut in May 2015 with his name, among another hundred, that he urged the Banque du Liban to investigate. Following this intensive pressure, Hezbollah’s myriad social, medical and other charitable institutions were said to be operating only in cash.<sup>165</sup> Yet in the months following the passing of the Hezbollah International Financing Prevention Act and the follow-up measures passed by the Banque du Liban, there were many reports in the media of discord among the Governor of the Banque du Liban, Finance Minister (affiliated with a political party allied with Hezbollah) and Hezbollah over the law’s implementation. In May 2016, the Banque du Liban passed a succinct circular stating that Lebanese banks were required to comply with the United States’ law by closing the accounts of those affiliated with Hezbollah.<sup>166</sup> However, Hezbollah argued this was being done before referring the suspicious accounts to the Special Investigation Commission.<sup>167</sup> And probably most significantly, on the evening of June 12, 2016 there was a bombing at the headquarters of a bank that had already shut down several accounts said to be linked to Hezbollah. The understanding was that Hezbollah, or a faction, set the bomb (which killed no one and injured two security guards) as a warning to the Lebanese financial sector to instead be more subtle in their implementation of the law. A third understanding of why Hezbollah’s parliamentary deputies assented to the law that has since halted their salary payments (directly deposited into their bank accounts), as explained by a A.D., a Lebanese diplomat, was that the terrorism financing and money laundering designations were similar to low-intensity warfare between the United States and Hezbollah that neither intended to intensify.<sup>168</sup> By his interpretation, the United States could go beyond these designations to more forcibly even militarily undermine Hezbollah, but this had never been their intention. Instead, the Hezbollah International Financing Prevention Act of 2015 was yet another measure by which the United States could engage Hezbollah but without truly going into action against them. The peril of this interpretation, however, is that there are thought to be little if any channels of communication between the United States and Hezbollah, and thus this low-intensity financial warfare could potentially escalate into something more, perhaps as witnessed by the bombing of the Beirut bank.

This provocative description of the Treasury’s designations as simulating a war between the United States and Hezbollah points yet again to the interactions between the capitalist and territorial logics of power. At first glance, the power to designate a primary money laundering concern seems clearly in the realm of capitalism. The Treasury’s mandate is essentially to secure the capitalist logic of power. Moreover, their designations are directed at the financial system, and thus their power extends outwards via the circuits of capitalism, specifically their sovereignty over the dollar, with their only territorial jurisdiction over banks in the United States. Nevertheless, this capitalist power wields immense territorial control, as

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<sup>163</sup> Osama Habib, “Hezbollah tones down campaign against banks” (2015).

<sup>164</sup> Interview conducted by the author on December 8, 2015.

<sup>165</sup> Osama Habib, “Hezbollah starts dealing in cash” (2016).

<sup>166</sup> [http://www.bdl.gov.lb/files/circulars/137\\_en.pdf](http://www.bdl.gov.lb/files/circulars/137_en.pdf)

<sup>167</sup> Osama Habib, “Salameh: Banks need to comply with U.S. Hezbollah law” (2016).

<sup>168</sup> Interview conducted by the author on January 11, 2016.

in the case of Lebanon. Through their regulation of the international financial system, the Treasury's power is different, but perhaps more powerful, than even the military. For David Harvey, the United States had to invade and occupy Iraq in order to control its oil resources.<sup>169</sup> Yet for the United States to infringe upon Hezbollah's financing, and thereby undermine them without going to war, the Treasury only needs to reference their definition of Hezbollah as terrorists, designate Hezbollah's affiliates for money laundering or terrorism financing and employ special measures to bar those associated with Hezbollah from the financial system. These designations could thus be compared not only to imperialism of the capitalist sort but also to financial warfare. This is not a subtle imperialism simply because the capitalist logic is more prominent than the territorial. Instead, the effects in a country such as Lebanon point to the possibility that the Treasury's designations are an instrument of war.

The Treasury is not at war with the Lebanese banking sector but against Hezbollah, and specifically their means of financing. Their designations of Hezbollah financiers draw on discourses of war. In the words of one document, "As these designations make clear, we will track Hizballah's illicit activities to all corners of the earth. Together with our international partners, we are tirelessly working to dismantle Hizballah's financial apparatus. Wherever this terrorist group may seek to raise funds, we will target and expose its activity."<sup>170</sup> Track, target, expose, dismantle – these are the weapons in the Treasury's arsenal for unraveling the illicit financial networks of Hezbollah. They are what Juan Zarate, a former Treasury official during the Bush Administration, termed financial warfare:

This is warfare defined by the use of financial tools, pressure, and market forces to leverage the banking sector, private-sector interests, and foreign partners in order to isolate rogue actors from the international financial and commercial systems and eliminate their funding sources.<sup>171</sup>

His argument is that money is not only an enabler of terrorism but also its vulnerability. The terrorists had to have the financial infrastructure to project their global reach, and therefore if the Treasury could restrict their access to the international financial system then this would constrain both their budget decisions and strategic choices:

We viewed the global battlefield through the lens of dollars, euros, and rials, seeing money as our greatest asset and our enemies' greatest vulnerability. Pursuing this idea, we began to devise means of using money as a weapon against terrorists, rogue regimes, and illicit financial actors."<sup>172</sup>

Taking this financial warfare to Hezbollah, the special measures under Section 311 of the PATRIOT Act make it possible to target "surgically" by completely shutting down a bank, such as Bank Saderat, said to be a central conduit of Iranian financing to Hezbollah.<sup>173</sup> The designation of Bank Saderat as an institution of primary money laundering concern would "serve as a shot across the bow to the Iranians...while also warning Beirut bankers to cease

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<sup>169</sup> Harvey 2005, op. cit.

<sup>170</sup> Department of the Treasury 2015a, op. cit.

<sup>171</sup> Zarate 2013, op. cit., prologue.

<sup>172</sup> *Ibid*, 2.

<sup>173</sup> *Ibid*, 292.

doing business with Hezbollah.”<sup>174</sup> It would be a step towards igniting international financial scrutiny of Iran, Hezbollah and their banking allies, or in Zarate’s words, “This campaign would look more like a financial insurgency than a traditional sanctions program.”<sup>175</sup> In this financial insurgency, the private sector was not simply the Treasury’s battle partner but its primary enforcer. This private-sector-based paradigm relied on reputational risk, namely a bank’s aversion to doing business with terrorists. No bank, according to Zarate, would want to facilitate transactions for Iranian banks when they had been designated primary money laundering concerns, nor make payments to Hezbollah when they were a designated terrorist organization. The more Iran and Hezbollah sought to evade these designations, the more suspect their transactions would appear, therefore making it riskier for banks to be their financial partners. Moreover, the Treasury could deal directly with the banking sector in foreign countries without going to their governing officials:

Regardless of what the host government did or did not do, the banks had to listen to the Treasury Department and consider the risks attendant to doing business with Iran. It became common, without any official action at all from the governments in countries where banks were located, for banks to simply close accounts and begin to minimize their dealings with Iranian businesses. This was the ultimate application of American financial power extraterritorially – and it relied on the decisions and actions of the private sector.<sup>176</sup>

The actions against Bank Saderat, the Lebanese Canadian Bank and others already mentioned were part of the Treasury’s “Bad Bank Initiative.”<sup>177</sup> Bad banks were not only those branded terrorism financiers but also their inattentive facilitators, in other words those banks whose deficient compliance standards permitted them to be unknowingly used by terrorists. In Lebanon, Bad Banks were the ones the Treasury connected with Hezbollah. In similar black and white language by which Hezbollah are designated to be terrorists or the Lebanese diaspora in West Africa are deemed terrorism financiers these banks are simply deemed to be bad. It matters little that Hezbollah may be more than militants, or that those possessing Hezbollah memorabilia may not be members, or that non-members may affiliate with Hezbollah as community cover for their illicit dealings. In the black and white language of terrorism there is no room for gray actors such as Hezbollah. Lebanese Canadian Bank was simply stated a bad bank because it was complicit in financing Hezbollah, and with the Hezbollah International Financing Prevention Act of 2015 all Lebanese banks were warned that they were at risk of being similarly designated.

This disparate emphasis on Hezbollah, and the disproportionate scrutiny on those suspected of supporting them among the Lebanese expatriates in West Africa or the Shiites in Lebanon more broadly, resonates with the discourses on terrorism routinely used by the United States to justify their interventions. In August 2007, the Treasury’s Office of Foreign Assets Control (OFAC) implemented a Lebanon sanctions program pursuant to President Bush’s Executive Order 13441 “Blocking Property of Persons Undermining the Sovereignty of Lebanon and Its Democratic Processes and Institutions.” The President had determined:

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<sup>174</sup> *Ibid.*

<sup>175</sup> *Ibid.*

<sup>176</sup> *Ibid.*, 302.

<sup>177</sup> *Ibid.*, 146.



...the actions of certain persons to undermine Lebanon's legitimate and democratically elected government or democratic institutions, to contribute to the deliberate breakdown in the rule of law in Lebanon, including through politically motivated violence and intimidation, to reassert Syrian control or contribute to Syrian interference in Lebanon, or to infringe upon or undermine Lebanese sovereignty contribute to political and economic instability in that country and the region and constitute an unusual and extraordinary threat to the national security and foreign policy of the United States.<sup>178</sup>

The United States not only took it upon itself to determine what constituted a threat to Lebanon's sovereignty but also determined that Lebanese sovereignty threatened its own security. The Order nowhere mentioned Hezbollah by name but they were undeniably its target. Hezbollah has been designated a terrorist organization so many times by the Treasury, the State Department, the Congress and in official policymaking discourse that there was only one understanding: that Hezbollah were the ones undermining Lebanon's democratic government, contributing to the breakdown of the rule of law in Lebanon, supporting the reassertion of Syrian control over Lebanon and undermining Lebanese sovereignty.

Najib Hourani articulately analyzes this interpretation of Lebanon as divided between a "legitimate" leadership respectful of the state's autonomy and those operating as a "state-within-a-state," acting as "proxies and agents for outside forces."<sup>179</sup> By the latter they inevitably mean Hezbollah, as well as their Syrian and Iranian sponsors. Yet Hourani argues:

...to conceive of this network of people and institutions as operating on one side of a stark dichotomy – such as that between the legitimate and illegitimate, the state and the non- or sub-state – hides far more than it reveals about the political terrain that is Lebanon.<sup>180</sup>

Hezbollah's blurring of these imagined boundaries is quite like the path to power pursued by other Lebanese political forces. Whereas today in its provision of social and security services Hezbollah has adopted roles normally performed by the state, its actions are not unlike those of the civil war militias whose civil administrations also collected garbage, collected taxes and provided essential services. These militias disarmed after the civil war and Hezbollah did not, but translated to the present, Hourani draws parallels between Hezbollah and their political rivals, namely the Saudi-supported billionaire banker and construction magnate Rafiq Hariri. Hariri's immense politico-economic power, backed by Saudi Arabia, meant that upon first becoming Prime Minister in 1992, he appointed his loyalists to the presidency of the Banque du Liban, the Justice and Finance Ministers and the Council for Development and Reconstruction, which oversaw post-civil war reconstruction. In the foreign policy discourse of the United States, Hezbollah's armed authority is said to illegitimately usurp the legitimate state; however, Hariri's post-war path to power was also marked by the abdication of state authority, or as Saree Makdisi recounts of Hariri's role in reconstructing Beirut, "What Solidere and Harirism seem to represent is precisely the withering away of the state... (and its) final and decisive colonization by capital."<sup>181</sup> However, this likeness between Hariri and

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<sup>178</sup> Executive Order 13441 (2007).

<sup>179</sup> Najib Hourani, "Hybrid Sovereignties and US Foreign Policy" (2013), 39-40.

<sup>180</sup> *Ibid*, 40.

<sup>181</sup> Saree Makdisi, "Laying Claim to Beirut" (1997), 693.

Hezbollah is not seen by the United States' foreign policy establishment. For example, former Treasury official Juan Zarate stresses the stark distinction between the two during his visit to Lebanon. Hariri, he writes, is a "transformational figure in Lebanon" whose "fortune gave him enormous power and influence" and whose investments "fueled a renaissance in Beirut."<sup>182</sup> In contrast, he writes that Hezbollah "purported to represent the country's Shia population" as "a militia, terrorist organization" and "a state-within-a-state."<sup>183</sup> Whereas his security detail says he would steer clear of the streets where Hezbollah supporters, or simply Shia residents of Beirut, are prevalent, he fondly recalls the other part of Beirut where "in the Maronite Christian neighborhoods, colorful Christmas lights adorned buildings and homes."<sup>184</sup> His conclusion of his visit to Beirut and meeting with Prime Minister Hariri:

Most troubling to Syria, Hezbollah, and their benefactor, Iran, was that Hariri represented a Lebanon that longed for freedom – freedom from Syrian military occupation, from constant conflict with Israel, and from turmoil within Lebanon. Hariri was the most powerful man in Lebanon in a sea of sharks.<sup>185</sup>

However, the distinction between Hezbollah's reliance on military power – it is oft-said to be the most powerful armed force in Lebanon – and Hariri's control of the economy – he was the richest man in Lebanon, as his heirs continue to be – conceals that Hezbollah and Hariri share more than their current political rivalry reveals:

Hezbollah's creation of a hybrid sovereignty represents a path to power that parallels those taken by its political rivals that today charge it with undermining the "legitimate" Lebanese state.<sup>186</sup>

In conclusion, Hezbollah is hardly unique within the Lebanese political economy, and thus despite the Treasury and broader foreign policy's claims to support Lebanese sovereignty, both are in effect supporting a single faction within a very divided polity.<sup>187</sup>

The discourse around Hezbollah, within the Treasury, Congress and foreign policy circles, is rigidly enfram'd by the former's terrorist designation. Following on Foucault, the overall "discursive fact," the way in which terrorism is "put into discourse" has constructed "an immense apparatus for producing the truth."<sup>188</sup> My debate is not whether Hezbollah is a terrorist organization. For the United States government they undeniably are; for Lebanon, depending on one's political perspective, Hezbollah "can be considered a non-governmental organization, a Lebanese political party, a resistance movement, and/or an armed organization central to the "War on Terror."<sup>189</sup> However, the Treasury's discourse around Hezbollah overlooks these complexities, returning instead to their repeated definitions of terrorism and their recognition of Hezbollah as such. The Treasury's designations of money laundering and terrorism financing have thus become rituals relied on "for the production of

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<sup>182</sup> Zarate 2013, op. cit., 190.

<sup>183</sup> *Ibid*, 190.

<sup>184</sup> *Ibid*.

<sup>185</sup> *Ibid*.

<sup>186</sup> Hourani 2013, op. cit., 46.

<sup>187</sup> *Ibid*, 52.

<sup>188</sup> Michel Foucault, *The History of Sexuality, Volume 1* (1990), 11 and 56.

<sup>189</sup> Hiba Bou Akar, "Contesting Beirut's Frontiers" (2012), 151.

truth.”<sup>190</sup> Their self-authorized, self-referential logic, wherein the United States Congress empowers the Treasury to take action against foreign financial institutions and the Treasury recognizes only their definition of terrorism, under the allusion that any and all connections to Hezbollah are concurrent with connection to terrorism, is what defines this production of truth about Hezbollah. But rather than question this truth – whether or not Hezbollah are truly terrorists – another question is the implications of this exorbitant power to designate terrorism financiers.

The label terrorism and the identification of terrorists is a political act, as this labeling of terrorism permits violence to be enacted upon those identified as terrorists. The definition of terrorism is much debated, but once an enemy is designated a terrorist or the country that harbors them a state-sponsor of terrorism then the recourse to violence against them is thus legitimized. Terrorism is typically understood as a tactic of non-states; whereas state violence is a legitimate strategy. However, for those targeted by state violence, “states clearly operate in ways that terrify.”<sup>191</sup> Similarly, in theorizing the distinction between *Just and Unjust Wars*, Michael Walzer acknowledges that terrorizing civilians is a strategy of both conventional and guerrilla war, of established governments and radical movements, thus his condemnation is reserved for the unjust killing of non-combatants.<sup>192</sup> While a just war makes this distinction between officials and civilians, terrorism marks “the intrusion of fear into everyday life, the violation of private purposes, the insecurity of public spaces, the endless coerciveness of precaution.”<sup>193</sup> What Walzer overlooks, however, is that this type of non-state terrorism is a small proportion of terrorism as a whole, with states, according to Elden, killing more than those who oppose them, in the war on terror and in countless other conflicts.<sup>194</sup> Translated to the contemporary Middle East, the debate centers on the definitions of terrorism and the legitimacy of states to designate terrorists, “yet much less attention has been paid to the epistemological implications of waging a war against an enemy essentialised as terrorist.”<sup>195</sup> The designation of terrorism permits the violence of the state to be legally and legitimately exercised, as in the invasion and occupation of Iraq, the bombing of neighborhoods in Beirut seen as supportive of Hezbollah, or of civilians and combatants in drone warfare. By being designated terrorists violence is thus legitimized against them.<sup>196</sup> The terrorists become legitimate targets for state-enacted violence to suppress them, as do the civilians surrounding them, because they are seen as “occupying a space beyond the pale of the modern, their antagonists having repudiated its moral geography and for this reason to have forfeited its rights, protections and dignities.”<sup>197</sup>

Hezbollah’s militants and their alleged financiers are not collateral damage in this debate on the definition of terrorism. Instead, what is relevant are the political consequences of this designation, as the very identification of financing Hezbollah with financing terrorism makes the Treasury’s designations beyond debate. Executive Order 13224, which authorized the Treasury to dismantle terrorist financing networks, defined terrorism as violent activities intended to intimidate or coerce civilians or influence the policy of a government.<sup>198</sup> Under

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<sup>190</sup> Foucault 1990, op. cit., 58.

<sup>191</sup> Stuart Elden, *Terror and Territory* (2009), xxi.

<sup>192</sup> Michael Walzer, *Just and Unjust Wars* (2006), 197.

<sup>193</sup> Michael Walzer, *Arguing About War* (2004), 510.

<sup>194</sup> Elden 2009, op. cit., xxi

<sup>195</sup> Mona Harb and Reinoud Leenders. "Know thy enemy" (2008), 174.

<sup>196</sup> Talal Asad, *On Suicide Bombing* (2007).

<sup>197</sup> Derek Gregory, *The Colonial Present* (2004), 28.

<sup>198</sup> Executive Order 13224 (2001).

this definition, Hezbollah are undeniably terrorists, based on recollections of Hezbollah's (alleged) responsibility for the bombings of the United States embassy and the marine barracks in Beirut in 1983, the orchestrating of the attacks on the Israeli embassy and Jewish community center in Buenos Aires in 1992 and 1994, respectively, and the managing of illicit financing networks, such as Hezbollah's alleged role in international drug trafficking, among other violent and/or criminal acts. What is not taken into consideration is that according to the Treasury's definition of terrorism is that their government and its allies have too engaged in strikingly similar acts. Taking only Lebanon as an example, the terrorist attacks against the United States occurred against the backdrop of Israel's invasion and occupation in which an estimated 16,000 civilians were killed between June and August 1982 alone.<sup>199</sup> More than 1,000 Lebanese civilians were killed during the July 2006 war, during which Israel designed the so-called "Dahiya Doctrine" of disproportionate force against civilians of the southern Beirut neighborhood of that name. In the words of the Israeli Northern Command Chief:

What happened in the Dahiya quarter of Beirut in 2006 will happen in every village from which Israel is fired on... We will apply disproportionate force on it and cause great damage and destruction there. From our standpoint, these are not civilian villages, they are military bases... This is not a recommendation. This is a plan. And it has been approved.<sup>200</sup>

These casualty figures are not cited to excuse the violence of Hezbollah, but to emphasize that terrorism is a contentious concept, much more so than the Treasury's terse designations of terrorism financiers makes evident. It is not necessarily that the Treasury's documents are inaccurate, although they almost never evidence their allegations, but their self-authorization to define terrorism and self-referential designations of its financiers have become self-constructions of United States foreign policy. They are articulations of "the stories the West most often tells about itself,"<sup>201</sup> essentially the myth that the violence enacted by liberal states, such as the United States' incursion into Iraq as well as Israel's wars in Lebanon, is somehow distinct from terrorism.

The argument of the PATRIOT Act was that dismantling terrorism financing networks was essential to the war on terror. The special measures the Act bestowed on the Treasury to block access to the United States financial system are thus instruments of war. They may not wreck the physical destruction and devastating loss of life of other weapons, but if the purpose of war is to conquer and control – territory, natural resources, capital circulations – then the ability to designate primary money laundering concerns and terrorism financiers may be overtly less violent but more subtly interventionist. The war on terror has witnessed an array of weapons, from the shock and awe deployed over Iraq to the sanctions implemented against Iran. The militarization of the planet, alongside the war on terror, emphasizes what Derek Gregory terms "not only the forever war, but what we might call the everywhere war."<sup>202</sup> Premised on protecting the integrity of the international financial system, the Treasury's designations seem to share nothing with these other weapons of war. They are not violent and their devastation is by definition targeted. Yet they could be compared with another weapon that rose to prominence with the war on terror: the drone.

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<sup>199</sup> Eqbal Ahmad, "The 1982 Israeli Invasion of Lebanon: the casualties" (1983), 341.

<sup>200</sup> Goldstone Report (2009), 254.

<sup>201</sup> Gregory 2004, op. cit., 4.

<sup>202</sup> Derek Gregory, "The Everywhere War" (2011), 238-239.

The drones, unlike the designations, are deadly, but are defended for their restraint, their impact confined to those their operator-investigators designate for targeted killing. Their defenders argue that drones are “the most ethical weapon ever known” because before their targeted killing they undertake extensive surveillance.<sup>203</sup> The drones are said to strike surgically, therefore minimizing the deaths of innocents when compared to shock and awe bombing or sanctions. Comparisons can be made with the Treasury’s designations. They too entail extensive surveillance as the Treasury investigates trails of terrorist financing, as in the case of the Lebanese Canadian Bank. Moreover, when their strike is discharged, as when the money laundering or terrorism financing designation announced, its impact is confined to those cited in the FinCEN finding. There is also collateral damage, as in those unjustly cited for terrorism financing when they never fundraised for Hezbollah, or in entire communities unfairly stigmatized because of their sectarian affiliation, or in fears throughout the Lebanese financial system as the country’s eighth largest bank is brought down and other banks fall under suspicion. But this collateral damage is legitimized, with the self-referential style of the designations, similar to the drone operators’ determination that any military aged male in the strike zone can be considered a combatant. The signature strikes, the drone attacks on those whose identity remains unknown but whose behavior suggests they are terrorists, have their parallel in the Treasury’s broad-based designation of Lebanese expatriates in West Africa. For both the designations and the drones there has emerged the “discourse of legitimation” whereby the United States government is self-authorized to determine who is a terrorist and thus who is targeted. The designations are not weapons in the conventional sense, but there are also doubts as to whether drones are weapons of “war,” as they are piloted remotely and fired by operators located tens of thousands of kilometers from their targets. Similarly, the designations invest the power to bar banks, or even entire countries, from the international financial system with the Treasury bureaucrats based in Washington D.C. The drones detach the power to kill from combatants, bestowing it on remotely piloted missions that “project power without vulnerability,”<sup>204</sup> in turn overturning understandings of war as reciprocal violence.<sup>205</sup> And as the designations target militants or their affiliates without actually going to war, the drones operate over countries in which the United States is not at war.

The weapons of the war on terror have thus destabilized notions of conventional warfare, as the drones that inflict deadly violence are theorized outside of war,<sup>206</sup> while the non-fatal Treasury designations are described as financial warfare.<sup>207</sup> As those extra-judicially executed by drones are defined as terrorists, their deaths made lawful by the laws the United States has self-written, those cited by the Treasury are likewise culpable because they are designated terrorists. Referring to terrorism, the lawyer K.C. said, “you have a number of flash words that turn off due process, and the consequences for the destruction of the rule of law are immense.”<sup>208</sup> By his argument there were two logics at play under the logic of law: the logic of war and that of international policing. Until the war on terror, prisoners of war had rights, including the right to be freed when the war was over. Yet once the condition of war was removed, as it was with the war on terror which has no definite end, then indefinite detention is extended against existing legal frameworks – civil, military and international – or

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<sup>203</sup> Grégoire Chamayou, *A Theory of the Drone* (2013), 17.

<sup>204</sup> Gregory 2011, op. cit., 192.

<sup>205</sup> Elaine Scarry, *The Body in Pain* (1985), 63.

<sup>206</sup> Chamayou 2013, op. cit.

<sup>207</sup> Zarate 2013, op. cit.

<sup>208</sup> Interview conducted by the author on June 16, 2016.

in the words of Judith Butler, “indefinite detention extends lawless power indefinitely.”<sup>209</sup> As the Guantanamo prisoners are deprived of rights they enter into a suspended zone unbound by the rule of law. And there the logic of law and international policing also breaks down, as the latter is intended to involve due process, but again by the Treasury’s designations, as well as the extra-judicial executions by the drones, there is none. In the words of K.C.:

You are playing both games, war and international policing, but you have none of the triggers of doubts for due process that are attached to normal policing. So you end up in this never-never world of two laws, where the worst of both are operating. No protection of war, because war isn’t declared, and international policing doesn’t work because you don’t have the tools that are associated normally with domestic policing, where you have a judge and you have recourse and evidence is produced.

The designations also demonstrate how power is much detached from violence.<sup>210</sup> Following Foucault, while violence must have been power’s “primitive form, its permanent secret and its last resource” power does not entail the exercise of violence.<sup>211</sup> Tracing the micro-physics of power into institutions such as the prison, Foucault found that power perfected rendered the exercise of violence unnecessary.<sup>212</sup> Similar to the panoptic prison in which the inmate is caught in an arrangement of gazes, inscribed in power relations in which he simultaneously is under surveillance and surveys, thus becoming the principle of his own subjection, the Lebanese financial system is always under the watch of the Treasury. The Lebanese Canadian Bank scandal has left the banking system on guard. In the words of M.M., formerly of the Special Investigation Commission, “It was a major wake up call for banks in Lebanon to the extent where banks in Lebanon have become paranoid.”<sup>213</sup> They are wary of opening bank accounts for Syrians refugees resident in Lebanon because the source of their money is often unknown. They refuse to receive the salaries of Hezbollah’s ministers and parliamentary deputies, despite the fact that they are in Lebanese pounds and therefore outside the jurisdiction of the dollar, and they are paid by the Ministry of Finance and thus their source is known, because the Treasury has decided that the Hezbollah International Financing Prevention Act prohibits it. The Banque du Liban has mandated that Lebanese banks comply with the rules and regulations of their correspondent banks, and therefore the laws passed by another sovereign nation. As M.M. explained, Lebanese banks have every interest to comply with United States laws; in fact, in his words, “U.S. laws override Lebanese laws” because of the dollarization of the Lebanese economy.<sup>214</sup> Thus, without the exercise of violence, the Treasury has established its power over the Lebanese financial system. If power is comprised not by violence but in “guiding the possibility of conduct and putting in order the possible outcome,”<sup>215</sup> then the power of the Treasury over the Lebanese financial system is essentially complete. In their war against terror, the Treasury has defined the terrorists as Hezbollah and deployed their special measures to deny their suspected affiliates access to the financial system.

Thus, if the Treasury’s power to designate primary money laundering concerns and

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<sup>209</sup> Judith Butler, *Precarious Life* (2006), 63.

<sup>210</sup> Hannah Arendt, *On Violence* (1968).

<sup>211</sup> Michel Foucault, “The Subject and Power” (1983), 220.

<sup>212</sup> Michel Foucault, *Discipline & Punish* (2012), 201.

<sup>213</sup> Interview conducted by the author on January 19, 2016.

<sup>214</sup> *Ibid.*

<sup>215</sup> Foucault 1983, op. cit., 221.

terrorism financiers is within their arsenal in the war on terror, and their designations can be considered weapons of war even without the recourse to violence, are these the weapons *par excellence* of imperialism of the capitalist sort? The question centers on the entangled relations of the territorial and capitalist logics of power. If the Treasury's designations are imperialistic in their intent then they are very different from the invasion and occupation of Iraq. If Iraq was about controlling the global oil spigot and securing financial hegemony for the United States, as Harvey contended, then it leaned strongly to the territorial logic. There is a synergy between capitalism and militarism, which is essential to understand why the world's capitalist hegemon has developed an unparalleled and unprecedented military apparatus that it deploys throughout the world.<sup>216</sup> What makes the Treasury's designations distinct is that this territorial logic is reversed. The capitalist and territorial powers are still interpenetrated, but the Treasury's jurisdiction over the United States financial system, especially its sovereignty over the dollar, is the basis of this imperialism. There is no need for boots on the ground, as simply making a designation – of money laundering or terrorism financing – is sufficient to bar the designated from the international financial system, the banker's equivalent to a death sentence.

They declined to describe it as imperialism, but Hardt and Negri's description of Empire in the era of economic globalization portrays the power of the Treasury well. In contrast to imperialism in which borders delimited the center of power from which rule was exerted over foreign lands, "Empire establishes no territorial center of power and does not rely on fixed boundaries or barriers. It is a decentered and deterritorializing apparatus of rule that progressively incorporates the entire global realm within its open, expanding frontiers."<sup>217</sup> Empire governed the world not by defining or defying national borders but by regulating economic exchange. It granted itself the right of intervention by appealing to the essential values of justice, the universal values that they themselves drafted. Empire was thus formed "not on the basis of force itself but on the basis of the capacity to present force as being in the service of right and peace."<sup>218</sup> Similarly, it could be said that the Treasury exerts an imperialism of the capitalist sort not based on military might but by claiming to defend the integrity of the international financial system. Yet since they define the threats to this system then their interventions take on a moral quality difficult to dispute. As Hezbollah is a designated terrorist organization, the Treasury's efforts to dismantle their financing networks are therefore, by their self-written definition, legitimate. Also by the Treasury's definition, Lebanon is a jurisdiction especially vulnerable to money laundering, and thus it is lawful to apply sharper scrutiny over their banking system. The Treasury, through their definition of terrorism, their designation of terrorist financiers and their self-referential style of evidence, are thus engaged in the production of truths. These truths are not only that those designated are threats to the international financial system but also that the Treasury possesses the very power to issue these designations. The United States' arsenal of imperial intervention is vast, but by directing their sovereignty over the international financial system towards entrapping designated terrorist organizations such as Hezbollah is a means to go to war without going into war. As write Hardt and Negri, "The Empire's powers of intervention might be best understood as beginning not directly with its weapons of lethal force but rather with its moral instruments."<sup>219</sup> In the war on terror the lethality of moral violence is evinced in the

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<sup>216</sup> Arrighi 2007, op. cit.

<sup>217</sup> Michael Hardt and Antonio Negri, *Empire* (2000), xii.

<sup>218</sup> *Ibid*, 15.

<sup>219</sup> *Ibid*, 35.

definition of enemies and the demarcation of battlefields, the designations of financial warfare an unconventional weapon that is similarly lethal and (im)moral simultaneously.



## CONCLUSION

### The Costs of Resilience

By this point in my dissertation, my main conclusions have been made and reiterated. The Lebanese political economy is structured around circulations, both of capital and labor, notably investment in real estate or deposited in banks, financed not only by circulations of capital from the Gulf Arab states but also, and most especially, by circulations of the young and educated to work overseas. Lebanon's capacity to cope with stresses, from the violence of the civil war and political assassinations since to the paralysis of political institutions and the breakdown of public services, today against the backdrop of insecurity and uncertainty from the Syrian war, has been characterized as resilience. Lebanon is described as resilient, although often without any explanation beyond this description. Through descriptive discourse and policies implemented by the Banque du Liban, I have traced the construction of an apparatus that transfers transnational capital into the real estate and banking sectors, the two pillars of the Lebanese political economy. Tying together the skyline of uninhabited apartments across Beirut with the bankrupt Lebanese sovereign, I argued that this apparatus is founded upon emigration, in an argument deeply indebted to Charbel Nahas. Emigration could thus be termed a synonym for Lebanon's renowned resilience. But what is the cost of this resilience? While my introductory question was why so much money was being invested in Lebanon despite the risks of doing so, and my response traced narratives of resilience as they were constructed historically, circulated as discourses and implemented as policies, my conclusion reflects on this question of cost.

This question came to me not while I was reading real estate reports or analyses of sovereign debt or even studies of how many Lebanese have emigrated and why, but rather over drinks and dinners with my friends after I thought I was finished with fieldwork for the day in Beirut. I realized that so many of our discussions were dominated by topics directly or tangentially related to leaving Lebanon. Partly this is probably because of my own research, but I doubt this is the only reason. My closest friend, who had been living in Lebanon for ten years, took the decision to return to Germany where she also held citizenship. Another close friend finally secured permanent residency in Canada after years of applying. Among those I played board games with were those who recently returned to Lebanon to raise their children or spend time with their parents, as well as others who were always talking about their plans to leave for Europe, the United States, Dubai or Saudi Arabia. Moreover, many of those who returned in Lebanon affirmed that they had their exit plans, if need be, for in the words of one, "everyone comes to Lebanon with a backup plan, no one comes to stay." There were also friends of friends working abroad whose names came up in conversation, and who occasionally returned to Beirut and we would meet, and then they left again and return, but over period of almost two years of fieldwork they became my friends. I will dwell more on their stories as this conclusion comes to a close, as I reflect on the personal costs of the resilience for which Lebanon is structurally renowned. But first a few reflections on how emigration has contributed to the structure of the Lebanese political economy.

Despite the distinction of emigration, since the late 19<sup>th</sup> century when one third of the population of Mount Lebanon emigrated<sup>1</sup> until today when an estimated half of every generation is expected to emigrate at one point in their working lives,<sup>2</sup> the distinguished historian Albert Hourani wrote "little has been written about the influence of the emigrant

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<sup>1</sup> Akram Fouad Khater, *Inventing Home* (2001), 8.

<sup>2</sup> Jad Chaaban, "Higher Education and Labor Market Outcomes in Lebanon" (2009), 17.

colonies on Lebanon itself.”<sup>3</sup> Since then several works have been written on these influences, including emigration’s impact on the creation of the Lebanese middle class,<sup>4</sup> the production of translocal identities<sup>5</sup> and the circulation of revolutionary ideas.<sup>6</sup> Yet Wendy Perlman writes of emigration as reinforcing a stagnant *status quo*, or in her words the resilience of politics in Lebanon, but a resilience based on elite consensus rather than legality, abuse of privilege by politicians without accountability, endemic corruption that contributes to the denial of basic services such as water, electricity and sometimes garbage collection, even the destruction of the urban fabric and the environment with the prioritization of profit-making over heritage and public space, such that “those who do not mince words charge that a cabal of warlords and businessmen rule the country by means of a kind of institutionally legitimized money laundering.”<sup>7</sup> Her argument centers on political resilience, but a resilience that is decidedly negative. Similarly, my argument revolves around the resilience of the political economy, but Perlman makes several points that resonate powerfully with my own.

According to her argument, emigration contributes to the persistence of political structures and practices in Lebanon by four primary channels: as a safety valve alleviating socioeconomic discontents, as a political exit that reduces the imperatives for change, as a depletion among the ranks of those best positioned to demand and bring about that change to public life and as an infusion of money into politics that sustains sectarian clientalism. In terms of relieving social, political and economic frustrations that would otherwise burden the political elites, “outmigration is akin to a leak in a pressure cooker, dispelling discontent so that it does not reach the point of explosion.”<sup>8</sup> Perlman argues that emigration may have prevented the emergence of protests of unemployed persons of the kind that took to the streets of Tunis, Tripoli, Cairo, Damascus, Sana’a, Bahrain and beyond in the Arab Spring. According to the last official statistics, unemployment in Lebanon stood at 11 percent in 2011, although the World Bank estimates that it has exceeded this since.<sup>9</sup> As they write:

Banking, trade, construction and tourism have been the key pillars of Lebanon’s economy. However, given the limited employment opportunities created by these sectors, considerable labor migration has been witnessed during the past decades towards the GCC (Gulf Cooperation Council), African, European and North American countries.<sup>10</sup>

Where the World Bank reasons that “emigration is a major source of access to employment opportunities for Lebanese,”<sup>11</sup> Perlman writes of “migration, matched only by war, (as) the main source of economic mobility in Lebanon.”<sup>12</sup> Emigration thus allows discontents to dissipate, among those not only who leave but also who remain, as remittances reduce the

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<sup>3</sup> Albert Hourani, “Introduction” (1992), 11.

<sup>4</sup> Khater 2001, op. cit.

<sup>5</sup> Anja Peleikis, *Lebanese in Motion* (2003).

<sup>6</sup> Ilham Khuri-Makdisi, *The Eastern Mediterranean and the Making of Global Radicalism* (2010).

<sup>7</sup> Wendy Perlman, “Emigration and the Resilience of Politics in Lebanon” (2013), 195.

<sup>8</sup> *Ibid*, 199.

<sup>9</sup> World Bank, “Lebanon Economic Monitor” (Fall 2015), 15.

<sup>10</sup> World Bank, “Using Lebanon’s Large Capital Inflows to Foster Sustainable Long Term Growth” (2012), xii-xiii.

<sup>11</sup> World Bank, “Lebanon: Promoting Poverty Reduction and Shared Prosperity” (2015), 26.

<sup>12</sup> Perlman 2013, op. cit., 200.

demands on the political elite for accountability and reform and many adapt to the minimal government provision of public goods (for example, as I write these lines my house has been without electricity for hours, outside of the scheduled blackout of three hours daily...)

In addition to dispersing discontent, emigration also offers an escape. Drawing on Albert Hirschman's terminology, rather than reforming the system through their voices of protest, emigrants exit.<sup>13</sup> This economic exit thus leads to political apathy, even amidst deep-seated loyalty to Lebanon, or at least to the family members left behind. The remittances the emigrants send as a sign of this loyalty similarly lead to political disengagement, because in the words of Nassib Ghobril, a research economist and one of the foremost experts on the impact of remittances on the Lebanese economy, "money from abroad gives people the luxury of complaining about politics without doing much."<sup>14</sup> Instead of translating their loyalty into transforming the political economic system, to many emigrants, writes Perlman, "Lebanon has largely become a summer home," a statement I can sustain in my interviews with real estate developers whose business depends significantly on catering to these clients. In the words of one of her interviewees, "they (the emigrants) come back for the sea, the food, memories, and extended family...they say, 'To hell with the system,' and establish their own parallel system at the individual level that is (an) exit from the system of Lebanon as a collective."<sup>15</sup> Similarly, N.T., a member of Beirut's Chamber of Commerce, told me:

Lebanon should be the country where the senior citizens live, while their young children study in Lebanon and then continue their studies abroad, where the working population would go abroad for work. Lebanon should be the country for the celebrations, for the special events, for baptizing their children, for the first communion, for whatever great events in their lives, for coming for summer vacation, for coming for the Christmas celebrations, and then go back abroad and work abroad and send money here. If they fall sick and they need treatments they could come here because we have very good health services, but this should be the specialization of Lebanon. And then when you retire and you want to have a good time, with the nice weather, with the nice surroundings, go up to the mountains, go to the beach, or go to a good restaurant, have a relaxed living as a senior citizen then you come back to Lebanon, but while you are in your active life better have your active life abroad because it's much more secure.<sup>16</sup>

Although the situation is not yet so stark, emigration has depleted many of the young and the most educated away from Lebanon, as emigration among those with university degrees has increased since the civil war. According to Choghig Kasparian's research, more than 40 percent of emigrants under age 35 are university educated,<sup>17</sup> and one-third of emigrants have a university education, compared to 17 percent of the population.<sup>18</sup> This so-called brain drain may not only deprive the political economic system of new people and their innovative ideas but also diffuse tensions when political conflagrations do arise, as during the protests in Beirut in the summer of 2015 against the lack of garbage collection that transformed into

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<sup>13</sup> Albert O. Hirschman, *Exit, Voice, and Loyalty* (1970).

<sup>14</sup> Perlman 2013, op. cit., 203.

<sup>15</sup> *Ibid*, 203.

<sup>16</sup> Interview conducted by the author on October 16, 2015.

<sup>17</sup> Choghig Kasparian, *L'émigration des jeunes libanais et leurs projets d'avenir* (2009), 17.

<sup>18</sup> Choghig Kasparian *L'apport financier des émigrés et son impact sur les conditions de vie des Libanais* (2014), 59.

a movement of political accountability. Instead, emigration may reinforce the political system's corruption, as the diaspora's contributions to political parties are thought to be significant.<sup>19</sup>

While Perlman situates emigration at the heart of the resilience of Lebanon's corrupt politics, Charbel Nahas writes of this resilience as "clinging to real estate, fleeing towards dollar-denominated deposits, striving to obtain foreign citizenship." According to Nahas, the economist and former Minister of Labor and oft-cited in this dissertation, emigration is the core of the Lebanese political economic system. Amid its attraction of financial investment, there is the paradox of persistent political and institutional failure; however "such a strong, widespread and persistent contrast cannot be considered as accidental," he writes, "It requires a drastic reallocation of factors, energies, and resources towards specific ends. This reallocation is at the core of the economy and in its deeper meaning. It constitutes a system."<sup>20</sup> What is essential to this system is emigration. He lists the most striking features of Lebanon's political economy: "an exceptional resilience towards the accumulation of debt;"<sup>21</sup> low economic growth; exceptionally high inequality; the illegitimacy of the state; and most especially the outflows of emigration and inflows of capital. The last two features allow the system to circulate, namely its allure for diaspora and Gulf capital and labor mobility. The system is also sustained by the Banque to Liban's maintenance of dollarization and the dollar currency peg, supporting the public sector's prolific spending that sinks the sovereign ever deeper into debt. Nahas traces the circular system from the capital inflows into banks, their translation into sovereign debt or investment, "as far as real estate can be amalgamated with productive investment,"<sup>22</sup> and thus the ongoing need for these inflows to be perpetuated. In contrast to regional rentier states, where capital inflows are linked to the export of oil and other non-renewable resources, Lebanon instead is distinguished by "a persistent outflow of Lebanese emigrants sufficient in size to allow enough of them to succeed in accumulating capital that can feed transfers to Lebanon."<sup>23</sup> Yet petroleum resources, when exhausted, cannot be reclaimed by anyone, whereas the capital accumulating in the form of short-term deposits in Lebanese banks can be withdrawn at any moment, and therefore the question becomes what, if anything, would cause this circular financial system to reverse, what, in other words, would catalyze Lebanese expatriates to cease their capital inflows that over decades have permitted this circular financial system to function?

One answer provided by several experts was the tightening of terrorism financing scrutiny by the United States Treasury over the Lebanese financial system. But another given by several emigrants with whom I spoke was more mundane, namely the intractability of the political paralysis, economic stagnation, exacerbated by the Syrian war and refugee crisis, reaching a crescendo with the government's inability to collect the garbage in the summer of 2015. The Lebanese had adopted other solutions to the precarious public provision of water and electricity through private alternatives – they pay two water and two electricity bills – but there was little they could do while putrid garbage piled ever higher on the streets, its stench inescapable anywhere in Beirut. Thus, in addition to the largest public protests since those of March 2005 led to the withdrawal of Syrian occupying troops, another response, feared one emigrant, was the deepening disillusionment with Lebanon, "before they (emigrants) wanted

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<sup>19</sup> Perlman 2013, op. cit., 206.

<sup>20</sup> Charbel Nahas, "The Lebanese Socio-Economic System: 1985-2005" (2009), 125.

<sup>21</sup> *Ibid.*

<sup>22</sup> *Ibid.*, 127.

<sup>23</sup> *Ibid.*, 128.

to return and retire here, but the last summer when they returned to Lebanon to the garbage crisis and said I'm done with this country."<sup>24</sup>

I attended numerous conferences on the topic of emigration, especially incentivizing their investment back into Lebanon. At these conferences the expatriates, in attendance with private sector representatives seeking to entice their capital, were praised in flourishing ways, as "a source of pride for Lebanon," "a pillar of the local economy," "the beating heart of the economy," at the Lebanese Emigrants Economic Conference for example.<sup>25</sup> Speaking at this conference held in December 2015, Raed Charafeddine, the first deputy governor of the Banque du Liban, emphasized the importance of their financial support, "amidst all of the crises of recent years, remittances have ensured the economy's future."<sup>26</sup> He argued that their remittances not only ensured the sustainability of the sovereign debt but also supported the currency. "Remittances," in his words, "show the power of the Lebanese economy."<sup>27</sup> At the Ministry of Foreign Affairs' third annual Lebanese Diaspora Energy Conference held in May 2016, the opening speaker (a television host) reiterated that emigrants were Lebanon's pride, "you are what gives us hope when we've lost all hope in this country."<sup>28</sup> Yet in private, policy makers often expressed their dismay at the economy's dependence on emigration. When I asked C.B., an official at the Banque du Liban, whether she viewed emigration as vicious or virtuous for Lebanon she acknowledged its positive financial effect, but underlined the pernicious consequences of what she called cultural disinvestment, or the investment in the education of those who are inevitably compelled to move overseas for employment:

Emigrant inflows can have a determinant key role in economic growth, especially in economies such as Lebanon, where GDP growth is directly related to the regular remittances of members of the diaspora. Lebanon's small size has always been an incentive for people to go abroad, mainly high skilled people, not only university graduates but also those with technical education. However, being hired abroad is a cultural disinvestment and an indicator of a failure of the economic system when there is no matching between jobs creation and expertise offered. This is the vicious side. We should not be proud of this. For me, specifically when an important politician is asking for data on remittances and being very happy about this, I am so depressed about them talking about this as a valuable indicator for the Lebanese economy. At this level it is vicious. It is disinvestment. It is cultural disinvestment primarily. We are investing a lot in education systems, households are investing a lot in educating their children, people are selling their land and their houses, they are working a lot to gain skills, not only university graduates but technicians too, and after that everybody is happy when they enter into another labor market.<sup>29</sup>

When I posed the same question to N.I., a Lebanese economist working at an international financial institution, she also affirmed the financial benefits of remittances but dwelt on the

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<sup>24</sup> Interview conducted by the author on February 4, 2016.

<sup>25</sup> Mohammad Choucair, President of the Beirut Chamber of Commerce; Raed Charafeddine, First Deputy Governor of Banque du Liban; and Ali Hassan Khalil, Minister of Finance at Lebanese Emigrants Economic Conference, December 2015.

<sup>26</sup> Lebanese Emigrants Economic Conference, December 2015.

<sup>27</sup> *Ibid.*

<sup>28</sup> Ricardo Karam at the Lebanese Diaspora Energy Conference, May 2015.

<sup>29</sup> Interview conducted by the author on October 28, 2015.

negative aspects, arguing that, “Lebanon needs to rethink its economic model if it no longer wishes to export its people.”<sup>30</sup> By her characterization, Lebanon was by the definition of her institution a middle income country but with a developing economy. This was because of the remittances, “the diaspora is behind us, and this supports the Lebanese economy but it also hinders economic development. The Lebanese know they can always count on the diaspora, and this leads to a sort of *laissez-faire* attitude of doing almost nothing to tackle the economic problems here.”<sup>31</sup>

In contrast to the praise and pride emigrants elicit at conferences aimed at attracting their financial resources to Lebanon, in my private and often personal conversations with friends it was hopelessness for staying and hopes for opportunities overseas that constantly had them talking. Wanting to leave was the topic around which so many conversations with me revolved. Between those planning on leaving and those who had returned, it was never the political instability making headlines pushing them away but the certainty that there were no economic possibilities if they did not emigrate, at least for some time. In the words of a friend, who worked for eight years in Saudi Arabia, he was “predestined” to leave around the second year of his university studies, as there was no job security in Lebanon and very little hope of advancement. Another friend, who also always knew would leave after university, said “we are supposed to leave,” because there was no entry-level salary sufficient to cover even basic expenses. Upon graduating, he left with the intention of spending two to three years in Saudi Arabia to save money, but he ended up working there six years, and although we were meeting less than one month after his hoped for return to Lebanon, he was already thinking of moving to Dubai. When I asked whether he wanted to return, he did not hesitate in the affirmative, after all “it’s my country and I have nowhere else to go,” but again there was never any question about needing to leave. Another friend, who also emigrated to Saudi Arabia for six years, echoed his sentiment of returning to Lebanon “because at the end of the day this is my country.” He left because of the mandatory military service. One of the reasons he returned was because he owned property in Lebanon; however, he affirmed that many friends, especially those living in Europe, had no plans to return as political instability was only worsening. More people are leaving and fewer are returning, he argued, because there was no one interested in improving things, from the sewerage to the garbage collection to the destruction of the urban environment. There was no one steering the economy, “how can we be a tourist economy without security? How can we be an industrial economy without investing in industry? How can we be an entrepreneurial economy without investing in the internet? We are heading nowhere.” Another friend left Lebanon for university and stayed in the United States for more than fifteen years, but I met him upon his return, when he said that he missed his home too much to not return. Yet like other returnees he was also thinking of leaving again as the everyday difficulties of living in Lebanon, not as a summer home, became apparent. Other friends were preparing to leave Lebanon as I was finishing my fieldwork. They had good jobs, earning several times the minimum wage monthly, but both decided to leave as this was far from enough money to have independence outside their parents’ homes. For another, who worked for the Ministry of Foreign Affairs as a diplomat, he was planning on sending his family back to the Ivory Coast because he had lost all hope in Lebanon. He believed that there were more opportunities for his daughters in Abidjan than in Beirut, because, in his words, “at least there, there is a state.” Not everyone wanted to leave. Yet even among those who wanted to stay there was resignation. One friend told

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<sup>30</sup> Interview conducted by the author on June 23, 2015.

<sup>31</sup> *Ibid.*

me of her loneliness after so many of her friends at left. She never wanted to leave, but left for Dubai after the July 2006 war because “afterwards I had nothing here,” especially as so many her own age had already left. “I love Lebanon, but Lebanon doesn’t love me,” was what she told me. She returned, and was amused by the nostalgia for Lebanon of many of her friends who remained abroad. As she said, “if you live here you need to create a bubble and live inside the bubble, else you will lose your mind.” This was both because Lebanon lacked basics such as water, electricity and garbage collection and because it was so difficult to afford, in her words, a normal life. She was referring to her own struggle, as a professional in her 30s, to purchase a car and an apartment. Theirs may be anecdotes, unsystematically studied on my part, but I could not help but notice in the months that turned into two years of my fieldwork that so many of my friends were planning on leaving Lebanon, so many out of hopelessness.

Now it must be acknowledged that my friends were almost all middle or upper middle class. They were well-educated and their expectations were therefore higher than what I imagine a more carefully crafted survey, with a statistically representative sample of respondents would reply. And as one of my friends underlined, there was almost no middle class left in Lebanon – there were only the elites and the impoverished – because the others almost all went abroad. Emigration is therefore a personal, if piecemeal, solution to a long-standing Lebanese predicament. It is the spring from which Lebanon’s circulatory financial system flows. Emigration is thus the very source of Lebanon’s macro-economic resilience, but also, on a very personal level, as some of my friends’ stories reveal, the very source of its predicament. The export of the young and educated is what permits this circulating system, so dependent on emigration, to persist. This requires a more critical look of the resiliency for which Lebanon is so renowned. Is exporting its citizens really the basis of resiliency? Is a city of darkened apartment buildings, priced beyond the means of all but the wealthiest, a sign of resiliency? Is an economic system centered on rolling over ever-accumulating sovereign debt really financially sound? The question on the minds of many of those I interviewed was what will shock the system? What will cause remittances to cease, real estate investments to waver, banking deposits to dry up, preventing them from being translated into debt and catalyzing a financial crisis? But there is another, perhaps more profound, question on the resiliency of the Lebanese political economy: what are the consequences of solidifying a system centered on exporting its people in order to finance a bankrupt sovereign? Despite the corruption, in spite of the lack of reliable water, electricity and garbage collection services, notwithstanding the dearth of livable employment and affordable apartments, regardless of its precarious geopolitical position that puts the prospect of another war always in anticipation, there has thus far been no incentive to alter the political economic system because of the ongoing financial inflows that allow for its continuing circulation. Lebanon is not in the midst of a financial crisis, but it has long been mired in a crisis of governance, one perpetuated by a system that contains other crises from unfolding. This political economic system is resilient in that it has absorbed myriad crises, but my contention is that this has come a much too high a cost. Lebanon’s renowned resiliency, in other words, is not such a good thing.

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